Climate Public Private Partnership Phase II Monitoring & Evaluation

2022 Strategic Evaluation Report

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List of abbreviations

ACP	Asia Climate Partners
ADB	Asian Development Bank
AREF	Africa Renewable Energy Fund
BC	Business case
BEIS	Department for Business, Energy and Industrial Strategy
BII	British International Investment
BNEF	Bloomberg New Energy Finance
CPA	Cooperating partner agreement
CPI	Climate Policy Initiative
CP3	Climate Public Private Partnership
CF	Catalyst Fund
DevCos	Development Companies
DFI	Development finance institution
DFID	Department for International Development (now merged into the FCDO)
ESMS	Environmental and Social Management Systems
ESG	Environmental, social and governance
EQ	Evaluation question
FCDO	Foreign, Commonwealth and Development Office
GCF	Green Climate Fund
GEEREF	Global Energy Efficiency and Renewable Energy Fund
ICF	International Climate Finance
ICMO	Intervention–context–mechanism–outcome
IFC	International Finance Corporation
IRR	Internal Rate of Return
KPI	Key performance indicator
LCCR	Low-carbon, climate-resilient
M&E	Monitoring and Evaluation
MTE	Mid-term evaluation
OECD DAC	Organisation for Economic Co-operation and Development's Development Assistance Committee
ODA	Official Development Assistance
PE	Private equity
RE	Renewable energy

SCAF	Seed Capital Assistance Facility
SEFA	Sustainable Energy Finance for Africa
TA	Technical assistance
ToC	Theory of change
UNFCCC	United Nations Framework Convention on Climate Change
UNOPS	United Nations Office for Project Services
VC	Venture capital
VCPE	Venture Capital & Private Equity Investment Index
VFM	Value for money

List of key concepts

Equity financing	The process of raising capital through the issuance of shares in an enterprise (e.g. projects and companies).
Private equity	Shares in the ownership of a company that are not traded or listed on a public stock exchange but rather by the owners or funds.
Growth equity investment	Type of private equity investment in relatively mature companies that are looking for capital to expand operations, enter new markets, or finance an acquisition.
Infrastructure investment	Type of private equity investment in an infrastructure project that needs risk capital to finance development and leverage debt for construction.
Early-stage equity	Private equity investment in a very early-stage company or in a project during its development stage (pre-construction).
First-time fund manager	Fund manager that has not raised a fund in a certain sector or region before.
Fund-of-funds	A pooled investment fund that invests in other types of funds. That is, its portfolio contains different underlying portfolios of other funds.
Additionality	Additionality refers to the property of being additional. For the purposes of this report, it refers to investments that show a deviation from the business-as-usual or global trend when the investment took place. The approach taken to assess additionality takes the investment environment in a country as the sole indicator of additionality in the portfolio.

Executive summary

Intervention logic scope and objectives

The UK government provided £3.87 billion of Official Development Assistance over the period from 2011 to 2016 to help developing countries achieve low-carbon, climate-resilient (LCCR) development. This money was channelled through the International Climate Finance (ICF) commitment. One of the programmes being funded through the ICF is the Climate Public Private Partnership (CP3), a joint Foreign, Commonwealth and Development Office (FCDO) and Department of Business, Energy, and Industrial Strategy (BEIS) initiative. CP3 is a £130 million programme that utilises an innovative approach to deploy public funds with the aim of leveraging additional capital from the private sector into LCCR investments in emerging economies.

To mobilise private finance at scale, CP3 is participating as an equity investor in two private equity (PE) funds, which, in turn, either through a fund-of-funds approach or directly, invest in companies operating within the LCCR sector. CP3 invested £50 million as an anchor investor in the International Finance Corporation (IFC)'s Catalyst Fund (CF), a fund-of-funds managed by the IFC Asset Management Company. The UK also invested $100 million (£60 million) in Asia Climate Partners (ACP), a fund managed through a partnership between Asian Development Bank, Orix, and Robeco. In addition, the UK government also made available £19 million to a technical assistance (TA) facility to support the market and undertake enabling activities for PE, policy and regulatory initiatives, and support schemes for first-time fund managers. Most of this support (£11 million[1]) was provided to the Seed Capital Assistance Facility (SCAF) Phase II.

To support implementation, the FCDO and BEIS have invested in rigorous monitoring and evaluation (M&E) of CP3 since 2014. This has aimed to reinforce accountability and learning through ongoing results reporting and lesson learning, both for delivery of the programme itself but also wider ICF programmes. NIRAS, Climate Policy Initiative (CPI), and Integrity Global have been the M&E agents since 2020, with NIRAS and CPI delivering M&E services since 2014. This synthesis report brings together findings from all evaluation activities carried out over the four-year period of this evaluation (2018–22) as well as analysis specific to the strategic evaluation.

Scope and objectives

The objectives of this assignment are to:

- **test the theory of change (ToC) model and its underlying assumptions**
- **synthesise and capture the programme's emerging results** and the evidence that has been gathered to date
- **assess the programme's relevance, coherence, efficiency, effectiveness, impact, and sustainability**, including its demonstration impacts and the success at driving LCCR growth in developing countries.

This strategic evaluation has sought to generate evidence to answer the EQs and synthesise lessons learned for the FCDO and BEIS. The scope of the strategic evaluation covers the

[1] In 2013, the UK government initially committed £9 million to the Facility. Following the recommendations to scale up the project in the 2018 mid-term evaluation of SCAF, it committed an additional £2 million to SCAF II in 2019.

investment funds and TA activities that have been funded through CP3. The scope of activities outlined in this report do not represent any major changes to those included in the approach paper or the Terms of Reference (ToRs) for this assignment.

This theory-based evaluation relied on a mixed-methods approach and a range of synthesis methods to generate findings. A mixed-methods approach is appropriate for CP3 as it is a programme consisting of multiple components, lending themselves to different analytical approaches, including both quantitative and qualitative techniques. A theory-based approach is appropriate as it is suitable when an intervention or implementation context has complex attributes and follows UK government and industry best practice. Through this approach, the EQs can be answered from different perspectives, allowing the evaluation to generate contextualised and comprehensive findings.

The EQs (listed below) and evaluation framework are focused on collecting evidence to test the plausibility of the programme ToC and its assumptions (see Annex II). A full methodology is presented in Annex III.

Key evaluation questions

Are CP3 activities suited to supporting LCCR investment in emerging markets as set out in the business case?
Is CP3 complementary internally as well as with other ICF initiatives?
To what extent have objectives been achieved/are likely to be achieved?
Have these objectives been achieved in a cost-effective manner?
What evidence is there that CP3 has contributed to/or is likely to contribute to transformational change?
Are CP3 results sustainable?

Key findings

Summary findings from the strategic evaluation against the six OECD DAC criteria[2] are presented below.

#	Summary finding
Relevance	
Finding 1	CP3 provided relevant and appropriate financial modalities that succeeded in leveraging private finance for LCCR investments in emerging markets as intended in the business case (BC), deploying a wide range of instruments and achieving additionality.
Finding 2	Overall, 77 per cent of the commitments made by CP3 funds and sub-funds to LCCR projects and companies were deemed to be additional; that is, they would not have occurred under a business-as-usual scenario based on the prevailing investment

[2] The OECD DAC Network on Development Evaluation (EvalNet) has defined six evaluation criteria – relevance, coherence, effectiveness, efficiency, impact, and sustainability. These criteria provide a normative framework used to determine the merit or worth of an intervention (policy, strategy, programme, project or activity). They serve as the basis upon which evaluative judgements are made.

#	Summary finding
	environment in the countries of investment at the time. 24 per cent of commitments were deemed as highly additional.[3]
Finding 3	Overall, while there has been a small share of investments ($100 million, or around 5 per cent of total commitments) that went to sectors outside of the investment mandate, for the most part the CP3 portfolio has met its mandate.
Finding 4	Currently, the CP3 portfolio falls well short of the BC expectation that 15–30 per cent of the funds' investment would be allocated to the adaptation and forestry sectors.
Finding 5	In accordance with the BC, the geographies where investments took place skew towards middle- and low-income countries.
Finding 6	Not all CP3 funds went to low- or middle-income markets, with around 12 per cent ($242 million) of investment taking place in high-income countries, with little evidence that these investments served to promote technology transfer to other markets.
Finding 7	CP3 investments strongly support mitigation needs under the Paris Agreement, demonstrating large emissions-reduction benefits, but do not provide significant assistance for adaptation needs.
Coherence	
Finding 8	The CP3 core component was internally coherent, with key examples of flexibility at play.
Finding 9	Long timeframes for establishment of new operational structures (ACP and SCAF) delayed finance entering the markets and impacted the SCAF-to-PE pipeline.
Finding 10	CP3 appears relatively unique in the ICF portfolio, based on its size, operating model, and time scale.
Finding 11	CP3 was conceived at a time where there were few other equivalent models in the market. The market has evolved significantly, with the broader ecosystem of LCCR investment often co-financing projects and funds.
Effectiveness	
Finding 12	CP3-supported funds have undertaken 124 investments (including five operational SCAF projects). These received $14.2 billion in co-financing ($10.6 billion in private co-finance and $3.6 billion in public co-finance), installed 7.5 GW of clean energy, avoided over 36 million tonnes of CO_2, and employed over 37,000 people on an unattributed basis.
Finding 13	SCAF has performed well against its revised milestones and has shown an ability and willingness to learn and adapt over time.
Finding 14	While results have been achieved, the CP3 BC was ambitious, and not all elements of it have been realised in practice, in part due to arrangements between the UK government and implementing partners.
Finding 15	Factors contributing to achievement of results include strong enabling environments, positive macro-economic factors, and the certification effect brought by the IFC and the UK government.
Finding 16	Factors contributing to non-achievement of results include the impact of the Covid-19 pandemic, investment strategies that lead to heavy discounts when accounting for attribution and additionality, and governance arrangements at the ACP Fund.
Efficiency	
Finding 17	CP3 is providing value for money for the UK government across key dimensions of economy, efficiency, effectiveness, and equity.

[3] Please note that the methodology to assess additionality in this evaluation uses geography and the investment environment in a country as the sole indicator of additionality in the portfolio. Please refer to the relevant sections of this report for a definition of transformation and demonstration effect.

#	Summary finding
Impact	
Finding 18	While a minority of investments appear likely to have produced some level of demonstration effect as early movers, CP3 investments largely followed prevailing investment trends in the renewable markets considered.
Finding 19	Regional market research and accompanying interviews suggest that poor grid infrastructure – particularly in regard to transmission and distribution – has hampered or otherwise complicated the demonstrative potential of select CP3 investments.
Finding 20	CP3 investments in a handful of already existing renewable infrastructure projects further limited the demonstrative potential of the portfolio.
Finding 21	The countries in which CP3 operates have developed significantly in terms of renewable energy deployment and investment during the CP3 lifetime, but the CP3 contribution to these developments is limited.
Finding 22	There have been no identified issues with the application of environmental, social, and governance (ESG) standards and practices within the CP3 funds, but there are opportunities for improvement.
Finding 23	There is no strong evidence that CP3 and its instruments have incentivised application of high ESG standards outside the funds themselves.
Finding 24	To date, there is limited evidence overall that CP3 built capacity of supported fund managers and project developers.
Sustainability	
Finding 25	The implementation of CP3 has generated a useful pool of knowledge and learning for using PE to finance LCCR investments in low- and middle-income countries, but sharing this learning in the private finance space has been challenging.

Conclusions and lessons

Conclusion 1: CP3 has demonstrated that PE can be an effective vehicle for delivering climate finance, increasing renewable energy deployment in emerging economies that will deliver long-term and sustainable benefits. However, the evaluation has also highlighted how the commercial nature of the instrument, together with the broad investment mandate, can curtail investment potential in high-risk sectors and geographies.

Conclusion 2: As evidenced by the impact of attribution and additionality adjustments on programme results, there is a trade-off between the ability to leverage finance and additionality. High-additionality environments bear more risk, require proportionally larger levels of investments, and are less able to attract private investors. It is thus unrealistic to expect a commercially focused programme to be 100 per cent additional and garner commercial returns. If these returns were widely available, private investors would already be investing and the programme would not be additional. While additionality and leverage are partially competing objectives, CP3's diversified portfolio has helped achieve both outcomes.

Conclusion 3: Overall, the evidence collected suggests that while CP3 has delivered significant results through the portfolio of investments, there is less evidence of the programme's impact on wider market conditions. While the commercial model deployed has been critical to generating results, it has also limited the role CP3 has had on wider changes.

Lesson 1: It is important to ensure key BC ambitions, levels of risk appetite, and impact pathways are integrated into financial agreements with partners, as well as how they can be enforced, particularly for programmes operating through commercial models.

Lesson 2: The value of high-quality impact and results reporting is critical to measuring progress, and the importance of refining and updating methodologies throughout implementation should be recognised.

Lesson 3: CP3 has demonstrated the suitability of the PE model, but PE cannot address all of the gaps in the market and is thus not a 'one-size-fits-all' solution to delivering climate finance. Indeed, delivering on global climate finance goals requires deploying a wide array of financial instruments to address all financial and non-financial barriers.

Lesson 4: There remains a need for complementary instruments that leverage public finance to take on higher risk and demonstrate commercial returns for newer technologies.

Lesson 5: A positive enabling environment and infrastructure capacity (i.e. electrical grids) are key factors influencing market transformation in the countries. Despite expectations, CP3 was unable to significantly influence these environments.

Lesson 6: Evidence from CP3 and comparators indicates that delivering private climate finance for some climate-relevant sectors such as climate adaptation still faces barriers. Moreover, while it is still too early to assess, it is possible that current global uncertainty will impact exit strategies from the portfolio – either accelerating or delaying them. There thus remains an ongoing need for donor and development finance institution (DFI) support to deliver climate finance, both to leverage private finance and to provide bridge financing to support exits.

Key recommendations for the UK government

The following table provides recommendations to increase CP3's impact as well as inform the future design of similar programmes. The ability to change the design and operations of CP3 is limited at this point in time due to the nature of the programme. Short-term recommendations focus on opportunities for the UK government and the M&E agents to update methodologies and M&E practices to help better measure and capture progress. Long-term recommendations focus on design considerations for future programmes with similar aims to CP3, as well as how the UK government can learn and improve practices based on CP3 experiences.

#	Summary recommendation	Relevant finding(s)	Type of recommendation
1	In future ICF-supported programmes that operate in high-additionality markets that support LCCR, the UK government should leverage its ability to take on higher risk to raise the level of ambition of its programmes in an effort to make harder to reach markets more attractive to investors.	**3, 4, 5, 6**	Long term
2	For future TA-focused or SCAF-like programmes, including SCAF III, the UK government should consider approaches that encourage increased engagement in riskier, more additional markets to increase the potential for transformation.	**4, 6, 9, 13**	Long term
3	Future UK government–supported TA programmes aimed at increasing the capacity of LCCR development should consider how to actively shift the centre of gravity from the	**24**	Long term

#	Summary recommendation	Relevant finding(s)	Type of recommendation
	Global North to the Global South by providing greater capacity building.		
4	The UK government should learn from CP3 to improve mechanisms to ensure BC priorities are translated into financing agreements with partners, alongside enforcement mechanisms. This is particularly important for programmes that operate through commercial models. For programmes that have multiple components delivered by different partners, this should include building in greater opportunities for synergy and the development of guidance and materials to support future programme managers.	**9, 11, 14**	Long term
5	The UK government should continue to develop programmes that provide finance for LCCR on commercial or quasi-commercial terms, including early-stage PE as well as other types of finance to help address the finance gap in meeting global climate goals.	**12, 18**	Long term
6	The M&E agents together with the UK government should revise the ToC and, if required, the logframe based on evaluation evidence, to reflect the current reality of the CP3 programme.	**14**	Short term
7	The M&E agents together with the UK government should consider improving and further developing the CP3-specific approach to measuring and understanding transformational change. There may be opportunities to take learning from this practice and inform other ICF programmes.	**14, 18, 19, 20**	Short term
8	In future similar programmes, the UK government should use its position as a key donor to improve impact reporting approaches taken and applied.	**N/A**	Long term
9	The UK government should consider developing tools to support improvements in the way it integrates demonstration effect into future work aimed at unlocking/measuring demonstration effect.	**18, 19, 20**	Long term
10	The UK government should develop programmes that focus specifically on the financing and commercialisation of adaptation and resilience projects and companies.	**4, 7**	Long term

1 Introduction and context

1.1 Overview of CP3, its objectives, and intervention logic

The UK government provided £3.87 billion of Official Development Assistance (ODA) over the period 2011–2016 to help developing countries achieve LCCR development. This money was channelled through the International Climate Finance (ICF) commitment. One of the programmes being funded through the ICF is the Climate Public Private Partnership (CP3), a joint initiative between the Foreign, Commonwealth and Development Office (FCDO) and the Department for Business, Energy and Industrial Strategy (BEIS). CP3 is a £130 million programme that utilises an innovative approach to deploy public funds with the aim of leveraging additional capital from the private sector.

> *"The CP3 programme is built on the assumption that private finance is essential to delivering substantial developmental and climate benefits, including stronger and more responsive financial markets, which are the backbone of productive and low-carbon economic systems where people can take the lead to escape poverty and improve their lives."*[4]

To mobilise private finance at scale, CP3 is participating as an equity investor in two private equity (PE) funds, which in turn, either through a fund-of-funds approach or directly, invest in companies operating within low-carbon and climate-resilient (LCCR) space. Equity investment enables companies to start their operations, pilot projects, invest in growing businesses, and undertake other activities crucial to accessing other forms of capital. These investments – while expected to deliver climate and development benefits – are also expected to provide commercial returns. The ability to generate commercial returns is central to the CP3 theory to demonstrate to the market that climate investments are not only feasible, but profitable. Once investors see this, they are more likely to invest in this space, which will in turn unlock additional private finance. A larger description and the visualisation of the CP3 Theory of Change (ToC) and the programme intervention logic is included in Annex II.

The CP3 programme structure and fund size that is analysed as part of this evaluation is described as follows:

- **Catalyst Fund (CF)**: CP3 invested £50 million as an anchor investor in the International Finance Corporation (IFC)'s CF, a fund-of-funds managed by the IFC Asset Management Company.[5] By acting as an anchor investor, the UK government gave confidence to other investors, helping the fundraising process and increasing the likelihood that these funds launch successfully. The CF received commitments from seven other investors, including IFC, two private pension funds from Australia and Germany, the sovereign wealth fund of Azerbaijan, the governments of Canada and Norway and the Japan Bank for International Cooperation for a total fund size of $418 million.
- **Asia Climate Partners (ACP):** The UK also invested $100 million (£60 million) in ACP, a fund managed through a partnership between the Asian Development Bank (ADB), Orix, and Robeco (asset managers). ACP carried out direct investments in cleantech companies

[4] From the Phase I Evaluation Terms of Reference and as described in the Phase II Evaluation Terms of Reference
[5] A fund-of-funds is an investment model where instead of investing directly in companies, the fund manager holds a portfolio of other funds which make the direct investments.

and projects in Asia. It raised capital from ADB, Orix (a private asset manager), Bank of Tokyo Mitsubishi, Sompo Japan, Pacific Consultants Group, and the Japan International Cooperation Agency for a total size of $447 million. In 2018–19, ACP faced issues and decided to prematurely close its investment period and return uninvested capital totalling $363 million to investors, leaving the fund size at $90 million and the UK share at $19 million. By 2021, the ACP exited its four investments, wound down activities, and closed.[6]

- **Technical assistance (TA) facility:** In addition, the UK government also made available £19 million to a TA facility to support the market and undertake enabling activities for PE, policy and regulatory initiatives and support schemes for first-time fund managers. Most of this support (£11 million[7]) was provided to the Seed Capital Assistance Facility Phase II (SCAF).[8] SCAF's objective is to increase the availability of investment for early-stage low-carbon projects in developing countries by providing financial support on a cost-sharing and co-financing basis to low-carbon projects via PE funds, venture capital (VC) funds, and project development companies (DevCos). This helps seed the market and increases the availability of low-carbon investments in developing countries. SCAF also supports first-time fund managers in the low-carbon space to reach financial close. SCAF also received funding from BMWK[9] (The German Federal Ministry for Economic Affairs and Climate Action). It is delivered through the United Nations Environment Programme (UN Environment) supported by the United Nations Office for Operations (UNOPS) and two entities of the Frankfurt School group, the Frankfurt School of Finance and Management GmbH, UN Environment Collaborating Centre for Climate and Sustainable Energy Finance, and the Frankfurt School Financial Services.

Figure 1 describes the CP3 programme components that were explored as part of this evaluation.

[6] While the ACP PE fund is no longer active, as it was operational during the time frame of this evaluation (2018-2020) it has been included as part of this evaluation. The evaluation draws on data collected from 2018-2020 until its closure. No further data is expected to be collected related to this fund.
[7] In 2013, the UK government initially committed £9 million to the Facility. Following the recommendations to scale up the project in the 2018 mid-term evaluation of SCAF, the UK government committed an additional £2 million to SCAF II in 2019. Some financing went to other projects that closed prior to 2018, but not all of the available TA financing was committed.
[8] SCAF I began in 2009 and ran for five years, supporting eight partners with financing from UN Environment and ADB, among others. Under CP3, FCDO invested in SCAF Phase II, which is set to run for eight years, starting in 2014. Phase II operates in a similar manner to Phase I with two significant differences: Phase II has expanded their prospective partner base to include DevCos to more effectively support pipeline development; and now offer a repayable loan under their second support line with shared development risks, rather than a straight grant.
[9] In 2021, the former BMUB (the German Federal Ministry for the Environment, Nature Conservation, Building and Nuclear Safety) transition to the BMWK. This ministry has also increased their commitment to SCAF throughout the lifetime of the contract, including most recently in 2021.

Figure 1: CP3 programme components explored as part of this evaluation (2022)

Climate Public Private Partnership $200m (£130m)		
Catalyst Fund ($80m UK investment – total size $418m)	Asia Climate Partners ($19m UK investment after early close – total size $447m/90m after early close)	Seed Capital Assistance Facility ($16m UK investment – total size $34 million)
9 sub-funds 119 investments	4 investments	10 partners (Funders and DevCos) 5 first-time fund managers 23 projects (operational and in the pipeline)

**ACP fund size adjusted to reflect early closing of the fund.*

1.2 Other relevant programmes

Numerous programmes around the world share CP3's broad goal of encouraging LCCR investment in emerging markets, each varying in their precise function, structure, and size. CP3 is different to other programmes in existence but interacts with other programmes and initiatives in supporting LCCR investment in emerging economies. Table 1 provides an overview of five comparable programmes that were selected for a comparative analysis that explored CP3's coherence with the wider LCCR ecosystem (summarised in Section 4.2). Except for the Global Energy Efficiency and Renewable Energy Fund (GEEREF), these instruments did not use similar models or were not in existence at the time of CP3 conception.

Table 1: Instruments used in the comparative analysis

Programme	Description
GEEREF	PE fund-of-funds with climate mandate. Very similar in design to CP3 but operating at smaller scale and with global reach.
British International Investment (BII)	Formerly the Commonwealth Development Corporation, the UK development finance institution (DFI). Before 2012, it was primarily focused on infrastructure funds and has since moved more directly into direct debt and equity financing. At the time of CP3 inception, the size, scale, and scope of the Commonwealth Development Corporation did not align with CP3 objectives.
Green for Growth Fund (GGF)	An impact investment fund, using a blended finance structure funded in 2009 aimed at mitigating climate change and promoting economic growth. It operates across 19 markets across south-east Europe.
Climate Investor One	A blended finance facility, Climate Investor One reached first close in 2017. It is mandated with delivering renewable energy (RE) in developing markets through supporting RE development from early stage to operations.
Sustainable Energy Finance for Africa (SEFA)	Established in 2011, SEFA is a multi-donor special fund managed by the African Development Bank. It offers TA and concessional finance instruments to remove barriers, build a pipeline of projects, and improve risk-return profile of projects. The fund's overarching goal is to contribute to

Programme	Description
	universal access to affordable, reliable, sustainable, and modern energy services for all in Africa.

1.3 Monitoring and Evaluation Agent evaluation team

To support implementation, the FCDO and BEIS have invested in rigorous monitoring and evaluation (M&E) of CP3 since 2014 to reinforce accountability and learning through ongoing results reporting and lesson learning, both for delivery of the programme itself but also wider ICF programmes. NIRAS, CPI, and Integrity Global have been the M&E agents since 2020, with NIRAS and CPI delivering M&E services since 2014.

This strategic evaluation was conducted by a core team composed of a mix of evaluation and climate advisory experts, and supported by a strategic advisory panel and resource pool who conducted specific evaluation activities to support the evaluation findings. The team has also been supported over the course of the broader M&E assignment by a range of experts who have conducted discrete evaluation activities, such as case studies.

Table 2: Evaluation team

Core team	Strategic advisory and quality assurance panel	Resource pool
Donovan Escalante (CPI) Project Manager/Climate Finance Lead **Angela Pastor (CPI)** Climate Finance Analyst **Benjamin Thomas (CPI)** Climate Finance Analyst **Neil Chin (CPI)** Climate Finance Consultant **Rebecca Adler (NIRAS)** M&E Lead **Callum Murdoch (NIRAS)** Climate Finance Evaluator **Yujie Shen (NIRAS)** M&E Consultant	**Bella Tonkonogy (CPI)** CPI US Director **Charlie Michaelis (NIRAS)** Renewable Energy Evaluation Expert **Ada Sonnenfeld (Integrity)** Contract Director	**Matt Savage** Climate Funds Evaluator **Samer Zawayed** Jordanian RE Expert **John Mayhew** Climate Evaluation Specialist

The core team members conducted most of the data collection and analysis, with the four CPI team members focused on portfolio analysis, financial leverage, additionality, demonstration, and VFM assessment, and the three NIRAS colleagues focused on design and governance issues, ToC assessment, intervention–context–mechanism–outcome (ICMO) analysis and contribution case studies. They were supported by the three experts in the resource pool, who contributed to the contribution analysis studies, with one leading the comparative analysis with

other climate finance instruments. The team met regularly to exchange iterative findings, and each team member has made an important contribution to this report.

2 Purpose, scope, and objectives of the evaluation

The evaluation will provide answers to the evaluation questions (EQs) and synthesise lessons. It has three objectives:

1. **Test the ToC model and its underlying assumptions**. Due to CP3's innovative nature, the M&E agents will pay particular attention to learning about the effectiveness of utilising PE to catalyse private investment and through it, deliver development benefits.

2. **Synthesise and capture the programme's emerging results** and the evidence that has been gathered to date. This will be done through the logframe and performance-related information. If required, the team will make changes to the logframe to ensure that the programme's results can be captured and recorded appropriately.

3. **Assess the programme's relevance, coherence, efficiency, effectiveness, impact, and sustainability,** including its demonstration impacts and its success at driving LCCR growth in developing countries.

2.1 Evaluation scope

The scope of the strategic evaluation covers the investment funds and TA activities that have been funded through CP3, and the activities conducted and results achieved between 2018 and 2022. This includes the CF, its investee funds, ACP, its investee companies, and SCAF. The scope of activities outlined in this report does not represent any major changes to those included the approach paper or in the ToRs for this assignment.

The target audiences for the evaluation are primarily FCDO/BEIS programme managers, stakeholders from the programmes funded by CP3, and other stakeholders involved in programmes aiming to catalyse private finance for climate-relevant activities. The primary audience (FCDO/BEIS) has been engaged throughout the evaluation process, including co-development of recommendations, as have the evaluands at the CF and SCAF.

2.2 Time frame

The evaluation primarily focuses on and collected data on activities, results, and outcomes realised between 2018 and 2022. It also drew on and synthesised historic evidence from 2014 to 2018 collected by the M&E agents. The timing of the 2022 strategic evaluation is ten years since the design of many of the CP3 instruments. They are therefore sufficiently mature to assess if the CP3 hypothesis has held true, with key lessons emerging able to influence other climate programmes.

2.3 Organisation of this report

This report sets out the findings, lessons, and recommendations of the 2022 strategic evaluation. It also includes a description of the methodological approach used, including the EQs answered and analysis methods and data collection methods used to answer those questions. Following this section, this report covers:

- Section 3 – Methodology
- Section 4 – Findings

- Section 5 – Conclusions
- Section 6 – Lessons
- Section 7 – Recommendations

Key annexes include:

- Annex I – Terms of Reference
- Annex II – Theory of Change
- Annex III – Methodology
- Annex IV – Realist synthesis approach and findings
- Annex V - Bibliography
- Annex VI – Evaluation outputs, users and use and influence plan
- Annex VII – Evaluation management.

3 Methodology

This section describes the design of the 2022 strategic evaluation for CP3.

3.1 Evaluation approach

This theory-based evaluation relied on a mixed-methods approach and a range of synthesis methods (including both descriptive and explanatory) to generate findings. CP3 is a complex programme with multiple interrelated components and variables, spanning 14 years with several investment tiers, interacting with a variety of stakeholders through its 100+ strong investment portfolio. A theory-based approach is appropriate, as it is suitable when an intervention or implementation context has complex attributes and follows UK government and industry best practice. The use of a mixed-methods approach is appropriate as CP3 is a programme consisting of multiple components, lending themselves to different analytical approaches, including both quantitative and qualitative techniques. Through this approach, the EQs can be answered from different perspectives, allowing the evaluation to generate contextualised and comprehensive findings.

The EQs and framework were focused on collecting evidence to test the plausibility of the programme ToC (Annex II) and its assumptions. More details on the methodologies, data collection methods, and analysis and synthesis methods are included in Annex III. This annex also includes more details on the evaluation's limitations as well as the principles guiding this evaluation, including ethical considerations.

3.2 Evaluation questions

EQs were defined to deliver the strategic evaluation's objectives as set out in the evaluation approach paper. They were developed based on the inception report and further refined in partnership with UK government colleagues to capture new and emerging interests. The primary goal was to assess the programme's success in delivering its objective of driving LCCR growth in developing countries. This objective should have been delivered in a cost-effective manner according to VFM mandates and be sustainable over the long-run. Table 3 shows how the EQs answer core interests and relate to the OECD DAC criteria. The evaluation framework (included in Annex III) also provides an overview of the proposed approach to answer the questions as well as the data required. Multiple methods and data sources have been used to answer each question to support greater triangulation and corroboration of evaluation findings.

Table 3: Evaluation questions

Evaluation question	Sub-evaluation question	OECD DAC criteria
Are CP3 activities suited to supporting LCCR investment in emerging markets as set out in the business case (BC)?	**EQ1.1.** Did the CP3 vehicle offer relevant and appropriate financing modalities to leverage private finance in emerging markets as set out at the BC? Were these activities additional? **EQ1.2.** To what extent are the CP3 investments supporting LCCR businesses in relevant and appropriate sectors as outlined in the BC? **EQ 1.3.** To what extent are the CP3 investments providing LCCR support in relevant and appropriate geographies as outlined in the BC? **EQ 1.4.** Does the CP3 theory and vehicle remain relevant in the current market and aligned to countries' needs under the Paris Agreement?	***Relevance***
Is CP3 complementary internally as well as with other ICF initiatives?	**EQ 2.1**. Internal: To what extent are CP3 components complementary or are they duplicative with each other? Do synergies exist between the components? Is the overall portfolio of investments coherent? **EQ 2.2.** To what extent are CP3 components complementary and synergistic, or contradictory and duplicative with other selected and relevant ICF initiatives?	***Coherence***
To what extent have objectives been achieved/are likely to be achieved?	**EQ 3.1.** What have been the results of CP3 and are they aligned to the ToC? **EQ 3.2.** What are the major factors influencing achievement or non-achievement of results?	***Effectiveness***
Have these objectives been achieved in a cost-effective manner?	**EQ 4.1.** Is CP3 providing VFM for the UK government?	***Efficiency***
What evidence is there that CP3 has contributed to/or is likely to contribute to transformational change?	**EQ 5.1.** Has CP3 generated evidence of demonstration effects that have or are expected to catalyse additional investments for LCCR in target countries? **EQ 5.2.** How have the countries within which CP3 operates transformed? Is there any evidence that CP3 contributed to these changes? **EQ 5.3.** Has CP3 incentivised the application/integration of environmental, social, and governance (ESG) standards into practice? **EQ 5.4.** How has CP3 built capacity and contributed to the success of the supported fund managers and project developers?	***Impact***

Evaluation question	Sub-evaluation question	OECD DAC criteria
Are CP3 results sustainable?	**EQ 6.1.** Has CP3 generated lessons and good practice in mobilising climate finance, supporting LCCR aims, implementing ESGs, and supporting first-time fund managers, and how? (Thereby addressing information asymmetries, agency problems, and influencing private investors.) **EQ 6.2.** What can the UK government learn about future equity LCCR investments in emerging markets from CP3?	***Sustainability***

3.3 Evaluation methods

The methodology for the strategic evaluation was developed in consultation with experts from the FCDO and BEIS, starting with a workshop in October 2021 to collectively refine EQs, understand priorities and uses for the evaluation, and identify appropriate evaluation methodologies. These methodologies were further refined based on stakeholder feedback and were finalised in March 2022 through the evaluation approach paper. The full methodology paper is available in Annex III.

The strategic evaluation drew on evidence including financial and non-financial results reporting, interviews, PE and cleantech market literature and data, and consultations with representatives from a range of stakeholder groups, including component leads, sub-fund managers and staff, co-investors, and other market actors.[10] The team members leading each part of the evaluation developed data collection instruments, which were then tested and reviewed by the quality assurance team prior to data collection.

In addition to the evaluation methods used for this evaluation, an overarching realist synthesis approach was used throughout the M&E assignment to code and analyse data, meaning findings could be generated and trends measured over time. The M&E agents, along with BEIS and FCDO counterparts, developed this framework in 2020 (discussed in more detail below) that guided the realist synthesis inspired approach. Annex IV outlines the realist synthesis approach used.

This synthesis report brings together findings from all evaluation activities carried out over the four-year period of this evaluation (2018–22) as well as analysis specific to the strategic evaluation. This includes ongoing logframe data collection, three case studies – one on ACP, one on a SCAF partner, and one thematic case study on the use of PE. The team also conducted three contribution analysis studies, a VFM analysis, statistical assessments of the investment portfolio, past/current market context assessments, a transformational change assessment, a comparative analysis of other similar instruments, and a thematic analysis of programme documentation and interview responses, which all fed into the evaluation. The evaluation also draws on evidence collected from 2015 to 2018 included in the first mid-term evaluation (MTE) conducted in 2018.

[10] Please refer to Table 23 in Annex III for an overview of all 55 stakeholders interviewed by stakeholder group.

Evidence needed to be synthesised for all aspects of the evaluation and relied on both "descriptive" synthesis and "explanatory" synthesis. Descriptive synthesis was used to aggregate quantitative data or simple analysis of factually verifiable data. A range of explanatory synthesis approaches was applied, including a thematic and critical realist synthesis inspired approach to understand if the programme theory remained true. To support this, the M&E agents, together with the FCDO and BEIS, developed a framework for analysis and assessing the relative importance of different interventions. This framework used an analysis of ICMO configurations to draw conclusions about the importance of different factors in producing observed results, and in what context mechanisms are leading to programme outcomes. More description of how realist synthesis principles were applied in this evaluation is described in Box 1: and in Annex IV.

Box 1: How realist synthesis principles were used in this evaluation

To support the synthesis of gathered data, the M&E agents employed a realist approach that used an analysis of ICMO statements. The statements were used to draw conclusions about the importance of different factors in producing the observed results. These statements separate out those factors that are inherent to or directly under the control of the programme as interventions (I), from other contextual factors (C) and mechanisms (M) that are not, to give the formulation I+C+M=O (ICMOs). Clear articulation of what we mean by mechanisms is particularly important. Our framework defines them as the causal forces, powers, or processes that generate a change within an intervention – including the forces that influence decisions people make as a result of the programme intervention.

In Phase II, the ICMOs have been revised based on evidence from Phase I, and new ICMOs have been developed. This is due to the increased programme maturity, allowing the evaluation to explore higher-order outcomes and the mechanisms leading to them, as well as the increased programme understanding shared by the M&E agents enabling greater specificity. The learning from this evaluation will be used to revise the hypotheses and ICMOs further. All ICMOs from the current and previous evaluations will be reviewed holistically in the 2026 final impact evaluation.

The full ICMO statements are available in Table 24 but an abridged version, focusing on the mechanism and outcomes, is given below:

- **Commercial returns:** Fund managers make and maintain appropriate investments (M), resulting in commercial returns and satisfactory performance in sector indices (O).
- **Demonstration effect:** New investors perceive risk and potential returns in LCCR sector differently (M), resulting in increased LCCR investment outside the CP3 investments in the selected markets (O).
- **Investment mandate:** Fund managers select and maintain investments that are compliant with UK government mandates/requirements (M), resulting in investments that generate environment and development impacts (O).
- **Vehicle choice**: Fund managers and SCAF are able to address the "missing middle" financial challenge (M), enabling investment companies to reach financial close and access alternate project funding sources (O).
- **Broker role**: Other investors are reassured by the brokering role played by the UK government, the CF, and ACP, and are encouraged to participate in investments (M), resulting in the investee companies reaching financial close (O).

- **TA (SCAF)**: SCAF-supported partners are able to develop in a commercially sustainable manner (M), and as a result access conventional finance to reach financial close and flowback the initial SCAF financial support (O).
- **Pipeline development (SCAF)** – SCAF partners prioritise seed capital or very early-stage capital commitments (M), which generates a pipeline of commercially viable LCCR investment opportunities for the CF, ACP, and other comparable investors (O).
- **Track record:** Fund managers can develop their capacity to research and invest in LCCR opportunities in a financially secure and supportive environment (M) allowing them to build trust and raise additional private financing or open follow-on funds (O).
- **ESG**: CP3 funds are encouraged to apply ESG safeguards across their investments (M), making those investments more attractive to other investors and increasing the adoption of high-quality ESG standards in the market (O).

Several findings were generated based on analysis of evidence by ICMO configurations. In addition, the ICMOs structured and guided data gathering and analysis throughout the strategic evaluation, influencing many of the findings presented. The ICMOs provide a framework against which data was collected, coded, and then analysed, leading to the generation of findings related to the component parts of the ICMOs themselves.

3.4 Evaluation limitations

The M&E agents identified a series of limitations to the evaluation, including **data accessibility and availability**, **stakeholder bias, case study limitations, and generalisability of findings and early timeframes for changes and impacts to be observed** (see Annex III for more details about these limitations and how the M&E agents have considered them in their evaluation approach). These limitations were mitigated by the robust approach to evidence generation and analysis taken by the M&E agents, the iterative process applied to develop findings, and use of multiple methods to triangulate.

4 Findings

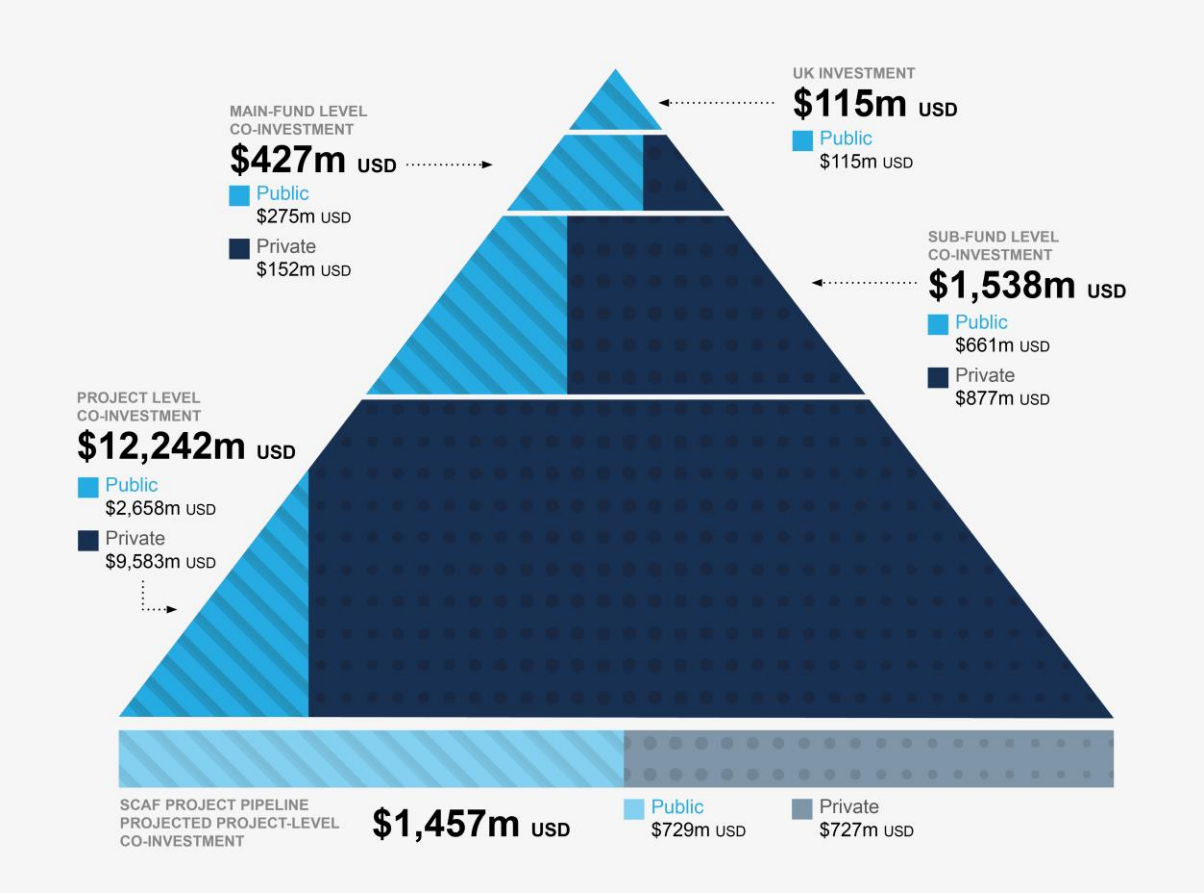
4.1 Relevance: Are CP3 activities suited to supporting LCCR investments in emerging markets as set out in the BC?

EQ 1.1 Did the CP3 vehicle offer relevant and appropriate financing modalities to leverage private finance in emerging markets as set out in the BC? Were these activities additional?

Finding 1: CP3 provided relevant and appropriate financial modalities that succeeded in leveraging private finance for LCCR investments in emerging markets as intended in the BC, deploying a wide range of instruments and achieving additionality.

Overall, the CP3 has leveraged $10.6 billion in unattributed private finance and $3.6 billion in unattributed public finance across the different levels of the programme.

Figure 2. Finance leveraged by the CP3 programme



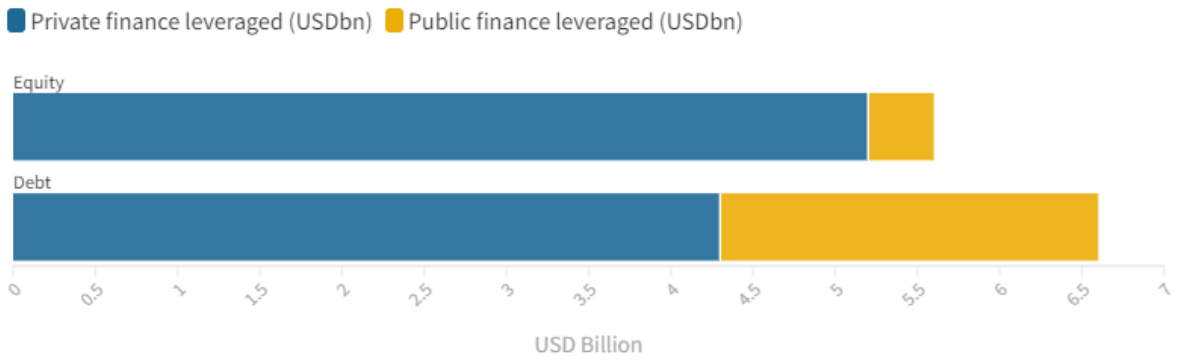
Source: IFC and CP3 data

A wide variety of financial instruments are available for deploying capital to climate projects. Each is unique and has differing abilities to target the financial and non-financial barriers present in each market context. The goal of CP3 was to use a public–private partnership structure to increase the role of private-sector finance in driving LCCR growth in developing countries. Specifically, it aimed to increase the amount of funding in PE in the climate-friendly space by directly funding PE funds.

PE is a subset of equity finance that deals with companies that are not traded in public stock exchanges. Altogether, the experience from CP3 shows that PE has an important role to play in a toolbox of climate finance instruments. PE funds target earlier stages in the company life cycle, are typically able to take on higher risks, and provide specialist knowledge and support. As such they are uniquely suited to support the commercialisation and development of new technologies in emerging markets and developing countries. There is significant potential to use the instrument for leveraging public and private finance, as it plays a critical role at the beginning of the financing chain. However, there are also downsides of investing in PE funds – mainly the loss of control over investment decisions that can lead to mandate dilution, the challenges in attributing results, and the complexity of its implementation.

Within this structure, the fund-of-funds invested directly in LCCR projects and companies in developing economies, thus further addressing market barriers in this space. Indeed, instruments such as debt are better suited at later stages of a company or project's life cycle when sufficient revenues are being generated to pay down debt. Equity can be used in all stages and may be the only financial instrument available when a company is starting out and faces uncertain market prospects. Overall, CP3 has leveraged $6.6 billion in debt ($4.3 billion from private sources and $2.3 billion from public sources) and $5.6 billion in equity ($5.2 billion from private sources and $0.4 billion from public sources)

Figure 3: CP3 finance leveraged by type of instrument and actor



Source: IFC and CP3 data

Overall, the successful large-scale mobilisation of public and private finance towards LCCR projects and companies in emerging markets and developing countries indicates that CP3 activities – selecting and financing PE sub-funds while establishing targeted investment mandates – were suitable for their intended purpose. In particular, the wide variety of co-investor types in the private sector (e.g. commercial banks, PE/venture capital (VC), project developers, corporate actors, etc.) that were leveraged by CP3 suggest that the programme's activities ably constructed an investment portfolio that provided risk-adjusted returns acceptable to a multitude of actors. This level of involvement validates the CP3 ToC intuition that a PE fund-of-funds model would be suitable to drive broad private-sector interest in supporting LCCR investments in target geographies.

Finding 2: Overall, 77 per cent of the commitments made by CP3 funds and sub-funds to LCCR projects and companies were deemed to be additional, including the 24 per cent of commitments deemed as highly additional. This is a significant achievement given the limitations that the commercial nature of the programme poses in terms of

delivering on additionality. High-additionality environments bear more risk, and thus require proportionally larger levels of investments and are less able to attract private investors. It is thus unrealistic to expect a commercially focused programme to be 100 per cent additional and garner commercial returns. If these returns were widely available, private investors would already be investing and the programme would not be additional.

Overall, this finding is consistent with the geographic make-up of the CP3 portfolio, which skews heavily towards emerging markets that receive a lesser share of global investment flows (see Finding 6).

In the CP3 context, an additional investment is one that would not have taken place under a business-as-usual scenario. The M&E agents have developed a methodology for scoring the additionality of investments, described in Box 2: and expanded on in Annex III and accompanying approach paper.

Box 2: How additionality is assessed for the CP3 programme

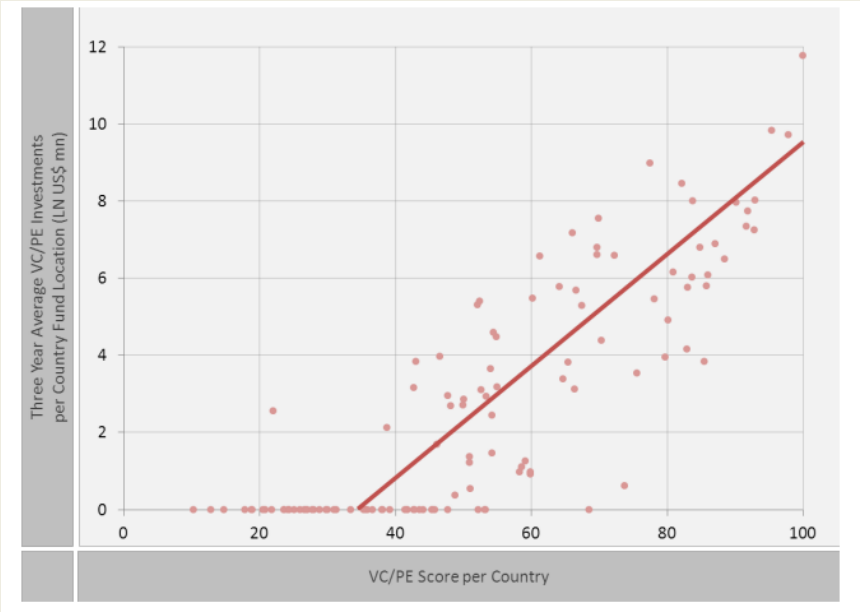
The VCPE index as a proxy for additionality

ICF reporting guidelines require adjusting results for additionality. This is done by applying an additionality modifier to the CP3 results. The evaluation's approach uses the investment environment in a country as the sole indicator of additionality in the portfolio. Data is based on the Venture Capital & Private Equity Country Attractiveness (VCPE) Index created by the IESE Business School and published annually. The VCPE Index rates countries from 0 (weak investment environment) to 100 (strong investment environment). The M&E agents have assessed the strength of the VCPE Index against the CP3 data and alternative sectoral-based indicators and found it to be a very strong indicator of the likelihood of PE investment in any given country. The team conducted independent research, including comparing results with sector-based indexes like Climatescope (see Figure 23 in Annex III), as well as conversations with fund managers. All this research suggests that the overall macro-economic and policy environment are the primary drivers for investment and thus the major components in predicting future investment, confirming the suitability of using the VCPE Index as a proxy for likelihood of PE investment in a country.

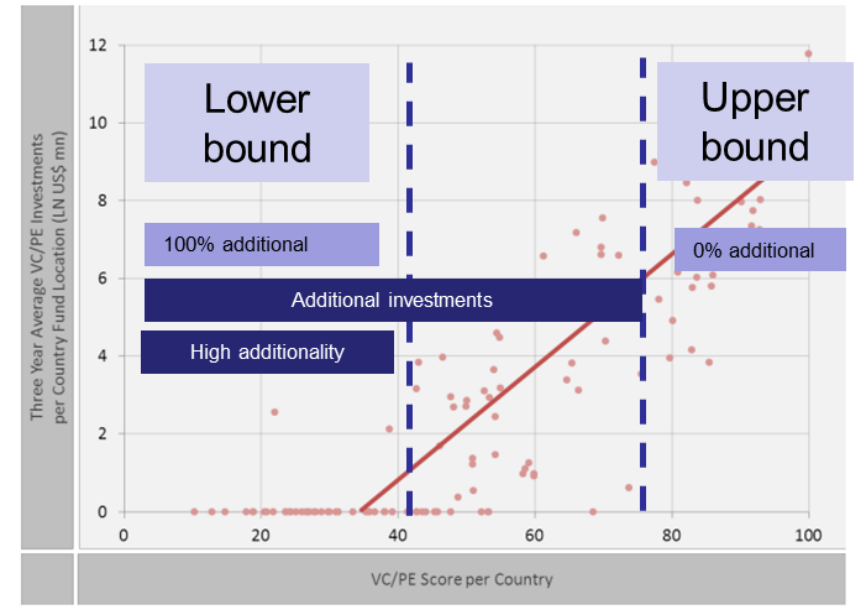
The M&E agents apply an additionality factor based on VCPE index scores, as follows:

- VCPE score lower than 45: Investment deemed 100 per cent additional. (high additionality)
- VCPE score above 75: Investment deemed 0 per cent additional
- VCPE score between 45 and 75: ((75 - Country score)/30) per cent additional investment.

Generally, a score of less than 45 indicates investments were completed even though average returns in these countries' equity markets were observed to be generally too low to attract private investment.



Source: IESE 2015[11]



Source: IESE 2015 (adapted by authors for demonstration purposes)

Please refer to the accompanying approach paper and Annex III for further details on additionality scoring and adjustments.

A summary of CP3 and the proportion of fund and sub-fund investments that went to additional or highly additional markets is presented in Table 4.

[11] IESE Business School of the University of Navarra. (IESE). 2015. "VC/PE Country Attractiveness Index." "VCPE Country Attractiveness El Salvador" and "VCPE Country Attractiveness China." Available from: http://blog.iese.edu/vcpeindex/elsalvador/ and http://blog.iese.edu/vcpeindex/china/

Table 4: Additionality of investment portfolio of CP3 components

	Percentage of total fund and sub-fund commitments considered additional (VCPE Score 0 to 75)	Percentage of total fund and sub-fund commitments considered highly additional (VCPE Score 0 to 45)
Asia Climate Partners	**52%**	**0%**
Catalyst Fund	**58%**	**24%**
Africa Renewable Energy Fund	100%	99%
Alcazar Energy Partners	100%	0%
Armstrong Southeast Asia Clean Energy Fund	99%	0%
Asia Environmental Partners II LP	31%	0%
GRC SinoGreen Fund III LP	3%	0%
Latin Renewables Infrastructure Fund	100%	55%
Mainstream Renewable Power Africa	100%	39%
Renewable Energy Asia Fund II	100%	0%
RMB Westport Real Estate Development Fund II	100%	100%
TPG Alternative and Renewable Technologies Partners LP	27%	0%
SCAF	**100%**	**24%**
Total	**77%**	**23%**

Source: ICF data and author's calculations. Percentages calculated as total number of additional or highly additional commitments over total commitments for each component and sub-fund.

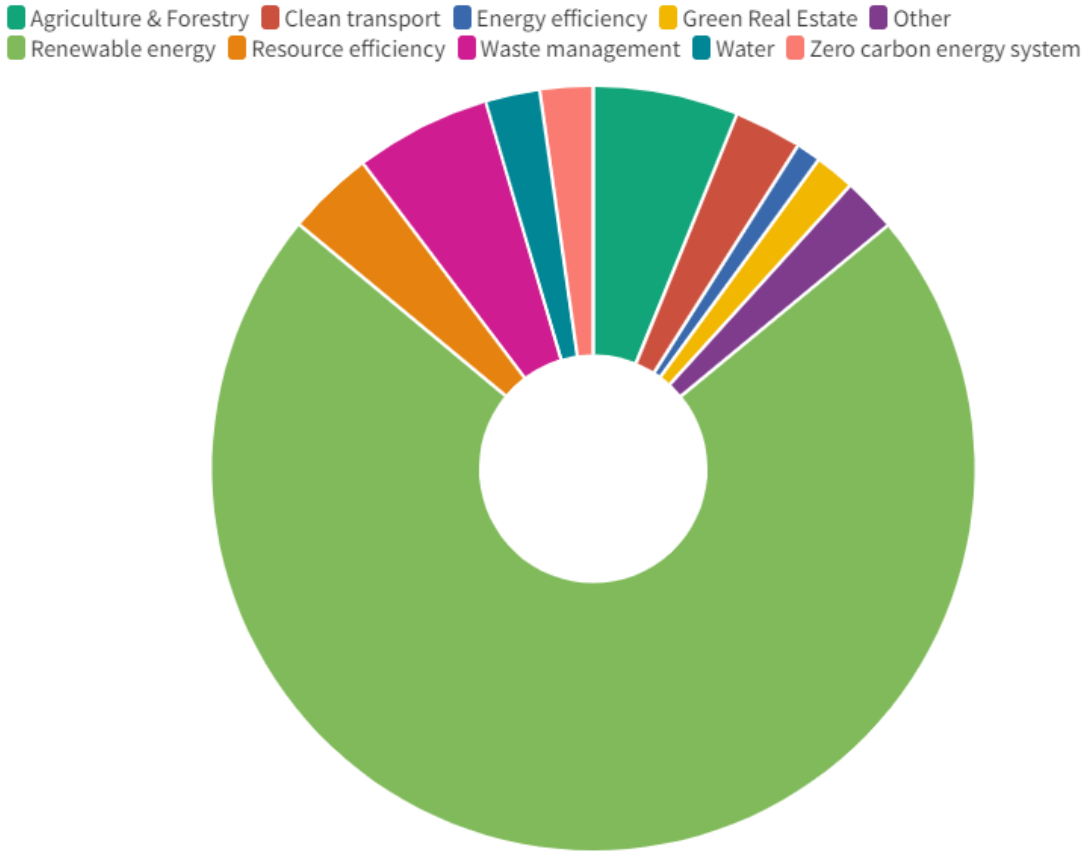
EQ 1.2. To what extent are CP3 investments supporting LCCR businesses in relevant and appropriate sectors as outlined in the BC?

Finding 3: Overall, while there has been a small share of investments (around 5 per cent) that went to sectors outside of the investment mandate, the CP3 portfolio has met its mandate for the most part. The vast majority of CP3 investments support LCCR businesses in sectors as outlined in the BC (i.e. renewable energy, resource efficiency and management, revaluation of resources and environmental services), with the predominant share of financing directed towards renewable energy. Overall, it has been found that the sectoral distribution of CP3 investments closely mirrors global climate finance trends and is in line with the expectations for PE fund investments. The primary driver for investment by PE fund managers is profit-seeking. Geographies, technologies, and sectors where risk-adjusted returns are already adequate for PE will see the most investments. If investment is desired in riskier projects, incentives and risk-sharing mechanisms will need to be deployed.

Figure 4: Composition of the CP3 portfolio by type of climate finance

Source: IFC and CP3 data

Figure 5: Sectoral breakdown of CP3 portfolio (proportional by millions of USD committed)



Source: IFC and CP3 data

In total, $1.4 billion were committed to renewable energy projects, making up over 70 per cent of all investment. Wind and solar projects represent almost two-thirds of all CP3 investment. In the BC, it was expected that the renewable energy sector would make up most investments, based on projections drawn from LCCR investments held by multilateral development banks at the time. While this expectation did not translate into a mandated share of investment by the IFC-CF or its constituent sub-funds through the UK government's limited partner agreement, it was still met due to the strong investment quality of RE projects in target geographies. Overall, this result can be seen as a reflection of the massive cost-improvements and subsequent global deployment of renewable technologies (largely wind and solar) over the lifetime of CP3, which provided a robust pipeline of investable infrastructure projects across geographies. Additionally, project-level research indicates that the establishment of enabling policy frameworks such as capacity auctions, feed-in tariffs, and long-term power purchase agreements in target geographies were instrumental in supporting renewables project development in previously untapped markets.

However, the share of investment in non-renewable sectors such as energy efficiency and upstream energy systems manufacturing were much lower than expected in the BC. In the BC, 60 per cent of energy sector financing was expected to support downstream renewables generation, while the remaining 40 per cent was envisaged to support upstream supply chain companies. However, only three funds — TPG, GRC Sinogreen, and AEP II — invested in supply chain companies and the broader cleantech sector, while the remainder focused almost exclusively on RE infrastructure projects. These cleantech funds invested growth equity in a

wide range of climate/environmental themes. There was no strong coherence observed in their investment approaches, which could be interpreted either as signalling a lack of consensus around climate investment outside of the RE infrastructure space, or conversely, as signalling the breadth of opportunities available in the space. Further, it is possible that fund managers sought investments across multiple sectors and sub-sectors to diversify their portfolios and make them more commercially attractive. Investment decisions in a PE fund are made by a fund manager and not the investors so it is crucial that good investment criteria are set from the onset. In the case of investments in growth equity and platform companies, there is a further decision-making layer at the company level, which can contribute to further diluting the investment mandate, at the same time, diversified portfolios that attract a wider range of commercial opportunities may be more able to leverage finance, particularly private finance, than too narrowly focused portfolios. As such, while stricter investments mandates can prevent investments in non-climate–related sectors, maintaining a degree of flexibility so that fund managers can pursue new opportunities is also important.

Further, for a small number of investments, climate benefits were hard to determine. These include: ChemEOR (green-enhanced oil recovery chemicals), Rancher Labs (cloud computing software), and Weiche (Chinese app for vehicle drivers). **Investments without clear climate links are estimated at $100 million (around 5 per cent) of total commitments.**

Finding 4: Currently, the CP3 portfolio falls well short of the BC expectation that 15–30 per cent of the funds' investment would be allocated to the adaptation and forestry sectors.[12] Only 2 per cent of commitments are invested towards adaptation (all in the agriculture and forestry sector), and total agriculture and forestry investments reach a mere 6 per cent. The small share of adaptation finance within CP3 investments matches global trends, which show that equity finance is not widely mobilised to invest in adaptation.[13] It is possible in the case of CP3 that investment shortfalls in adaptation and forestry were (at least in part) due to a diluted investment mandate at the sub-fund level. However, global climate finance data suggests a dearth of commercially investable adaptation projects as well as well-documented barriers to attracting private capital to climate adaptation, likely meaning that fund managers were simply unable to meet their target returns by investing in adaptation, thus leading to low levels of CP3 investment. The global landscape and key barriers of adaptation finance are described in greater detail in Box 3:.

Box 3: Unlocking private-sector adaptation finance[14]

CPI's 2021 Global Landscape of Climate Finance has tracked $46 billion in adaptation finance in 2019/20, representing only a minor share of total global climate flows. As in previous iterations, almost all tracked adaptation finance in 2019/20 was funded by public actors (98 per cent). The $1 billion of tracked private adaptation finance was provided by corporations and institutional investors.

There are many barriers that can help explain the challenge to driving private-sector finance towards adaptation investments:

[12] See: https://devtracker.fcdo.gov.uk/projects/GB-1-201733/documents
[13] https://www.climatepolicyinitiative.org/publication/global-landscape-of-climate-finance-2021/
[14] https://www.climatepolicyinitiative.org/unlocking-private-sector-adaptation-finance/

- Actors suffer from *information asymmetries* and *knowledge gaps*, thereby reducing the incentive and/or ability to invest in adaptation: this barrier concerns a lack of, or limited understanding about, climate risk and vulnerability data, as well as uncertainty on where private investment is needed most and the measures that are currently available to address climate risks.
- Private actors are unable to (fully) capture the environmental and social benefits that result from their investment. This is a classic case of market failure, largely stemming from the public good nature of (some) adaptation projects, for example, coastal protection in response to sea-level rise. From a private-sector perspective, the problem is perceived or genuinely low market rates of return on adaptation projects, generating unfavourable risk–return profiles that stifle investment. This barrier calls for public actors to strengthen financial incentives for private actors to invest in adaptation. In comparison, investments in renewable energy infrastructure are revenue-generating and hold a cost advantage relative to incumbent generation technologies, and are also supported by policy mechanisms (i.e. FiTs, PPA Auctions, etc.) that have been widely adopted in target geographies.
- The adaptation issue suffers from what has been termed the *tragedy of the horizon* (Carney, 2015): private actors operate around short or mid-term horizons, whereas many adaptation projects are inherently long term, the benefits of which may not be realised for many years into the future, conditional upon uncertain climate outcomes. As such, it is difficult to make the BC for potentially large up-front costs today set against relatively long payback times in an uncertain future.

Further, in the case of CP3, barriers to private investment in the target geographies may be compounding the challenges to investing in adaptation. Notably, poor institutional, market, and policy environments typical of lower- and middle-income countries are key barriers to increased private-sector investment in adaptation.[15] Finally, it is unclear whether investee sub-funds and companies are incorporating climate risk assessments in their investment decisions, which could be contributing to the lack of resilience considerations being incorporated into project and investment decisions.

Despite these very real barriers, the World Bank Group (2021) concludes it is “mission possible” to unlock private-sector investment in adaptation and resilience, provided a well-crafted enabling environment is in place. It is worth noting that in recent years several innovative PE instruments targeting adaptation have been launched. These include the Blue Orchard Resilience Fund,[16] Mobilising Finance for Forests,[17,18] the Climate Resilience and Adaptation Finance and Technology transfer facility (CRAFT), suggesting that while a pure PE instrument may not be suitable to drive investment in adaptation, elements can be incorporated into programme design to overcome some of the cited barriers, including investing in resilient-focused funds and sub-funds, incorporating de-risking mechanisms that leverage the ability of public funders to take on higher lending risks, and mandating climate risk disclosures.

[15] https://www.climatepolicyinitiative.org/wp-content/uploads/2021/02/An-Analysis-of-Urban-Climate-Adaptation-Finance.pdf
[16] https://www.eib.org/en/projects/pipelines/all/20190467

17 https://www.fmo.nl/mff

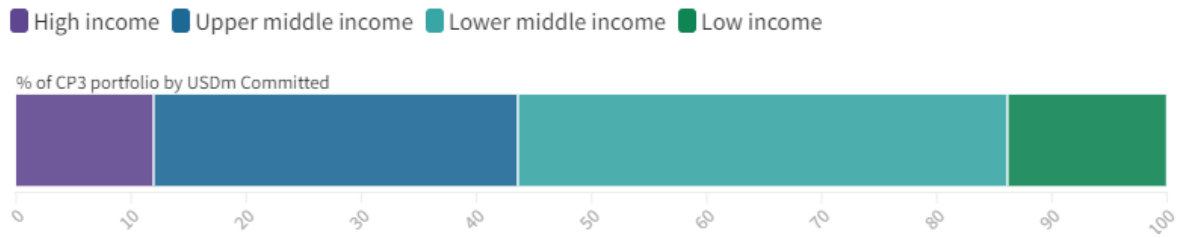
[18] https://lightsmithgp.com/craft/

Despite these shortcomings, overall, the programme successfully leverages public ($2,658 million) and private ($9,583 million) finance at the project level, suggesting that the programme structure was suitable to *support* driving capital to LCCR investments. PE funds typically play an active role as investors. They offer strategic support to investee companies, help bring other investors to the table, and use their networks to facilitate partnerships. This is a key added value of PE and can make the difference between success and failure for new companies. Across the portfolio, only 12 holdings out of 119 (10 per cent of project-level commitments) have been reported as abandoned, liquidated, or otherwise written off. This failure rate is exactly in line with expectations of the BC.

EQ 1.3. To what extent are the CP3 investments providing LCCR support in relevant and appropriate geographies as outlined in the BC?

Finding 5: In accordance with the BC, the geographies where investments took place skew towards middle- and low-income countries. These geographies include several countries where capital market development was largely viewed as insufficient to support commercial investment. Specifically, 27 CP3 investments are in countries with a VCPE score (IESE, 2015) of less than 45, indicating that these investments were completed even though average returns in these countries' equity markets were observed to be generally too low to attract private investment.

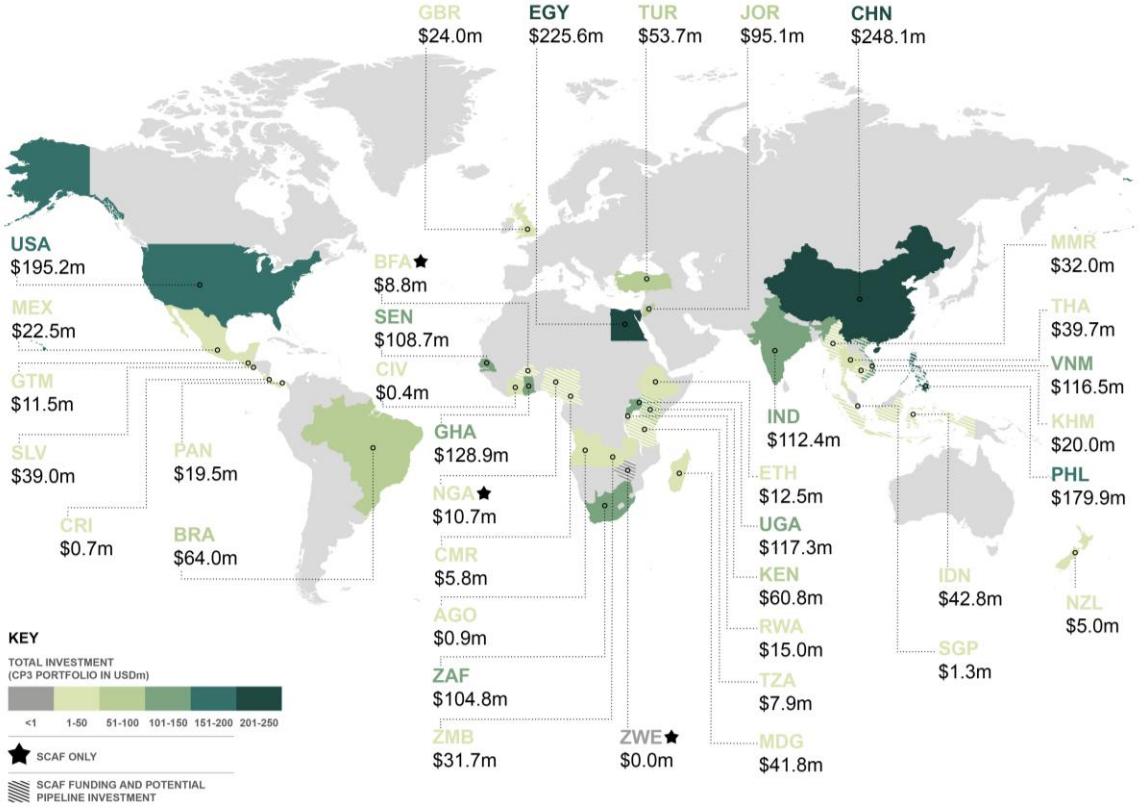
Figure 6: Distribution of CP3 portfolio by income level



Source: IFC and CP3 data

Overall, CP3 investments took place across 30 countries, and the main regions receiving investment were East Asia, sub-Saharan Africa, and the Middle East/North Africa. As expected in the BC, East Asia received the largest share of investment. Moreover, these significant LCCR investments in East Asia were completed despite the early closure of the ACP fund. Notably, sub-Saharan Africa received a much larger proportion of financing than was initially projected in the BC, as two of the sub-funds that the CF invested in were dedicated exclusively to this region.

Figure 7: Geographic distribution of CP3 investments



Source: IFC and CP3 data

Finding 6: Not all CP3 funds went to low- or middle-income markets, with around 12 per cent or $242 million of investment taking place in high-income countries with little evidence that these investments served to promote technology transfer to other markets. Investments in the United States made up the bulk of investment in high-income countries at $195 million. Technology transfer has been cited as the rationale for these investments by the fund managers, however the M&E agents found no significant evidence that said transfer is taking place, as very few of these investments report business activity (i.e. clients or investments) outside of high-income markets. Notably, most of these investments were undertaken by a single sub-fund that pursues a supply chain growth equity strategy, rather than an asset development or cleantech development strategy, as is the case in other sub-funds in the portfolio.

There was no significant benefit to the portfolio from investments in high-income geographies. Based on Internal Rate of Return (IRR) estimates,[19] it does not appear that returns from investments in high-income countries bolstered investments in emerging markets and developing countries. On the contrary, returns in these geographies seem to substantially exceed returns in high-income countries.

[19] Due to limited reporting on fees, IRR Calculations represent gross IRR, before accounting for Catalyst fees and expenses, using quarterly reports as the main data source. **Projections are indicative estimates only.** As the CF has not closed yet, these estimates are highly uncertain.

Table 5: Estimate IRR based on income level of project geographies

Income level	IRR (without fees)
Emerging markets/Developing Countries	8.3%-11%
High Income	2.5%-2.7%
Middle income	9.3%-11%
Low income	3.2%-4.2%

EQ 1.4. Does the CP3 ToC and vehicle remain relevant to the current market and aligned to countries' needs under the Paris Agreement?

Finding 7: CP3 investments strongly support mitigation needs under the Paris Agreement, demonstrating large emissions reduction benefits, but do not provide significant assistance for adaptation needs. According to the United Nations Framework Convention on Climate Change (UNFCCC) Standing Committee on Finance technical report, costed climate needs of developing countries, as stated in national reporting, are a majority mitigation (around $14 trillion) but also include a substantial adaptation component (around $9 trillion).

Figure 8 and Figure 9 shows the relative alignment of CP3 investments with developing countries' mitigation and adaptation needs by sector. Sectors were categorised as having "strong emphasis" if investments/need were noticeably larger than for other sectors. "Moderate emphasis" sectors correspond to lower levels of investments/need that were still substantial. Sectors categorised as "little to no emphasis" reflect no substantial investment/needs.

Figure 8: CP3 alignment with mitigation needs[20] by sector

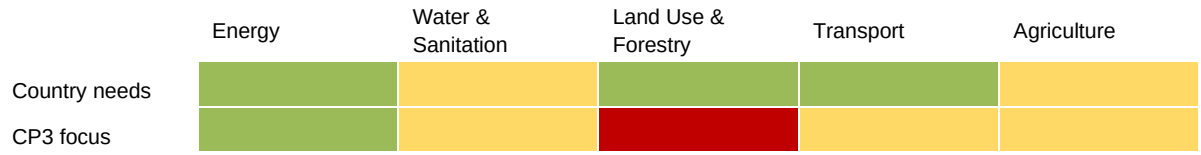
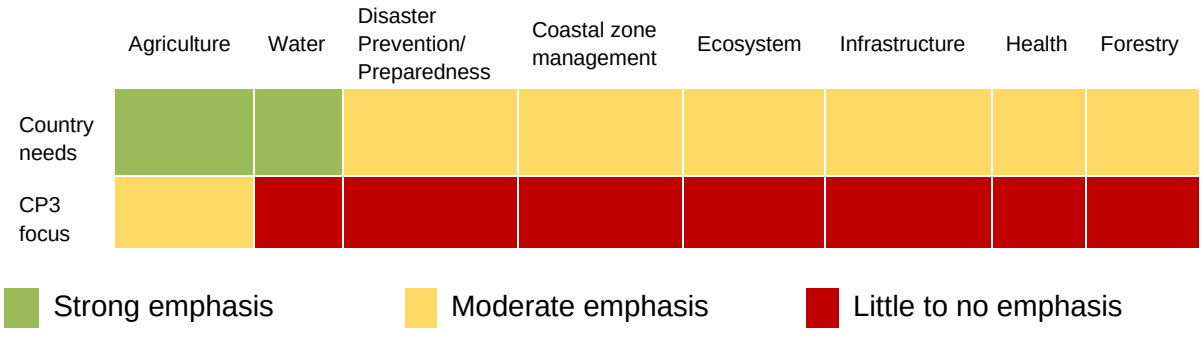


Figure 9: CP3 alignment with adaptation needs[21] by sector



[20] https://unfccc.int/sites/default/files/resource/54307_2%20-%20UNFCCC%20First%20NDR%20technical%20report%20-%20web%20%28004%29.pdf
[21] https://unfccc.int/sites/default/files/resource/54307_2%20-%20UNFCCC%20First%20NDR%20technical%20report%20-%20web%20%28004%29.pdf

As stated in Finding 4, funds have overwhelmingly supported climate mitigation activities, with adaptation investments representing only 2 per cent of the portfolio. This result highlights the difficulties of investing in adaptation under a commercial model. Adaptation projects necessarily operate on long-term timeframes with large up-front costs and produce revenues that do not fully reflect the environmental and social benefits they provide. Accordingly, making adaptation projects investable on a commercial basis will require innovation from public-private investment programs such as CP3 to construct financing structures that meet required commercial returns given these characteristics.

Furthermore, within mitigation finance, a more diverse sectoral allocation of investments is needed to robustly meet mitigation needs, as the CP3 portfolio has skewed heavily towards the renewable energy sector. Finally, we have identified some CP3 investments as "Other Environment" if they do not directly relate climate mitigation or adaptation and instead deliver environmental benefits such as air quality and water treatment.

PE is not a one-size-fits-all tool. The impact and investment mandate must recognise that the primary driver for investment by PE fund managers will be profit-seeking and take into account risk-adjusted return expectations. Many non-mitigation climate projects are non-revenue-generating, with huge unmet needs that PE cannot address. Indeed, the nature of PE vehicles means that geographies, technologies, and sectors where risk-adjusted returns are already adequate for PE will see the majority of investments. If investment is desired in riskier projects, incentives and risk-sharing mechanisms will need to be deployed. Examples of these mechanisms include additional financial instruments like grants and guarantees or a subordinated structure for public funders within an impact fund.

The CP3 ToC mandates that the programme operates on a commercial basis, limiting its reach across technologies and sectors, as the pipeline of investable projects and companies within the adaptation and non-energy mitigation sectors was quite shallow at programme inception. Going forward, the relevancy of the CP3 ToC and its PE vehicle will depend on this ability of fund managers to identify commercially attractive investment opportunities in these areas. SCAF has recently started to support VC funds, offering an opportunity for the programme to expand its presence within the green tech segment, though it is too early to assess the effectiveness of this support.

4.2 Coherence: Is CP3 complementary internally as well as with other ICF initiatives?

EQ 2.1. Internal coherence: To what extent are CP3 components complementary or duplicative of each other? Do synergies exist between components? Is the overall portfolio of investments coherent?

Finding 8: The CP3 core component was internally coherent, with key examples of flexibility at play. Each of the core CP3 components – the CF, ACP, and SCAF – targeted specific market opportunities with different modalities: ACP offering direct investment to projects in Asia; SCAF offering early-stage capital in high-risk markets for utility-scale renewables; and the CF covering a diversified portfolio across the wider LCCR and geographic market through the fund-of-funds model. The M&E agents did not identify any significant areas of overlap between the different components, although it should be noted the early closure of

ACP does leave a small gap in the portfolio coverage only partially addressed by certain CF sub-funds and/or SCAF partners. Two key examples of flexibility and synergy between the components were identified. The first was the "China tap" for the CF, a mechanism by which the UK government could approve East Asia (notably China) investments by the CF to seize opportunities while the ACP was mobilising. The second was a direct synergy between SCAF and the CF with Catalyst sub-fund Armstrong, itself a recipient of SCAF I support, investing in SCAF partner The Blue Circle and two of its projects in South-east Asia. Further, within the CF, the M&E agents have observed diverse investment strategies among the different sub-funds, with some favouring taking full ownership of projects and companies over smaller stakes in larger companies.

This, however, together with the broad approach taken to investments in sectors and geographies, appears to have reduced overlap or repeat investments by enabling access to a wide variety of investment opportunities, but similarly it has somewhat reduced synergy. As such, CP3 is coherent in that the separate components work towards common outcomes through different but complementary pathways, but those components have not reinforced or strengthened one another as might have been expected.

Finding 9: Long timeframes for establishment of new operational structures (ACP and SCAF) delayed finance entering the markets and impacted the SCAF-to-PE pipeline. The extended mobilisation period for ACP[22] meant that by the time ACP was prepared to start making commitments, competition within its priority markets had increased significantly, due to reduced renewable energy costs and increased private activity. As a result, ACP struggled to develop a substantial pipeline of investments (additional contributing factors to this pipeline delay are explored in Finding 15). Similarly, there was some delays to SCAF II mobilisation,[23] and SCAF also suffered from some initial challenges with selected partners, particularly in terms of agreement sizes with partners who were less effective at utilising SCAF funding than anticipated, tying up SCAF funds in less productive agreements. SCAF effectively responded to this challenge, lowering initial agreement sizes and offering a scale-up mechanism, but by the time SCAF projects were entering the market and seeking larger financing values, the investment periods for several Catalyst sub-funds had closed and ACP was in the process of winding down. It was initially expected that SCAF could generate a pipeline of renewable energy projects in high-risk markets that could then appeal to other components of CP3 but, with the exception of the Armstrong example above, this has not been the case. In addition, it should be noted that while this synergy may have been anticipated in the BC, it was not coordinated with the programme partners.

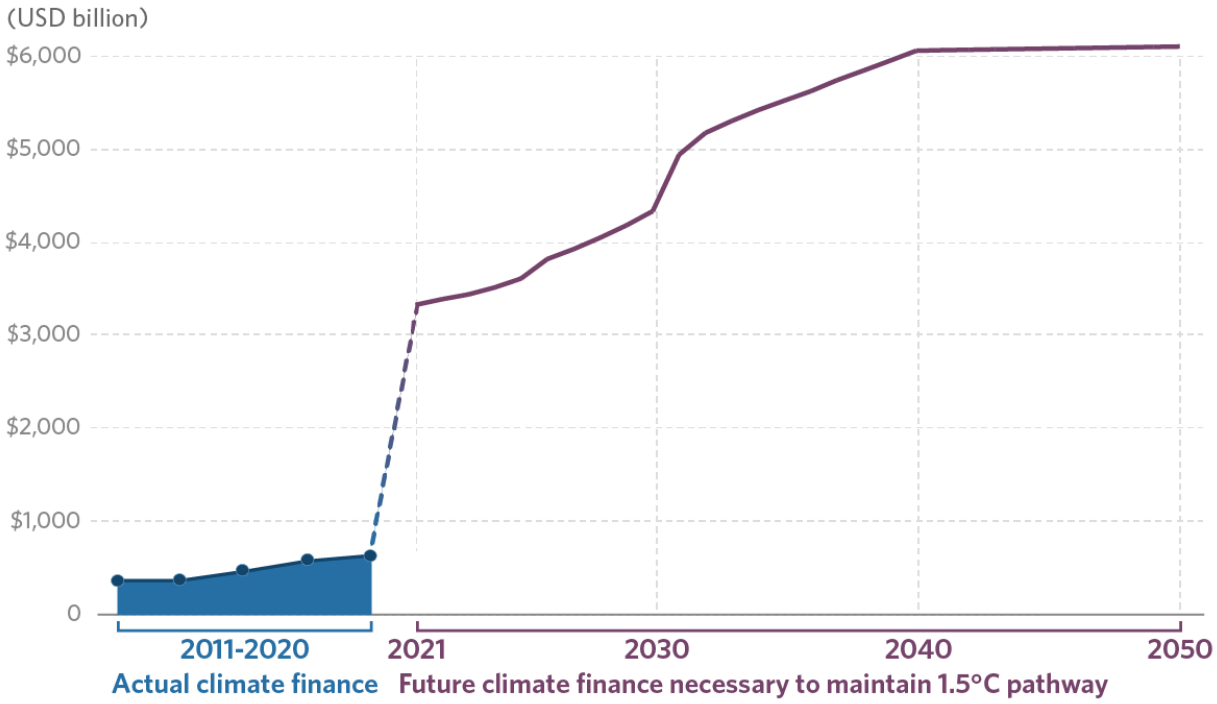
EQ 2.2. External coherence: To what extent are CP3 components complementary and synergistic, or contradictory and duplicative with other selected and relevant ICF initiatives?

Finding 10: CP3 appears relatively unique in the ICF portfolio based on its size, operating model, and time scale. The unique approach of CP3 as a commercial PE delivery vehicle sets it apart from other ICF programmes, as does its overall implementation timespan (although note there are other long-running ICF programmes operating on a smaller scale). There are advantages and disadvantages to the singular nature of CP3 within ICF. On the one

[22] As explored in the 2018 MTE (accessible at https://iati.fcdo.gov.uk/iati_documents/51355346.pdf) and 2020 ACP Case Study
[23] As explored in the 2018 MTE.

hand, it has arguably demonstrated the potential of long-term, high-value commercial programming as a means to accelerating energy transition and achieving results (discussed in Finding 12). On the other hand, due to its nature, CP3 is not particularly comparable with other ICF programmes and has required adaptive approaches to results reporting, factoring in programme additionality. Further, duplication should not be a significant concern in this space due to the scale of finance involved and needs, as demonstrated in Figure 10. That being said, there are several links between the CP3 portfolio and other ICF or UK government funds, either directly, such as the BII and GetFit investment in the CP3-supported Kikagati project managed by Berkeley, or indirectly, such as the BII-supported Metier Capital investing in SCAF-supported Africa REN.

Figure 10: Global tracked climate finance flows and the average estimates annual climate investment need through 2050



Source: CPI 2021 Global Landscape of Climate Finance

Finding 11: CP3 was conceived at a time when there were few other equivalent models in the market. The market has evolved significantly, with the broader ecosystem of LCCR investment often co-financing projects and funds. When CP3 was established, there were relatively few comparators in the LCCR space for both the CF and SCAF, in terms of their financing model, sectoral and geographic focus, and scale. Over the decade since CP3 developed, there have been significant changes in the market and potential opportunities to support PE development outside of CP3. For example, SEFA has evolved over the last 10 years into a full-service financing facility (debt, equity) and including an active fund management business (having been an anchor investor in the Africa Renewable Energy Fund (AREF)). Dedicated equity funding vehicles have also emerged, such as the FMO-backed Climate Investor One, which supports project development and makes direct investments in project finance vehicles. DFIs have also increasingly played a significant role in the LCCR space, with BII and FMO becoming significant financiers. Indeed, BII has grown substantially

since CP3's inception and is now making direct equity investments in other PE funds and several of the CP3 funds and investments.

Many of these actors are operating in the same space as CP3 and often co-financing CP3-supported projects. However, the evaluation found that at the time of investment there were limited comparable instruments in the wider market that deploy the same financial model, scope, and scale as the CF and SCAF from the same vintage. It should also be acknowledged that, while new vehicles are now available in the market, there are few directly comparable with the CP3 components, particularly SCAF. Some analysis of other financial actors are described below and the instruments explored as part of the comparative analysis are included in Table 6.

Table 6: Comparative analysis

Comparator	Similarities	Differences
GEEREF	Fund of fund; same vintage; managed by the European Investment Bank; global focus; private and public finance participation;	Smaller size; focus only on clean, small to medium energy infrastructure projects;
BII	Provides PE to funds focused on clean energy; focused on clean energy and the broader electricity value chain;	Original focus on infrastructure funds in energy sector in Africa and South Asia (and more recently South-east Asia); provides direct financing (debt and PE) to projects;
Climate Investor One	Private and public participation; provides equity; focus on clean energy;	Blend finance support to RE; public finance can offset risk for private investors; uses a development fund to act as a proprietary deal flow for the equity fund;
GGF	Private–public partnership; supports clean energy, but also wider resource efficiency projects;	Layered risk–return profile to attract private capital; channels funds to eligible projects via local financial institutions; largely provides senior debt to financial institutions, with a smaller focus on equity; provides some TA to projects; geographic focus;
SEFA	Provides early-stage capital; focused on renewable energy; supports funds;	Broad-based financing facility that provides concessional and grant-based TA to address market barriers; Africa-focused; focused specifically on utility but also mini grids and energy efficiency projects; aimed to take on significant risk; has a separate project preparation facility.

4.3 Effectiveness: To what extent have objectives been achieved or are likely to be achieved?

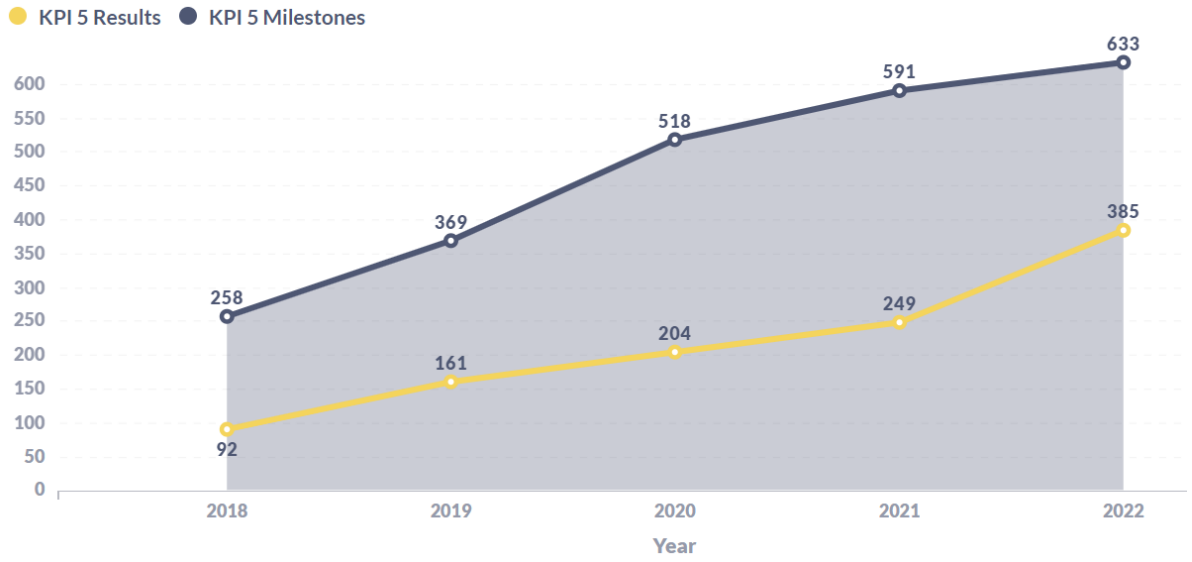
EQ 3.1. What are the results of CP3 and are they aligned with the ToC?

Finding 12: CP3-supported funds have undertaken 124 investments (including five operational SCAF projects). These investments received $14.2 billion in co-financing ($10.6 billion in private co-finance and $3.6 billion in public co-finance), installed 7.5 GW of clean energy, reduced over 36 million tonnes of CO_2, and employed over 37,000

people on an unattributed basis.[24] CP3 has consistently performed well against previously established key performance indicator (KPI) milestones. These milestones were defined at programme inception, and allow the M&E team and the UK government to track progress and alignment with the core tenets of the ToC.

In recent years, data quality has improved substantially, allowing for more precise attribution of results, which continue to show strong performance. Adjusting for attribution and additionality, as discussed in Finding 15 and 16, and the discussion in Box 4:.[25]

Figure 11: Jobs created over time (results adjusted for attribution and additionality) against programme milestones

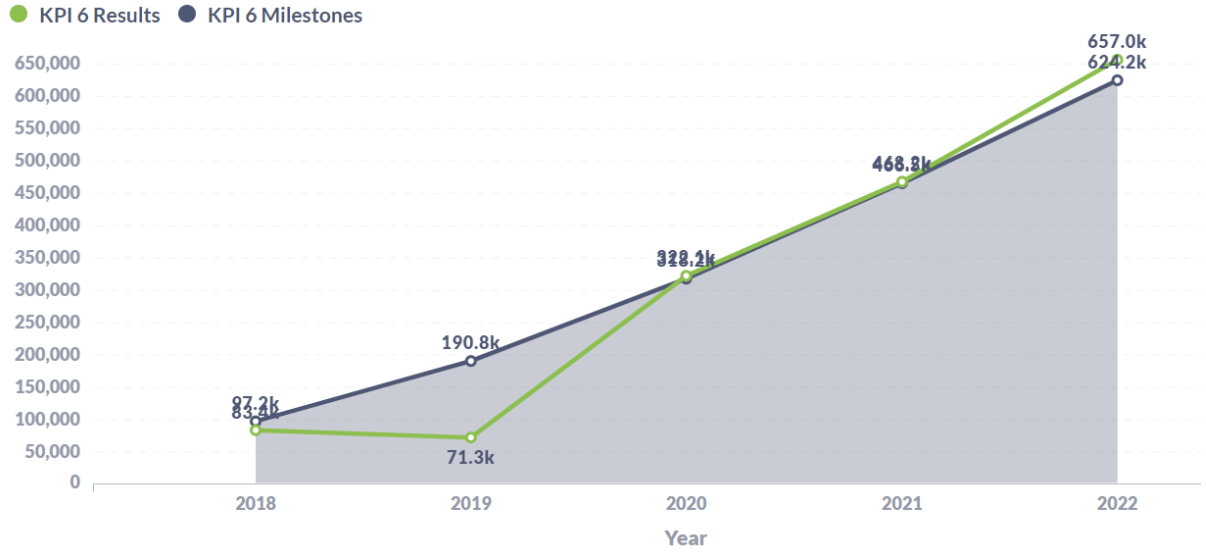


Source: IFC. Milestones and results adjusted for project-level attribution and additionality.

[24] These results are not adjusted for additionality or attribution. See methodology annex for further details.

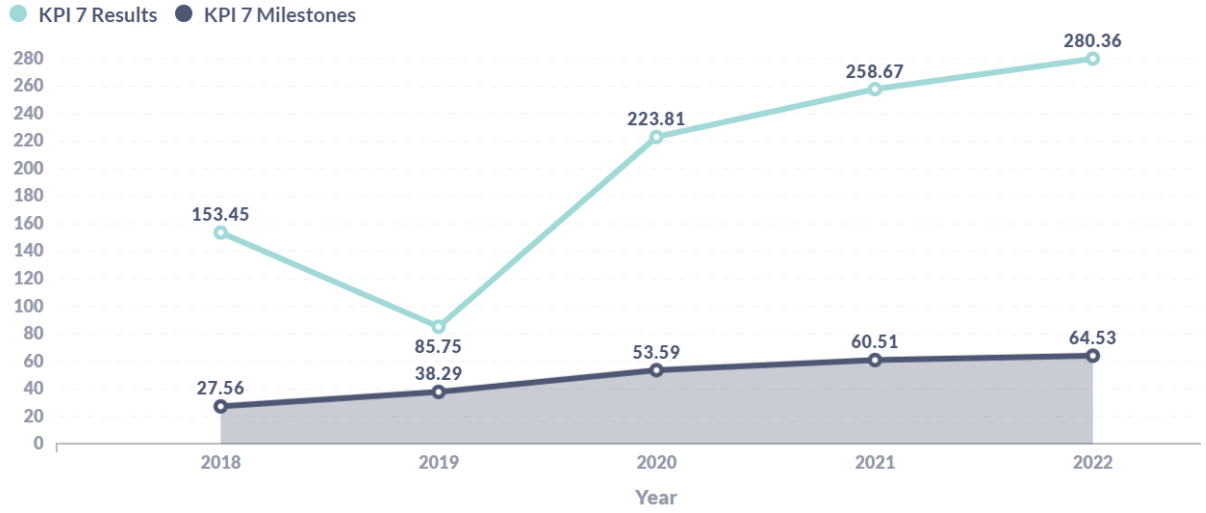
[25] Certain investment strategies are penalised when results are adjusted for attribution and additionality at the project-level as required by ICF KPI standards. Please refer to the discussion under Finding 16 for more details on these impacts.

Figure 12: Net change in greenhouse gas emissions (tCo2e) over time (results adjusted for attribution and additionality) against programme milestones



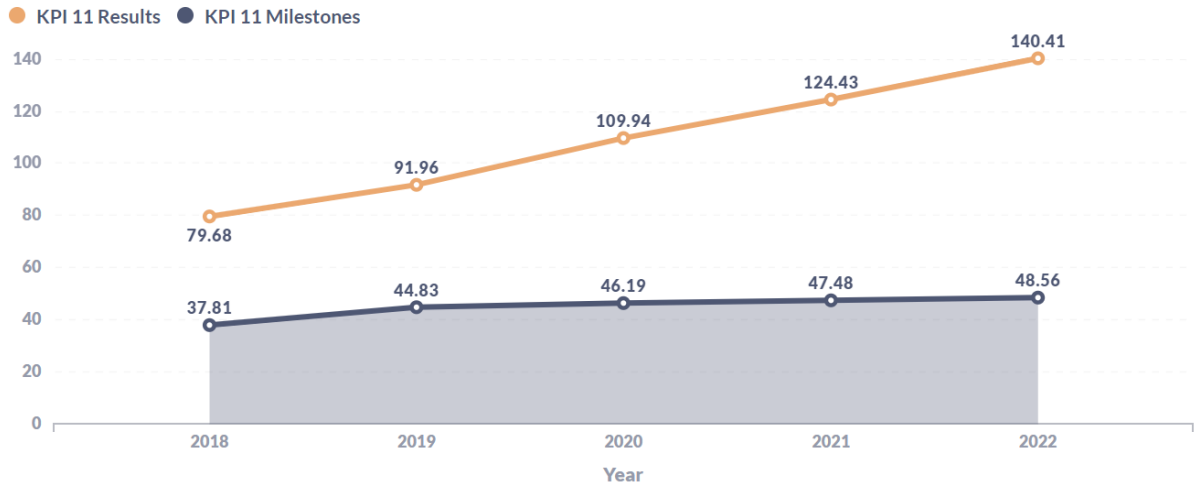
Source: IFC. Milestones and results adjusted for project-level attribution and additionality.

Figure 13: Renewable energy installed capacity (MW) over time (results adjusted for attribution and additionality) against programme milestones



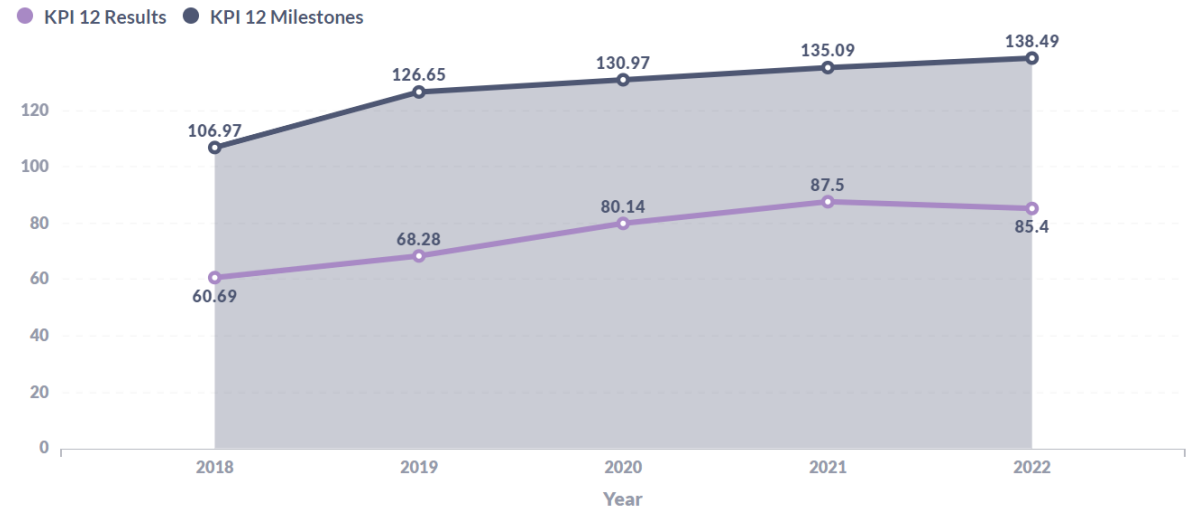
Source: IFC. Milestones and results adjusted for project-level attribution and additionality.

Figure 14: GBP millions in leveraged public finance over time (results adjusted for attribution and additionality) against programme milestones



Source: IFC. Milestones and results adjusted for project-level attribution and additionality.

Figure 15: GBP millions in leveraged private finance over time (results adjusted for attribution and additionality) against programme milestones



Source: IFC. Milestones and results adjusted for project-level attribution and additionality.

Results show that the programme portfolio has successfully mobilised public finance to support large-scale deployment of clean energy and reduce greenhouse gas (GHG) emissions. Adjustments for attribution and additionality show that these results are indeed driven by CP3 financing and are adequately targeting emerging market geographies, as defined in the ToC. However, these adjustments also show job creation and mobilisation of private finance falling behind programme targets.

Overall, the diverging performance of CP3 across the various KPIs following adjustments for attribution and additionality does reveal some of the challenges in designing an investment model aiming to simultaneously meet such a wide range of objectives. On one hand, meeting goals for clean energy deployment, while also ensuring that investments carried additionality, was feasible for the programme due to the falling installation costs of renewables capacity, corresponding increase in global capital flows towards non-recourse (i.e. “project”) financing,

and widespread adoption of enabling policy frameworks, all of which made clean energy investments attractive in target geographies.

On the other hand, given the low labour requirements to operate and maintain clean energy projects, it would appear that the improving economics and financing conditions for renewables could have steered CP3 investments towards clean energy and away from more labour-intensive projects and companies in other LCCR sectors, corresponding to a programme-level underperformance in adjusted job creation. Put simply, if renewables projects offer comparatively better de-risked returns than investment opportunities in other LCCR sectors, then it would follow that CP3 investments skew towards the clean energy sector, to the benefit of clean energy deployment and potentially at the cost of higher levels of job creation. This apparent tension between KPI objectives seems challenging to resolve under the CP3 fund-of-funds model. Under it, each fund will pursue investment opportunities that maximise risk-adjusted returns in line with their specific investment strategies, making it difficult to coordinate programme-level investment allocations in a way that meets all KPI objectives as well as the targeted returns sought by fund managers. Further, as discussed in Finding 8, the sub-funds under the CF pursued varying investment strategies. Some of these investment strategies are penalised when results are adjusted for attribution and additionality at the project level, as required by ICF KPI standards. A significant amount of mobilisation occurred in large companies where CP3 funds and sub-funds took relatively small takes (< 5 per cent). Asia Environmental Partners II and GRC Sinogreen are prominent funds with strategies that focused on small stakes in large companies, and adjusting for attribution and additionality at the project level discounts these heavily. (See Finding 16 for a more detailed discussion of the impact of these adjustments on results.)

Box 4: Applying adjustments for attribution and additionality impacts CP3 results

ICF reporting guidelines requires adjusting results for attribution (See Figure 17) and where possible to attribute at the level closest to the investment – enabling the UK government to claim a share of results.[26] The CP3 investment and ownership structure represents three tiers for the purposes of attribution: (1) fund-of-funds level (CF); (2) investment sub-fund level (CF investee funds and ACP); and (3) project or company level (individual investments). The M&E team applies attribution and additionality adjustments at each of these levels of investment.

Improvements in data availability and quality by the CF have allowed the M&E agents to develop an approach to attributing results at the project level. Project-level attribution can help correct for the distortions introduced by outlier investments. These outliers are investments with very small ownership stakes that contribute disproportionally to the results (e.g. a 1 per cent stake in a very large renewable energy developer with hundreds of MW deployed).

However, applying this attribution adjustment, as discussed in Finding 15, impacts the achievement of results, as a significant amount of private finance mobilisation and job creation occurred in large companies where CP3 funds and sub-funds took relatively small stakes. Asia Environmental Partners II and GRC Sinogreen are prominent funds with

26 https://www.gov.uk/government/publications/uk-climate-finance-results

strategies that focused on small stakes in large companies; as a result, adjusting for attribution at the project level discounts these outlier investments heavily.

Similarly, ICF reporting requires adjusting results for additionality. The M&E team does this by applying an additionality modifier to KPI results. This approach, as discussed above in Finding 1, uses the investment environment in a country as the sole indicator of additionality in the portfolio and utilises the VCPE Country Attractiveness Index as a proxy of the likelihood of PE investment in a country. The most significant impact to adjusted CP3 results is that large investments in China are effectively dropped from the results as this geography is considered non-additional.

KPI 5, job creation, is similarly also heavily impacted because of the higher discount placed on results from large companies and because job creation is heavily concentrated among growth equity investments in geographies with low additionality, leading to non-achievement of results. Infrastructure investments, which tend to be in geographies with higher additionality, report much lower levels of job creation.

Further, as some of the investee sub-funds and platforms have started to reach full exits of their investments, the financial performance of the programme is becoming clearer[27]. To date, the programme has shown positive returns (8.3-9.7 per cent IRR before fees; 5.6-6.6 per cent IRR after fees), which have climbed steadily as investments increasingly reach operational status and achieve favourable exits. These results compare favourably to PE/VC benchmark statistics for emerging markets impact investing funds of vintage 2011–13, which reported a median IRR of 1.9 per cent and an upper quartile IRR of 11.48 per cent.[28] This provides some early evidence to support the CP3 ToC proposition that LCCR projects in emerging markets can demonstrate strong financial returns.

Finding 13: SCAF has performed well against its revised milestones and has shown an ability and willingness to learn and adapt over time. SCAF is on track to meet or even exceed many of its output targets, providing support to 13 SL1/2 partners, 6 SL0 partners (2 of which have now reached close), and 29 SL2 projects (6 of which have reached close or been sold).[29] There are several examples of SCAF's adaptability, even in the past four years. At the outset of the Covid-19 pandemic, SCAF piloted virtual due-diligence processes that, while slow to take off, enabled it to continue engaging prospective partners despite travel restrictions. It also merged its Africa and Asia Recommendations Committees in order to consolidate the overall SCAF strategy and promote greater investment in Africa. In response to partners being unable to effectively draw down SCAF funding at the pace anticipated, SCAF started offering smaller initial cooperating partner agreements (CPAs) to SL1/2 partners with an option to scale up should performance meet expectations. Finally, SCAF identified an opportunity to increase its ambition, risk tolerance, and potential for impact by supporting VC funds under SL0, potentially allowing SCAF financing to support "pre-early-stage" investment and enable innovation. The 2018 MTE noted that SCAF had been slow to mobilise initially and

[27] Due to limited reporting on fees, IRR Calculations represent gross IRR, before accounting for Catalyst fees and expenses, using quarterly reports as the main data source. **Projections are indicative estimates only.** As the CF has not closed yet, these estimates are highly uncertain.

[28] https://www.cambridgeassociates.com/wp-content/uploads/2022/02/PEVC-Impact-Investing-Benchmark-Statistics-2021-Q1.pdf

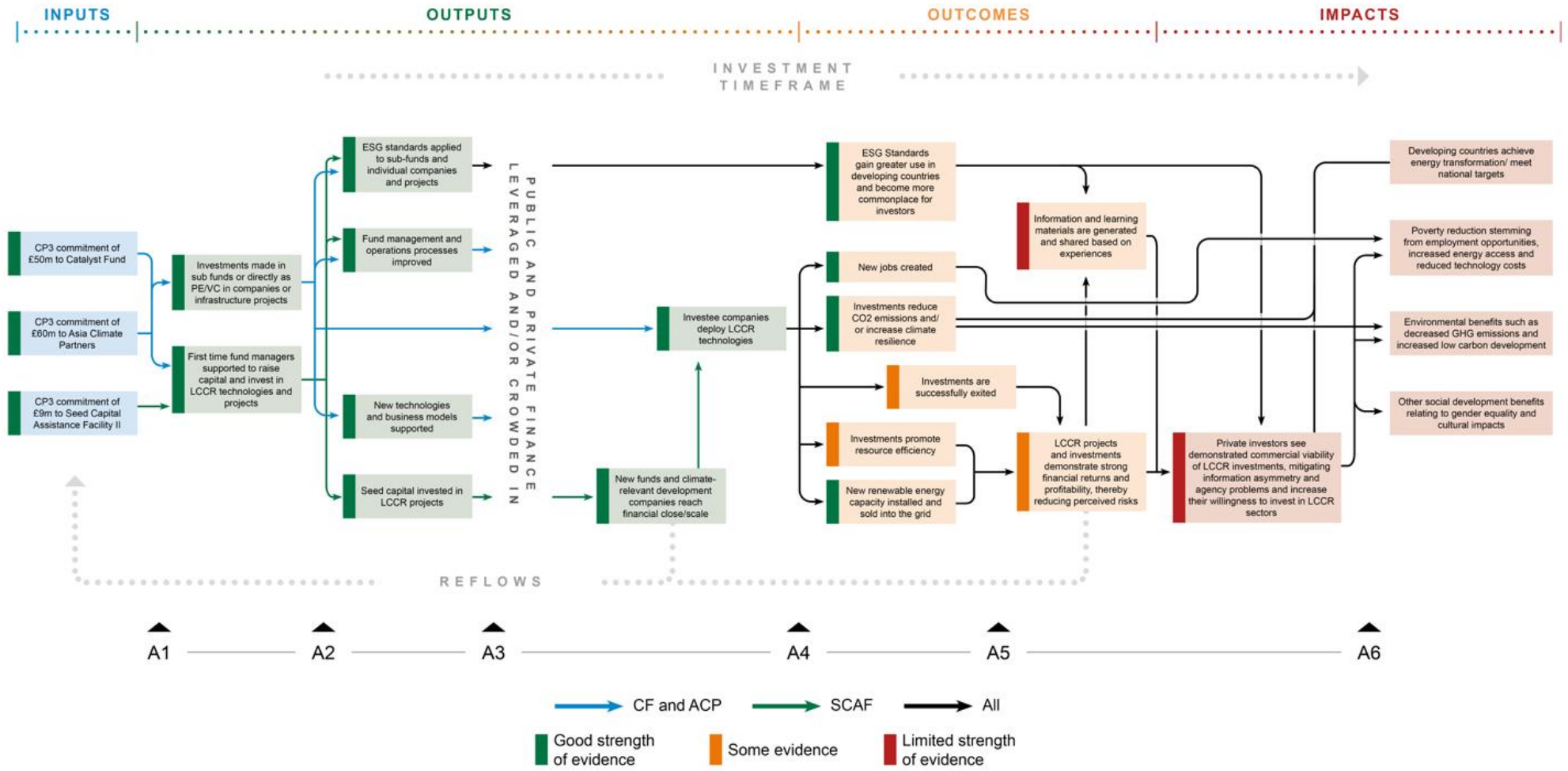
[29] SL0: SCAF's financial support to first time fund managers, repayable at financial close. SL1: project scoping and pipeline development funding, grant-based. SL2: project development funding to support project financial close, repayable at financial close.

faced several teething issues. Four years later, SCAF has taken significant steps to address these issues and is now arguably a more effective vehicle for supporting LCCR growth in developing markets while maintaining its role within the ToC.

Finding 14: While results have been achieved, the CP3 BC was ambitious, and not all elements of it have been realised in practice, in part due to the arrangements between the UK government and the implementing partners. The CP3 BC was ambitious, responding to global momentum for increasing climate finance and matching the size of CP3, which was large for a UK government programme at the time. There were several impact pathways and investment decisions that were expected but that did not get operationalised as expected. A key example noted above is the BC expectation about which sectors would be invested in and what proportion. A firm mandate requirement regarding the 15–30 per cent adaptation investments was not present in the agreements between the UK government and the partners to enable sufficient flexibility, and this resulted in significantly fewer adaptation investments than anticipated. In general, for PE vehicles, the investment mandate should work within the constraints of the PE funds. Geographies, technologies, and sectors where risk-adjusted returns are already adequate for PE will naturally see the majority of investments. If investment is desired in riskier projects, either incentives and risk-sharing mechanisms should be deployed or a stricter mandate should be passed down to fund managers, and this was not the case within the CP3 Limited Partnership Agreements. Further, the tiered ownership structure of CP3, with main fund, sub-fund, and project-level investments, increases the likelihood of mandate dilution down the investment chain. Indeed, some degree of dilution is inevitable as mandates given by limited partners (LPs) will be implemented at the discretion of general partners (GPs). To the extent that mandates are discretionary, GPs will seek to maximise their investment returns and will exercise that discretion where returns and mandates come into tension. Overall, CP3 in its current format is insufficient to meet the objectives of the BC but could be sufficient if the aforementioned changes were made.

While the core pathways within the ToC appear to be holding true, several key pathways and assumptions are not. Most importantly, an expected outcome of CP3 was the potential for it to address information asymmetry surrounding investment in key markets and sectors. The M&E agents have identified that this outcome is inherently unable to be achieved based on the commercial model of CP3, which does not require CP3 actors to publish and report on financial outcomes. Other, more indirect pathways related to market influence articulated in the ToC are not playing out as expected. One example is that the ToC posits that by requiring strict adherence to ESG best practice for the CP3 funds, an example will be set in the market, which will encourage other investors to take up similar standards. In practice, ESG has been mainstreamed into investment independently of CP3. Similarly, SCAF's role within the ToC, given its size and focus, may be overrepresented, particularly in comparison to the role of the CF in achieving the core ToC outcomes and impacts where SCAF's role is much smaller. SCAF's successes should not be diminished, but its place within the ToC could be reviewed with a separate, concurrent SCAF ToC established to measure more appropriate performance outcomes. Figure 16 provides an overview of the strength of evidence against the ToC.

Figure 16: Strength of evidence against the Theory of Change



In addition, several ToC assumptions are only holding partially true in practice, as shown in Table 7. We have only included assumptions that were tested in this evaluation.

Table 7: Assumptions tested by this evaluation

#	Assumption	Summary assessment
A1	Legal agreements between the CF and ACP and sub-funds mirror CP3 investment criteria and ESG safeguard requirements	Partially true, certain expectations in the BC have not translated well into implementation agreements.
A2, A3	Sufficient oversight to ensure CP3 investment criteria, intent, and ESG requirements are enforced	Partially true, lack of accountability and enforcement mechanisms per Finding 22.
A2, A3	Viable investments at target valuations are available and capital can be deployed	True.
A3	Infrastructure projects can raise additional debt and equity to reach financial close	True.
A4	Investments yield expected environmental, social, and development benefits	True, excluding investments in developed countries (tech transfer investments).
A4	Investments yield expected rates of return, PE/VC achieve timely exits	Partially true, investments have yielded returns though not all have met IRR expectations.
A4	Infrastructure projects are built on time and technical risk is managed	Partially true, notably impacted by Covid-19–related delays.
A4	New fund managers supported by CP3 generate interest from other investors	True.
A4	Investments made by CP3 funds promote projects and activities where activity would not have occurred otherwise (i.e. are additional)	Partially true, majority of portfolio achieves some additionality.
A5	Increased technology innovation and deployment lead to lower costs and increases commercial viability of LCCR investments	True.
A5	Demonstration effects materialise, attracting new investors	Partially true, a minority of infrastructure investments appear likely to have achieved demonstration effects based on analysis of pre-and post-investment contexts.
A6	Developing countries recognise commercial and environmental benefits and are proactive in creating the right environment for private-sector investment	True.
A6	Growth in the LCCR private-sector investment reaches sufficient scale to impact countries' development path	True.

EQ 3.2 What are the major factors influencing achievement or non-achievement of results?

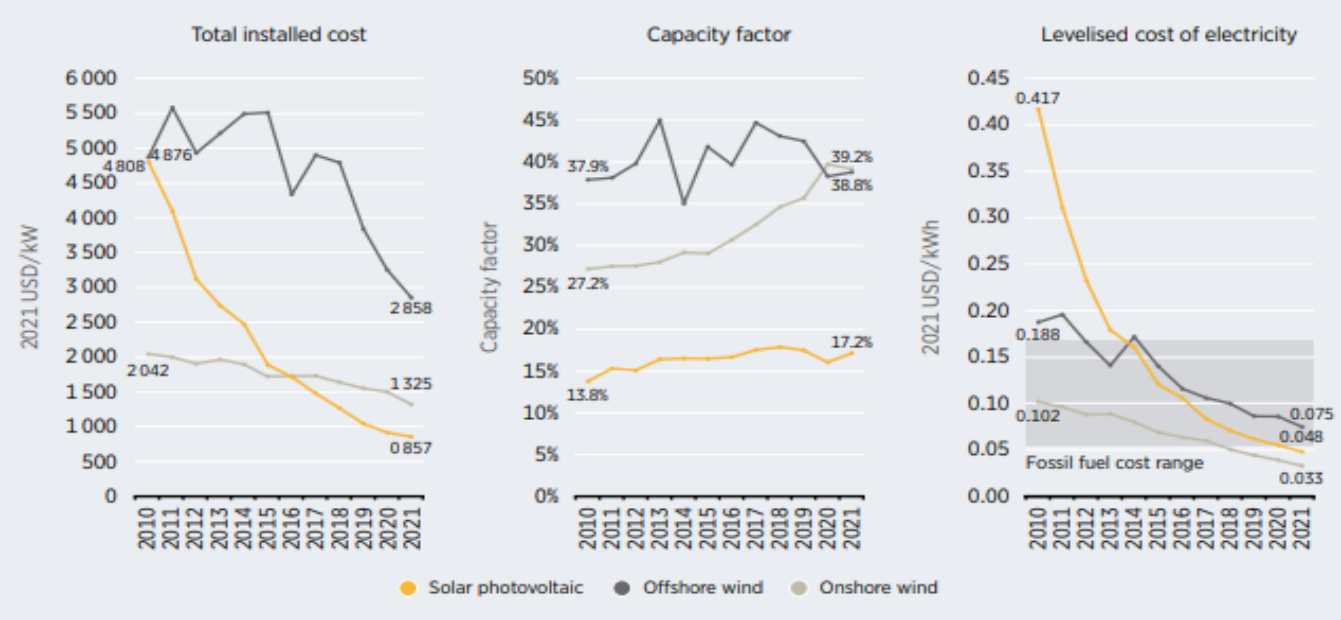
Finding 15: Factors contributing to achievement of results include strong enabling environments, positive macro-economic factors, and the certification effect brought by IFC and the UK government.

Strong enabling environments: Enabling environments are key to project development in the countries of operation. As part of the ongoing evaluation, the team has conducted independent research, and conversations with fund managers suggest that the overall macro-economic and policy environment are the primary drivers for investment and thus the major components in predicting future investment. This was evidenced in the country-level studies and the ICMO coding for ICMO1, 3, and 4, all of which found supportive enabling environments to be a key contextual requirement for the mechanism to occur, as shown in Annex IV.

There are positive macro-economic factors:

- **Rapidly declining costs of renewable energy costs over the last ten years:** Successful investments in the renewable energy sector drive achievement of strong results in clean energy deployment, financial mobilisation, and GHG emission reductions. Declining renewable energy costs also likely contributed to making investments in high-additionality geographies commercially viable for CP3 funds and sub-funds.

Figure 17: Global weighted average total installed costs, capacity factors and levelised cost of energy of newly commissioned[30]



- **Growth within the PE segment and maturation of investments:** Recent investment maturation is driving positive financial returns. For example, seven of the nine renewable energy infrastructure projects owned by one investee platform reached

[30] https://irena.org/-/media/Files/IRENA/Agency/Publication/2022/Jul/IRENA_Power_Generation_Costs_2021.pdf

commercial operation from 2018 to 2020, and the portfolio has now been fully exited for an estimated IRR over 20 per cent. In another instance, the fund has realised a significant multiple on its growth equity investment in a manufacturer of carbon tubes for electricity storage due to the company's strong stock market performance.

There is a certification effect from working with IFC, which is well known for its robust due diligence frameworks, and the United Nations Environment Programme (UNEP), which is a highly respected, impact-focused institution. There is also evidence of good fiduciary management and governance at the CF and SCAF levels. **Further, there are clear indicators that the UK government's role in supporting the initial establishment of the CF and ACP contributed significantly to initial finance mobilisation.** The analysis finds the UK government's involvement was a significant driver for co-investments in low-income countries, where investment capital is often in short supply.

Finding 16: Factors contributing to non-achievement of results include the impact of the Covid-19 pandemic, investment strategies that lead to heavy discounts when accounting for attribution and additionality, and governance arrangements at the ACP fund.

The impact of the Covid-19 pandemic has varied across the CP3 components. The CF has seen varied impacts depending on the type of investment, region, and ability of fund managers. Its diverse portfolio is exposed to greater risks from renewable energy projects under construction and from companies operating in the hardest hit regions of the world. In contrast, SCAF, which operates with a smaller number of projects and with a longer time horizon, has seen a less significant impact from the Covid-19 pandemic. Renewable energy projects under construction were particularly affected due to pandemic-related work stoppages. Some of the affected projects have been able to resume construction and overall impacts are not expected to be significant in the long term. Exits were also delayed because of the Covid-19 pandemic, and this will affect the distribution of returns to the UK government. Delays are attributed to the increased global sense of uncertainty, the impact on financial positions of prospective buyers, as well as due-diligence delays.

There are various risk channels through which the Covid-19 pandemic impacted the CP3 funds and sub-funds:

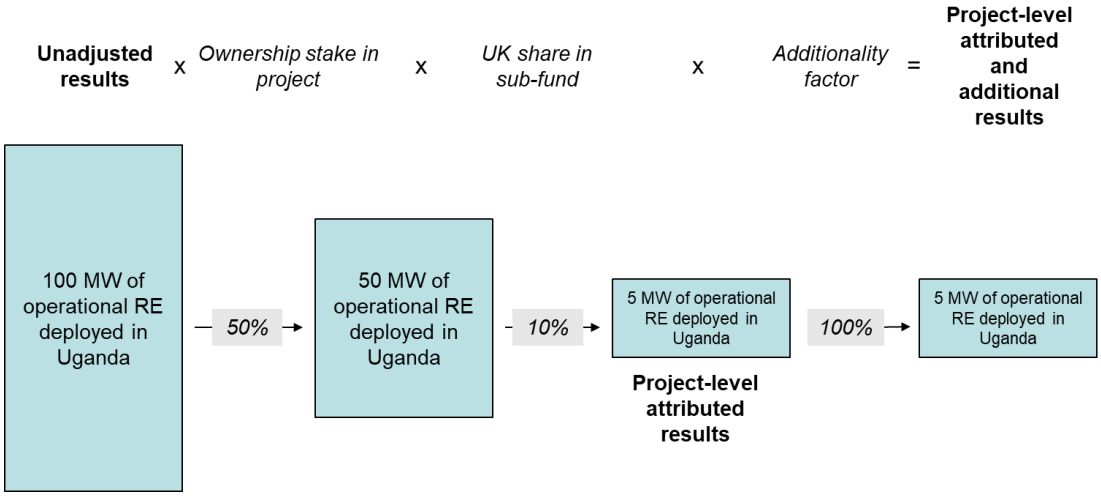
Table 8: Key Covid-19 impacts

Type of risk	Mechanism	Geographies	Funds affected
Policy and regulatory	Pressure on government budgets leading to withdrawal of financial support	Egypt, Panama, El Salvador, Jordan	C, E
	Negotiations stalled or permits not available for projects due to administrative delays	Costa Rica	E
Technical and physical	Construction delays due to lockdowns	India, Senegal	I, J
	Supply chain issues	Uganda, Senegal, South Africa, Egypt, El Salvador	A, E, J

Type of risk	Mechanism	Geographies	Funds affected
	Inability to operate at maximum capacity	Ghana	K
Commercial	Off-takers unable to use or pay for power	Jordan, Madagascar, Philippines, Senegal (mitigated by government guarantees)	A, C, I
	Exits forestalled as buyers no longer attracted to investments or in a fragile financial position	Vietnam	B
	Currency risk	Brazil	G

Certain investment strategies are penalised when results are adjusted for attribution and additionality at the project level, as required by ICF KPI standards. A significant amount of mobilisation occurred in large companies where CP3 funds and sub-funds took relatively small takes (< 5 per cent). Asia Environmental Partners II and GRC Sinogreen are prominent funds with strategies that focused on small stakes in large companies. Adjusting for attribution at the project level discounts them heavily. Further large investments in China, which were already heavily discounted for attribution because of the low stakes taken in these companies, are effectively dropped from the results once project-level additionality is applied as China is considered a non-additional geography.[31] KPI 5, job creation, is similarly also heavily impacted because of the higher discount placed on results from large companies and because job creation is heavily concentrated among growth equity investments in geographies with low additionality, leading to non-achievement of results. Infrastructure investments, which tend to be in geographies with higher additionality, report much lower levels of job creation.

Figure 18: Impact of adjusting for project-level additionality and attribution (example for illustrative purposes only)



Significant data limitations continue to exist, which impact attribution and additionality adjustments and require the M&E team to estimate project-level co-investment in some

[31] See renewable energy development over time: https://public.flourish.studio/visualisation/11369235/?full

cases. Despite improvements in recent cycles, the M&E team continues to face data collection challenges, notably around project-level co-investment data, which in some cases needs to be estimated by the M&E provider. Most recently, a cursory check of project costs against technology CAPEX estimates revealed some missing leveraged debt in the project-level data provided by IFC. Further, project-level data is only available for the last three years and historical results must be estimated.[32] For example, cumulative CO_2 emissions reductions are adjusted based on the attribution factor only for the last two years. This is partly due to the confidentiality agreements that are in place to protect the commercial sensitivities of the various funds, which in turn mean that inevitably the M&E agents often have limited data.

Governance arrangements were a major factor in the failure of the ACP fund. In 2020 the M&E agents conducted a case study to assess the reasons behind the fund's failure, the composition and effectiveness of the Investment Committee (IC) and the ACP Board of Directors came out as the most significant factors that contributed to the fund's failure. A major factor that impacted the decision-making ability of the fund was the size of the IC. The IC is an essential component of PE fund governance. Best practice composition of ICs is in the range of five to seven members.[33] ACP started with an IC of three members – one from each of the sponsors. The composition changed dramatically a couple of years later as Robeco and Orix completed their merger and became one entity. This left the IC with only two members, which meant decisions could not be solved by majority vote and had to be unanimous. From March 2017 through the end of 2018 – a period where the fund was to deploy a major share of its capital – the fund management team brought $273 million worth of deals to the IC and none were approved. Interviews with respondents suggested there were major disagreements between the GPs, which effectively led to a deadlocked IC that could not be resolved. Action to correct deficits with the IC and management team could have been taken by the Board. However, the same members that composed the IC also formed the Board, which was another governance shortcoming. The Board failed to take corrective action to resolve problems with the IC or the fund throughout 2017 until the performance review in early 2018, and the recommendation to close the fund later that year.

4.4 Efficiency: Have the objectives been achieved in a cost-effective manner?

EQ 4.1. Is CP3 providing VFM for the UK government?

Finding 17: CP3 is providing VFM for the UK government across key dimensions of economy, efficiency, effectiveness, and equity.

We applied the FCDO's 4 Es approach, considering economy, efficiency, effectiveness, and equity to assess the VFM of CP3. Specific indicators were developed within each, tying these directly to the CP3 BC and ToC (see Table 9). A summary assessment of each of the categories follows the table.

[32] It is important to note that some of these delays are inevitable as often times CP3 investments were made while projcts/companies were still under development and thus results reporting (particularly financial results) was not available.
[33] Ellis, C. D. (2011). Best Practice Investment Committees. The Journal of Portfolio Management, 37(2), 139 LP-147. http://doi.org/10.3905/jpm.2011.37.2.139

Table 9: Value-for-money indicators for CP3

Category	Indicators and analysis questions
Economy – Was the operationalisation of the CP3 BC cost-effective?	• Fees charged by fund managers and other implementation entities. • Programme administration costs.
Efficiency – Were the outputs of the programme delivered in a way that was efficient compared to alternatives?	• Monetary inputs of the programme in relation to outputs achieved.
Effectiveness – Did CP3 achieve its objectives as set out in the BC? How did it compare to alternatives?	• EQ3 and 4 and all their sub-questions relate to the effectiveness of the programme. These are covered in separate sections
Equity – Did CP3 reach its intended beneficiaries in an equitable manner?	• Distribution of investments by country income level

4.4.1 Economy

The economy of the programme is assessed by evaluating the cost of its operations, specifically management fees charged by PE funds and overall programme administration costs. **Findings show that across all economy indicators, CP3 performed in line with cost benchmarks and therefore represents VFM.**

Management fees[34] paid to the CF and its sub-funds are composed of an annual fee paid for assets under management and a "carry fee" or profit share, payable if the IRR of a fund reaches a certain threshold (preferred return). Using benchmarking data from 90 PE funds compiled by the Callan Institute, a consultancy firm for the investment industry, we assessed the economy of CP3 fees.

Benchmark management fees ranged from 1 to 2.5 per cent with a median of 1.75 per cent.[35] Table 10 shows the management fees and carried interest of all CP3 investee funds. All CP3 sub-funds had a management fee of 2 per cent, which falls within the benchmark range. The rate is slightly higher than the median benchmark, but this is explained by the focus of CP3 on emerging markets, which tend to have higher management fees. Benchmark data is biased towards funds that operate in high-income countries. Carried interest was 20 per cent and exactly aligned with the median benchmark of 20 per cent.

Table 10: Management fees and carried interest of CP3 investee funds

Fund	Management fee	Carried interest	Preferred return
A	2% of committed capital during investment period, afterwards 2% of invested capital	20%	8%
B	2% of committed capital during investment period, afterwards 2% of invested capital for the first $100 million. Afterwards, 1.75% for committed and invested capital	20%	8%

[34] The analysis in this section focuses mainly on the CF. A value for money assessment for Asia Climate Partners has not been conducted as part of this evaluation, as the details of the ACP closure are captured in a separate case study. It is worth noting that management fees for ACP were high compared to the capital deployed by the fund.
[35] https://www.callan.com/uploads/2020/10/37e84907421af91fbb36b2814ca55229/callan-private-equity-study-2020.pdf

C	2% of committed capital during investment period, afterwards 2% of invested capital	20%	8%
D	2% of committed capital during investment period, afterwards 2% of invested capital	20%	8%
E	2% of committed capital during investment period, afterwards 2% of invested capital	20%	8%
F	2% of committed capital during investment period, afterwards 2% of invested capital	20%	8%
G	2% of committed capital during investment period, afterwards 2% of invested capital	20%	8%
H	1% of committed capital during investment period, afterwards 1% of invested capital	15%	8%

Administration costs for the programme include operations management, consultancy fees, and M&E. The programme development cost totalled £485,000 according to the BC, and M&E costs were £644,681 from 2014 to 2018 or £161,170 annually and £1,486,152 from 2020 to 2026 or £212,307.50 annually. As a share of the total size of CP3, annual evaluation costs were 0.12 per cent, which is low compared to benchmarking data. Benchmarking data is very limited. For philanthropic funders, a Hewlett foundation survey found that organisations spend 1.5–7.5 per cent on average. No reliable sources were found for benchmarking evaluation costs for ODA funders. The FCDO and BEIS could compare costs to other evaluation programmes within their portfolio.

4.4.2 Efficiency

Efficiency relates to the ability of the programme to deliver its outputs in a way that is cost efficient. To assess efficiency, we use three metrics that relate KPIs that are central to CP3's ToC with the cost to deliver them. **All efficiency indicators for the programme showed good performance, and thus represented VFM.**

CAPEX of clean energy projects undertaken by CP3

The first metric assesses the cost to deploy clean energy capacity through CP3. We compiled data from 34 renewable energy projects that received CP3 investment, have reached financial close, and are operational, providing a complete picture of investment cost, or CAPEX. These projects total 2019 MW of RE capacity deployed primarily in sub-Saharan Africa, East Asia, and the Middle East and North Africa.

Findings show that, except for solar PV projects, CAPEX was aligned with market benchmarks compiled by the International Energy Agency (IEA).[36] Solar PV projects undertaken by CP3 were slightly more expensive, but this can be explained because the IEA benchmark is highly biased towards OECD countries with lower investment costs, while CP3 projects are in developing countries, which tend to have higher investment costs.

In addition, we find that across all clean energy technologies, CP3 investee funds were able to leverage a significant amount of finance. On average, across all RE projects, for every £1 that was invested by the UK government, £54.40 of investment was leveraged after CP3 intervention.

[36] See Table 3.1 in https://iea.blob.co re.windows.net/assets/c9bae6ac-0f4c-4a4b-8b46-f7d4cca4d53b/ElecCost2015.pdf

Table 11: Deployment of RE capacity – efficiency statistics

Technology	# projects in sample	2015 Benchmark CAPEX per MW (USD million)	Median CAPEX per MW (USD million)	UK investment per MW (USD million)	UK leverage multiplier
Solar	12	$1.5-2.5	$2.64	$0.03	84.03
Wind	11	$1.2-3	$1.88	$0.04	43.46
Hydro	3	$3.4-8.7	$2.54	$0.06	40.51
Small hydro	6	$5.1-9.4	$2.48	$0.05	45.10
All RE projects	34	-	$2.20	$0.04	54.43

Cost of CO_2 emission reductions

The second metric looks at the cost of reductions in CO_2 emissions from CP3 projects in the portfolio. Based on self-reported data, we calculated total emissions reductions at 35.9 million tCO_2e from inception to date, prior to any attribution and additionality adjustments. The total UK government investment in the PE funds is $99 million to date. Dividing investment by tons of GHG reductions yields £2.43 per tCO_2e on an unattributed basis and £133.19 per tCO_2e adjusted for attribution and additionality.

Table 12: Cost of actual CO_2 emission reductions

	Cost per tCO2e - actual unadjusted	Cost per tCO2e - actual attributed + additionality
USD	$2.75	$150.51
GBP[37]	£2.43	£133.19

Most CO_2 emissions reductions in the portfolio come from RE projects. These projects have long expected lifetimes of as much as 40 years, and the timeframe of CP3 will not capture the bulk of emission reductions that will occur. Therefore, forecasted estimates were produced that consider expected lifetimes of various types of RE projects deployed, their capacity factors, and average grid intensity to determine lifetime GHG reductions.

The current, operational, RE projects in CP3, which total 2,019 MW, are expected to reduce 142 million tCO_2e on a lifetime basis. Dividing investment by tonnes of GHG reductions yields £0.61 per tCO2e on an unattributed basis and £33.64 per tCO2e adjusted for attribution and additionality.

Table 13: Cost of forecast CO_2 emission reductions

	Cost per tCO_2e - forecast unadjusted	Cost per tCO_2e - forecast attributed + additionality
USD	$0.69	$38.01
GBP[3]	£0.61	£33.64

[37] Exchange rate: 1 GBP = 1.13 USD. Oct 20,2022

Financial leverage achieved

CP3 has mobilised £12.6 billion in co-investment from public and private investors at the fund, sub-fund, and project level on an unadjusted basis. With additionality and attribution adjustments, financial mobilisation totals £200 million. Considering the UK government's investment of $99 million, the leverage multiplier is £143 per £1 invested on an unadjusted basis and £2.3 per £1 on an adjusted basis. This is in line with leverage ratios for similar equity-based instruments in the market.

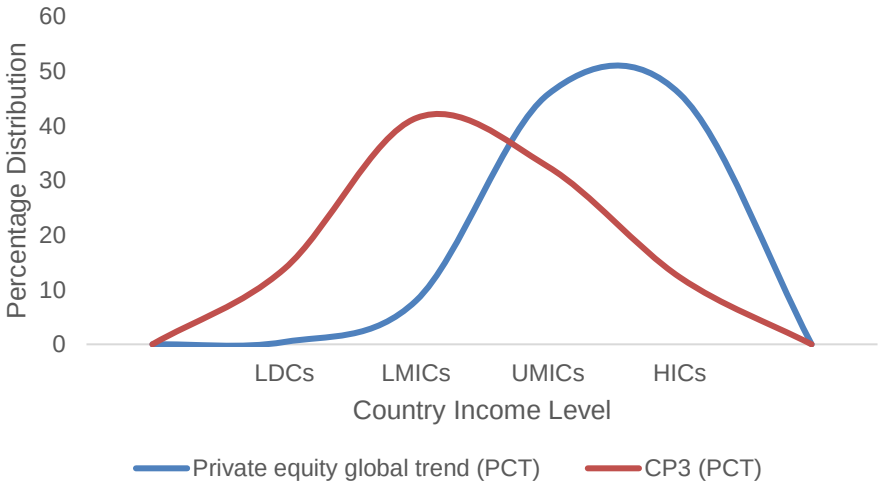
Table 14: Financial leverage summary

	Total mobilised finance (unadjusted) million	Total mobilised finance (attributed + additionality) million	Leverage multiplier unadjusted	Leverage ratio attributed + additionality
USD	$14,206.57	$225.81	143.7	2.3
GBP	£12,572.18	£199.83		

4.4.3 Equity

To assess equity, we compare the distribution of CP3 investments to global trends. In 2017, high-income countries (HICs) and upper middle-income countries (UMICs) captured 92 per cent of global PE investment in clean technology sectors. Lower middle-income countries (LMIC's) captured 8 per cent and least developed countries (LDCs), 0.4 per cent. In the case of CP3, investment was much more equitably distributed, with LDCs capturing 14 per cent, LMICs 41 per cent, UMICs 32.5 per cent, and HICs 12.3 per cent. Figure 19 shows the distribution of CP3 and global investments according to country income level. **CP3 skews significantly towards lowers levels of income, showing greater equity and thus VFM, as intended.**

Figure 19: Distribution of CP3 investments by country income level



4.5 Impact: What evidence is there that CP3 has contributed to/or is likely to contribute to transformational change?

EQ 5.1. Has CP3 generated evidence of demonstration effects that have or are expected to catalyse additional LCCR investments in target countries?

Box 5: Approach to assessing demonstration effects

Demonstration effects are a core assumption of the CP3 ToC. It is a key mechanism that links CP3 outputs – in this case, project investments – with the intended resulting market impacts – in this case, the catalysation of increased LCCR investment from private finance sources. We began our analysis of the CP3 portfolio's potential demonstration effects by defining the term itself, drawing from related literature as well as CP3's own ToC. Based on this review, a demonstration effect can be defined as the degree to which a given project or investment enables future investment from private capital by demonstrating the viability of an investment and thus decreasing perceived political, sectoral, or general market risks.

Recognising the limitations of directly assessing the various potential pathways for demonstration effects – such as improvements in application of ESG frameworks or technical capacities on the ground – our approach instead relies on the reasonable assumption that the earlier a project occurs, the more likely it is to have contributed to these kinds of pathways of market transformation and investor signalling that are otherwise difficult, if not impossible, to assess directly. Operating under this assumption, we employed a two-step approach to assess the demonstrative potential of renewable energy investments within the CF portfolio, aiming to answer the fundamental questions regarding whether a given investment was unique as an early mover in the relevant market, and how these markets then developed after CP3 investment. For more information on approach reasoning and methodology, see Annex IV.

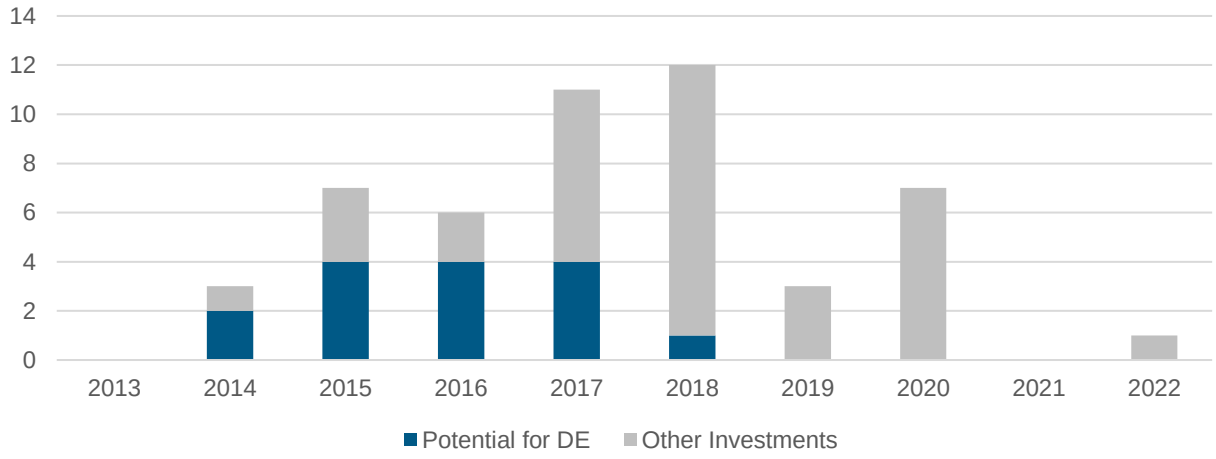
Note that the analysis and related findings discussed here and in the following section on EQ5.2 are intended as complements to the matrix on transformational change included in past reporting on KPI 15. While the matrix largely considers data points from both the programme and related investment contexts at a specific point in time to estimate the likelihood of transformational change (such as IRR or the percentage of SCAF projects reaching close), less attention is paid to exploring the relationship between developments in the programme and those in related markets over a period of multiple years. While precise attribution is rarely possible, the following analyses on demonstration effects and contribution intend to provide additional nuance and evidence basis that is otherwise lacking in the matrix developed in the earlier stages of the programme.

Finding 18: While a minority of investments appear likely to have produced some level of demonstration effects as early movers, CP3 investments largely followed prevailing investment trends in the renewable markets considered. Analysis of Bloomberg New Energy Finance (BNEF) data suggests that just 15 of the 50 renewable infrastructure projects assessed had some potential for demonstration effects. Specifically, 12 of the 50 projects were categorised as having "high potential for demonstration effects", being early movers in the relevant market and followed by notable increases in private financing in the sector post-investment. An additional 3 projects were classified as "stand-alone" projects, meaning they had some potential for demonstration effects based on their status as early movers in a market, but had seen very little, if any, replication since CP3 investment. Furthermore, in interviews, market experts – although broadly agreeing with the underlying approach of our analysis – suggested that our identification of 15 projects with some potential for demonstration effects is likely overly generous. When asked for their views on select projects from the 12 identified through our analysis as having a high potential for demonstration effects,

they sometimes disagreed with this categorisation, and instead pointed to earlier, non-CP3 projects (such as the Jeffrey's Bay Wind Farm in South Africa) as better examples of what they viewed as truly demonstrative projects.

In general, the rapid rate of development of renewable markets around the world meant that the speed with which CP3 investments were made was a critical decider as to the infrastructure portfolio's overall potential for demonstration. Figure 20 shows the breakdown of projects categorised as having some potential for demonstration (combining both the "high potential for demonstration effect" and the "stand-alone" categorisations) and those categorised as "low potential for demonstration effect" by year of financial close. This figure illustrates that CP3 sub-funds often took multiple years to commit financing to projects, with the number of CF infrastructure investments peaking in 2018, nearly five years after CP3's launch. Renewable markets were developing rapidly during this period, meaning that even a difference of just one or two years could easily mean the difference between an early mover and a follower in a given geography. As such, and as Figure 20 intends to illustrate, the majority of CP3 investments identified under our methodology as "first movers" had to occur within the first few years of the programme, as most markets were already well developed by 2018.

Figure 20: Comparison of demonstrative potential of CP3 projects by year of financial close



Such results are largely in line with what might be expected from a programme investing on commercial terms. Put in the context of rapidly developing renewable markets – with climate-focused finance increasing by some $300 billion between 2012 and 2020 – it is not surprising that investments made through a comparatively small, commercially focused programme such as CP3 would result in relatively few projects with significant demonstrative potential. Indeed, the fundamental act necessary to achieve strong demonstration effects – that is, investing in markets and technologies viewed as risky with the intention of challenging or improving such perceptions – is simply not in the interest of comparatively risk-averse actors, such as PE funds, seeking commercial returns. Instead, these types of risky investments are a more fitting pursuit for programmes utilising concessional finance approaches.

Finding 19: Regional market research and accompanying interviews suggest that poor grid infrastructure – particularly in regard to transmission and distribution – has hampered or otherwise complicated the demonstrative potential of select CP3

investments. One wind project under the CF, for example – categorised in our analysis as one of the three "stand-alone" projects previously mentioned – was the first ever wind project in Senegal. However, upon completion, the national grid was instantly over capacity, meaning further replication in the market is not currently being pursued. The demonstrative potential of such an investment is understandably reduced, as the project replication and catalysation fundamental to the definition of demonstration effect is, for the time being, limited.

On the other hand, in the case of CP3 investments in Ugandan small hydro, project replication has actually continued – likely in part thanks to strong demonstration effects – *despite* the inability of transmission grids to accommodate such additions. The resulting scenario, in which project investors are being compensated for producing energy that is ultimately unusable due to the limits of national transmission infrastructure, appears to be contributing to political headwinds broadly viewed by international experts as worrying and detrimental to future development. While decreasing the demonstrative potential of select CP3 investments such as the Taiba wind project, or otherwise complicating the assumed benefits of demonstration effects, as in the case of Ugandan small hydro, these findings also represent an opportunity for additional research and potential future catalytic investment in transmission and storage.

Finding 20: CP3 investments in a handful of already existing renewable infrastructure projects further limited the demonstrative potential of the portfolio. While most of these investments were made in existing run-of-river small hydro facilities in Indonesia, Madagascar, and Uganda, there were two additional investments aimed at expanding the capacity of existing wind assets in the Philippines. As investments in existing renewable assets are understandably less likely to provide demonstration effects, these projects were categorised in our analysis as "low potential for demonstration effects". If demonstration effect is to remain a priority of future UK government programmes, there is a need for greater limitations over what types of projects are eligible for investment in order to achieve the necessary prioritisation of new projects and technologies in new markets.

EQ 5.2. How have the countries within which CP3 operates transformed? Is there any evidence that CP3 contributed to these changes?

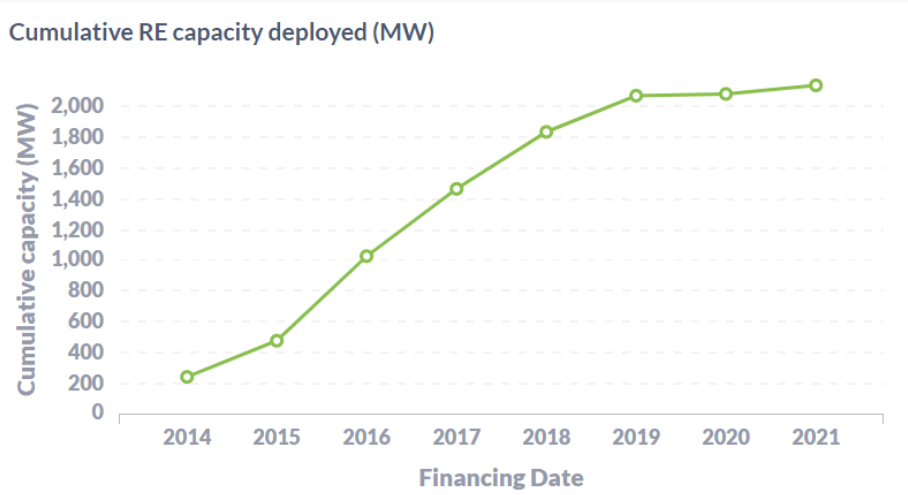
Finding 21: The countries in which CP3 operates have developed significantly in terms of RE development and investment during the CP3 lifetime, but the CP3 contribution to these developments is limited. Across the CF investments, there are several countries where CP3 funds have been committed and a parallel acceleration of RE capacity and, in some cases, improvement of the investment environment has occurred. These countries include those that have been the focus of a contribution analysis study, Jordan and El Salvador. However, while evidence shows CP3 funds played a key role in specific project development, it has not been a significant factor in overall market development. Evidence from this analysis suggest that market transformation has been largely driven by enabling environment factors which has crowded in new actors, including the CP3 funds themselves. Based on available evidence, one factor contributing to this appears to be the model used by CP3: PE fund managers are not market makers in the same way VC funds or project development companies are, and they are prone to following market trends rather than initiating them. SCAF provides a more positive perspective, with some of its project development partners establishing first-of-their-kind projects in low-income countries, but it is too early to assess any transformation achieved by these projects. Early evidence does,

however, suggest that replication may be expected based on interest from neighbouring West African governments in a SCAF-supported solar battery project in Senegal.

Box 6: Jordan case study

Alcazar Energy Partners was a CF platform company that had three renewable investments in Jordan. Analysis of CP3's contribution to market transformation in Jordan following Alcazar's investments shows that while the energy market in Jordan has clearly transformed over the past ten years, CP3 is not the major contributing factor to this transformation.

In 2020, renewables accounted for 15 per cent of total electricity generation in Jordan, rising from 1 per cent in 2014. The share of renewables in total installed electricity generation capacity reached 34 per cent in 2021 from almost 0 per cent in 2014. This rapid development of renewables is largely driven by a positive enabling environment. The renewable investment environment in Jordan experienced a positive shift because of the government's response to macro-economic and international events.



Due to limited domestic supply of traditional energy sources, Jordan relies heavily on imported fossil fuels to meet its energy demand. The 2008 Global Financial Crisis and the Arab Spring in 2011 had a significant disruption to Jordan's oil and gas import, which led to a substantial rise in energy prices and caused rising national debt. Seeing the urgent need for clean energy transition, the government introduced an RE law to enable Independent Power Producers to sell electricity from renewables to the national power company with long-term power purchase agreements. Two rounds of auction were launched to facilitate investor's participation in utility-scale renewable project development. These favourable regulatory measures helped transform Jordan into a renewable pioneer in the Middle East and North Africa region, and an attractive market to investors.

While Alcazar's investments achieved positive financial returns and applied good ESG standards, there is little evidence that these inspired wider market change. The trend of renewable deployment also proves to follow more closely with relevant government policies than investor actions.

EQ 5.3. Has CP3 incentivised the application/integration of ESG standards into practice?

Finding 22: There have been no identified issues with the application of ESG standards and practices within the CP3 funds, but there are opportunities for improvement. ESG reporting for both the CF and SCAF appears to be occurring as expected and, where ESG incidents have occurred, appropriate remedial actions are taken as needed. However, the integration of ESG within the CP3 portfolio could be improved. Notably, the SCAF CPAs require partners to implement an ESG system or environmental and social management system that meets Frankfurt School requirements, but fails to set out what these requirements are.[38] In several cases reviewed, minutes from the SCAF Recommendation Committee highlight that partners are in the process of developing Environmental and Social Management Systems (ESMSs), which is sufficient for approval of the CPA, but it is not clear whether appropriate follow-up verification is undertaken to ensure these processes are finalised and implemented (SCAF includes ESG in its quarterly reporting requirements, but this relies on accurate partner reporting, which the M&E agents have not assessed). Across the programme, accountability and enforcement mechanisms for the appropriate use of ESG standards are lacking in legal agreements, and limited assurance outside fund self-reporting has been undertaken. While no significant breach has yet occurred, this presents a risk in terms of partners with less robust processes that do not meet the required standard. It should also be noted that SCAF financing has been used to recruit dedicated ESG/ESMS staff, but this has been driven by the partners themselves, and facilitated by SCAF financing rather than a SCAF requirement or objective. Evidence has been found that other funders provide TA and support to SCAF partners to improve ESG standards and systems, which has been more important integrating ESG than the requirements set out in the SCAF CPA.

Because the CF is part of IFC, it has better ESG integration, but the development impact reporting is limited to financial and non-financial results, and as such the M&E agents have limited visibility on whether IFC ESG standards are being held at the sub-fund and project level. However, in at least one case the team has observed evidence of projects being abandoned after concerns were raised. It should be noted that annual assurance of the ESG process by the M&E agents has not identified significant issues, but this is based on engagement with IFC only.

Finding 23: There is no strong evidence that CP3 and its instruments have incentivised application of high ESG standards outside the funds themselves. Evidence shows that ESG as a tool both for investment and asset stewardship has been growing substantially since the start of CP3. There are a range of factors attributed to this rise, most significantly ESG's role as a risk management and reduction tool and evidence linking good ESG practice to higher investment returns. While the CP3 funds appear to be maintaining good quality ESG practices, there was no evidence found that other actors in the markets reviewed were replicating these standards based on CP3 – more often than not, the standards applied were largely the same, reflecting the IFC Performance Standards. As many of the CP3-funded projects also receive funding from DFIs, which require compliance with high ESG standards, the role of CP3 instruments in supporting application and integration of these standards is limited. As such, the ESG pathway of the ToC does not appear to be holding true. This is further reflected in the analysis of ICMO9 in Annex IV, which finds the core mechanism – that investors will apply greater ESG practices – is occurring, but that it is not being triggered by

[38] It is assumed from the SCAF project document that IFC Performance Standards are used as the benchmark.

the CP3 intervention of requiring high ESG standards. Rather, it is due to a variety of contextual factors, including those noted above.

EQ 5.4. How has CP3 built capacity and contributed to the success of the supported fund managers and project developers?

Finding 24: To date, there is limited evidence overall that CP3 built the capacity of supported fund managers and project developers. It was envisaged that CP3 support would help enable a more sustainable clean energy investment ecosystem over time, with PE fund managers able to raise follow-on funds for similar type investments in developing markets (without the need for CP3 or similar participation). Based on the evidence reviewed, it is clear that potential CP3 partners and funds had high technical capacity prior to CP3 investment and did not require significant capacity development services. While there are examples in the CF portfolio of new funds engaging with the LCCR sector or higher risk geographies for the first time, these funds have typically been managed by established actors, which has reduced the need for further TA. There is an argument to be made that CP3 encouraged these funds to enter new sectors or markets, which inherently increased capacity, but the pathway for contribution here is limited at best. While supporting new fund managers and developing capacity was part of the CP3 BC and features in the ToC, this is to be expected given the size of the funds engaged under CF.

The picture is slightly more nuanced for SCAF, which is funded under the TA line of the CP3 BC. In practice, SCAF only provides financial support to partners and does not provide any TA. Per interviews with SCAF partners, the SCAF financial support has enabled accelerated project and pipeline development, such as the Africa REN Kodeni project and the Levanta expansion into Indonesia. However, there is little evidence that it has enabled direct capacity development for SL1/2 partners beyond recruitment. There is an argument that the application process for SCAF support itself provides capacity-building benefits – prospective partners can expect to have their strategy and processes questioned and tested by the SCAF teams in order to improve or strengthen them prior to signing a CPA. It could be argued that, in this way, SCAF provides a critical friend function, helping partners test assumptions prior to undertaking activities in the market, but this role appears to end once the CPA is signed. SCAF partners provided mixed evidence in support of this, with some describing the application process as a gauntlet for their strategy, and others feeling the process went smoothly, with limited further action required. For SL0 partners, the SCAF financing does seem to be more impactful as, without SCAF support, partners have noted that they would not have reached financial close and been able to develop their team and experience. However, even in the case of first-time fund managers receiving SL0 support, the barrier for entry is high and there is little need for direct TA. Evidence against the SCAF ICMO, ICMO6, highlights that SCAF does create a more commercially secure environment for its partners to operate through the provision of low-risk financial support. While this may encourage them to take higher risks or innovate, the evidence gathered to date indicates many partners felt alternative funding would have been available for these activities, although at a higher cost (i.e. securitisation of project assets).

While there are positive examples of CP3 funds and partners working closely with local institutions and strengthening the enabling environment, it is unclear whether these activities would have occurred without CP3 support. Several funds and partners reviewed

in this strategic evaluation and the 2018 MTE, such as Armstrong, Blue Circle, LRIF, and Africa REN, have provided support to governments and other key actors in pursuit of their projects. This has included facilitating negotiations and design for first-of-their-kind regulatory agreements such as PPAs or energy auctions, the templates for which can be utilised for future projects in country. Partners have also worked closely with local financial institutions to support the development of new project financing instruments, most notably The Blue Circle in Vietnam. However, it must be recognised that these activities serve to benefit the investee projects and would have been necessary (and likely undertaken) regardless of CP3 financing. Thus, the contribution of CP3 in terms of building market capacity and increasing the investment-enabling environment is explicitly tied to the question of whether the fund investments would have been made without CP3 support. In the case of ACP and the SCAF SL0 partners, there is a clear contribution pathway along these grounds but less evidence that these parties provided market-building support. It is less certain regarding the Catalyst sub-funds and SCAF SL1/2 partners, many of whom would have likely pursued similar, if slightly different, investment and development strategies without the CP3 financing.

It should be recognised that there is only one explicit component within CP3 that commits funding to building the local enabling environment: SCAF's SL1, which anticipated spending on "support to local project developers, including training seminars and one on one coaching on different project development activities and processes". Based on the partners assessed, only limited evidence of capacity-building activities among local partners and developers was identified, most notably in the case of DI Frontier's Project Developer Programme. However, it should be recognised that SCAF has evolved since the project document was developed, specifically shifting focus to support more project development companies rather than investment fund managers, due to the increased opportunity for pipeline development. Directly supporting project development companies has reduced the need for SCAF partners to work with local project developers in the same manner that funds were envisioned to, and so this expectation for SL1 is less relevant than at CP3's origination.

Several fund managers are looking to raise follow-up funds, in part based on the track record developed under CP3. Two examples were considered for the strategic evaluation: AREF under the CF and Zoscales under SCAF. AREF is raising a second fund but primarily through engaging existing investors. The new investors are primarily European DFIs rather than private-sector actors. Evidence suggests AREF's experience as a CF sub-fund has likely contributed to its ability to raise a second fund, in that the investments made under CP3 demonstrate AREF's investment competency, but the strong reputation of AREF's GP (Manager), Berkely, has been a more significant factor. In addition, as CF was the last investor before the fund reached close, this also limits the potential contribution of CP3, as it is likely AREF would have closed with a different LP, or at a smaller fund value with its existing investors. The picture for Zoscales, as SCAF's first SL0 partner and the first to reach close, is somewhat more positive. SCAF financing was described as a "lifeline" for reaching first close, without which the second fund would not be possible. However, Zoscales has shifted away from the LCCR sectors into more traditional commercial and industrial projects, which will also be the focus for the second fund.

Overall, fund managers indicated the ability to raise follow-on funds is dependent on fund performance, management capacity, and returns (including the ability to successfully exit). Due to CP3's limited participation in fund delivery or exit, there is limited evidence CP3 has

been a direct or significant contributor to successful follow-on fund raising. More generally, follow-on fundraising has been impacted by returns, which have generally been less strong than originally envisaged (due to unforeseen political, economic risks, and Covid-19), moderating investor appetite for fully commercial participation.

4.6 Sustainability: Are CP3 results sustainable?

EQ 6.1. Has and how has CP3 generated lessons and good practice in mobilising climate finance, supporting LCCR, implementing ESGs, and supporting first-time fund managers? (Thereby addressing information asymmetries, agency problems, and influencing private investors)

Finding 25: The implementation of CP3 has generated a useful pool of knowledge and learning for using PE to finance LCCR investments in low- and middle-income countries, but sharing this learning in the private finance space has been challenging. Given its unique and innovative model within UK climate aid, as well as its sectoral and geographical coverage, CP3 has generated a significant amount of learning about the role of PE within the LCCR sector in developing markets. For example, it has generated learning on the role PE can play, the potential for leverage among public and private actors, the importance of supportive enabling environments, and the challenges of managing climate-focused funds. The M&E agents have been supportive of capturing many of these lessons as part of their activities for the UK government. However, the dissemination pathways and content focus for these learnings may not be accessible or of interest to private-sector actors.

It was anticipated by the ToC and BC that CP3 would generate learning, influencing investor perceptions about LCCR investment in emerging economies, and crowd in new private finance. In this way, it was anticipated that CP3 would be able to address information asymmetries in the market. This relies on a core assumption: that the learning is effectively communicated and made accessible. Due to the nature of PE and the commercial approach adopted by the programme, this assumption has not held true as envisioned. Even when engaging the internal M&E agents, fund managers have been reluctant to reveal commercially sensitive information. When information is shared, it is heavily impacted by positivity bias, driven by a need to emphasise positive fund performance for potential investors, with learning from failed projects less likely to reach the public sphere. Evidence was collected that learning is shared through informal channels – several interviewees noted the value of engaging peers at conferences or over coffee – but this primarily serves to share information between parties who already have access to comparable knowledge, rather than address the wider market information gap. CP3 has generated lessons on good practice in mobilising climate finance, though commercial sensitivities have limited sharing to broader markets, and so the issue of information asymmetry has not been adequately addressed.

The lesson sharing anticipated by CP3 is limited by the constraints of the commercial model used, where actors involved are not required to share any information about their success or failures in deploying LCCR in emerging economies. This would require concession arrangements that would require sharing commercially sensitive information. Similarly, the M&E agents' ability to access and share learning is also constrained by the commercial model.

There is informal evidence that learning from CP3 has influenced other similar publicly financed instruments. There is anecdotal evidence about how CP3 is generating learning

that has informed the design of other similar instruments, particularly other climate finance instruments managed or invested in by European DFIs. This is not unexpected given the focus and content of the M&E outputs are of more interest and more accessible to other public-sector actors. In addition, it is likely that learning is also shared via informal channels between public-sector actors.

5 Conclusions

Conclusion 1: CP3 has demonstrated that PE can be an effective vehicle for delivering climate finance, increasing RE deployment in emerging economies that will deliver long-term and sustainable benefits. Overall, CP3 investments have generated a significant number of the outputs, outcomes, and impacts expected in the ToC, or are on track to do so. The evaluation has showed that there is a clear need globally for early-stage PE financing for LCCR projects as well as demonstrated potential for leveraging public and private co-investment, which reinforces the need for an instrument like CP3. However, the evaluation has also highlighted how the commercial nature of the instrument, together with the broad investment mandate, can curtail investment potential in high-risk sectors and geographies. CP3's broad mandate allows for the identification of commercial opportunities but can also be detrimental to achieving more specific objectives, such as contributions to broader market transformations or investment in newer and potentially market maker technologies. This is evidenced by the lack of adaptation investments in the portfolio, the investment time frames, and the types of technologies supported. As noted above, many, although not all, PE funds tend to follow market trends rather than set them, unlike VC funds or start-ups. Based on the findings of this strategic evaluation, the M&E agents conclude that CP3 ultimately lacked the necessary donor control in terms of directing funds to achieve the higher levels of ambition outlined in the BC. To do so in the future will require (1) the use of either a more restrictive PE mandate for a fund in which the UK government is a direct LP, possibly at the expense of commerciality (note the learning around ACP that effective fund governance structures will be critical in this case), (2) the introduction of complementary mechanisms, such as guarantee funds or capital recycling vehicles, that leverage the ability of public funders to take on higher lending risks, or (3) a different financial vehicle better able to engage with high-risk sectors and geographies.

Conclusion 2: As evidenced by the impact of attribution and additionality adjustments on programme results, when pursuing broad investment mandates within a commercially focused vehicle, there is a natural trade-off between investments that are able to leverage more finance and those that will deliver more additional development results. High-additionality geographies are naturally riskier, and thus are less likely to attract commercial investors. Given CP3's commercial nature and focus, it is unrealistic to expect a portfolio of investments that is 100 per cent additional with commercial returns. If these returns were available, private investors would already be investing and the programme would not be additional. Indeed, returns on PE in the LCCR sector have been generally in the mid-single-figure range. As such, the sector continues to need public finance and support to bolster investor confidence. Returns are further impacted by misaligned time horizons. Generally, PE funds will be willing to work with companies that can significantly increase their value within three to five years. A longer holding period, as is the case with many cleantech sectors, introduces the risk that the fund cannot divest within the investment life cycle. As such,

investments in pre-commercialisation technologies are not adequate for PE funds, and funding early-stage technology development likely requires concessional finance vehicles.

Conclusion 3: Overall, the evidence collected suggests that while CP3 has delivered significant results through the portfolio of investments, there is less evidence of the programme's impact on wider market conditions. While the commercial model deployed has been critical to generating results, it has also limited the role CP3 has had on wider changes. On the one hand, the programme has successfully deployed renewable energy, leveraged public and private finance, created jobs, and reduced GHG emissions. It is also starting to deliver commercial returns. However, the pathways to impact are not being realised in the way envisioned, and CP3 is not generating the transformative impact in market expected by the BC. This is partially attributable to the size of CP3: while it represents a significant commitment from the ICF, even when counting the leveraged commitments, CP3 reflects only a small amount of the finance needed for the climate transition. Even in a narrower selection of markets, its presence and potential for transformation is equally limited in scale. The findings have also repeatedly highlighted challenges with the PE model selected. Equity is still needed at the early stage of project development, but PE fund managers are not well suited to delivering this early-stage financing. PE funds in many cases tend to follow market trends rather than seeking to set or catalyse them like VC funds might. This is less the case with VC and growth equity funds. While it represents a unique and innovative approach for delivering donor financing, PE itself is not sufficiently innovative or risk taking to separate CP3 from other market actors. Commercial PE funds are less well suited to risk taking than other vehicles, which ultimately limits CP3's potential to achieve transformative impact by acting as a first mover or providing catalytic finance. Lastly, the commercial approach restricts the indirect impacts achieved by CP3 in terms of addressing information asymmetries, signalling the market, and promoting ESG application, due to the inherent protection of commercially sensitive information. While CP3 may generate market information that is beneficial to other actors, it is unlikely for this to happen until the programme's conclusion, at which point the approaches taken by the CP3 funds may be too dated and the context too changed for those lessons to add the value they could have added if generated and shared during CP3 implementation.

6 Lessons

EQ 6.2. What can the UK government learn about future equity LCCR investments in emerging markets from CP3?

Lesson 1: It is important to ensure key BC ambitions, level of risk appetite, and impact pathways are integrated into financial agreements with partners, as well as how they can be enforced, particularly for programmes operating through commercial models.

We have learned from the case of CP3 about the importance of ensuring BC ambitions and expectations are translated into practical financial agreements. In the case of CP3, this is related to the expected split between adaptation and mitigation of the portfolio, the level of risk appetite of the instruments, as well as the expected role of CP3 in promoting wider ESG uptake and an expectation that CP3 would play a role in supporting the broader LCCR ecosystem. Many of these ambitious impact pathways outlined in the BC did not get integrated into the limited partner agreements with the CP3 funds, nor within the agreement with SCAF. Because of this, the programme may never achieve the impact expected, and may be judged against unfair expectations, such as ones that partners did not agree to. We have collected evidence on how the UK government can learn from CP3, and give more explicit guidance to programme managers to ensure that BC priorities are fully articulated so that they can be taken up by implementing entities.

Lesson 2: The value of high-quality impact and results reporting is critical to measuring progress, and the importance of refining and updating methodologies throughout implementation should be recognised.

Data quality and integrity is essential to robust evaluation of any programme, including CP3. As discussed in Finding 16, while there have been improvements in recent cycles, significant data limitations continue to exist, impacting the results collection and reporting. At programme inception, many of the methodologies that are now applied to the results collection were nascent, meaning there was no clear understanding of some of the data requirements that would be needed down the line. Understanding data needs and availability at the project level at the onset of investment is important to build a robust time series of results that in turn enables results-driven decision making and adequate evaluation of programme objectives and milestones. Further, since assessing transformational change is highly context-dependent and necessitates longer time frames to surface results, it has become clear to the team that a more robust means of assessing transformational change (KPI 15) in the context of CP3 is needed.

Lesson 3: CP3 has demonstrated the suitability of the PE model, however PE cannot address all of the gaps in the market and is thus not a 'one-size' fits all solution to delivering climate finance. Indeed, delivering on global climate finance goals requires a wide array of financial instruments to be deployed to address all financial and non-financial barriers.

Based on programme results to date, PE funds, designed with appropriate investment mandates and governance structures, can be an effective tool to deliver on climate finance objectives.[39] However when designing PE fund models, the UK government and other ODA

[39] See CP3 'Using Private Equity as a Vehicle to Deliver Climate Finance' case study. (September 2021)

providers should understand the limits of the model if adequate investment mandates are not in place. CP3's broad mandate allows for innovation and for the identification of commercial opportunities in a given financial, regional, and sectoral context. However, a broad mandate can also be a detriment when more specific objectives are desired. The nature of PE means geographies, technologies, and sectors where risk-adjusted returns are already adequate for PE, for example RE infrastructure investments in middle-income countries, will see the majority of investments. PE fund managers need to invest and realise returns within a very limited period, limiting their ability to be first movers, and this should also be considered in programme objectives and design. Further, from a market environment perspective, PE funds will gravitate towards geographies with a minimum level of development that can offer adequate investor protections, favourable regulatory and policy environments, and sufficient depth of capital markets. As such, PE is unlikely to favour investment in LDCs. Further, for ODA providers, PE funds are a major change from normal operations. It entails a loss in control over investment decisions and additional complexity in procurement and contracting. These drawbacks should be considered carefully and weighed against the benefits of PE:

- PE funds, particularly VC, target earlier stages in the company life cycle. As such, PE is uniquely suited to support the commercialisation and development of new technologies.
- As one of the first steps in the financing chain, PE can support the leveraging of additional finance from other sources.
- PE funds typically play an active role as investors. They offer strategic support to investee companies; help bring other investors to the table and use their networks to facilitate partnerships. This is one of the key value-adds of PE and can make the difference between success and failure for new companies.

Lesson 4: There remains a need for complementary instruments that leverage public finance to take on higher risk and demonstrate commercial returns for newer technologies.

As discussed in Lesson 3, there are limits to the PE model. CP3 was not meant to and cannot address all gaps in the market. This was evident by the high proportion of the portfolio dedicated to RE infrastructure, to the detriment of sectors such as climate adaptation and early-stage technology development, which often struggle to generate commercial returns but were part of the CP3 BC, as well as the relatively small portion of investments that took place in high-additionality countries.

To drive greater investment in difficult markets (both in terms of countries and sectors), there is a need to design specialist programmes and utilise a wider range of instruments to target financial and non-financial needs. Incentives and risk-sharing mechanisms that leverage the ability of public funders to take on higher lending risks will need to be deployed.

Overall, the investment case for commercial investment in thematic RE developing market funds continues to be dependent on DFI and donor engagement, despite both technology costs and maturity having improved significantly over the last eight years. This is despite increased investor interest in climate-related investments and asset allocation, noting that political and market risk remain key decision drivers. For example, political instability in Ethiopia severely impacted Zoscales' asset performance and timing. The Covid-19 pandemic has been a significant factor. There is still appetite for addressing RE through PE, but follow-

on funds are generally taking a broader approach, allowing for more flexibility (e.g. resilient infrastructure, water, waste, mobility, storage), with a broader sustainability/climate angle. This creates greater flexibility, increased asset investment opportunities, and potential diversification benefits, all of which are attractive to investors.

Lesson 5: A positive enabling environment and technical capacity are key factors influencing market transformation in the countries. Despite expectations, CP3 was unable to significantly influence these environments.

Evidence collected indicates a supportive enabling environment, existence of technical infrastructure, and LCCR development capacity in CP3 target countries were key factors to market transformation. Private investors generally crowded into markets, following trends such as ease of access or public support rather than high-risk first-time investments in unfavourable environments. While we found some evidence that market actors can help contribute to these environments (such as Africa REN supporting the government to improve the enabling environment in Burkina Faso), the enabling environment is largely guided by public entities. Similarly, the technical capacity within the countries is also guided by public entities (i.e. in Jordan there were measures put in place by government and labour groups to support building national solar engineering capacity). While it is important for public and private actors to finance infrastructure development following capacity changes, to demonstrate the value of these changes, these changes are often guided by national partners. Donors, such as the UK government, may be best placed to support these national actors to build the necessary operating environment to attract private investment, rather than acting as external private investors.

Lesson 6: **Evidence from CP3 and comparators indicates some potential challenges of raising additional funds, particularly from private sources**. **There remains an ongoing need for donor and DFI support to deliver climate finance.**

Interviewees for this evaluation and previous case studies have noted that, while there is an interest in investments that achieve climate impacts, funds that are overly specialised can lose appeal for the market and struggle to attract sufficient investment at an early stage. Funds considered in this evaluation, such as Zoscales, have had to offer broader mandates more tangentially linked to climate goals. Zoscales, as well as other funds, have struggled to mobilise significant additional private investment, focusing more on DFIs for financing. Additional evidence suggests that CP3 comparators are also struggling to identify a clear role and financing for themselves in the current market. For example, fundraising for Climate Investor Two is ongoing, using a much broader climate and sustainability investment mandate, but is facing issues around fundraising due to global economic uncertainty. GEEREF has also struggled to mobilise GEEREF NEXT, having failed to secure anchor finance from the Green Climate Fund (GCF). While there is evidence that private actors are becoming more active in these markets, there is still a clear and pressing need for public financing to de-risk investments and provide the patient capital necessary for capacity development.

7 Key recommendations for the UK government

The following section provides recommendations to increase the impact of CP3 as well as inform the future design of similar programmes. The ability to change the design and operations of CP3 is limited at this point in time. This is largely due to the investment structure and timeframes, as much of the CP3 finance has already been committed and sub-funds are

expected to close in coming years. Short-term recommendations focus on opportunities for the UK government and the M&E agents to update methodologies and M&E practices to help better measure and capture progress. Long-term recommendations focus on design considerations for future programmes with similar aims to CP3, as well as how the UK government can learn and improve practices from experiences implementing CP3. A summary of the recommendations and related findings in priority order is provided in Table 15.

Table 15: Summary of recommendations

#	Summary recommendation	Relevant finding(s)	Type of recommendation
1	In future ICF-supported programmes that operate in high-additionality markets that support the LCCR sector, the UK government should leverage its ability to offer financing on concessional terms to raise the level of ambition of its programmes in an effort to make harder-to-reach markets more attractive to investors.	**3, 4, 5, 6**	Long-term
2	For future TA-focused or SCAF-like programmes, including SCAF III, the UK government should consider approaches that encourage increased engagement in riskier, more additional markets to increase the potential for transformation.	**4, 6, 9, 13**	Long-term
2a	The support package size offered by future SCAF-like programmes should be increased compared to the current SCAF financing limits.	**13, 24**	Short term
2b	Another way in which SCAF or another similar instrument could also increase their ambition is through supporting different types of projects and partners that have limited capacity or are struggling to access commercial finance.	**13, 24**	Both
2c	To enable the increased support size, the UK government should consider how SCAF could take a more commercial position in the market moving forward.	**13**	Short term
3	Future UK government-supported TA programmes aimed at increasing the capacity of LCCR development should consider how to actively shift the centre of gravity from the Global North to the Global South through greater capacity building provision.	**24**	Long-term
4	The UK government should learn from CP3 to improve mechanisms to ensure BC priorities are translated into financing agreements with partners, alongside enforcement mechanisms. This is particularly important for programmes that operate through commercial models. For programmes that have multiple components delivered by different partners, this should include building in greater opportunities for synergy and the development of guidance and materials to support future programme managers.	**9, 11, 14**	Long-term

#	Summary recommendation	Relevant finding(s)	Type of recommendation
4a	Future programmes should learn from CP3 the importance of integrating BC ambitions within financial agreements and selecting a vehicle which enables them to do so.	**14**	Long-term
4b	In future programmes that use different programme implementation mechanisms to achieve the same outcome through different impact pathways or that have multiple components delivered by different partners, the UK government should give explicit consideration to how to maximise synergies.	**9**	Long-term
4c	The UK government should develop guidance to support programme managers working on commercial programmes to better ensure that BC priorities are integrated into agreements, drawing on CP3 and comparable programmes.	**9, 14**	Long-term
5	The UK government should continue to develop programmes that provide finance for LCCR projects on commercial or quasi-commercial terms, including early-stage PE, as well as other types of finance to help address the finance gap in meeting global climate goals.	**12, 18**	Long-term
6	The M&E agents, together with the UK government, should revise the ToC and, if required, the logframe based on evaluation evidence, to reflect the current reality of CP3.	**14**	Short-term
7	The M&E agents, together with the UK government, should consider improving and further developing the CP3-specific approach to measuring and understanding transformational change. There may be opportunities to take learning from this practice and inform other ICF programmes.	**14, 18, 19, 20**	Short-term
8	In future similar programmes, the UK government should use its position as a key donor to improve impact reporting approaches taken and applied.	**N/A**	Long-term
9	The UK government should consider developing tools to support improvements in the way it integrates demonstration effects into future work aimed at unlocking/measuring demonstration effect.	**18, 19, 20**	Long-term
10	The UK government should develop programmes that focus specifically on the financing and commercialisation of adaptation and resilience projects and companies.	**4, 7**	Long-term

Recommendation 1: In future ICF-supported programmes that operate in high-additionality markets that support the LCCR sector, the UK government should

leverage its ability to take on higher lending risk to raise the level of ambition of its programmes, in an effort to make harder to reach markets more attractive to investors.

At the time of programme inception, CP3's BC was highly ambitious. However, as the LCCR market has developed it has become clearer that the programme was not as risk taking as it could have been to deliver financial and non-financial returns across the spectrum of LCCR investments, including in traditionally underfunded geographies. This is a natural consequence of the commercial-focused model of the programme. As noted in Lesson 3, there is a trade-off between commercial returns and additionality. The M&E agents recommend that future funds increase the level of ambition, introduce investment mandates that require increased risk positions, and incorporate elements that increase the risk profile of the instrument. This could be achieved through the provision of high-risk capital, increased support for first-time fund managers and new market entrants, as well as increasing the disclosure of financial information to address informational asymmetries. Different instruments will be appropriate in different contexts based on level and type of envisioned impact and sectors and geographies of focus. The UK government should assess and select which instrument is appropriate based on the ambitions of future programmes. These elements, together with the UK government's existing reputation as a committed public actor in the LCCR space, can enable future climate finance flows to target harder-to-reach markets, potentially contributing to transforming the climate finance landscape.

Recommendation 2: For future TA-focused or SCAF-like programmes, including SCAF III, the UK government should consider approaches that encourage increased engagement in riskier, more additional markets to increase the potential for transformation.

Recommendation 2a: The support package size offered by future SCAF-like programmes should be increased compared to the current SCAF financing limits. Even prior to raising ambition, the current SCAF support package has been diminished by rising equipment costs and extended development periods, making an increase to the support value now necessary. Increasing the support could also enable partners to enter and operate in more additional markets where project origination costs are harder to finance through traditional means. Providing a higher value of concessional finance support for partners trying to access these markets can allow them to move with more confidence, taking more significant risks in pipeline development. This could be accompanied by an additional TA support package for local partners, similar to the current SL1 but administered centrally by SCAF itself to ensure it is appropriately targeted. The TA support should be focused on local pipeline and project development capacity, as explored further in Recommendation 5. This additional package would allow SCAF to enhance the enabling environment to the benefit of multiple partners, while providing them the necessary commercial security to engage in less supportive markets.

Recommendation 2b: Another way in which SCAF or another similar instrument could also increase their ambition is through supporting different types of projects and partners that have limited capacity or are struggling to access commercial finance. They could include projects that support and work on grid infrastructure, as there will likely to continue to be challenges with the grid and absorption capacity of utility-scale RE in coming years (per Finding 19). Another area to consider support could be projects for rural electrification (i.e. mini grids/solar homes) where the deal size is typically lower and harder for

traditional investors to engage with where this technology is most needed. There could also be consideration of different support lines to project developers working in "underserved sectors", such as adaptation or energy efficiency, which could help address the challenges faced by CP3 in committing finance to these sectors. Lastly, this could also mean an instrument like SCAF taking on more risk in supporting different types of partners, like development partners located directly in the Global South or more VC funds, contributing to the wider climate investment ecosystem and targeting even earlier-stage financing. Supporting these types of partners would likely require dedicated TA, which would require a restructuring of SCAF or the implementation of a parallel, coherent vehicle.

Recommendation 2c: To be able to increase the size of support, the UK government should consider how SCAF could take a more commercial position in the market moving forward. As there continues to be a need for early-stage equity, enabling SCAF or another similar facility to provide early-stage equity-like investments would address an existing financing gap, which SCAF can only partially address currently, and provide greater seeding of development projects. The current approach, to rely on the market to finance development costs, has been somewhat successful to date but leaves SCAF without reliable revenue generation to maintain its operations – the repayable grant reflows have sustained SCAF to date, but this funding will slowly be exhausted under the current structure. One mechanism for this could be using commercial mechanisms such as securitisation or collateral to reduce exposure and increase the funding value offered by SCAF. An alternative option might be to equip SCAF with a development financing support line for post-close project costs on traditional, commercial terms, using either equity or debt. The UK government could consider using the reflows from CP3 to support a more ambitious SCAF III, using a more commercial model. This could potentially be financed using the financial returns expected from CP3, with returns from the commercial support line sustainably financing the more concessional financing support lines.

Recommendation 3: Future UK government–supported TA programmes aimed at increasing the capacity of LCCR development should consider how to actively shift the centre of gravity from the Global North to the Global South through greater capacity-building provision. Across CP3, there has been a trend to support Western fund managers and developers operating in emerging markets, which reflects the opportunities available early in the programme. However, there may now be more opportunities to support fund managers and project developers based in emerging markets directly, as enabling environments and local capacities increase. Engaging local actors has been identified as a key success factor for investments. As SCAF approaches the end of its implementation and starts to think about SCAF III design, it may be beneficial to consider taking larger risks with a more hands on approach to support Africa-based project developers or newer organisations more directly (see Recommendation 2). Building LCCR project development expertise in emerging economies may support future LCCR development aimed directly at countries' needs. It would also help create more jobs and capacity in these countries, as well as support the development of the investment ecosystem there, hopefully ensuring a larger pool of investable LCCR projects. It could be useful for a future TA programme to provide direct TA to investment partners, working with newer organisations, and connecting newer entrants based in emerging economies directly with more experienced organisations and experts.

Recommendation 4: The UK government should learn from CP3 to improve mechanisms to ensure BC priorities are translated into financing agreements with partners, alongside enforcement mechanisms. This is particularly important for programmes that operate through commercial models. For programmes that have multiple components delivered by different partners, this should include building in requirements to coordinate, work together, and generate synergies. This should be supported by the development of guidance and materials to support future programme managers.

Recommendation 4a: Future programmes should learn from CP3 the importance of integrating BC ambitions within financial agreements and selecting a vehicle that enables them to do so. The realities of programme implementation may not align to BC expectations, and there are instances from CP3 where the full ambition of the programme did not translate into programme agreements/documents with implementing entities. As noted in Findings 3, 4, 6, and 7, the use of a PE model limited the UK government's ability to enforce BC ambitions and, in order to achieve these ambitions, a model with an adequately designed investment mandate that recognises the trade-offs between stricter and broader guidelines in terms of project pipeline and results achieved could be considered. Within this, an option would be to introduce elements into the mandate that respond to regular progress evaluation and dynamically adjust the level of ambition and action based on whether the fund is making fast or slow progress towards meeting its investment targets. Given the long time frames between BC development and programme procurement, setting out priorities of the BC ambition and providing guidance to programme managers about these priorities to ensure the most important aspects are integrated into programme component agreements would be useful. This should include ensuring that geographic or sector mandates that embody BC ambitions are more specific and agreed, along with clear accountability mechanisms for how they will be adhered to (if this is the spirit of the programme). If it is expected that models must adapt and respond to market changes, this needs to be embedded, as the instrument may not always be able to adapt. In a commercial setting, this may mean that PE is not the right vehicle due to its nature in terms of management and decision making.

Recommendation 4b: In future programmes that use different programme implementation mechanisms to achieve the same outcome through different impact pathways or that have multiple components delivered by different partners with different funding agreements, the UK government should give explicit consideration to how to maximise synergies. As the UK government often designs large programmes that seek to achieve complex goals or impacts from different angles, the UK government should learn from CP3 and more explicitly consider and build into programme documents how components should work synergistically together, building on joint goals. While there are often steps to avoid duplication (i.e. the China tap for the CF to avoid overlap with the intended portfolio of ACP), more consideration could have been given to how this programme built on its strengths for a more strategic or focused outcome. For example, the timelines of CP3's different components were not well aligned, which meant that by the time SCAF partners started to generate an investable pipeline, many of the CF funds' investment periods had closed, with only one SCAF partner developing a project that was funded by a CF sub-fund. Aligning those timelines could have created greater synergies, particularly useful as the pipeline development component focused on additionality of investment. This would also provide a commercial opportunity and incentive for SCAF partners and enable SCAF to better

commercialise its pipeline. There could also be consideration given to focusing investment in specific technologies or sectors to have greater scale of impact in specific technologies, either by being more selective in the vehicle choice or by imposing stricter criteria within an investment mandate. Greater consideration should be given to support this and ensure that partners are aware of other similar UK government investments operating in the same space to support coordination. For other similar programmes, the UK government should build engagement requirements into financial agreements, generating incentives to ensure alignment between different components.

Recommendation 4c: The UK government should develop guidance to support programme managers working on commercial programmes to better ensure that BC priorities are integrated into agreements, drawing on CP3 and comparable programmes. This learning could also be generated together with other vehicles such as BII or FMO, and integrated within broader, market-level guidance. Clear guidance on what types of models (including those operated by different types of finance instruments – i.e. PE models) can and cannot do would be useful to support future programme management of commercial programmes. This includes guidance and materials about the limitations and ways in which different models can engage with investors, as well as guidance and materials on, in the case of PE funds, the limitations of LP agreements and how intermediaries may act or interpret agreements. This could include guidance about the different types of financial instruments available and how they operate, which may lead to future similar programmes supporting more niche and targeted (or risk taking) instruments. It could also include guidance about how to select appropriate funding mechanisms, such as more specific and mission-oriented funds focused on hard-to-reach sectors and geographies.

Recommendation 5: The UK government should continue to develop programmes that provide finance for LCCR projects on commercial or quasi-commercial terms, including early-stage PE, as well as other types of finance, to help address the finance gap in meeting global climate goals. CP3 has demonstrated that PE is an effective instrument to deliver climate finance. However, at the time of programme design, the general understanding was that a commercially focused programme was needed to leverage private finance and close the climate finance gap in emerging markets. However, programme results show that while commercial capital was leveraged, this did not necessarily flow to the geographies and sectors that most needed it. This is a natural consequence of the commercial nature of the programme, as if commercial returns were available in these sectors and geographies, instruments like CP3 would not be needed. As such, there is a need to deploy complementary investment vehicles that through concessional elements can consider higher-risk investments to address some of the challenges facing LCCR development in emerging economies. Elements to consider for future programme design include considering refinancing vehicles as critical to supporting 10-year exits and delivering commercial returns.

Early-stage PE financing, or patient capital, akin to SCAF SL1 and SL2, is still needed in the market, but in the current context of macro-economic uncertainty and high inflation, the size of SCAF limits its effectiveness. Greater value is needed than what SCAF can currently offer, though the risk appetite of PE investors also plays a role in determining scale.

Recommendation 6: The M&E agents together with the UK government, should revise the ToC and, if required, the logframe, based on evaluation evidence, to reflect CP3's current reality. While much of the ToC is still holding true, there is evidence that some aspects

are not (per Findings 3, 4, 5, and 14). Similarly, both the understanding of the programme and the context in which it operates have changed since the ToC was revised in 2020. For example, evidence around the limitations of the commercial model CP3 uses suggests that one of the outcomes – about CP3's role in addressing information asymmetry – should be revised, as CP3's commercial nature makes this difficult, or arguably impossible, to address. Private-sector information sharing is informal and undocumented, and under its current terms, CP3 cannot address this challenge. This should be moved to an assumption higher up in the ToC, as it will inform wider private-sector engagement in the LCCR space. A second example is the role of SCAF within the ToC. SCAF's own outcomes and impacts are not well represented within the CP3 ToC currently, and its scale compared to the other components means it is often being measured against impacts that are beyond its reach. A separate, parallel ToC focused on the role of SCAF, which feeds into the CP3 ToC, could be an option to better reflect this. Other changes to the ToC or the underlying assumptions could be needed, which could impact CP3's potential to achieve its overall impact, given the developments in the LCCR context in these economies. These should be reviewed in consultation between the UK government, the M&E agents, and the implementing partners prior to the next Annual Review.

Recommendation 7: The M&E agents, together with the UK government, should consider improving and further developing the CP3-specific approach to measuring and understanding transformational change. There may be opportunities to take learning from this practice and inform other ICF programmes. The CP3 transformational change assessment could be improved and refined in light of evidence that has been collected since programme outset. For example, the evaluation has largely found evidence that the programme has not been sufficiently risky or transformative, but the programme is still scoring relatively well on the transformational change rubric. As the CP3 approach to the method was developed in 2015, there are benefits to considering how it could be improved. The method has since been improved within ICF but has not been revised in how it has been applied to CP3. In addition, many of the original metrics could benefit from being better aligned to CP3 to ensure deployed metrics more clearly align to the analysis and data collection methods that the M&E agents have developed. Given the UK government's long-term investment in the M&E of CP3, there is an opportunity to draw on a wide data set to consider what improvements could be made to both the CP3-tailored metric and the metric overall, which could be useful for future ICF-funded programmes that seek to be transformational.

Recommendation 8: In future similar programmes, the UK government should use its position as a key donor to improve impact reporting approaches taken and applied. Evaluating CP3 has garnered a number of important lessons surrounding the application of ICF reporting principles. For future programmes, the UK government could leverage its position as an anchor investor to establish frameworks and parameters so that there are adequate levels of data collection and reporting in place at the sub-fund and project level, as well as increase the enforcement of accountability and ESG standards across the programme. Doing so may require investing in technical capacity building, as part of the programme or through a dedicated facility. Further, donors could take a more strategic approach to certain methodology decisions, such as defining attribution factors, at the time of investment. Assigning attribution ex-post is fraught with challenges. Wherever possible, it is preferable for attribution approaches to be discussed and decided upon by impact investors in advance, as part of the due diligence and negotiation phase of projects.

Recommendation 9: The UK government should consider developing tools to support improvements in the way it integrates demonstration effects into future work aimed at unlocking/measuring demonstration effects. While demonstration effects were a key intended outcome of CP3, the evaluation faced challenges in measuring and tracking the demonstration effects of the CP3 portfolio. As previously mentioned in this report, the pathways by which demonstration effects might occur are many, and the data and information required to properly assess these pathways is difficult to quantify, and therefore rarely recorded or reported. In the CP3 context, the commercial model not only limits the likelihood of demonstrative investments due to the fundamental risk profile of investors seeking commercial returns, it also inherently limits ability to measure and track demonstration effects, as private investors are extremely hesitant to reveal the precise reasoning behind their investment decisions. In a commercial market, information asymmetries provide an advantage over other competitors, and as such, investors understandably prefer for the details of their decision making to remain confidential.

Future UK government programmes should therefore be careful to account for the complicated nature of demonstration effects by developing a context- and programme-specific ToC (or sub-theories) of how demonstration effect is intended to take place, as well as metrics to measure progress and built-in programme mechanisms to guarantee access to the information necessary for tracking said progress. This recommendation also draws on the findings and recommendations of a review of demonstration effects across the ICF portfolio.[40] Explicitly considering the appropriateness of a given implementation model – as well as the types of investments permitted within it – to ensure feasibility of both achieving and measuring demonstration would increase the learning potential across the UK government and other climate finance programmes regarding how, why (or why not), and in what context demonstration takes place, thereby improving future programme design.

Recommendation 10: The UK government should develop programmes that focus specifically on the financing and commercialisation of adaptation and resilience projects and companies. As noted in Findings 4 and 7, the share of investment in the CP3 portfolio corresponding to adaptation fell well short of what was envisioned in the BC, and also failed to align with the adaptation finance needs of developing countries under the Paris Agreement. Globally, investment in adaptation and resilience lags far behind what is needed, with a particular dearth of private finance participation. Key barriers inhibiting large-scale financing of adaptation projects and companies – such s inconsistent revenue generation, large up-front costs, long required investment periods, reliance on supportive policy environments, etc. – necessitate innovative structuring of funds and programmes. However, PE can be a vehicle to fill this niche, as recently demonstrated by the launch of new adaptation and resilience funds. Moreover, a public–private partnership model can accelerate the deployment of adaptation-focused PE by providing complementary concessional finance and TA, either directly from the UK government or indirectly through arrangements with DFIs.

Accordingly, future programmes should target adaptation investments more purposefully, defining key climate risks and channelling funds towards investments that address these risks. Another opportunity would be to provide seed-financing to first-time adaptation fund managers

[40] Compass (2019) Mobilising private finance through demonstration effects. Available at: https://www.itad.com/wp-content/uploads/2020/08/Compass-PE2-final-report.pdf

or support the mainstreaming of resilience standards and climate risk assessments across sub-fund and project-level investments. Given the data-intensive nature of adaptation and resilience enterprises, and the acute need for capacity building in the emerging market and developing country geographies heavily exposed to climate risks, these efforts should be sure to comprehensively support the development of both digital and physical infrastructure.

Annexes

Annex I – Terms of Reference

Annex II – Theory of Change

Annex III – Methodology

Annex IV – Realist Synthesis Approach and Findings

Annex V – Bibliography

Annex VI- Evaluation Outputs, Users and Our Use and Influence Plan

Annex VII – Evaluation Management

Annex I: Terms of Reference[41]

Monitoring and Evaluation of the CP3 programme – Phase II

1. Introduction and background

1.1 Introduction

FCDO is seeking a M&E partner for the CP3 programme from January 2020 to December 2026. The CP3 programme is funded through the UK government's ICF. ICF is managed by the Department for BEIS, the FCDO and Department for Environment, Food and Rural Affairs to help developing countries address the challenges presented by climate change with ODA. CP3 is a £130 million ICF programme jointly funded by FCDO and BEIS.

Rigorous M&E of the CP3 programme is crucial for accountability and learning, to inform ongoing delivery and capture lessons learned for future ICF investment. M&E activities will provide evidence of CP3's impact and/or potential to achieve impact, identifying what is being delivered, what is and is not working about the programme, why, how and in what contexts. Resulting evidence will be used to re-focus and adapt the programme where possible. Learning will feed into the ICF knowledge management strategy.

The maximum budget for this project is £1.8 million, inclusive of any applicable taxes. Bidders should not exceed this in their proposals. Tenders submitted in response to this Invitation to Tender (ITT) should state the total cost excluded VAT.

1.2 Background to ODA expenditure on International Climate Finance

Developed countries have committed in the UNFCCC to mobilise $100 billion per year of public and private climate finance by 2020. ICF was established in response to this. Through ICF the UK government is providing £5.8 billion of ODA over the period 2016/2017 to 2020/2021, to help developing countries adapt to climate change and move towards more sustainable, low-carbon growth. The ICF supports programmes in the areas of adaptation to climate change, low-carbon development and forestry and seeks to:

- Change facts on the ground by delivering results that demonstrate that low-carbon development is feasible and desirable.
- Improve the international climate architecture and finance system to increase the scale, efficiency, and VFM of climate spend.
- Pioneer innovation to test out new approaches to delivering climate finance that have the potential to achieve bigger and better results in the future.

1.3 The CP3 project

CP3 started in 2010 and is a 16-year programme – 7 years remain of the programme. The M&E contract will cover the remainder of the operation of the programme, until its planned closure in 2026. CP3 aims to increase low-carbon investment in renewable energy, water, energy efficiency and forestry in developing countries. It aims to demonstrate to private investors that investing in 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,

[41] All mentions of DFID in the original TORs have been replaced by FCDO to reflect changes since the signature of the contract.

to flow into climate mitigation and adaptation. CP3-supported funds are expected to increase clean energy generating capacity, reduce GHG emissions, increase resource efficiency and support jobs.

CP3 is a £130 million joint FCDO and BEIS (ex-DECC) programme, funded by the UK's ICF Fund, which continues to 2026, due to the long-term nature of PE funds, which typically take 10-15 years for investments to be realised and for investors to receive financial returns. CP3 forms part of the UK's contribution to the pledge made by developed countries to mobilise $100bn of climate finance a year by 2020. The rationale for public funding is to demonstrate that PE climate-related investments (and climate projects in general), have acceptable levels of risk and can deliver fully commercial returns. Investment by the UK as an anchor investor in the first commercial climate funds (enabling the Funds to reach their first close), is expected to encourage institutional investors, such as sovereign wealth funds or pension fund investors to invest.

1.4 CP3 structure

PE funds to achieve the above aims, CP3 has invested in two private equity funds – the CF and ACP. These funds seek to deliver fully commercial returns to investors. CP3 consists of two PE funds (CF and ACP) and a TA facility. The two PE funds make investments at commercial terms, which is central to the CP3 ToC to demonstrate to the market that climate investments can provide a commercial return.

CF The UK has invested £50 million ($80 million at the time) as an anchor investor in the IFC-CF - a "fund-of-funds" with a focus on investing in other cleantech PE funds globally and managed by IFC Asset Management Company. CF raised capital from eight other investors, for a total fund size of $418 million. CF is a fund-of-funds that invests in other PE funds managed by third party fund managers.

ACP The UK has invested £60 million ($100 million) in ACP, a fund managed through a partnership between ADB, Orix and Robeco – private fund managers. ACP carries out direct investments in cleantech companies and projects in Asia. In contrast to, ACP invests directly into companies and projects which gives it more direct control over the actual investments made but a smaller pool of co-investment capital.

TA CP3 also has a TA facility, which provides grant and reimbursable grant support for early-stage development to a revolving funding facility1 for first-time funds, renewable projects and climate funds. The UK government has made available £19 million to this facility. Most of this support (£9 million) was provided to the SCAF Phase II [42]. SCAF's objective is to increase the availability of investment for early-stage development of low-carbon projects in developing countries by providing financial support on a cost-sharing and co-financing basis to low-carbon projects via PE funds, VC funds and project development companies (DevCos). This helps seed the market and increases the availability of low-carbon investments in developing countries. Some of the initiatives incubated by SCAFII have gone on to raise capital from the CF and other investors and are now actively undertaking investments as fund managers. It is

[42] SCAF, I began in 2009 and ran for five years, supporting eight partners with financing from UN Environment and ADB, among others. Under CP3, FCDO invested in SCAF Phase II, which is set to run for eight years, starting in 2014. Phase II operates in a similar manner to Phase I with two significant differences: Phase II has expanded their prospective partner base to include DevCos to support pipeline development more effectively; and now offer a repayable loan under their second support line with shared development risks, rather than a straight grant.

delivered through the UNEP supported by the United Nations Office for Operations (UNOPS) and two entities of the Frankfurt School group, the Frankfurt School of Finance and Management GmbH -UN Environment Collaborating Centre for Climate and Sustainable Energy Finance and the Frankfurt School Financial Services.

1.5 CP3 Theory of Change

The intended impact of CP3 (as outlined in the ToC at appendix A) is that developing countries pursue a climate-resilient low-carbon development path resulting in growth, poverty reduction and climate change mitigation. The outcome will be an increase in private-sector investing in climate in developing countries in a responsible manner. Indicative indicators for this are:

- An increase in the overall size of annual private PE or infrastructure direct finance flows into low-carbon development and adaptation (via CP3 or other projects).
- The percentage of private-sector investors (pension funds, sovereign wealth funds and foundations i.e. survey respondents) placing funds with PE climate finance or making direct climate infrastructure investments.
- The number of Environmental Social & Governance (ESG) standards mainstreamed into climate finance (equivalent to or better than IFC/ADB/ Commonwealth Development Corporation).
- Funds performing well in industry and sector e.g. emerging market indices.

CP3 link to ICF KPIs. An objective of the ICF is to bring about transformational change, which is measured through the ICF's KPI 15 – The extent to which the ICF intervention is likely to have a transformational impact (see Annex B for the full methodological note). The UK government would expect an analysis of KPI 15 to be undertaken as part of the impact evaluation and would recommend the consideration of the new Initiative for Climate Action Transparency approach to enhance the KPI 15 methodology3.

The connection between CP3 equity investments, demonstration effects and long-term changes in attitudes and investment patterns is at the core of the transformational potential of CP3. In addition, the long-term creation of institutional knowledge and capacity that enables greater investment is also considered transformative in the case of CP3 TA Programmes.

2. CP3 M&E Phase I

During the first phase of the programme, M&E has revolved around a range of key tasks, including:

- The creation of appropriate indicators, baselines, and milestone for the existing CP3 logframe.
- Population of the programme logframe, provision of half-yearly reports and annual reports.
- A MTE in 2017/18, including an assessment of the early financial leverage and demonstration impacts, synthesising emerging results and evidence undertaken by other donor parties, testing the ToC and underlying assumptions.

Details of the published materials in respect of Phase I of the M&E contract can be found on the CPI website4 and includes a paper on approaches to assess the additionality of climate investments5. The logframe, Annual Reviews and MTE can be found on the project page for CP3 on the devtracker website.

The Phase I M&E approach has focused on measuring a range of outputs related to the function of the PE funds and TA facility to determine whether the programme's ToC is likely to be effective. The indicators outlined in the CP3 logframe are designed to measure progress at different points along the causal chain outlined in the ToC and to test the validity of the assumptions upon which the ToC is based. The indicators document the progress of CP3 implementation as well as the medium to long-term results achieved.

The theory-based evaluation approach applied throughout the first phase of the M&E assignment (2014-2018) remains appropriate for continued M&E of the CP3 programme and has been particularly successful in generating a useful method for determining additionality, and in applying this to the programme's investment. However, the programme did experience challenges in accurately assessing the amount of private finance mobilised in a way that utilised project-level data and avoided double counting; subsequently it took an iterative approach to this to come up with a robust method.

The overall assignment and particularly the MTE relied on a mixed-methods approach to generate evidence and a range of synthesis methods (including both descriptive and explanatory) to generate findings. This evaluation design has been appropriate as it integrates two or more evaluation methods which is useful for a complex programme such as CP3. The next phase of the evaluation should continue apply a theory-based approach to generate evidence to answer the EQs.

3. CP3 M&E Phase II

3.1 Purpose of CP3 M&E

The purpose of the M&E contract is to provide a rigorous and independent assessment of the relevance, effectiveness, efficiency, impact and sustainability of the programme in catalysing the role of private-sector finance in driving LCCR growth in developing countries (financial leverage effect). This includes assessing and measuring whether the programme is meeting its milestones and the extent to which the ToC is being enacted.

This will be achieved by:

- Identifying what is being delivered, what is and is not working about the programme, why, how and in what contexts.
- Providing evidence of CP3's impact and/or potential to deliver transformational effects, i.e. that the good financial risk and return of PE climate investments have had demonstration effects.
- Test the programme ToC and underlying assumptions.
- Capturing, through ongoing monitoring, the short and mid-term results delivered by the programme as set out in the logframe, including direct mobilisation/leverage.
- Delivering evidence and results in a format and with a regularity that facilitates adaptive, flexible programme management and delivery, and allows learning to take place.
- Identifying the programme's economy, efficiency, effectiveness, and equity to provide an assessment of VFM.

The outcomes will be that:

- FCDO / BEIS management of the programme is informed by independent assessment and can act early to improve programme delivery.

- ICF results reporting for the CP3 programme is informed by external verification of progress towards goals and improves in quality – a key requirement of the transparency objectives of the ICF and UKAID more broadly.
- The UK government can determine what change has occurred, to what extent ICF funds contributed to the change and why.
- The ICF evidence base on private finance programming is enriched.

The M&E partner will need to consider several challenging issues, including whether the programme is having a demonstration effect (see transformational change section), the extent to which investments are additional and how best the UK government can operationalise the learning the programme generates. At the end of the programme, the UK government wants to have clear, actionable recommendations and learning that it can share with the wider climate finance community. Evaluation and monitoring will be crucial to this.

The formal recipient for the M&E will be FCDO and BEIS, with a broader target audience of other actors active in the climate finance environment, including but not limited to, Development Finance Institutions (DFIs), commercial investors and other governments.

3.2 The requirement

The requirement is for both M&E of the CP3 programme, building on the success of previous M&E work. Bidders should spell out as fully as possible the M&E design and methodology they propose to use, the allied potential risks and challenges and how these will be managed. This should include how they will incorporate and build on existing work by the previous M&E provider in Phase I of the programme M&E.

Phase II will also need to consider how lessons from aspects of the programme that have discontinued are captured, as well as helping to design and implement logframe and evaluation criteria for further investments made by the programme.

3.2.1 Outputs

The M&E partner will be required to deliver the following outputs:

<u>Monitoring activities</u>

Regular monitoring: The regular monitoring activities conducted by the M&E agents should continue as this supports regular ICF and UK government results reporting. It is also useful for ensuring the M&E agents have regular contact with the investment funds and are up to date on the performance of the portfolio and investment activities.

Revision to logframe: Since 2014, multiple changes to the logframe have been made to ensure that the logframe accurately captures programme performance. Based on the evidence collected in the MTE, additional changes could be made to ensure the logframe continues to capture the most relevant metrics and maintains simplicity.

Support to aligning KPI reporting through collecting more project-level data: This will improve the quality of reporting of impact indicators. While CF and ACP follow the same reporting methodology, they use different assumptions and inputs which makes comparing results and understanding performance of the funds more challenging. For example, ACP disaggregates jobs by gender, full-time employment and permanent positions and their GHG emissions reductions by new and existing efficiencies, but CF does not. Alignment on the way these

figures are collected and presented could greatly aid future comparisons and evaluation activities.

Evaluation and learning activities

Two substantive evaluation activities: There remains a need for more substantive MTEs in 2022/2026 to synthesise evidence to understand the programme's performance and progress.

Review of the ToC: Evidence was collected as part of the MTE that confirmed the ToC remains valid. However, it would beneficial to review the ToC in the next phase of the programme M&E to see if there are opportunities for simplification and also to better articulate the longer-term causal pathways that would be explored in the programme M&E from 2020-2026.

Case studies (investment and thematic): Periodic case studies provide very useful insights into the performance of either individual investments or aspects of the portfolio that are not captured by financial and KPI reporting. They should be continued to generate useful insights to CP3's contribution to outcomes observed and enable verification of results reported.

Generation of publicly available information to support learning: The MTE identified that information asymmetries still exist and impact perception of risks of investment in these markets. The M&E agents could support in the generation of publicly available information. Some potential outputs that would seek to address this asymmetry are included in the table below.

3.2.2 Further guidance on requirements

In considering how to achieve the outcomes outlined above, bidders should note the following guidance.

Monitoring Management of logframe monitoring, development, and reporting over the remaining lifetime of the CP3 programme. This includes preparation of data for the biannual results collection exercise, preparation of primary and secondary data for CP3 Annual Reviews to populate the logframe, evidence management and presenting recommendations for targeted improvements. Many of the methods and targets have proven to be iterative and required frequent revision. Bidders should include how they intend to manage this in their proposal.

Ongoing monitoring will capture short and mid-term results such as, jobs created (KPI 5), GHG emissions (KPI 6), level of installed capacity of clean energy (KPI 7), public finance mobilised (KPI 11) and private finance mobilised (KPI 12). CP3 results will be included in ICF and OECD results reporting and accountability agenda. Monitoring will involve verifying data sent by fund managers relating to claimed results. See Annex B for ICF KPI methodological notes. You can download methodologies for all of these indicators by registering at http://climatechangecompass.org/ (Monitoring Workstream, KPI Methodology Guidance notes updated 2018).

The bidder will also be required to undertake monitoring and data collection on financial and developmental impacts throughout the programme cycle based on the data collected by the fund manager, as well as the TA projects overseen by SCAF II – collating and aggregating relevant data for six monthly results returns; audit function; periodical spot checks on underlying sub-funds, and/or their investee projects or firms – verifying compliance with ESG standards, and confirming accuracy of results provided..

Data collection is built into the agreements signed with the Fund Managers of the IFC-CF and UNEP as the administrators of SCAF. The monitoring of the CP3 programme will rely on regular financial and non-financial reporting and publicly available information. The key monitoring provisions are summarised below:

- Financial reporting: The CP3 Fund Manager (IFC) will provide at least half-annual unaudited, and annual audited reports including financial statements, a fund overview, and an overview of the portfolio with information on each portfolio company's or fund's performance and valuation. They will also provide information through their internal monitoring systems.
- ESG Standards: The investment strategies of both Funds and their Investee Funds will be subject to stringent ESG requirements. The M&E partner will have access to all Environmental Impact Assessments and any governance and corruption audits.
- Developmental indicators: Information on improved access to clean energy and jobs created shall be obtained and/or extrapolated from public sources where possible, including (but not limited to) the IEA World Energy Outlook, multilateral development bank reporting, UNFCCC financial flows periodic reporting, Bloomberg New Energy Finance.
- ICF KPIs will be tracked in addition to the programme specific indicators, as outlined in the log frame and linked to the ToC.

It is expected that 2 or 3 country visits will be undertaken each year, but the volume and duration of travel would be agreed on an annual basis to reflect the scale of the programme.

Investment-specific and thematic case studies

Case studies should continue to complement logframe monitoring, provide evidence of assurance activities, help inform on the ToC and underlying assumptions and verify impacts.

Some potential focus areas could include:

- Development benefits and social benefits, contributions to SDGs.
- Contributions to adaptation and climate resiliency.
- Exploration of potential decarbonisation and environmental impact pathways beyond GHG emission reductions.
- Revisiting old case studies to assess long-term impact and effectiveness of investments (e.g. Anuvia investment to review if technology transfer has happened).
- Impact of ESG requirements on investment decisions and on implementation quality.
- Appropriateness of PE in LDCs and LCCR markets.
- Exploring the impact of different investment structures and equity shares on investment performance.
- Testing the market transformation rubric considering factors such as first mover investments or capacity building efforts.

Evaluation questions

EQs to date are contained in Annex E. These questions and indicators are illustrative and not prescriptive or absolute. For each, we would expect further questions to be explored, for example, a comparison to pre-CP3 and business-as-usual scenarios (additionality); an assessment of how many of the results are attributable to CP3 (there is substantive existing work on this and additionality by the incumbent M&E provider); additional factors that may

have influenced these results; and what the relationship is between CP3 and other identified factors.

Second mid-term evaluation

The Second MTE should include an assessment of relevance, efficiency and effectiveness, and an assessment of early financial leverage and demonstration impacts – to be further evaluated in the end of programme impact evaluation.

Among other things, to include:

- Document review.
- Synthesis of case studies.
- Investment mandate review – to understand how transformational change is communicated in the investment and informs project selection. What do fund managers understand by transformational change?
- Synthesise emerging results and evidence undertaken by other donor partners or funds.
- Test the ToC and underlying assumption.
- Additionality, attribution, and contribution analysis.
- Lessons for design and delivery.

End of programme impact evaluation

The end of programme impact evaluation is an assessment of early impact, accountability of results and sustainability

Among other things, it may include:

- To consider the overall impacts, mechanisms and assumptions set out in the CP3 ToC.
- An assessment of the likelihood of lasting and transformation change as a result of ICF support.
- An analysis of the VFM of the intervention.
- Lessons learned for design, delivery and wider learning for future funding through ICF for private finance programming.

3.2.3. Suggested deliverables/outputs for second phase of the CP3 evaluation (2020–22)

Based on the above recommendations, bidders should consider the following deliverables when formulating their bid.

<u>Update of the milestones model & simplified logframe:</u>

Update milestones model based on findings in MTE and financial leverage case study to ensure milestones reflect updated data on additionality, attribution, and financial leverage. Simplify logframe. FCDO/BEIS together with the M&E agents should decide on attribution and additionality methodologies.

<u>Review and potential revision of the ToC:</u>

Review the ToC with relevant stakeholders and if necessary, revise to articulate impact pathways based on evidence collected to date.

<u>Create standardised data collection questionnaire:</u>

Data reported by ACP and CF is not comparable. Creating standardised data collection could improve understanding on the effectiveness of different investment mechanisms.

Biannual reports (Feb/March) (4):

Update quarterly financial data and report against ICF KPIs. Simplify biannual reporting by limiting content to KPIs, and fund progress updates. For first year of contract these will not be due because of proximity to contract start date.

Annual review (Jul/Aug) (4):

The annual report should continue to present a more comprehensive stocktake, with reporting against all log frame indicators, ICF KPIs, as well as analysis of evidence to support the ToC, stakeholder feedback on the programme and key recommendations. It should continue to include a descriptive analysis of the portfolio.

Case studies (3-5):

Heavy emphasis on case studies, both investment-specific and thematic case studies. The sampling strategy to guide the selection of case studies should be revised considering recent trends and investments. However, some potential focus areas could include:

- Development benefits and social benefits, contributions to SDGs.
- Contributions to adaptation and climate resiliency.
- Exploration of potential decarbonisation and environmental impact pathways beyond GHG emission reductions.
- Revisiting old case studies to assess long-term impact and effectiveness of investments (e.g. Anuvia investment to review if technology transfer has happened).
- Impact of ESG requirements on investment decisions and on implementation quality.
- Appropriateness of PE in LDCs and LCCR markets.
- Exploring the impact of different investment structures and equity shares on investment performance.
- Testing the market transformation rubric considering factors such as first mover investments or capacity building efforts.

Case studies should continue to complement logframe monitoring, provide evidence of assurance activities, help inform on the ToC and underlying assumptions and verify impacts.

2nd MTE in 2022:

Similar to the first MTE, this report should summarise the data collected during the M&E contract and should conduct additional data collection where needed to respond to the EQs. This evaluation should focus on understanding performance and progress towards impact of the CP3 investment and seek to generate learning to inform the design of future climate investments, for transformational change.

Dissemination of findings:

To support generation of learning and more widespread sharing of knowledge of investment in these markets through producing publicly available information on CP3. Specific deliverables could include:

- Webinars.
- Events.

- Slide decks.
- Briefing notes.

3.3 Project risks and challenges

Bidders should detail the key risks and challenges identified in their proposals. For project risks, bidders should provide a provisional risk register that sets out:

- A description of each risk.
- The potential impact the risk has on the project and the likelihood of its occurrence.
- The severity of the risk.
- Actions to mitigate the risk.
- Who has ownership of those actions?

For the identified challenges, bidders should detail how their approach will overcome each one. As a minimum, bidders should consider the following challenges:

- A time lag in observing outcomes and impacts at all levels of CP3.
- Difficulties in attributing to observed outcomes and impacts.
- Using qualitative evidence to assess impact.
- Multiple and simultaneous M&E activities and deliverables.
- Managing results, data, information, and knowledge.

Proposals should list the key risks to the delivery of the evaluation and suggest mitigation actions. Give the period of time over which this evaluation contract will run, this should include details on ongoing project management and how continuity will be maintained. Risks that the current programme team are aware of or have encountered include:

- The difficulty in maintaining a robust method for calculating private and public finance mobilised.
- The paucity of methods available to assess key climate finance concepts like additionality and the demonstration effect.
- The difficulty in disaggregating correlation and causation when observing changes in the markets that CP3 is active in.

3.4 Learning from M&E evidence and knowledge management

Results must be delivered by the M&E partner in a way that allows FCDO / BEIS colleagues from non-evaluation backgrounds to engage with, interpret, understand and use the evidence reported. The M&E partner is expected to provide recommendations based on the evidence in their reporting and to work with FCDO / BEIS to determine the implications of these recommendations, although bidders should note that in some instances FCDO / BEIS may not agree or take actions on recommendations. Bidders should detail how they will support FCDO / BEIS in understanding and interpreting the evidence.

The M&E partner will need to respond to ad-hoc requests for information that cut across the monitoring and evaluation activities as outlined in these ToRs. Bidders should assume an ad-hoc request every quarter.

Quick responses to these requests, synthesising evidence from multiple M&E activities and helping FCDO / BEIS learn lessons will require a robust knowledge management system, and bidders should detail how this system will operate. Given the central importance of this

function, FCDO / BEIS advises that bidders include an 'Information Manager' as part of their project delivery team. The knowledge management system should be established so that it is not burdensome for the M&E partner to respond to ad-hoc requests.

3.5 Analytical considerations/limitations

The key dependency for this contract is availability of data and information from IFC, IFC Asset Management Company and the UNEP. Given the commercially sensitive nature of the information, particularly with respect to investments, the supplier will be expected to have strong systems in place to maintain the confidentially of the information.

3.6 Monitoring gender equality

FCDO is required by the International Development (Gender Equality) Act 2014 to consider the reduction of inequalities between persons of different gender when designing, approving and funding ICF programme activities. The M&E partner is expected to monitor gender balances in all CP3 activities to provide a disaggregated measure of gender wherever possible. Gender balances should also be accounted for when assessing the outcomes and impacts of CP3 activities. Details of how this will be conducted for M&E of CP3 should be provided in proposals.

4. Summary of M&E deliverables requirement

To assist bidders, the products expected to be delivered by the M&E partner referenced throughout this tender, regardless of the specific M&E approaches taken, are summarised below. BEIS and FCDO are aware that the specific deliverables will depend on the approach to reporting taken by the M&E partner, and this is therefore to be used as a guide. To prevent additional administrative, quality assurance and sign-off burden, bidders may consider combining these deliverables where appropriate.

FCDO and BEIS reserve the right to scale up/down the contract subject to project need, review recommendations and budget availability.

- M&E approach paper / delivery plan: Within six weeks of contract starting.
- Half-yearly report: Biannually starting in 2021. Methodology guidance note April 2020, then annually Annual report and support for Annual Review process August 2020, then annually.
- Live scoring meeting: August 2020, then annually.
- Technical presentation: October 2020, then annually.
- MTE report and presentations at FCDO / BEIS: 2023.
- Impact evaluation approach paper re-fresh: 2024.
- Impact evaluation report and presentations at FCDO / BEIS: 2026.
- Case studies: 1 per year Ad-hoc M&E activities Ad-hoc activities to support the programme, including providing support in answering queries relating to results and methods.

5. Working arrangements

The M&E contract will be managed by a management group, provisionally comprising:

- Senior Responsible Owners from FCDO and BEIS who are responsible for implementing recommendations.
- Day-to-day contact, Programme Manager, FCDO.

- Evaluation lead, BEIS.

FCDO / BEIS expects close interaction between the management group project manager and M&E partner throughout the length of the contract to ensure that emerging issues are dealt with promptly and that FCDO / BEIS fully understands the assumptions and approach taken. In their proposals, bidders should name one primary point of contact/project manager through whom all enquiries can be filtered, and one back-up point of contact should the primary person be unavailable.

Liaison will include up to four meetings and two presentations by the M&E agents. These meetings will take place in London but may involve teleconferencing or video conferencing with Management Group members working elsewhere. Where possible, efforts should be made to attend presentations in person. The M&E agents may use video conferencing for the first presentation and most meetings but must budget for attendance of all core members at a minimum of one meeting and one presentation in London.

To ensure that the project runs smoothly and that there is effective scrutiny, oversight and quality assurance, the evaluation will be managed by a single FCDO project manager who will be the central point of contact. The FCDO project manager and contractor point of contact will undertake regular catch up phone calls to address emerging issues and review progress. The appropriateness of working arrangements will be assessed during the contract review at the end of the inception phase. Bidders are welcome to suggest additional working arrangements to be implemented and tested during the inception phase.

In addition to M&E outputs and deliverables produced by the M&E partner, FCDO / BEIS will need timely access to all the key assumptions used in the analysis and the data and methodologies used to carry out the work. Contractors should also provide the relevant data to FCDO / BEIS at the end of the project.

FCDO / BEIS will commonly provide two rounds of comments on evaluation deliverables, (i.e. inception reports, baseline reports, evaluation reports) before final reports are agreed. Analytical quality assurance for reports will include sign-off by BEIS's senior analyst for the evaluation and potentially include the use of FCDO's EQuALS service, if appropriate. In addition, FCDO / BEIS reserves the right to review and sign off all research tools and sampling methodologies. These QA steps should be considered in any timetable. We will agree a timetable for regular updates on progress by email or phone.

6. Required skills

Bidders should clearly set out the skills and expertise provided by each member of the proposed project team to meet the requirement.

The following skills and expertise are considered particularly important for this project:

- Demonstration of expertise and capability of undertaking impact and process evaluation.
- Understanding of policy area, including private-sector development and engagement in climate finance and expertise or exposure to PE transactions.
- Design and application of primary and secondary qualitative and quantitative data collection and analysis.
- Delivery of high-quality synthesis and reporting of complex policy evaluations.
- Expertise in ensuring communication and uptake of research findings.

- A track record of developing and applying theories and concepts, e.g. additionality, contribution, and the demonstration effect, to innovative programmes.
- Knowledge of gender, social and poverty research, and analysis.
- Assessing VFM of development programmes.
- Ability to assess financial mobilisation and additionality and attribution using project-level data.

Each team member must have the high level of relevant research and analytical expertise required to deliver their assigned tasks to meet UK Government Social Research standards as detailed in the Magenta book.

Bidders should propose named members of the project team and include the tasks and responsibilities of each team member. This should be clearly linked to the work programme, indicating the grade/seniority of staff and number of days allocated to specific tasks.

Bidders should identify the individual(s) who will be responsible for: • Managing the project • Writing reports

7. Quality assurance processes

Useful sources of guidance and advice that will help bids and the resulting work be of the highest quality include:

- The government Social Research Code, those that relate to GSR Products:
- The Green Book: appraisal and evaluation in central government.
- The Magenta Book, government guidance on policy evaluation and analysis.
    - Magenta book
    - Supplementary Guidance on the Quality in Policy Impact Evaluations
- Quality in Qualitative Evaluation: A Framework for assessing research evidence provides a Framework for appraising the quality of qualitative evaluations.
- FCDO's Ethics principles for research and evaluation.
- FCDO's approach to VFM, which is used across all BEIS and FCDO ICF project appraisals.

Where relevant, all bids should refer to these pieces of guidance and advice and how they will be used.

8. Data security and GDPR

Bidders must ensure they adhere to the requirement of the General Data Protection Regulations 2018 (GDPR)

The GDPR is a mandatory requirement for all contracts or agreements both in the contracting authority and the private sectors that involves the transfer and processing of personal data and came into force on the 25th of May 2018.

It is mandatory for bidders to demonstrate that they will be able to meet the expected requirements and obligations prescribed by the GDPR. All contracts or agreements that are awarded by the Contracting Authority (the data controller) shall contain terms and conditions that oblige the successful bidder and any bidder supply chain (data processor) to comply with the GDPR and indemnify the Contracting Authority (data controller). Further information and guidance relating to the GDPR is available from the Information Commissioners Office at: https://ico.org.uk/

The supplier and their sub-contractors will be required to sign (or abide by) a non-disclosure agreement and apply FCDO and BEIS information security policies to all information they access as part of this work, including ensuring that only duly authorised personnel can access protectively marked information. The supplier and their sub-contractors will need to demonstrate the availability of adequate infrastructure and a business continuity plan to deliver the work to a high level of quality at the required time, ensuring the protection of information at all times.

9. Duty of care

The Supplier is responsible for the safety and well-being of their Personnel (as defined in Section 2 of the Contract) and Third Parties affected by their activities under this contract, including appropriate security arrangements. They will also be responsible for the provision of suitable security arrangements for their domestic and business property.

FCDO and BEIS will share available information with the Supplier on security status and developments in country where appropriate.

The Supplier is responsible for ensuring appropriate safety and security briefings for all of their Personnel working under this contract Travel advice is also available on the FCDO website and the Supplier must ensure they (and their Personnel) are up to date with the latest position.

This Procurement may require the Supplier to operate in a seismically active zone considered at high risk of earthquakes. Earthquakes are impossible to predict and can result in major devastation and loss of life. There are several websites focusing on earthquakes. The Supplier should be comfortable working in such an environment and should be capable of deploying to any areas required within the region to deliver the Contract (subject to travel clearance being granted).

This Procurement may require the Supplier to operate in conflict-affected areas and parts of it are highly insecure. Travel to many zones within such regions will be subject to travel clearance from the UK government in advance. In such situations, the security situation may be volatile and subject to change at short notice. The Supplier should be comfortable working in such an environment and should be capable of deploying to any areas required within such regions to deliver the Contract (subject to travel clearance being granted).

The Supplier is responsible for ensuring that appropriate arrangements, processes and procedures are in place for their Personnel, taking into account the environment they will be working in and the level of risk involved in delivery of the Contract (such as working in dangerous, fragile and hostile environments etc.). The Supplier must ensure their Personnel receive the required level of training and [where appropriate] complete a UK government approved hostile environment or safety in the field training prior to deployment.

Tenderers must develop their tender (if Invited to tender) on the basis of being fully responsible for Duty of Care in line with the details provided above and the initial risk assessment matrix prepared by FCDO at ITT stage. They must confirm in their ITT Response that:

- They fully accept responsibility for security and Duty of Care.
- They have made a full assessment of security requirements.
- They have the capability to provide security and Duty of Care for the duration of the contract.

If you are unwilling or unable to accept responsibility for Security and Duty of Care as detailed above, your tender will be viewed as non-compliant and excluded from further evaluation.

Acceptance of responsibility must be supported with evidence of Duty of Care capability and FCDO/BEIS reserves the right to clarify any aspect of this evidence. In providing evidence, interested suppliers should respond in line with the Duty of Care section in the ITT.

Acceptance of responsibility must be supported with evidence of capability (no more than 2 A4 pages) and FCDO/BEIS reserves the right to clarify any aspect of this evidence. In providing evidence Tenderers should consider the following questions:

a) Have you completed an initial assessment of potential risks that demonstrates your knowledge and understanding, and are you satisfied that you understand the risk management implications (not solely relying on information provided by FCDO/BEIS)? b) Have you prepared an outline plan that you consider appropriate to manage these risks at this stage (or will you do so if you are awarded the contract) and are you confident/comfortable that you can implement this effectively? c) Have you ensured, or will you ensure that your staff are appropriately trained (including specialist training where required) before they are deployed and will you ensure that ongoing training is provided where necessary? d) Have you an appropriate mechanism in place to monitor risk on a live / ongoing basis (or will you put one in place if you are awarded the contract)? e) Have you ensured, or will you ensure that your staff are provided with and have access to suitable equipment, and will you ensure that this is reviewed and provided on an ongoing basis? f) Have your appropriate systems in place to manage an emergency / incident if one arises?

10. Conflict of interest

The contract will be managed under the Global Evaluation Framework Agreement standard terms and conditions and will refer to conflict of interest and require contractors to declare any potential conflict of interest to the Contract Manager.

For research and analysis, conflict of interest is defined as the presence of an interest or involvement of the contractor, subcontractor (or consortium member) which could affect the actual or perceived impartiality of the research or analysis.

Where there may be a potential conflict of interest, it is suggested that the consortia or organisation design working arrangements such that the findings cannot be influenced (or perceived to be influenced) by the organisation which is the owner of a potential conflict of interest. For example, consideration should be given to the different roles that organisations play in the research or analysis, and how these can be structured to ensure an impartial approach to the project is maintained.

Failure to declare or avoid conflict of interest at this or a later stage may result in exclusion from the procurement competition, or in FCDO exercising its right to terminate any contract awarded.

Please note that the rule of the Global Evaluation Framework Agreement states that ‘evaluators who assist in the production of an ‘Approach Paper’ or ‘Design Paper’ which explores evaluability and design options for the evaluation and methodological issues or implementation of a programme should not be asked to participate in the full evaluation work, as this could represent a conflict of interest’

Also, suppliers of the CP3 Programme are excluded from bidding for this contract and the M&E partner must be totally independent from these suppliers.

11. Period of contract

The contract shall run from January 2020 to end of December 2026 or until the contractor satisfactorily delivers the requirement.

12. Contract review and break points

To ensure VFM, FCDO reserves the right to undertake a review of the contract at any time during the contract's lifetime. At a minimum, this will include mandatory contract review and break points following the inception phase and after the first year of M&E activity. Amongst other considerations, these review periods will reflect on the M&E partner's performance over the period under consideration, as well as the M&E plans set out in the inception report/delivery plans. Only once BEIS is satisfied and has signed off the delivery plan can those plans be enacted by the M&E partner. Time for BEIS to formally undertake these contracts reviews should be built into the timelines of the M&E work.

13. Budget and payment arrangements

The maximum budget to December 2026 is £1.8 million, inclusive of any applicable taxes. Travel and expenses should be in line with FCDO standard policy. This maximum is provided to guide suppliers and to try to ensure proposals are not overly elaborate or unaffordable. It does not indicate that FCDO believes the full budget needs to be allocated in order to deliver a high-quality evaluation which meets these ToRs.

FCDO has not broken down this budget by financial or calendar year. Bidders should detail what their spend will be by financial year, broken down by M&E tasks, based on their proposed M&E activity and linked to the M&E framework. This spend should be split between project management and project delivery.

In submitting full tenders, suppliers confirm in writing that the price offered will be held for a minimum of 6 months from the date of submission. Any payment conditions applicable to the prime contractor must also be replicated with sub-contractors.

Bidders should note that in order to maintain a degree of flexibility in CP3 M&E, FCDO will authorise work, and therefore spend, on a financial year basis. Successfully bidding for this project commits the M&E partner to delivering the work during the inception phase, at which point the contract will be reviewed, taking account of work conducted and the M&E plans going forward. Only with FCDO and BEIS authorisation and the sign-off of the inception report should the M&E partner initiate their planned work. Performance against the contract will be measured against the acceptability of the deliverables set out in the payment schedule, as well as the timeliness of submissions, the strength of the working relationship and the responsiveness and flexibility of the vendor in response to queries.

In their proposals, bidders should provide a recommended arrangement for the timing, submission and payment of invoices for work conducted, based on their proposed M&E activities and reporting and with reference to the indicative pricing schedule set out in the ITT Pro Formas. This should account for FCDO only being willing to make payments on the successful delivery of M&E outputs, determined by final sign-off. Final sign-off, and consequently as assessment of the quality of the work completed, will be at the complete

discretion of FCDO and BEIS. FCDO and BEIS will work with the partner in the development of these outputs to ensure they reflect expectations.

Given that certain outputs will be delivered at similar times during the project, and to reduce the administrative burden on both the UK government and the M&E partner, the UK government expects the partner to submit invoices reflecting multiple strands of M&E activity, rather than one invoice for each work strand.

Each invoice must include a breakdown of billable days or hours of work undertaken and submitted promptly, to assist the UK government's cost control and payment processes. FCDO's target is to pay all approved invoices within a maximum period of 10 days.

14. Content of tender

Bidders are asked at tender stage to include a detailed plan of proposed M&E activities including:

- Their methodology and how it can build on and improve the existing methods employed in the M&E of the programme
- Sources of secondary and primary data
- M&E outputs
- Key challenges
- Staff roles and qualifications
- A timetable for completion of activities, and
- A detailed budget

15. Price schedule

Please use the pricing schedule set out within the ITT Volume 3 document.

Milestone Percentage Annual Review & technical presentation: 1.6 per cent of contract value per report

Half-yearly report & Methodology guidance note: 3.3 per cent of contract value per report

Case Study: 3.3 per cent of contract value per report

2nd MTE: 10 per cent

Impact approach and report: 10 per cent

Expenses: Paid on actuals

Annex II: Theory of Change

As a starting point in the evaluation, and in line with best practice approaches to complex evaluations, a ToC was developed to help articulate the programme theory and identify mechanisms that contribute to the change envisioned by the programme. As understanding causation is central to the design of the evaluation approach, the team worked to define linkages between inputs and outputs, along with underlying assumptions in the ToC as shown in Figure 21. The ToC was also be used to support our realist synthesis approach, which is discussed further in Annex IV below.

As inputs, CP3 allocated $200 million to two PE funds and TA programmes run by independent fund managers. The two funds raised a total of $865 million combined from other donors, multilateral sources, and private entities alongside the UK. The UK government and other investors in these funds are known as limited partners, or LPs. The fund manager is known as a general partner, or GP.

The GP's objective is to manage the capital of the funds and achieve a return on investment. They operate within predefined constraints but otherwise make investment decisions independently. Constraints include inclusionary and exclusionary investment criteria, ESG criteria and governance standards. Inclusionary criteria dictate that the funds must invest in climate-relevant sectors such as renewable energy, energy efficiency, clean transport, and others. Exclusionary criteria dictate where the funds may not invest, such as fossil fuels and tobacco.

By design, the UK and other LPs do not have a say on the actual investments made by the funds. This is to allow managers to operate within a commercial environment and in line with standard practice in the PE industry. It is important that CP3 operates on a commercial basis as its goal is to demonstrate to commercial investors that participating in climate-relevant sectors is profitable.

Investments range from $100,000 to $100 million and are in a wide variety of individual *companies and projects*. Investments in *projects* are typically equity investments in RE plants through project finance transactions. Investments in *companies* are typically "growth equity" investments to provide capital for smaller, growing companies. Fund managers target an IRR of 20 per cent per year and will hold an investment for 3–7 years with the expectation of selling their stakes for a profit at a future date.

The investments allow companies and projects to grow and leverage additional capital. They also lead to outcomes such as new jobs being created, new RE capacity deployed, and GHG emissions mitigated. Over time, these investments can lead to transformational changes as other investors see the benefits and invest additional capital in the sector, innovation takes place, and specialised skills are created. These are all mechanisms which can drive a market transformation.

The TA component provides support to the market, providing policy and technical support to address complementary gaps (i.e. capacity in project and pipeline developing in these markets) as identified in programme documents. This is primarily delivered through SCAF.

The TA component provides support to the market, providing policy and technical support to address complementary gaps (i.e. capacity in project and pipeline development in these markets and increasing capacity of first-time fund managers) as identified in programme documents. It was anticipated that this be primarily delivered through SCAF. It was also anticipated that the CF also play a role in supporting first-time or newer fund managers.

Together, it was anticipated that the inputs would lead to a body of demonstrated evidence/track record that LCCR projects in emerging markets can demonstrate strong financial returns while also generating climate and development benefits, thereby reducing

investor perceptions of risks. This would lead to increased flow of finance to LCCR investments in emerging markets, thereby generating broader development, climate, and development benefits in developing countries.

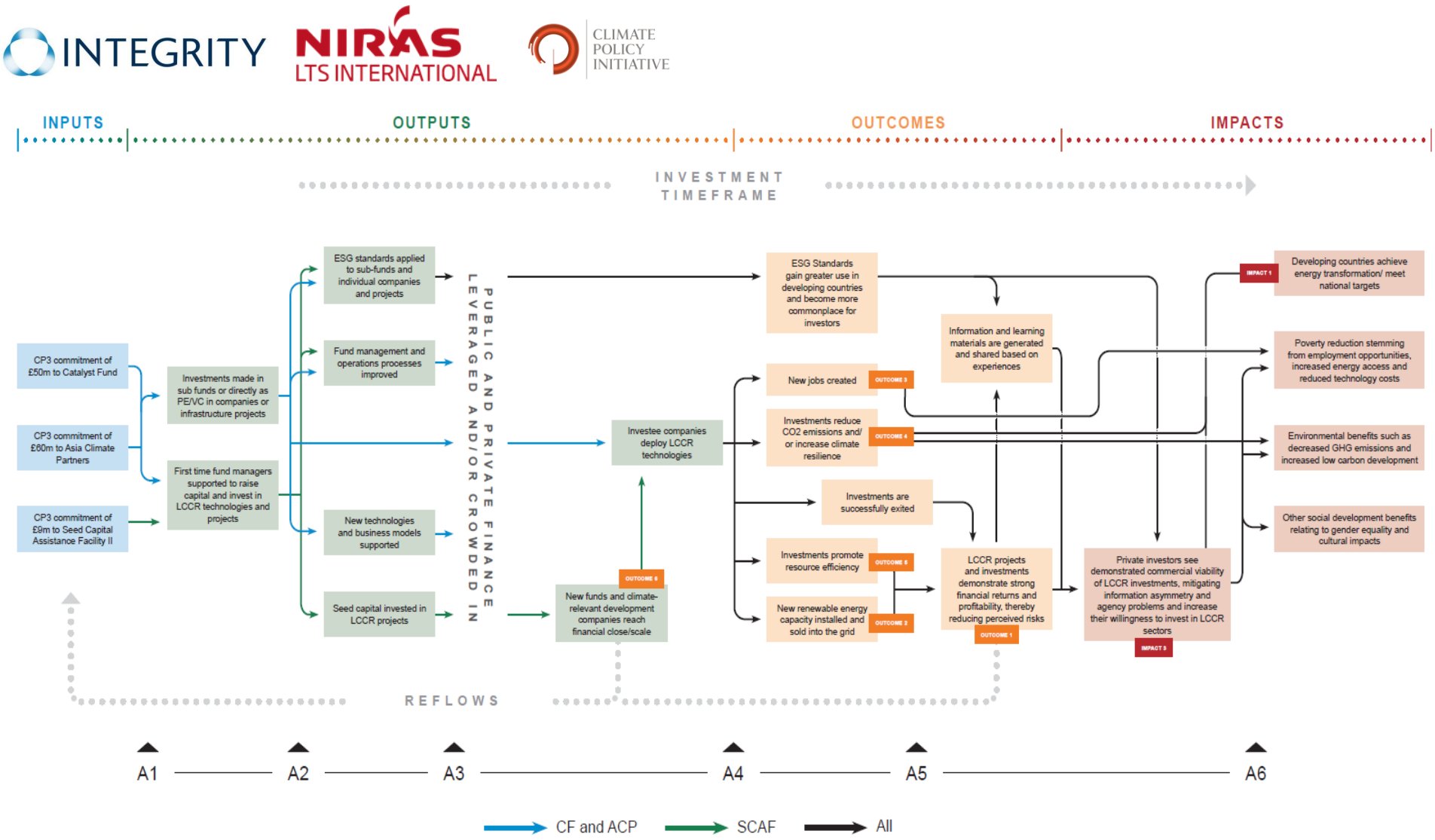


Figure 21: Phase II Theory of Change

Annex III: Methodology

The strategic evaluation is a formative and summative evaluation, to assess intended outcomes and assumptions in the ToC and address EQs. The M&E agents undertook the following activities:

- **Synthesise all monitoring data received** from CP3, including all financial reporting and logframe data collected.
- **Report on the programme's outputs, outcomes, and impact,** and provide a detailed assessment of the reasons and contexts in which they were or were not achieved. As part of this, graphics and communications products were produced to promote sharing of results and lessons with CP3 stakeholders.
- **Carry out three separate contribution analyses** to understand CP3's contributions to any outcomes or changes observed in the context where CP3 operates.
- Conduct a **comparability assessment** of other similar investments with the CP3 components in the wider climate finance space.
- Carry out a case study that focuses on **understanding the demonstration effect** of CP3, a core assumption of the ToC, and the degree to which a given investment proves the technical and financial feasibility of a market, technology, or sector, and in doing so catalyses further private investment.
- **Map all financial flows** of the programme through its investees, investment modalities, sectors, and geographies.
- **Synthesise and provide conclusions on the additionality of CP3**, both in terms of its investment activities, and in the context of the activities of other similar funds.
- Evaluate the extent to which the CP3 intervention has been designed, managed and delivered (to date) against **the Paris Declaration principles**[43]

The strategic evaluation has made recommendations on the design, management, and governance of CP3 and similar climate programmes based on the learnings from these activities. The strategic evaluation provides the UK government and other stakeholders with a clear picture of how the CP3 programme is functioning compared to the expectations of the BC, and whether it is delivering on its intended impacts. Learnings generated from this evaluation may be useful not only to feed into the management of the programme but also to disseminate knowledge that can help governments around the world catalyse climate finance that contributes to LCCR development.

The following sections provide an overview of the methodologies used to analyse the data gathered and to formulate the findings presented in this strategic evaluation. Full methodologies on the approaches used for demonstration effect, contribution analysis and additionality can be found in their respective case studies.

Principles guiding the evaluation

The evaluation approach has been designed to balance requirements of rigorous evidence collection with the availability of time and resources. Based on an understanding of the programme and context, the M&E agents made the following assumptions that held true, upon which the success of the approach was dependent:

- the availability of high-quality, timely quarterly and annual reports from CP3 component leads (namely IFC-CF, ACP, and SCAF)

[43] The Paris Declaration is based on five key principles: country ownership; alignment; harmonisation; managing for development results; and mutual accountability.

- the engagement of component leads in responding to clarifications and participating in assurance activities
- the engagement of other donors and expert stakeholders in interviews
- the participation of sampled sub-funds and projects in evaluation activities including case studies
- investee companies contributed and provided access for case study analysis (this allows detailed evaluation of causal links between the programme and the change processes at work and CP3's role influencing these changes.

The design of the evaluation mitigated risks to these assumptions to the greatest degree possible, by engaging with CP3 fund managers and investees who are key stakeholders.

Table 16: Evaluation elements and principles and how they are met by our design

Key principle	Application in design
Understanding context	Where investment level analysis is undertaken, the evaluation was rooted in deep contextual knowledge using local experts to support analysis. We collected data on how the context has changed since design and to what extent this has enabled, or constrained programme influence at programme and investment levels.
Mapping out causal chains	The ToC for the programme is included in Annex II. This was reviewed light of changes to the context. Realist evaluation approaches were used to assess the role of contextual factors in influencing the success of programme mechanisms, and programme interventions at activating the mechanism. These approaches are described in more detail below. Evidence to assess the validity of causal links and to identify other causal factors was collected.
Reliability	The designs and methods put forward are established, well documented and consider EQs and intervention attributes. They were reviewed and assessed by the team and independent QA to ensure their appropriateness. They were selected as they allowed for success and failure to be captured, as well as intended and unintended impacts to be explored.
Choice of methods	The M&E agents used a mixed- methods approach for assessing the CP3 programme. The method selection is guided by best practice and was tailored to available data and to stakeholder needs.
Proper application of methods	Our broad team ensured access to appropriate specialists for selected methods and multi-level quality assurance was prioritised.
Transparency	Conclusions were generated from credible evaluation evidence and were clearly documented, to ensure that key stakeholders can understand their validity and legitimacy. Detailed information that can be drawn back to individual beneficiaries will not be shared to respect confidentiality.
Triangulation of evidence	Where possible findings were supported through triangulation of evidence from different sources and collected using different methods. In cases where some evidence is less robust than others, this was noted through the strength of evidence assessment and greater weight is given to more verifiable sources.

Key principle	Application in design
Impartiality	We have a policy designed to identify potential conflicts of interest and manage these. All individuals working on the programme were screened for potential conflict of interest. We informed FCDO and BEIS of any conflicts of interest and agreed established measures to ensure impartiality. However, even impartial consultants can produce biased analysis if data collection and analysis is not conducted appropriately. Our quality assurance processes tested for potential bias. Evaluation outputs have sought to be transparent about limitations in data availability, quality and reliability.
Do no harm	The M&E agents applied best practice in ensuring do no harm was embedded throughout our evaluation process. The purpose of this evaluation was to discover new information that is helpful and useful to FCDO/BEIS and the wider community. The purpose of evaluation research should never be to hurt anyone or find out information at the expense of other people. We are guided by our ethical guidance on social research (as referenced below) and these are put into practice by our integrity management system. Our approach has been guided by principles of respect for participants, informed consent, voluntary participation and no coercion, participant right to withdraw, full disclosure of funding sources, no harm to participants, avoidance of undue intrusion, no use of deception, the presumption and preservation of anonymity, participant right to check and modify a transcript, confidentiality of personal matters, data protection and overall ethical governance.
Ethical considerations	All evaluation activities comply with UK Government Social Research Unit Professional Guidance for Ethical Assurance for Social Research[44] and UK Data Protection law and any nationally required standards. Informed consent was a cornerstone principle of the evaluation. We have ensured evaluation participants have understood how the evidence they provide was used and have provided informed consent through either written or verbal agreement. It has been made clear that participation is voluntary, and individuals have the right to refuse answering any question or withdraw at any point. We have also taken steps to ensure confidentiality of information, privacy and anonymity of stakeholders. We have respected people's right to provide information in confidence and ensure that sensitive information cannot be tracked to source. More details on our approach to this is described in XXX below. All members of the team were trained on best practices in conducting ethical research, and escalation matrixes were used for any deviations from best practices to ensure quick resolution of issues. Although the proposed methodology does not require engagement with children or vulnerable groups, all team members received briefings on the needs of these groups, and care was taken to ensure that data collection tools do not discriminate against gender, disability, or socioeconomic status.

[44] Government Social Research (2021). Ethical Assurance for Social and Behavioural Research in Government. Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1000708/2021-GSR_Ethics_Guidance_v3.pdf

Key principle	Application in design
Principles for Digital Development	We are familiar and have considered the principles for digital development[45] in when, what and how we used digital tools to support this evaluation. We used a range of digital tools including, to support data collection (i.e. Teams and other online platforms for interviews and transcriptions), analysis (i.e. web scrapping and textual analysis) and for data storage and visualisation (i.e. interactive data dashboard). We have used selected technologies that add-value to the services that we deliver. More broadly, we have embedded the principles in the approach we have taken to this evaluation: • We are user and evidence focused, capturing quality information and providing this information to key stakeholders in a way they can use. • We have considered the scale and appropriateness of methods. • Central to our approach is careful consideration of the ethical, privacy and security concerns that may arise from our work.

Evaluation framework

Based on the requirements of BEIS and FCDO , the M&E agents identified the most important EQs from the Inception Report and the OECD DAC Evaluation Criteria. Questions presented in the ToRs or Inception Report were updated to reflect changes in context and data availability at the approach stage, and no fundamental shifts have been made.

The EQs provide a clear direction for the evaluation analysis, outlining six headline questions and relevant sub-questions. Analysis has been conducted to ensure alignment with the OECD DAC criteria of relevance, efficiency, effectiveness, impact and sustainability and the additional criteria of coherence, which was added by the OECD DAC in November 2019.

The evaluation framework (Table 17 below) provides an overview of the approach to answer the questions as well as the data used. Methods employed required no deviation from the planned approach. Multiple methods and data sources are used to answer each question to support greater triangulation and corroboration of evaluation findings. The table also describes how the evaluation summarised the findings and analysis from the questions.

[45] Waugaman, Adele. From Principle to Practice: Implementing the Principles for Digital Development. Washington, DC: The Principles for Digital Development Working Group, January 2016.

Table 17: Evaluation framework

EQ	Overview of methods and data sources	Outputs
EQ1.1 Did the CP3 vehicle offer relevant and appropriate financing modalities to leverage private finance in emerging markets as set out in the BC? Were these activities additional?	• Using the database of CP3 investments, the M&E agents conducted a portfolio analysis and categorise financing used by IFC and ACP • Context analysis and categorisation of other funding/investment modalities in use in sectors/markets • Gap and trend analysis of CP3 deployed modalities vs. trends and assessment against the BC ambitions • Conduct/review the additionality assessment for the CP3 portfolio • Conduct/update the financial leverage assessments • Map the CP3 climate finance flows. **Data Sources:** CF, ACP and SCAF reporting, interviews with fund managers and other actors in the CP3 ecosystem, secondary literature, and industry sources, VCPE databases	• Output 1: Written section in evaluation report and supported data • Output 2: CP3 investments data provided in internal tool for BEIS/FCDO use • Output 3: CP3 climate finance flows data/visualisation
EQ1.2. To what extent are the CP3 investments supporting LCCR businesses in appropriate and relevant sectors as outlined in the BC?	• Using the database of CP3 investments, the M&E agents conducted a portfolio analysis and categorise supported businesses according to technology and sector/sub-sector focus • Context analysis of market and sectors and emerging trends • Comparative analysis of CP3 portfolio against ambitions of the BC **Data Sources:** CF, ACP and SCAF reporting, interviews with fund managers and other actors in the CP3 ecosystem, secondary literature, and industry sources	• Output 1: Written section in evaluation report and supported data • Output 2: CP3 investments data provided in internal tool for BEIS/FCDO use • Output 3: Visualisation with sectoral focus of investments
EQ 1.3. To what extent are the CP3 investments providing LCCR support in relevant and appropriate geographies as outlined in the BC?	• Using the database of CP3 investments, the M&E agents conducted a portfolio analysis to generate a geographic mapping of where the CP3 investments take place. • Where there are investments that have been selected for technology transfer, we will explore if any technology transfer has taken place or if potential technology transfer may take place. • Comparative analysis of CP3 portfolio against ambitions of the BC • Context analysis of geographical trends • Exploring the tech transfer potential/plans for some of the selected investments outside the intended geographies (drawing on concepts from a previously developed tech transfer case study) **Data Sources:** CF, ACP and SCAF reporting, interviews with fund managers and other actors in the CP3 ecosystem, independent research and industry sources	• Output 1: Written section in evaluation report and supported data • Output 2: CP3 investments data provided in internal tool for BEIS/FCDO output • Output 3: Visualisation with geographic mapping of investments

EQ	Overview of methods and data sources	Outputs
EQ 1.4 Does the CP3 ToC and primary finance provided (PE) remain relevant in the current market and aligned to countries' priorities under the Paris agreement?	• Global context analysis of global climate finance, emerging markets, and sector/technology trends • Comparison of emerging trends with the CP3 theory • Categorisation of countries' priorities (for example as stated in Nationally Determined Contributions) and compared to the CP3 portfolio's sectoral/technology balance **Data Sources:** Independent research and industry sources, Nationally Determined Contributions, and other public information, VCPE data, interview data, BC information	• Output 1: Written section in evaluation report and supported data
EQ2.1 Internal: To what extent are CP3 components complementary or are they duplicative with each other? Do synergies exist between the components? Is the overall portfolio of investments coherent?	• Mapping of CP3 components (SCAF, IFC and ACP) in terms of finance, geography, sector • Identification and analysis of potential complementary or duplicative activities • Deeper analysis of selected potential overlaps/complementary activities (for example in the contribution case study) **Data Sources:** CF, ACP and SCAF reporting, interviews with fund managers and other actors in the CP3 ecosystem, mapping results from EQ 1, literature reviews	• Output 1: Written section in evaluation report and supported data
EQ2.2 To what extent are CP3 components complementary and synergistic, or contradictory and duplicative with other selected and relevant ICF initiatives?	• Global context analysis • Market scoping to identify similar instruments to CP3 • Comparative analysis of up to five other sampled initiatives, including those supported by ICF (could include, GEEREF, Mobilist, Climate Finance Accelerator, FMO supported initiative, Commonwealth Development Corporation) **Data Sources:** CF, ACP and SCAF reporting, case studies, interviews with fund managers and other actors in the CP3 ecosystem, interviews and desk reviews from case studies	• Output 1: Written section in evaluation report and supported data
EQ 3.1 What have been the results of the CP3 programme and are they aligned to the ToC?	Using the logframe and case study data that has been collected on an ongoing basis since 2018, the M&E team synthesise results and explored the specific contributions of CP3 towards outcomes as articulated in the ToC. Comparison/benchmarking of fund performance against other funds' performance from sector indices Descriptive synthesis of logframe data • Assurance and analysis of data reported by IFC, ADB and SCAF. **Data sources:** Logframe data, existing case studies, and other interim M&E outputs, Wider literature including MSCI Emerging Markets Index, Cambridge Associates Global PE/VC benchmark, Cambridge Associates Clean Energy Performance Statistics	• Output 1: Written section in evaluation report and supporting data. • Output 2: Visualisation detailing key results from CP3 e.g. MW of renewable energy deployed, jobs created, financial flows etc.

EQ	Overview of methods and data sources	Outputs
EQ 3.2 What are the major factors influencing achievement or non-achievement of results?	• Identification key factors influencing achievement/non-achievement of results through the global context analysis (EQs 1-3) • Contribution analysis w used to explore additional factors that may have contributed to sampled outcomes **Data Sources:** CF, ACP and SCAF reporting, interviews with fund managers and other actors in the CP3 ecosystem, independent research and industry sources, context analysis, Wider literature including MSCI Emerging Markets Index, Cambridge Associates Global PE/VC benchmark, Cambridge Associates Clean Energy Performance Statistics	• Output: Written section in evaluation report.
EQ 4. 1 Is CP3 providing VFM for the UK government?	We followed the approach described in this document to assessing VFM for CP3 and assess performance against the 4Es. Assurance and analysis of data reported by IFC, ADB and CF. What alternatives (other fund managers, structures, types of financing) could have been used to meet the objectives? Did the investment structure of CP3 and the PE funds provide value compared to other funding modalities? **Data sources:** CF and ACP quarterly financial statements and regular reporting, investor interviews, and previous case study results.	• Output: Written section in evaluation report and supporting data.
EQ 5.1 Has CP3 generated demonstration effects that have or are expected to catalyse additional investments for LCCR in target countries?	This was answered through an application of a 2-step method for analysing and understanding the potential for demonstration effects across the CP3 portfolio. As a first and primary step, the entire portfolio of 50 relevant infrastructure projects were assessed for demonstration potential against renewable financing timeseries data, resulting in high-level, project-by-project categorisation of estimated demonstrative potential. As a second step, specific projects were selected for further exploration, and interviews with sub-fund managers and market experts will supplement the data described above to gather feedback on our initial categorisations and further complement findings. This was supported through a contribution analysis case study focused on understanding CP3 contribution to market transformation and/or potential transformation. This was supported by wider context analysis to understand how markets for LCCR investments has changed **Data sources:** CF reporting, independent research and industry sources, context analysis, interviews with funder managers, investor and stakeholder interviews, previous case studies	• Output 1: Written section in evaluation report and supporting data. • Output 2: Demonstration effect annex • Output 3: Technical annex on contribution analysis.
EQ 5.2 How have the countries within which CP3 operates transformed? Is	The transformational change methodology was applied, and findings synthesised.	• Output 1: Written section in evaluation report and supporting data.

EQ	Overview of methods and data sources	Outputs
there any evidence that CP3 contributed to these changes?	Global context analysis and identification of changes/trends to the markets within which CP3 operates using the transformational change criteria as key assessment/markers of change Exploration of CP3's contributions to any of these changes through a contribution analysis case study at a country or market level. **Data sources:** independent research and industry sources, context analysis, portfolio analysis, information from CF, ACP and SCAF contribution case study, interview data, previous case studies, previous annual reviews and reported information	• Output 2: Any relevant updates to the CP3 transformational change rubric; scoring against the CP3 transformational change rubric • Output 3: Technical annex on contribution analysis.
EQ 5.3 Has CP3 incentivised the application/integration of ESG standards into practice?	This was answered through an assessment of ESG practices in place beyond CP3 supported investments by actors in the CP3 ecosystem and exploring how interactions with CP3 has changed ESG practices. This was also explored through the demonstration effect study If there was evidence of changes, this was explored through the contribution analysis case studies, particularly those focused on fund/partner/investment level changes Results were compared against an assessment of the market standard for ESG application **Data sources:** SCAF and CF reporting, ongoing results collection, case studies, interview data and context analysis, industry and relevant desk reviews.	• Output 1: Written section in evaluation report and supporting data.
EQ 5.4 How has CP3 built capacity and contributed to the success of the supported fund managers and project developers?	This was explored through three contribution analysis studies: One study explored the role of CP3 in increasing the capacity of a fund manager who is setting up a subsequent fund The second contribution study explored the role of SCAF in supporting a developer in identifying and developing projects that generate interest from other investors The third study focused on the contribution of SCAF in supporting a new fund manager in reaching financial close and attracting interest from other investors We also explored the brokerage role and other factors influencing the ability of CP3 supported actors to attract interest from other investors **Data sources:** SCAF and CF reporting, Fund manager interviews, interviews with SCAF, contribution analysis, interviews with wider stakeholders, document reviews of public information.	• Output 1: Written section in evaluation report and supporting data. • Output 2: Technical annex on contribution analysis.
EQ 6.1 Has and how has CP3 generated lessons and good practice	This was explored through understanding and tracking investor behaviour and market activity in the markets where CP3 is active	• Output 1: Written section in evaluation report and supporting data.

EQ	Overview of methods and data sources	Outputs
in mobilising climate finance, supporting LCCR, implementing ESGs and supporting first-time fund managers? (Thereby addressing information asymmetries, agency problems and influencing private investors)	We then explored through interviews if experienced from CP3 related investments have influenced local private investors and/or other similar initiatives Identification of critical hurdles and any changes observed, and any contributions made by the CP3 programme to address these hurdles This was a particular focus of the market transformation contribution case study as well as in the comparative analysis with other similar funds **Data sources:** SCAF and CF reporting, Fund manager interviews, interviews with other stakeholders, comparative analysis, contribution analysis, case studies, document reviews of public information.	
EQ 6.2 What can the UK government learn about future equity LCCR investments in emerging markets from CP3?	Synthesis of all evidence emerging from evaluation and data collected within the scope Lessons emerging from the comparative analysis with other funds and the global context analysis will also be particularly relevant **Data sources:** SCAF and CF reporting, Fund manager interviews, interviews with other stakeholders, comparative analysis, contribution analysis, case studies, document reviews of public information, previous M&E data.	• Output 1: Written section in evaluation report and supporting data.

Evaluation methods

A theory-based, mixed-methods evaluation approach was applied following UK government and industry best practice[46]. Theory-based evaluation was appropriate as it is suitable when an intervention or the context of implementation has attributes of complexity. The M&E agents selected methods best suited to answering the above EQs based on best practice[47], the attributes of the CP3 programme and the context within which it operates. Below we describe some of the methods we have used in this evaluation that are not described in separate outputs supporting this evaluation (the contribution analysis method used). More detail on each of these methods is described in our evaluation approach paper.

Value for money

The Department for International Development's (DFID; now FCDO's) 4E approach considering economy, efficiency, effectiveness, and equity was used to assess VFM. Specific indicators were developed within each of the 4E categories that directly tie in to the CP3 BC and ToC (see Table 18 below). The planned approach and indicators were carried out as expected. These indicators consider the economy of the programme in relation to programme results.

Table 18: Value-for-money indicators for CP3

Category	Indicators and analysis questions
Economy – Was the operationalisation of the CP3 BC cost-effective?	• Fees charged by fund managers and other implementation entities. • Programme administration costs

Efficiency – Were the outputs of the programme delivered in a way that was efficient compared to alternatives?	• In-depth analysis of monetary inputs of the programme in relation to outputs achieved and comparison with alternatives for:
	  ○ delivery of outputs as set out in ToCs and BC
	  ○ additionality
	  ○ financial leverage achieved
	  ○ financial returns and investment performance (e.g. valuation of investments to date, timeliness of activities within agreed investment period).

Effectiveness – Did CP3 achieve its objectives as set out in the BC? How did it compare to alternatives?	• EQS 3 and 4 and all their sub-questions relate to the effectiveness of the programme. The M&E agents will provide a synthesis on effectiveness based on these questions.
Equity – Did CP3 reach its intended beneficiaries in an equitable manner?	• Gender-disaggregated indicators and other analysis on gender effects of CP3 • Distribution of investments by country income level • Contributions to SDGs

[46] DFID (2013) Evaluation Policy and Stern, E., Stame, N., Mayne, J., Forss, K., Davies, R., & Befani, B. (2012). Broadening the range of designs and methods for impact evaluations: Report of a study commissioned by the Department for International Development. DFID: Department for International Development

[47] Based on guidance and information described in Choosing Appropriate Evaluation Methods: A Tool for Assessment and Selection, October 2016 Published by Bond, Society Building, 8 All Saints Street, London N1 9RL, UK.

Financial leverage

As mobilising private and public investment at scale is a key objective in the CP3 BC, measuring how CP3 funds led to subsequent mobilisation or "leverage" is important to the programme evaluation. Assessing leverage across the CP3 portfolio allows the M&E agents to meet three objectives: testing the assumptions made on leverage in the CP3 ToC and underlying economic model; documenting CP3's results and effects and improving the tracking accuracy of those results, including the likelihood CP3 generated transformational change; and understanding the mechanisms for mobilising finance (the links and causal processes through which CP3's investments lead to greater investment from other actors).

In the ToC, investments in the CP3 funds can achieve financial mobilisation directly or indirectly. Direct investment is measured and tracked via ICF KPI 11 (mobilised finance from public sources) and KPI 12 (mobilised finance from private sources). Indirectly, CP3 can demonstrate the viability and commercial potential of LCCR investments, and thus bring new investors into the sector – termed 'demonstration effects'. The approach taken to measure demonstration effects is discussed in Section 1.1.3 of this annex.

Quantitative metrics to report financial results under KPI 11 and KPI 12 are combined with a realist synthesis approach that uses ICMO statements to support the synthesis of gathered data (this approach is described in more detail in Section 11). Financial KPI results correspond to the direct mobilisation of co-investment, while ICMO statement analysis was used to draw conclusions about the importance of different factors in producing the observed results. To complement the quantitative work, the M&E agents conducted interviews during this evaluation with key CP3 stakeholders to understand some of the mechanisms for financial mobilisation, as defined in the ICMOs.

As part of this analysis, the M&E team sought to fill in some of the data gaps in the project-level data provided by IFC by estimating leveraged equity and debt at the project level in some cases. To estimate co-investment, the M&E team applies two key sets of assumptions, based on analysis of Global Landscape for Climate Finance (GLCF) data.[48] First, to estimate leveraged debt, CPI uses gearing ratio (debt-to-capital) figures drawn from GLCF data, specific to sector and geography. To calculate leveraged debt, we take the total equity and divide by (1 – gearing ratio) to calculate total capital, then subtract total equity. Second, when equity co-investors are unknown, the team uses an assumed ratio of public-to-private investment to estimate attribution for co-investment. These figures are also drawn from GLCF data and differ by instrument (higher assumed private share for equity than for debt). Further, in this cyclem the M&E agents introduced additional data checks, including comparisons between total commitment amounts and leverage with standard CAPEX bands for RE infrastructure projects. This led the team to identify further areas where data gaps in the leverage project-level information existed. The team applied its estimation methodology to account for this "missing" investment.

Additionality assessment

The overarching goal of CP3 is to support developing countries in pursuing an LCCR development path resulting in growth, poverty reduction, and climate change mitigation.

[48] See: https://www.climatepolicyinitiative.org/wp-content/uploads/2021/10/Methodology.pdf

However, there is also a risk that CP3 investments displace other private investments. The effects are irrelevant if the CP3 investments themselves simply take the place of other private investments that would have occurred anyway. Most simply: CP3 investments should be *additional to normal private investor behaviour* and deliver climate finance in regions and sectors where markets alone are not delivering it.

Thus, we seek to understand how and why CP3 investments are additional, in other words, the *additionality* of the finance provided by CP3. The M&E team applies a portfolio-based approach at the three tiers of ownership of CP3, that explores additionality at the portfolio level using a composite, third party, index that assesses the investment environment per country. Data is based on **the Venture Capital Private Equity Country Attractiveness (VCPE) index**, created by IESE Business School and published annually. There is a strong evidence base that links expected PE investment levels to the score a country receives in the VCPE index. The VCPE index is composite measure that benchmarks the attractiveness of 120 countries to venture capital and PE allocations.[49] The index considers key drivers of investment and scores countries accordingly. The IESE team analyses the tracking power of their index by comparing scores to PE investment activity, then rates countries from 0 (weak investment environment) to 100 (strong investment environment).

[49] Groh, A., Liechtenstein, H., Lieser, K., & Biesinger, M. (2015). The Venture Capital & Private Equity Country Attractiveness Index

Figure 22: The tracking power of the VCPE index

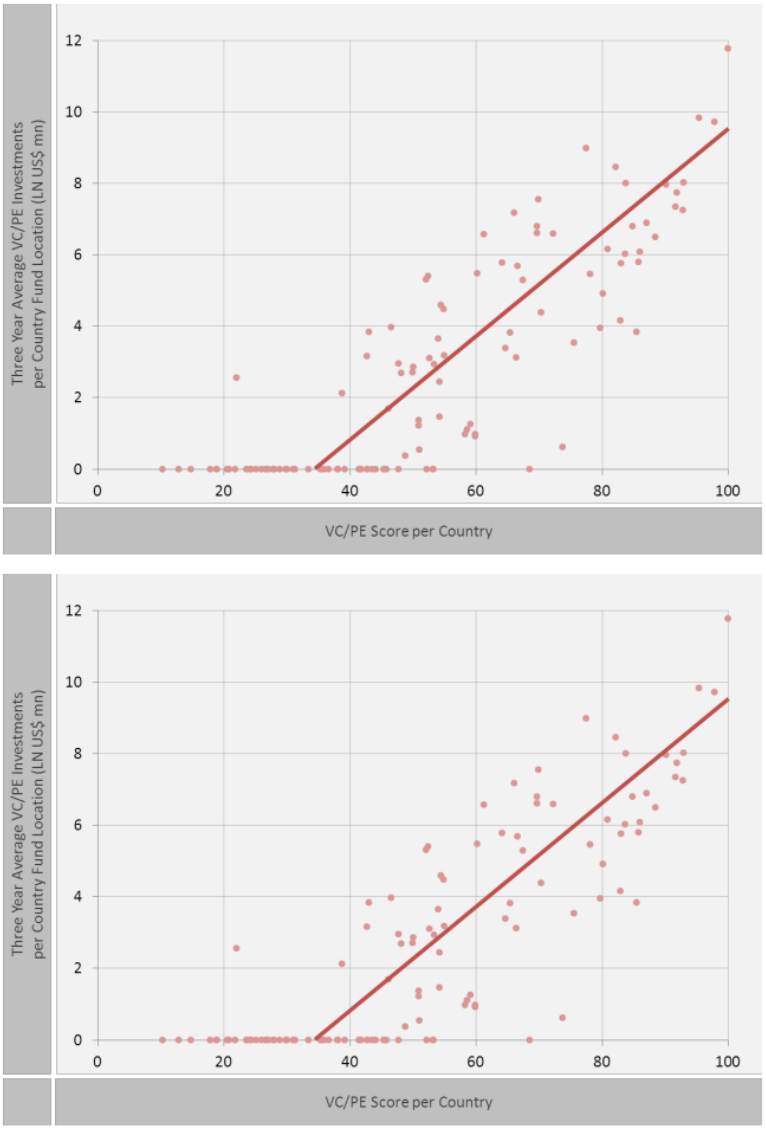


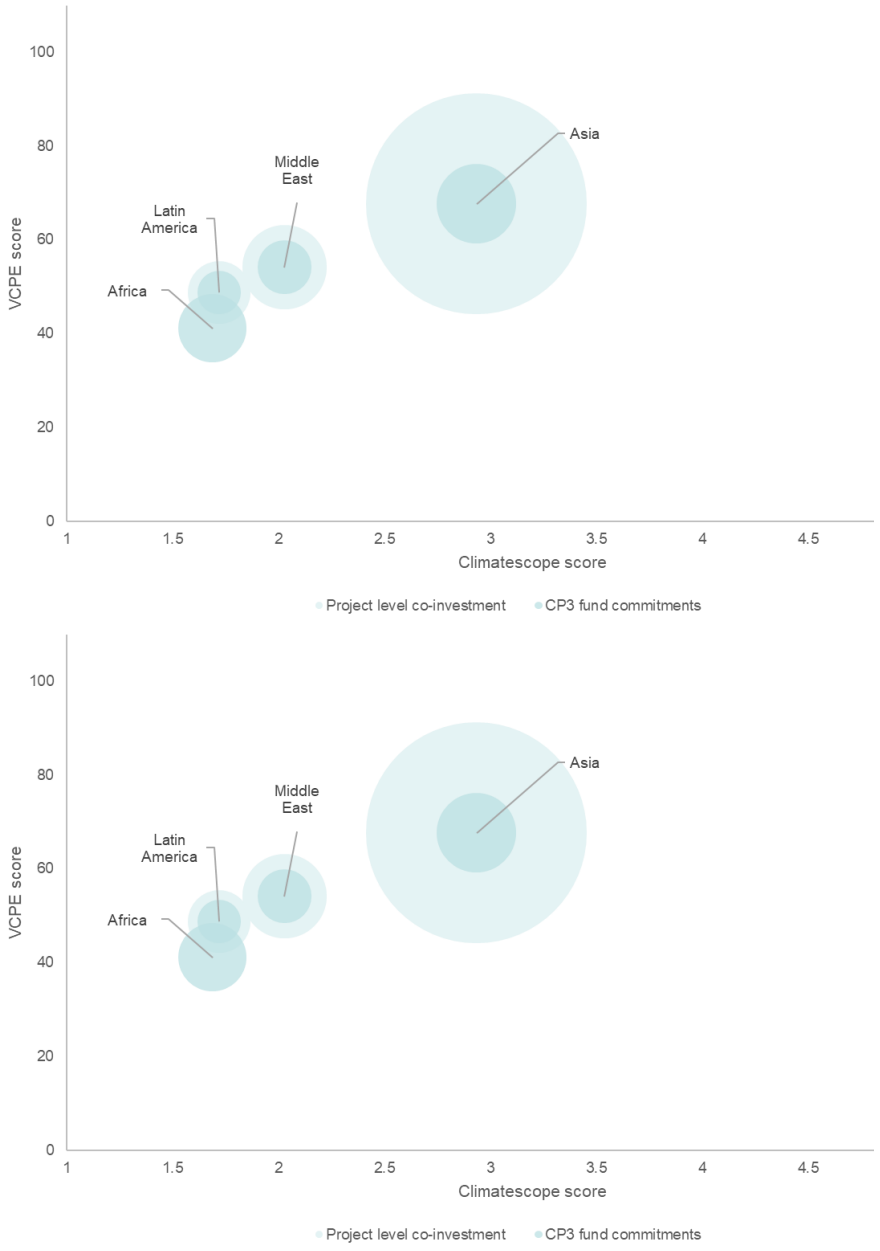
Figure 22 shows the relationship between the VCPE score (x-axis) and average investment flows over three years (y-axis).[50] The tracking coefficient of the index and investment activity is 0.73.[51]

The M&E agents chose this index as it is tailored to the types of investments made by CP3. A disadvantage is that it does not reflect on the investment environment for specific technologies. However, independent research, including comparing results with sector-based indexes such as Climatescope (see Figure 23), and conversations with fund managers suggest that the overall macro-economic and policy environment are the primary drivers for investment and thus the major components in predicting future investment[52].

[50] Groh et al. (2015)
[51] Groh, Alexander and Liechtenstein, H. and Lieser K. and Biesinger M. (2018). The Venture Capital and Private Equity Country Attractiveness Index 2018
[52] IFC (2018). Interview with Johanna Klein. 2/13/2018

The VCPE score is converted to an “additionality modifier” to modify KPI results and adjust for additionality. This modifier establishes a relationship between the country VCPE score and the likelihood that investments take place. The VCPE index ranges from 0 to 100 with the higher scores signalling better investment environments. There is also a clear threshold at 45 – this is the score below which PE investment is highly unattractive. If we convert it to an additionality modifier using percentages, it is safe to assume that an investment in a country with a score below 45 is 100 per cent additional as it is highly unlikely other PE investors will invest in countries that score below this threshold.

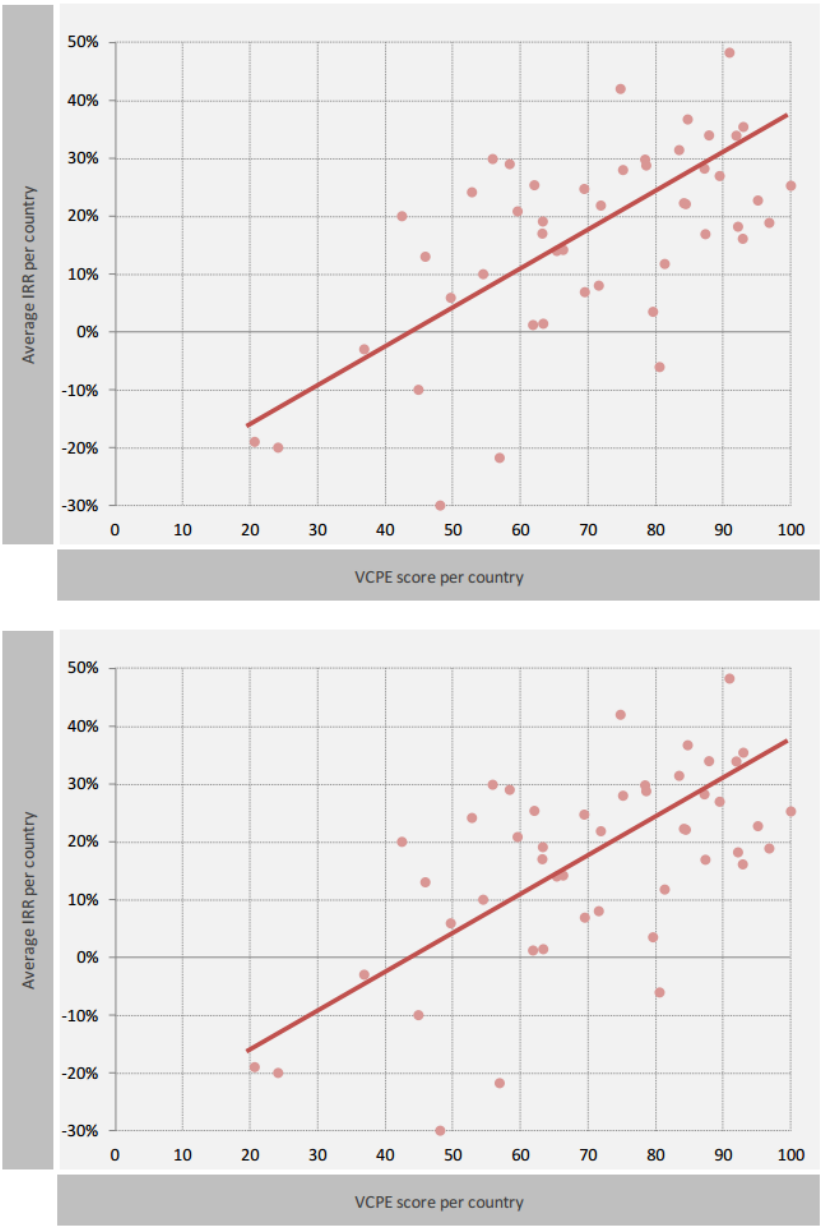
Figure 23: Investment environment and co-investment potential comparison between VCPE and Climatescope index



The next step was to come up with the upper threshold in which countries would be considered 0 per cent additional. Figure 24 shows the relationship between IRR (y-axis) and VCPE index score (x-axis). There is strong evidence that the higher the score, the higher the expected

returns and (it can be assumed) the more desirable a country is for investment. To set the upper boundary for additionality, we determined an IRR threshold that is attractive for commercial PE investors, and where CP3 investment would no longer be considered additional. Median PE fund returns were drawn and analysed from a very large dataset of global PE funds[53]. It was found that 21 per cent is the median IRR of PE investments. We can conclude that if a country has a score greater than 75, its expected IRR is higher than the median and therefore attractive to a commercial PE investor. Thus, an upper boundary for the VCPE index was set at 75, above which an investment is 0 per cent additional.

Figure 24: Investment performance in relation to VCPE score



[53] Lopez-de-Silanes F., Phalippou L., Gottschalg O., (2012). Giants at the gate: Investment returns and diseconomies of scale in private equity.

The final piece is to derive a scale that relates additionality to VCPE country scores for countries that fall between the two thresholds. The easiest and most transparent approach is to derive a linear relationship between the two thresholds and set the additionality modifier accordingly. The range between the two thresholds is 30 (upper threshold 75 and lower 45). The midpoint of that range would be 15, which implies an additionality "score" of 50 per cent for countries that score 60 in the VCPE index.

Table 19: VCPE scores and additionality modifiers

Score	Additionality modifier
Below 45	100 per cent additional investment
Above 75	0 per cent additional investment
Between 45 and 75	((75 – Country score)/30) per cent additional investment

Transformational change assessment: Demonstration effect

The demonstration effect plays an important role in the CP3 ToC as a fundamental mechanism by which private investors are mobilised to invest in LCCR sectors. As described in the ToC, a key goal of CP3 investments is to demonstrate the investment potential of specific emerging markets, as well as to prove the financial and logistic feasibility of climate projects and technologies within them. Through their success, CP3 supported projects are intended to build a track record that demonstrates that climate investments in developing markets can generate commercial returns, thereby attracting further investment from previously hesitant private actors. This idea of an investment proving the financial viability of key markets and technologies is known as the "demonstration effect", and while achieving strong demonstration effects has been a key goal of development and climate-focused investment programmes for many years, methods for assessing the strength of the effect vary in their focuses and underlying assumptions.

Reviews of existing literature on the subject – including studies conducted by the IFC, PIDG, and Climate Change Compass – suggest that the precise definition of demonstration effect, and the various factors that might be considered to contribute to its achievement, are not agreed upon. Additionally, while all literature reviewed to date focused on assessing the demonstration effect of individual projects, methods for assessing demonstration effect on a portfolio level have not been defined. As such, to begin our analysis, the M&E agents decided on the following definition with which to frame our investigation into the demonstration effect potentially produced through the CP3 investment portfolio:

Demonstration Effect: *the degree to which a given project or investment enables future investment from private capital by demonstrating the viability of an investment and thus decreasing perceived political, sectoral, or general market risks.*

While defining demonstration effect is a fairly straightforward task, precise measurement and attribution of demonstration effects is extremely difficult. As briefly mentioned in the main body of this report, a demonstration effect can be achieved through various pathways. For example, while project replication is understandably viewed as a strong indicator of demonstration effect, not yet replicated projects can also result in demonstration effects, for example by

achieving higher-than-expected returns, positively influencing national regulations, or improving local technical capacities. However, the degree to which these market changes might contribute to the decision to invest made by later market participants is impossible to assess without intimate knowledge of internal decision-making processes at investment firms – processes that are typically and understandably kept confidential for commercial reasons. Additionally, this information – such as the degree to which ESG framework improvements made by an early investor influenced the eventual entry of another investor at a later point – is not captured in available datasets or other measurable sources.

As such, this assessment relies largely on a high-level proxy – that is, the timing of investment in comparison to others in the overall development of a given market – to estimate assumed demonstrative impact on that market. Demonstration effect will understandably be stronger the earlier a project occurs, as it can be safely assumed that early movers in any market, by being among the first to face the challenges related to a specific geography or sector, play an important role in paving the way for future investment. In this context, the role of early movers can be likened to that of anchor investors in a fund: the earlier a public financer like the UK government commits to a fund (thereby encouraging further investment from private actors), the greater level of additionality, meaning the public financier can more reasonably claim to have played a role in catalysing this additional investment. Similarly, the earlier a project is positioned in the development timeline of the relevant market, the greater impact it can claim in improving market conditions through regulatory changes, ESG framework improvements, and other means that then enabled other investors to participate later.

Methodology

In the context of CP3, the question is then to what degree were investments early movers in a given market, and what developments were seen in these markets after investment. Under the timing assumptions described above, a demonstrative project would be unique in that it was an early mover in the development of a given market, and that market would have then seen significant increases in committed financing from other private sources in the years following investment. To assess the degree to which such projects might be present within the CP3 programme, we employed the two-step approach described below, which we applied to 50 relevant infrastructure projects from the CF portfolio (for further details on sampling approach, see the relevant sub-section below).

Step 1: Categorisation

The first and primary step in our analysis was to categorise the pre- and post-investment conditions of CP3 investments to broadly assess their individual demonstrative potential under the assumptions described above.

<u>Pre-investment categorisation:</u>

Using financing data from Bloomberg New Energy Finance, we applied two filters to the 50 projects in question. Any project flagged by either the first or second filter described below received “early mover” categorisation.

1. The first filter aimed to broadly capture whether or not a given project could be considered an early mover in the relevant sector – Egyptian solar, for example – by flagging projects that occurred within the first 30 per cent of total financed capacity to date. For example, suppose that a given sector has a current total of 100 MW of

financed capacity, and the project being considered had reached financial close 6 years ago when the market had only 20 MW of financed capacity. Under our approach, this project would be categorised as an early mover, as it occurred when total financed capacity was less than 30 per cent of its eventual total. While we also qualitatively assessed whether a given project could be considered a first mover specifically in terms of private financing committed to the sector, all projects flagged through this assessment were already captured through the early-mover filter detailed above.

2. The second filter aimed to account for the actual size of a given project, recognising that large enough renewable projects – even if undertaken in markets that have already seen some development – could reasonably claim first mover status if they were significantly larger than most other projects previously pursued. As such, the second filter flagged projects if the capacity being added by the project in question was greater than 10 per cent of the total financed capacity of the sector at the time of financial close.

Post-investment categorisation:

Having flagged early-mover projects through the Pre-Investment categorisation described above, we then used the same BNEF dataset on global renewable financing to assess whether private finance sources had continued – or ideally increased – their involvement in a given sector (such as wind in Egypt) *after* CP3 investment.

Final categorisation:

Together, the categorisation of the pre- and post-investment contexts described above in turn decided the assumed demonstrative potential of a given project.

- **High potential for demonstration**: Projects categorised as early movers, which saw ongoing (or ideally increasing) private investment in the sector after financial close.
- **Low potential for demonstration**: Projects *not* categorised as early movers, even if participation by private investors continued after financial close (the reasoning being that, if a given project is not an early mover, such a project – as well as any follow-up investments in the sector – would likely be considered replications of other, previously completed projects that *were* early movers). Additionally, any investment made into an existing asset rather than a green-field development automatically received "low potential" categorisation, as discussed in the main body of this report.
- **Stand-alone**: Projects are early movers to the extreme - most often the only projects of this type pursued in the relevant sector. As briefly mentioned previously, the success of such projects can still be argued to be demonstrating the suitability of investments in certain markets, even if other external factors – such as the capacity of transmission grids – have limited actual replication to date. Given that these projects are the earliest possible movers in their respective markets, any future investments in these markets will likely benefit from the learnings, pathways, and expectations that such early movers help to establish. As such we chose – perhaps generously – to recognise these projects as a separate categorisation with demonstrative potential somewhere between low and high. Finally, it is worth noting that only 3 projects out of 50 ultimately received this categorisation, so the decision as to whether to recognise the demonstrative potential of such projects is unlikely to change the overall findings and recommendations resulting from this analysis.

- **Unclear**: Projects in sectors for which available data is unclear, contradictory, or otherwise problematic.

Step 2: Desk research and interviews

Having broadly categorised the demonstrative potential of all 50 projects, we then randomly selected 3 from the pool of projects categorised as "high potential for demonstration effect", as well as 1 from the smaller pool of projects categorised as "Stand-Alone" investments, for further desk research and interviews to complement, confirm, or otherwise challenge the validity of our initial categorisation exercise described in Step 1 above.

Box 7: Additional notes on demonstration effect methodology

1. Data**:** In addition to the BNEF financing data described above, we also compared results with another BNEF timeseries dataset on installed renewable capacity (as opposed to financed renewable capacity, which might not yet be installed). In cases where BNEF financing data was found to be inconsistent or otherwise lacking, installed capacity data was referenced. Additionally, as such cases sometimes required a degree of subjective assessment, resulting categorisations were reviewed by multiple team members to avoid any inadvertent bias.
2. Dates of financial close: Actual dates of financial close were not available for all 50 projects considered in our analysis. In such cases, we used the average time lag between investment date and financial close for projects where this information *was* available in order to estimate the dates of financial close for projects that had only the investment date recorded.
3. Project sampling: This analysis focuses only on the renewable infrastructure assets within the CP3 portfolio, as these assets represented a significant portion of the overall portfolio that could reasonably be assessed using a unified approach and available data sources. While growth equity projects can also produce demonstration effects, any assessment of these projects would require specific approaches to assess the unique conditions of each individual sector represented. Additionally, and perhaps most importantly, assessment of demonstration effects requires a level of attribution that is even more difficult to attain in the case of growth equity investments. For example, an investment in the green-field construction of a wind farm can understandably claim a degree of credit for the resulting completion and operation of the wind farm. On the other hand, the attributable impact of a growth equity investment in an existing company is far more difficult to untangle from the success the company may still otherwise have experienced due to superior staff, product, or market positioning. Of the 115 investments that made up the CF portfolio at the time of analysis, 59 investments were categorised as focused on RE infrastructure assets. From these 59, 7 had been written off or abandoned, while another 2 were removed due to incorrect categorisation as strictly infrastructure assets. Together, this selection screening resulted in a final portfolio of 50 infrastructure projects relevant for consideration.

Findings

Table 20 summarises the results of the categorisation described in Step 1. Reasoning for each categorisation, along with additional insights garnered through interviews and desk research,

is also included. Finally, rows highlighted in orange indicate projects for which additional interviews and desk research were undertaken, while financial close dates marked with * are those that required estimation, as described in Box 7:.

Table 20: Demonstration effect project categorisation, reasoning, and other insights

[Removed due to commercial sensitivities].

Landscape analysis of CP3 finance flows

A landscape analysis of CP3 finance flows has been undertaken to provide insights into the flows and recipients of finance provided by CP3 and its co-investors. This approach is derived from CPI's GLCF, an annual, empirical study undertaken by CPI that assesses global financial flows towards mitigation and adaptation activities. It categorises flows along their lifecycles, from public and private sources and intermediaries, through a variety of financial instruments, to recipients and the final uses of climate finance on the ground.

1. The assessment will apply GLCF approaches and definitions as appropriate to CP3. The assessment will use empirical financial data reported through CP3 funds. It will capture financial flows from investors, through financial intermediaries to investments (holdings) on the ground.
2. Further, the M&E agents will provide a breakdown and analysis of current trends in the portfolio and what they mean in the context of CP3's objectives.

The team observed final trends in the portfolio regarding sectors, geographies, and the types of investments that are made, and reviewed who the investors in the programme are and where they come from.

Synthesis methods

Synthesis of evidence in one form or another was necessary for all aspects of the evaluation and for most EQs. For the purposes of the evaluation, we distinguish between 'descriptive' synthesis and 'explanatory' synthesis approaches. These not only have different purposes but also reflect different epistemological standpoints.[54]

Descriptive synthesis includes those approaches that aggregate quantitative data or present simple analysis of factually verifiable qualitative data. The findings drawn from this type of synthesis rely largely on facts or fixed assessment criteria and only minimally on evaluator judgement or interpretation. They reflect what Spencer et al. (2003)[55] described as a *scientific realist* epistemological position – that it is possible for knowledge to approximate closely an external reality. In this evaluation, we used descriptive synthesis to support the aggregation and analysis of reported results, and the assessment of economy and efficiency via the VFM analysis.

Explanatory synthesis was used for those EQs where a much greater use of evaluator judgement and interpretation was required. This is correlated with questions that require assessment of the extent of particular changes or the relative importance of some factors over

[54] This is based on an assessment of the conceptualisation of methods for synthesis as being on a continuum from aggregative approaches at one end to interpretive synthesis methods at the other and for the need for methods which both describe and explain reality. See: Thomas, J., Harden, A., and Newman, M., 2012. Synthesis: combining results systematically and appropriately. In: D. Gough, S. Oliver, and J. Thomas, eds. An introduction to systematic reviews. London: Sage, 179–226

[55] Spencer, L., Ritchie, J., Lewis, J., & Dillon, L. (2003). Quality in qualitative evaluation: A framework for assessing research evidence. London: National Centre for Social Research, Government Chief Social Researcher's Office, UK.

others or supporting thematic analysis. This approach underpinned our comparative analysis, which compared the CP3 components to other similar instruments in the market.

More broadly, the evaluation relied upon a critical realist epistemological paradigm – i.e. those situations where our knowledge of reality is mediated by our perceptions and beliefs and where multiple interpretations are possible using similar data. To do this, we established a framework for important programme stakeholders (for this evaluation it was BEIS and FCDO) to play a role in establishing the framework for analysis and assessing the relative importance of different interpretations alongside side this. To do this, we have developed and used a realist synthesis approach (described below) that uses an analysis of ICMO configurations to draw conclusions about how different contexts cause mechanisms of change to trigger, producing outcomes.[56]

A range of explanatory synthesis methods were applied in the evaluation, but, given the importance and level of effort invested in developing the realist synthesis framework, this is described in more detail in presented in Annex IV below. This includes explanations of our approach to data triangulation, saturation, and strength of evidence.

Data Collection methods and data sources

This section provides an overview of the methodological considerations in relation to the sources and use of data.

Document review

In terms of documentation review, the M&E agents reviewed, analysed, and coded:

- documentation for each of the three top-level investments, including the legal agreements between the funds and the UK government and their own internal policies (ACP, CF and SCAF II)
- the annual and biannual reports prepared by the M&E agents in the first four years of the evaluation
- the quarterly reporting prepared by CF and ACP
- the annual reporting from all three top level investments
- documentation on the sub-funds selected for case studies
- project-level documentation including ESG/ESMS policies, annual reporting, and investment agreements where available
- the four completed investment level case studies undertaken by the M&E agent
- additional legal and policy documents relevant to the operation of CP3 in the wider investment market.

Document data sources are set out in Table 21.

Table 21: Data sources used for document review

Primary data sources	Core secondary data sources

[56] Wong, G., Greenhalgh, T., Westhorp, G., Buckingham, J., & Pawson, R. (2013). RAMESES publication standards: realist syntheses. *BMC medicine*, *11*(1), 21.

• Financial statements from CF and ACP • Programme operations documents from CF, ACP and SCAF • Data requests made to relevant funds • Investment reports • Due diligence information and investment decision reporting • GHG emissions and other development impact reporting • Market studies • Other company documents • Quarterly financial reports from funds • Reporting on fundraising by CP3 funds	• EMPEA Survey on investor attitudes. • IRENA Global Landscape of Renewable Energy Finance. • IESE VC/PE Index. • Climatescope. • CPI GLCF. • Renewable Energy Country Attractiveness Index. • BNEF database. • Public information regarding the venture, the financial transaction, country level context, and the context and policy environment.

Financial data review

Equity M&E agents collected and managed data on the investments made by the CP3 funds and sub-funds. Investments are grouped into two categories: infrastructure project finance and growth equity. Data gathered on these types of investments includes:

- all equity and debt provided for infrastructure project finance transactions
- equity investment amounts and ownership shares for a growth equity investment.

The M&E agents obtained the following data from financial statements, and data requests to fund managers, in particular:

- financial statements, typically quarterly, from the CF and ACP
- data requests made to relevant (sub-)fund managers.

The ToC and EQs require making a comparison between the profile of investments made by CP3-supported funds against global finance flows against sector indices. Two sources were primarily used:

1. **The CPI Landscape of Climate Finance**: This study, updated annually, aims to provide the most comprehensive and meaningful study of climate finance data possible. The study documents the total flows of climate finance and has a detailed methodology bringing together data from a wide range of sources. This includes a survey distributed to DFIs and project-level and aggregate data from a variety of sources.
2. **Industry-specific databases:** The main data sources are Preqin and Bloomberg New Energy Finance. Data such as industry returns, capital allocations, deal structures, and sizes were used to conduct benchmarking and assess industry trends. These data sources are comprehensive. Preqin, for example, has information on 7,000 funds, 2,000 PE firms, and over 5,000 investors.

Table 22: Data sources for CPI Global Landscape of Climate Finance 2021

Category	Flow	Source of data	Data granularity
Private	**Private finance**	BNEF (2021a) BNEF (2021b)	Project-level (large-scale renewable energy projects) Aggregated (small-scale solar)

Category	Flow	Source of data	Data granularity
		Convergence (2021)	Project-level
		Proprietary data from Climate Bonds Initiative	Project-level
		IEA SHC (2021)	Aggregates (solar water heater capacity additions)
		Proprietary data from IEA on electric vehicle charging	Aggregated
		Proprietary data from IEA on electric vehicle investment	Aggregated
		IJ Global (2021)	Project-level
		REN21 (2015)	Aggregated (solar water heater country and regional capacity costs)
Public	**DFIs ***	Surveys*	Project-level or aggregated (depending on reporting institution)
		Convergence (2021)	Project-level
		BNEF** (2021a)	Project-level (large-scale renewable energy projects)
	Climate Funds	OECD (2021b)	Project-level
		Annual reports/websites	Project-level
		Climate Funds Update via ODI/HBF (202-)	Project-level
	Governments and their agencies	OECD (2021b)	Project-level
		BNEF (2019a)	Project-level
		Proprietary data from Climate Bonds Initiative	Project-level
		IEA (2021)	Aggregated

** This year's report includes primary survey data from 40 DFIs.*
*** Additional data not provided in the surveys or OECD reporting*

Field visits

As part of the contribution case study, a market analysis of the Jordanian renewable energy market was conducted. This required engaging a Jordanian consultant working with the M&E

agents to conduct face-to-face interviews, engage with other local experts and consultants, and access materials unavailable online or publicly. The consultant spent three weeks collecting data in Jordan and through there were was able to interview key figures in the public sector, at various levels of government, within the private sector, and a range of independent development consultants working in the sector. The interviews were then analysed and synthesised to provide a market analysis for use in both the contribution analysis and in the wider evaluation as a data source.

Stakeholder interviews

The ToC and EQs highlight the importance of collecting stakeholder perception in relation to several of the key EQs and areas for exploration. The views of experts were essential in accessing multiple interpretations of the observed trends at impact level and in understanding the contribution of CP3. Interview protocols were developed for each stakeholder group based on their expertise, position, and time available to ensure we collected and prioritised data against the required EQs. The M&E agents sought to interview a diverse set of stakeholders involved to get a sufficiently representative range of viewpoints – including fund managers, LPs, project developers, local constituents that may be affected by a CP3-funded project, and other fund-of-funds donors. In all cases, these viewpoints were triangulated with alternative data and evidence sources to minimise stakeholder bias and overweighting of opinion. A provisional sampling frame for semi-structured interviews with stakeholders to be interviewed as part of the evaluation is presented in the following section.

The M&E agents had some key considerations for the stakeholder consultations:

- **Interview structure:** All interviews were semi-structured to facilitate free dialogue and potentially generate information additional to that which the M&E agents initially seek.
- **Interviewers**: All interviews were conducted by core team members who were skilled and experienced in data collection. Interviewers worked in pairs or groups to ensure coverage and note taking, and enabled any potential issues to be flagged and addressed.
- **Invitation to interview**: All interviewees were contacted and invited to interview by the M&E agents directly or through one of the focal points within the CP3 ecosystem (for example, the CF fund manager). Stakeholders were provided the questions in advance to ensure they understood what would be covered in the discussion.
- **Respondent consent**: Consent to record the interviews and to store the respondent's contact details was sought from all interviewees.
- **Method of recording**: where possible and when interviewees gave consent, interviews were audio-recorded and transcribed by core team members, in part to ensure accuracy and in part to manage challenges posed by time-zone differences across the programme, ensuring those who cannot join every interview could still hear the first-hand responses.
- **Trialling of data collection tools:** Interview questions and data collection tools were developed by the M&E agents, with several experts feeding into their development. They were trialled and tested by other colleagues prior to being used, to ensure their effectiveness as a data collection template.
- **Interview consistency**: Interview scripts were developed including a standardised introductory script for all interviews. The questions asked were updated based on the role of the interviewee but retained a common core purpose across interviews. Not all interviewees were asked all questions.
- **Respondent anonymity**: respondents were anonymised, as far as possible.

Sampling approach

Sampling stakeholder interviews

A sampling framework for stakeholder interviews is presented in Table 23 below. Due to the nature of the CP3 programme and the evaluation methods selected, interview sampling was be purposive and considered diversity of each stakeholder group to ensure different viewpoints informed the overall evaluation.

Table 23: Stakeholder sampling framework

Stakeholder group	Number sought	Number achieved	Engagement mechanism
UK government representatives (past and present)	10	7	Bi-monthly meetings and catch ups
CP3 Fund Managers (including CF, SCAF and sub-funds)	12	15	Semi-structured interviews conducted remotely.
CF LPs/SCAF Donors	4	4	Semi-structured interviews
Co-funders for CP3 funds and/or projects, and follow up funds led by CP3 funds	8	0	Unfortunately due to the timing of follow up funds and the sub-funds, no co-funder information was shared.
Comparator initiatives to CP3	3	7 (SEFA, GEEREF, BII, GGF, Climate Investor One)	Semi-structured interviews conducted remotely.
Local market experts (for countries covered by contribution analysis)	8 (minimum expected, to be reviewed during contribution analysis)	17 (Jordan Study)	Semi-structured interviews conducted in-person and remotely.
International experts	5	3	Semi-structured interviews conducted in-person and remotely.
Developers of CF infrastructure project investments	3 (maximum expected, to be reviewed based on projects selected as part of the assessment of demonstration	2	Semi-structured interviews conducted in-person and remotely.

Stakeholder group	Number sought	Number achieved	Engagement mechanism
	effect; in some cases, fund managers act as the project developers themselves)		
Total	53	55	

Selection of case studies and comparators

The evaluation relies on a sampling approach to select the units of analysis for the contribution analysis, the demonstration study and our comparative analysis. In brief, the M&E team conducted three contribution analysis, one comparative analysis, and one thematic study on demonstration. These studies were selected to answer specific EQs on coherence, impact, and on the demonstration effect, given discussions on evaluation priorities with the UK government.

For the comparative instruments, the M&E agents conducted a desk-based analysis of other similar instruments, identifying key similarities (types of finance provided, types of partners supported, sectors and geographies targeted, etc). An initial assessment and sampling strategy was presented in early June to the FCDO and BEIS. Collaboratively, the M&E agents and the UK government selected the five instruments for inclusion in the more in-depth comparative analysis.

For the contribution studies, cases were purposively selected where the M&E agents identified that potential contribution to outcomes observed may be likely. Similarly, for the demonstration effect, project cases were purposively selected for interviews and further desk research from the pool of projects categorised in the initial step of analysis as having “high potential for demonstration”. More methodological information on the contribution analysis and demonstration effects, including on the sampling approach applied, are included in full in the relevant supporting studies.

Consideration of cross-cutting issues

The M&E agents were conscious of the range of cross-cutting issues that are of interest to the UK government. Below we present relevant evidence that was collected on selected topics relevant for the CP3 programme below.

Gender considerations

CP3 funds invest based on commercial considerations and do not specifically target investments that have gender benefits. An assessment of gender has not been conducted. The M&E agents are unable to provide any gender-relevant indicators (for example jobs) as this was not provided by the fund managers. The M&E agents did not specifically seek to capture evidence of gender benefits and very limited evidence was collected. While the ESG systems applied by the programme ensure that social impacts are considered in investment decisions, we collected limited evidence of how the ESG systems produced benefits directly for women or other social groups as part of this evaluation. A more focused gender and social impact assessment of selected investments could be explored in future evaluations.

Consideration of DFID's commitment to human rights, as well as poverty, environment, and anti-corruption

The mechanism by which CP3 will contribute to poverty reduction is by investing in businesses and projects that generate economic opportunity and deliver basic services, or by creating demonstration effects that increase the flows of private finance to said investments, especially in low- and middle-income countries. The following activities were tracked by the M&E agents to understand CP3's contribution to poverty reduction: volume of CP3 investments disaggregated by region and by low and middle-income countries; the percent of CP3 investments applying ESG safeguards; number of first-time fund managers supported by SCAF; number of jobs created; and type of jobs created in specific investments. Evidence was collected within this evaluation to assess progress against these indicators. In addition, the evaluation collected evidence about CP3's role in incentivising ESG integration and application to other investments, and how it has built the capacity and contributed to the success of supported fund managers, including first-time fund managers. Section 4.5 covers the M&E analysis and findings on these issues.

Ultimately CP3 intends to enable developing countries to pursue a LCCR development path that results in growth, poverty reduction, and climate change mitigation. CP3 is not a directly targeted mechanism, and it is therefore not realistic to measure the extent to which CP3 has reached vulnerable groups or addressed issues of HIV/AIDS, human rights, power relations, or anti-corruption.

The impactThe impact level assumptions in the ToC are medium- to high-risk assumptions. The assumptions that CP3 will catalyse sufficient growth in LCCR investment to influence countries' development paths, and that this growth will have positive distributional benefits will not be tested during the evaluation. However, the M&E agents have collected evidence on the programme's development impacts in the short- term, focusing particularly on increased flow of finance to low-income countries, job creation, and energy installation.

Exploration of the Paris Principles

The Paris Declaration on Aid Effectiveness aims to improve the quality of aid and its impact on development. It outlines five fundamental principles: ownership, alignment, harmonisation, results, and mutual accountability. The evaluation did not explore these issues in depth as there are particular challenges in the commercial nature of the programme and the fact that decisions on investments are made by fund managers and not by aid providers. The alignment to Paris principles was also not included in our approach paper, and thus evidence was not sought out, nor did the M&E agents come across evidence that CP3 was following these principles explicitly.

However, some aspects of harmonisation were covered in the coherence findings above, which consider whether CP3 is duplicative or coherent in relation to ongoing efforts. The comparative analysis identified that while there are other institutions offering some similar services, very few mechanisms provide PE alongside the private sector to support low-carbon development and encourage private-sector entry in this market.

Approach to quality assurance

The M&E agents are committed to a multi-layer quality assurance system for all deliverables including this strategic evaluation. Our QA approach addresses all dimensions of quality, including evaluation design, process, outputs, teams, processes, and timeliness. All reports and products were quality assured, and content checked before formal submission to the

client. QA for this evaluation delivered by our strategic advisory and quality assurance panel. They reviewed and assessed the quality of the approach paper, separate sub-studies (including the contribution and demonstration effect studies) and the data collection tools. Throughout this strategic evaluation, the following was integrated into our approach, and used as a guide for QA:

- **HM Treasury Magenta Book** is used as a reference document as the evaluation proceeds.
- Reports were produced in line with the **Department for Work and Pensions' research reports style guide** and **DECC Social Research Report Writing Guidelines** and **FCDO smart rules**, where applicable.
- The requirements for data quality outlined in the Office for National Statistics Guidelines for **Measuring Statistical Output Quality** were followed.

For quality assurance of formal reporting, the panel followed the **OECD DAC quality standards** and engage in robust peer review and quality assurance procedures, which are incorporated into quality checklists for all outputs. This also includes an assessment of the contextualisation of the issues, robustness of data collection and analysis, consultation of stakeholders and beneficiaries, validation of findings, provision of evidence-based conclusions, and practicality of recommendations. The quality checklist includes assessment according to three criteria:

- **Process criteria**: Where the focus is on how evaluations are done (e.g. relevance, timeliness, accessibility, inclusiveness).
- **Normative criteria**: Where the focus is on principles of evaluation behaviour (e.g. independence, impartiality, ethicality).
- **Technical criteria**: Where the focus is on attributes of the evaluation methods used (e.g. reliability and validity).

In addition to our panel, other team members played an important role in quality assurance of the evaluation outputs and processes, including:

- the M&E Lead, who managed methodological rigour, quality of data collection templates, analysis, and findings to match to client needs
- the Climate Finance Lead/Project Manager, who managed methodological rigour and technical accuracy
- external CPI and NIRAS experts, who proofread the language and check for formatting and language.

Limitations to the overall assessment

Due to the nature of the CP3 programme and the complex environment in which it operates, there were a number of limitations to data collection and analysis. Limitations with some of the methodologies that were applied (i.e. additionality) are discussed in separate papers.

Availability and accessibility of data

Data collection was somewhat restricted by the availability of data, both on a programme level and a wider market level. Much of the data collected or sought was commercially sensitive due to its financial nature and was only available in a limited format, if at all. In particular, when looking for data on investments and market decisions outside CP3's influence, such as policy developments or actions of other private-sector players, there were often barriers or

restrictions limiting the available data and evidence. This was particularly relevant for the demonstration effect study and the contribution analysis on follow up funds. Even within CP3's portfolio there were some data limitations. The fund-of-funds and sub-funds all have multiple investors, the details of which were commercially sensitive and thus unavailable. Where it was not possible to collect sufficient data at this stage, this has been clearly outlined in relevant findings (for example, lack of data on achievement of long-term impacts due to the age of the programmes). In other cases, the team worked hard to gather alternative sources of data (such as proxy indicators and benchmarks) to support triangulation of findings where appropriate.

Access to stakeholders for interview posed a particular challenge as even at the sub-fund, partners were hesitant to engage with the M&E agents. In some instances, partners were unwilling to provide the M&E agents access to other stakeholders (i.e. future investors, other investors, etc) given commercial sensitivities of ongoing investment processes. This is was to be expected and where possible other data sources were used to triangulate findings.

In emerging markets without robust financial systems, data collection was further limited by lack of historic or accurate data. The use of market experts or core market stakeholders where available, such as in El Salvador, improved the quality and availability of this data, as did the direct engagement activities as part of the field work.

Case study limitations

The CP3 programme has a reasonably large and diverse portfolio, spanning dozens of countries and sectors. As such, not every investment, holding, or sub-fund could be involved in a case study or explored in sufficient depth to provide evidence for this evaluation. The sampling strategy has been purposive (that is, focused on ensuring specific characteristics under investigation are represented within the sample) but systematic in terms of selection, and thoroughly documented in order to mitigate risks of sampling bias and maximise learning. The sample for this evaluation has been constructed to explore specific aspects of the ToC and so may not generate the same quality of evidence to understand other aspects of the ToC.

Generalisability of findings for the contribution analysis and case studies

One limitation of some of our methods, including contribution analysis and case studies is that there may be insufficient relevance evidence gathered or available could lack the relevance needed to provide a well-rounded, contextualised assessment of the programme's contribution of the programme. The evaluation has sought to make clear how the findings were generated and in which context they are relevant and appropriate.

Tendency for positivity bias in stakeholder interviews

Bias in data derived from human sources is inevitable. Sampling of stakeholders was purposive, systematic and based on their willingness to speak to the M&E agents. For example, the M&E agents tried to interview stakeholders for the relevant studies, but not all stakeholders responded or were willing to engage in discussions. This may have meant that stakeholders willing to participate were more willing to provide positive feedback. Interviews were guided by a questioning structure and protocol that determined how the interview should be conducted, specific questions to ask, confidentiality information to ensure participants felt they could speak freely, including to feel comfortable speaking about failures and ways that

programme did not contribute to any outcomes. To support analysis, interview transcripts were annotated and factors that influenced responses were considered. Despite the clear protocols, there remains a risk of positive bias despite efforts made by the review to ensure impartiality.

It could be too early to assess changes, let alone CP3's contribution to these changes.

It may be still too early to sufficiently determine CP3 contribution to any changes, particularly at the market level. The analysis will focus and prioritise where there is evidence of change to maximise learning. When sampling cases to investigate or stakeholders to interview, priority was given to these later stage investments to maximise the potential of finding "demonstration effects" evidence, as well as looking for interim outcomes that show change is likely.

Annex IV: Realist synthesis approach and findings

Methodology

Several EQs require use of realist synthesis[57] principles to understand why and how an intervention is operating.[58] The use of realist synthesis is appropriate as the M&E agents recognise that the context where individual investments are operating makes important differences to the mechanisms and outcomes and that no programme works everywhere, for everyone. Our approach explores why interventions may or may not work, in what contexts and for whom.[59] Our realist approach considers how contextual factors, including those at the investment level and at the global level, have shaped and influenced mechanisms of change to achieve outcomes. This approach is appropriate for CP3 as it works well when evaluating new initiatives that seem to work, but the how and why is not fully understood, to generate learning about how to adapt the programme to new contexts and when programmes have mixed patterns of outcomes[60].

In Phase II, the ICMOs have been revised and new ICMOs have been developed. This is due to the increased programme maturity, allowing the evaluation to explore higher order outcomes and the mechanisms leading to them, as well as the increased programme understanding shared by the M&E agents enabling greater specificity. The revised ICMOs are presented in Table 24 below, split across the core CP3 pathways of changing investor perceptions of risk and developing technical capacity. It should be noted that ICMO1 and ICMO2 were considered together as one larger, multi-stage ICMO in order to capture the intermediate outcomes which are expected to trigger later stage mechanisms.

Table 24: Revised ICMO statements

ICMO name	ICMO statement
Investor Perception ICMOs	
ICMO1: Commercial Returns	By the UK government investing public money at an early stage in the CF and ACP (I1), in a context where there are sufficient LCCR investment opportunities (C1a), investment markets maintain stability (C1b), and exit strategies are effectively developed and employed (C1c), CF and ACP make and maintain appropriate investments (M1), resulting in commercial returns and satisfactory performance in sector indices (O1).
ICMO2: Risk Perception (Demonstration Effect)	By CP3 demonstrating the commercial viability of LCCR investments made by the CF and ACP (I2), in a context where limited LCCR investment information is made accessible in the market (information asymmetry) (C2a), new investors are interested in growth markets (C2b), and evidence from the build up of an audited CP3 investment

[57] The principles that were applied will draw on the approach outlined by many sources below. The primary ambition of our synthesis principles focus on the importance of explanation building, assessing if the evidence collected contributes to these theories, what refinements to these theories are needed and how context influences any changes observed. With the resources available for this evaluation and the other evaluation activities planned, the evaluation may not apply a purist evaluation approach, but recognises the benefits this approach can bring to specific questions.

[58] Realist methods seek to understand the mechanism that causes change and combine both quantitative approaches (to explain the context and outcomes) and qualitative approaches to explain the 'generative mechanism', that is, the reasoning of the actors that lead to the change occurring. Realist analysis approaches include QCA, process tracing and comparative analysis.

[59] Rycroft-Malone et al. (2012) Realist synthesis: illustrating the method for implementation research. Implementation Science, 7:33

[60] Westhorp, G. (2014) 'Realist impact evaluation: an introduction'. Methods Lab. London: Overseas Development Institute.

ICMO name	ICMO statement
	track record is made available to market actors (C2c), new investors perceive risk and potential returns in this sector differently, (M2), resulting in increased LCCR investment outside the CP3 investments in the selected markets (O2).
ICMO3: Investment Mandate	By the UK government defining a LCCR-aligned investment mandate that is well communicated through contractual arrangements to CF and ACP (I3), where there are relevant opportunities that meet the mandate (C3a) and the investment enabling environment remains stable or favourable (C3b), CF, ACP and the sub-funds understand and will select and maintain investments that are compliant with the mandate, (M3), resulting in investments that generate development impacts including green jobs, installed clean energy capacity, energy efficiency and GHG emissions reductions (O_3).
ICMO4: Vehicle Choice	By the UK government selecting PE funds as the financial vehicle to deliver development funding to LCCR projects (I4), where alternate funding mechanisms were available (C4a), but where availability of early-stage or "missing middle" capital remains limited (C4b), CF, ACP and SCAF are able to address the “missing middle” financial challenge for the investment companies (M4), enabling them to reach financial close and access alternate project funding sources including debt financing (O4).
ICMO5: Broker Role	By the UK government, CF and ACP playing a brokering role, supporting and facilitating fundraising and co-investment/aligned investments (I5), in a context where companies are seeking additional investment funds (C5), other investors are reassured and encouraged to participate in investments (M5), resulting in the investee companies reaching financial close (O5).
Technical Capacity Development ICMOs	
ICMO6: SCAF Technical Assistance	By SCAF providing enterprise development support and seed capital financing to cooperating partners (fund managers and DevCos) (I6), in a context where financially viable projects are available (C6a), operate in a supportive enabling environment (C6b) and understand the SCAF investment standard requirements (C6c), SCAF-supported companies are able to develop in a commercially sustainable manner through feasibility and scoping studies, ESG integration, local engagement and development of exit strategies (M6), and as a result access conventional finance to reach financial close and flowback the initial SCAF financial support (O6).
ICMO7: SCAF Pipeline Development	By the UK government providing funding to the SCAF and SCAF providing technical support to fund managers and DevCos (I7), in a context where SCAF is able to find suitable cooperating partners (C7a) and where the CF, ACP and comparable funds are continuing to seek early- to mid-stage LCCR opportunities (C7b), SCAF partners prioritise seed capital or very early-stage capital commitments (M7), which generates a pipeline of commercially viable LCCR investment opportunities for CF, ACP and other comparable investors (O7).
ICMO8: Track Record	By the UK government, CF and SCAF investing in first-time LCCR fund managers (first-time LCCR investors or existing LCCR investors moving into new markets) (I8) in a context where there are opportunities to

ICMO name	ICMO statement
	enter new markets or sectors (C8a), the fund managers have capacity to support patient investments (C8b), and opportunities for further financial leverage exist (C8c), the fund managers are able to develop their capacity to research and invest in LCCR opportunities in a financially secure and supportive environment to develop track record (M8), allowing them to build trust and raise additional private financing or open follow-on funds (O8).
ICMO9: ESG	By the UK government requiring strong adherence to best practice in environmental, social and governance standards for CF, ACP and SCAF (I9), in a context where ESG safeguards are beneficial to funds (C9a), investees have the required capacity to implement the necessary systems (C9b), and investors understand the value of ESG safeguards but do not have experience or incentives to invest in compliance (C9c),the CP3 funds are encouraged to ensure the development of systems to apply ESG safeguards across their investments making those investments more attractive to other investors (M9), increasing the adoption of high-quality ESG standards in the market by other investors (O9).

Data coding

The realist synthesis includes a semi-quantitative approach to data coding, in which evidence is scored against the individual components of each ICMO depending on whether it supports the statement or not, and to what extent.[61]

The most critical element of the ICMO for understanding whether a programme functioned as expected is the mechanism. As such, the coding for the mechanism is relatively simple, with a quantitative score for evidence which either supports the accuracy of the mechanism statement or not. This quantitative scoring enables a broad assessment as to whether evidence indicates the mechanism has occurred as initially expected, or whether something different has happened.

In scoring the interventions, a quantitative score has not been applied to the accuracy of the statement itself but to the strength of linkage between the intervention identified and the mechanism to be tested. Due to the nature of interventions, they are rarely disputed and so for our realist approach it is assumed that the interventions have occurred as expected. It is more interesting to explore which interventions contributed to which mechanisms and outcomes. As such, the coding focuses on the strength of the linkage found between a given intervention and its ICMO mechanism. Where an overall weak linkage is found between a given intervention and mechanism, an alternative ICMO was developed which more accurately reflects the evidence found. A similar approach has been used for outcomes to ensure the framework enables capturing qualitative evidence of unexpected outcomes or outcomes with a stronger link to a given mechanism than envisioned.

On contextual factors, a more flexible, deductive approach has been adopted that identifies which contextual factors are relevant from the evidence to enable qualitative analysis once

[61] Using the methodology detailed in Murdoch, C., Keppler, L., Burlace, T. and Woerlen, C. (2022), Using a Realist Framework to Overcome Evaluation Challenges in the Uncertain Landscape of Carbon Finance, Transformational Change for People and the Planet, Springer

the coding has been completed. This is due to the breadth and complexity of contextual factors which are expected to play a role in triggering the identified mechanisms of change. As such, unlike the other ICMO components, a quantitative scoring has not been developed for the context as it was analysed qualitatively. The fields for coding are presented in Table 25 below.

Table 25: ICMO coding system

Statement	Score	Description
Intervention	*Assigned intervention*	Yes/no based on intervention established in ICMO
	Strength of linkage	Positive or negative score based on strength of connection
	Alternative intervention	Does the evidence indicate other identified interventions led to mechanism?
Context	*Contextual factors*	Which identified contextual factors does evidence support?
	Other	What other contextual factors are identified by the evidence?
Mechanism	*Score*	Per evidence scoring guide, based on evidence signifiers
Outcome	*Score*	Per evidence scoring guide, based on evidence signifiers
	Strength of linkage	Positive or negative score based on strength of connection
	Alternative outcomes	Does the evidence indicate other identified outcomes caused by the mechanism?

Each piece of data is scored twice: once for the strength of the evidence; and once for the content of the evidence in relation to the ICMOs, using the guide outlined in Table 25 below. The strength of evidence score applies a multiplier to the content score, recognising that verifiable and authoritative sources provide more convincing evidence than plausible, subjective sources, described in Table 26 below.

Table 26: ICMO evidence scoring guide

Score	Definition
3	Evidence strongly supports ICMO statement. Multiple or all signifiers are met, or particularly strong evidence towards select signifiers is provided.
1	Evidence partially supports ICMO statement. Some signifiers have been met, or evidence supports the overall statement without meeting the signifiers.
-1	Evidence partially contradicts ICMO statement. Evidence disproves or creates doubt in some signifiers have been met, or evidence contradicts the overall statement without opposing specific signifiers.
-3	Evidence strongly contradicts or disproves ICMO statement. Multiple or all signifiers are countered or disproved, or particularly strong evidence negating select signifiers is provided.

In addition, all pieces of evidence collected, including secondary data and stakeholder interviews, have been assessed for “strength of evidence” following the categories listed in

the rubric below (Table 27). This generates a score modifier for each piece of evidence in our realist coding matrix, enabling an assessment of the strength of evidence of each finding to be clearly presented based on the aggregated results of the strength of evidence supporting that finding. This helps to ensure that the evaluation relies on triangulation across multiple plausible and verifiable evidence sources to have greater confidence in findings. A second multiplier is also applied of X2 for previous evaluation outputs, recognising they include synthesis of multiple evidence sources.

Table 27: Strength of evidence rating[62]

Type	Description	Modifier
Verifiable evidence	Refers to data that are both plausible and possible to verify. Such evidence generally describes quantifiable measures that can be physically counted.	X2
Plausible evidence	This includes evidence that may make a plausible claim but may draw heavily on assumptions from secondary literature. Alternatively, it may refer to evidence which is the plausible conclusion drawn by an expert stakeholder or observer. There may be evidence presented to justify this view but no methodology against which the validity of the conclusion can be verified.	X1
Minimal evidence	Some documents may simply claim an outcome but there may be no information about the data or methodology used to evidence this claim. Alternatively, a claim may be supported by some evidence, but other contrary evidence is also provided. This evidence will not be coded but was used to signpost potential data and a need for further analysis.	X0

Evidence saturation

Saturation is the point in data collection when no new or relevant information emerges with respect to the newly constructed theory/hypothesis/assumption. Saturation is often considered a matter of degree and its relevance has been contested because if one searches long enough, there will always be the potential for alternate evidence to emerge. The M&E agents define ‘saturation’ as reaching the point where sampling more data will not lead to more substantive information related to the EQ, and does not necessarily add anything to the overall story, model, theory, or framework.

In practice, collecting sufficient data for saturation can be difficult, particularly when considering trade-offs of budget, timings and access to stakeholders or small sample sizes. Given the consideration of these constraints to the evaluation, the M&E agents have developed clear saturation criteria (as outlined in Table 28 below) that was applied to ensure transparency in the saturation level of each finding and which are applied for the ICMO coding.

Table 28: Evidence saturation rating

Evidence saturation level	Rating

[62] Adapted from RIMT (2008) Evaluation of the Stronger Families and Communities Strategy 2000 - 2004

>75 per cent convergence of relevant evidence supporting finding	Green saturation level –treated as confirmed by evidence
75-60 per cent convergence of evidence supporting finding	Amber saturation level – treated as partially confirmed, but will note the level of saturation and divergent views
<60 per cent convergence of evidence supporting finding	Red saturation level – not treated as confirmed and discussed within the findings

ICMO coding results

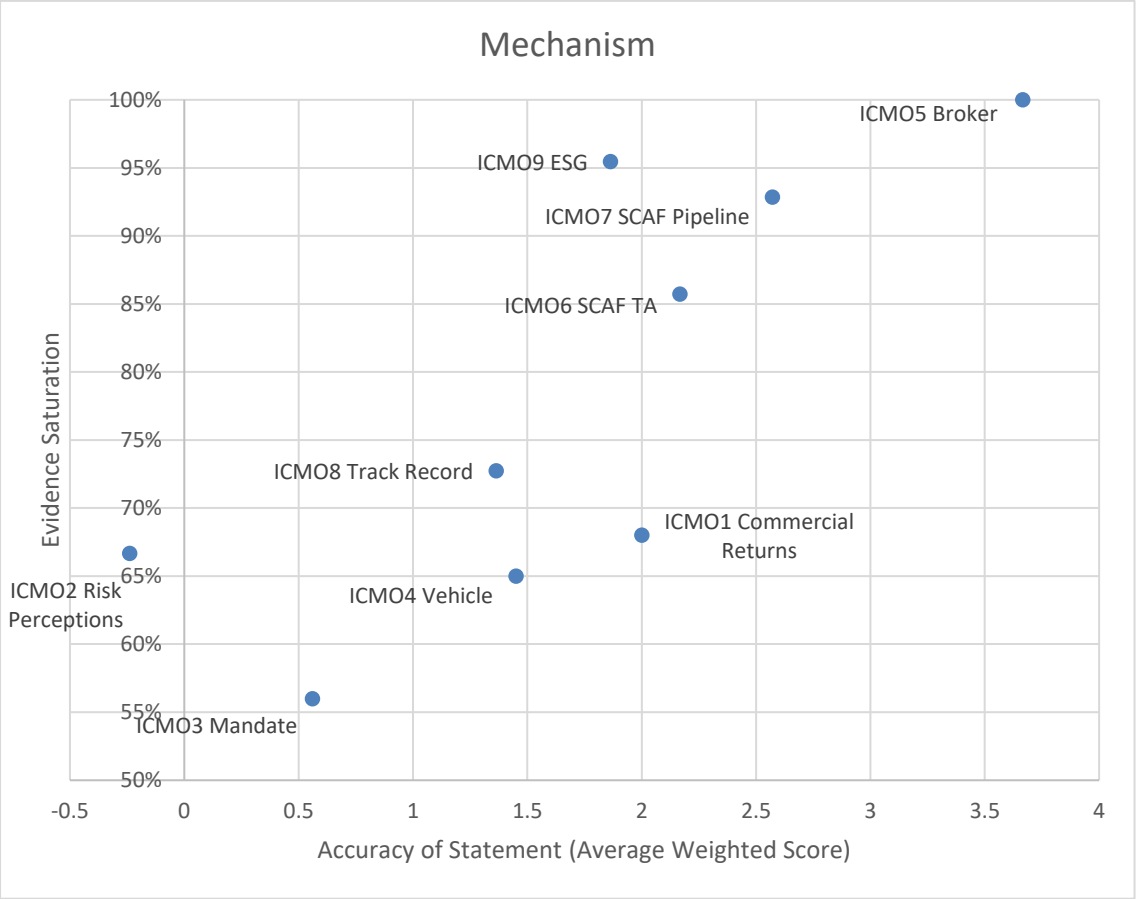
The coding generates several scores, including the overall data score for each statement, the total data points scored, the average data score, and the data saturation percentage. The latter two scores are the ones we are most interested in as they answer the questions of how accurate the ICMO is based on the evidence, and whether sufficient triangulation of evidence has been achieved.

The following charts summarise the results for all ICMOs in terms of the score and saturation for the mechanism, intervention and outcome. This is followed by narrative description of analysis against all ICMOs. In all cases, results trending to the top and right of the chart demonstrate stronger support within the evidence. In general, components with an average weighted score of 2 or higher can be said to be strongly demonstrated by the evidence, and those with scores of 0-2 can be said to be somewhat or partially demonstrated by the evidence. The same applies inversely for negative scores. For saturation/triangulation, only positive are presented on the graphs. A typology of the results represented on the graphs is provided in Table 29 below.

Table 29: ICMO results typology

Saturation	Negative average score	Low positive average score	High positive average score
High (75%+)	Majority of evidence indicates statement is inaccurate	Majority of evidence indicates statement is at least partially accurate	Majority of evidence indicates statement is accurate
Medium (60-75%)	Most evidence indicates statement is inaccurate, or opposing evidence is of a higher quality/strength	Most evidence indicates statement is at least partially accurate, or supporting evidence is of a higher quality/strength	Most evidence indicates statement is accurate, or supporting evidence is of a higher quality/strength
Low (<60%)	A balance of supporting and opposing evidence was found, but the opposing evidence is of a higher quality/strength	A balance of supporting and opposing evidence was found, but the supporting evidence is of a higher quality/strength	A balance of supporting and opposing evidence was found, but the supporting evidence is of a higher quality/strength

Figure 25: Summary of mechanism scores


Mechanism
Evidence Saturation
Accuracy of Statement (Average Weighted Score)
ICMO5 Broker
ICMO9 ESG
ICMO7 SCAF Pipeline
ICMO6 SCAF TA
ICMO8 Track Record
ICMO1 Commercial Returns
ICMO2 Risk Perceptions
ICMO4 Vehicle
ICMO3 Mandate
100%
95%
90%
85%
80%
75%
70%
65%
60%
55%
50%
-0.5
0
0.5
1
1.5
2
2.5
3
3.5
4

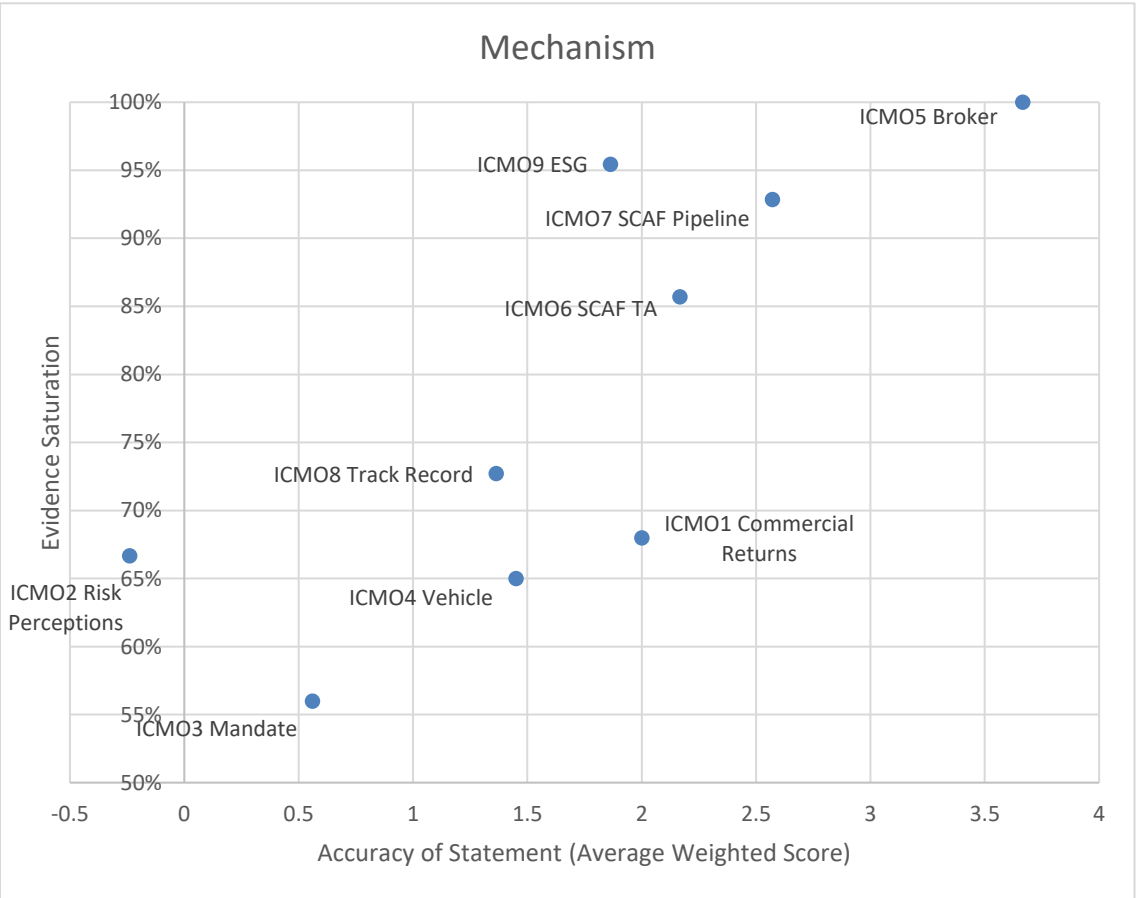
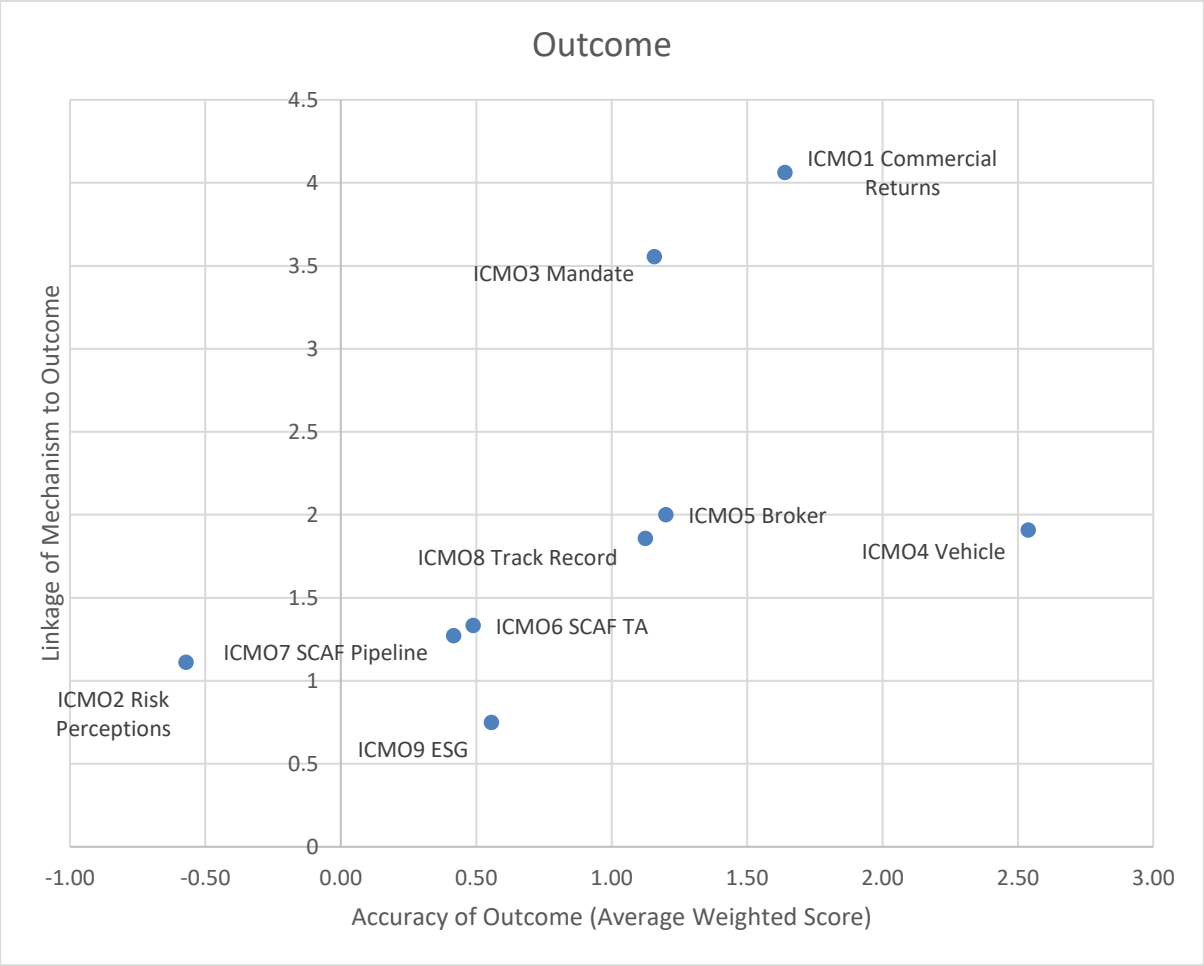
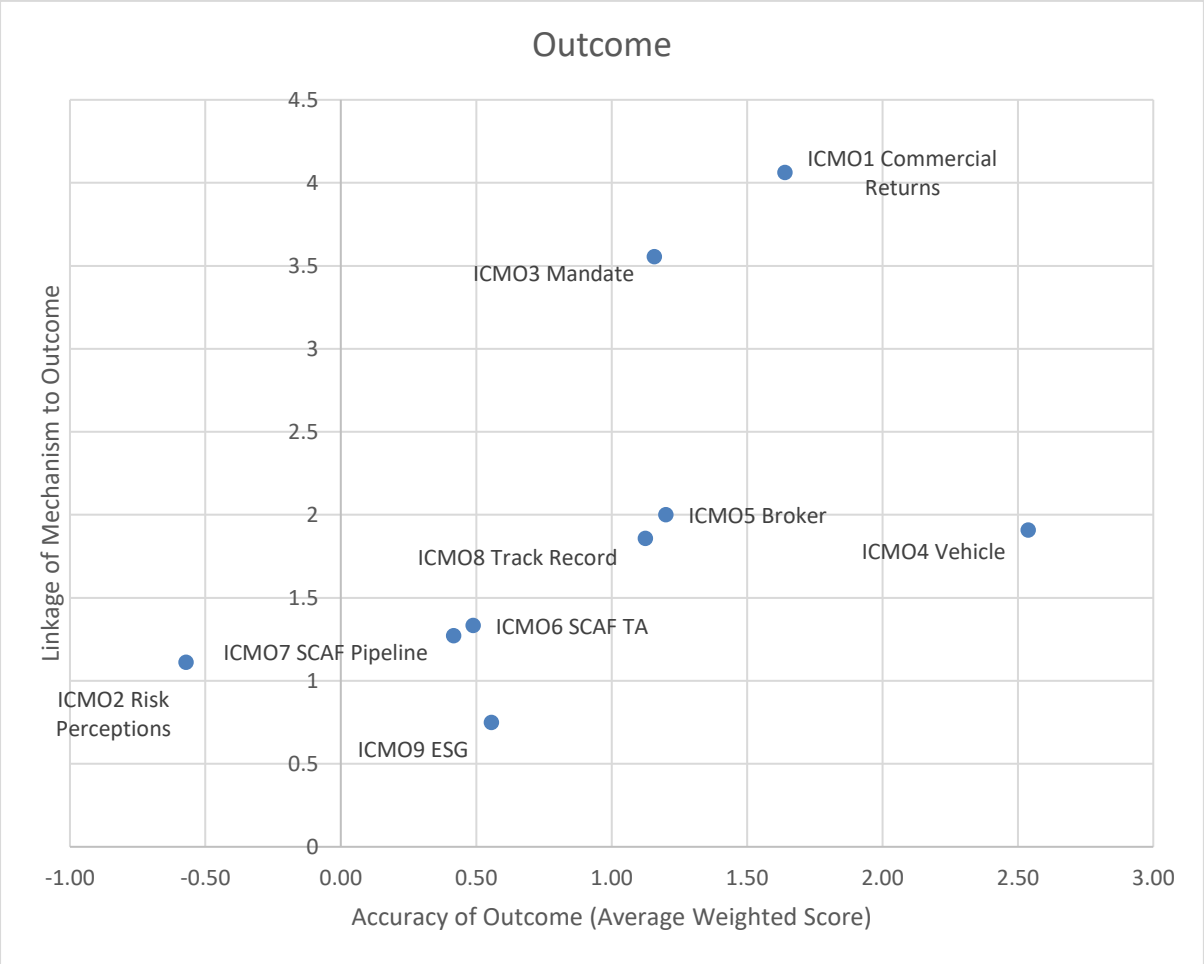

Mechanism
Evidence Saturation
Accuracy of Statement (Average Weighted Score)
ICMO5 Broker
ICMO9 ESG
ICMO7 SCAF Pipeline
ICMO6 SCAF TA
ICMO8 Track Record
ICMO1 Commercial Returns
ICMO2 Risk Perceptions
ICMO4 Vehicle
ICMO3 Mandate
100%
95%
90%
85%
80%
75%
70%
65%
60%
55%
50%
-0.5
0
0.5
1
1.5
2
2.5
3
3.5
4

Figure 26: Summary of intervention scores

Figure 27: Summary of outcome scores


Outcome
Linkage of Mechanism to Outcome
Accuracy of Outcome (Average Weighted Score)
4.5
4
3.5
3
2.5
2
1.5
1
0.5
0
-1.00
-0.50
0.00
0.50
1.00
1.50
2.00
2.50
3.00
ICMO1 Commercial Returns
ICMO3 Mandate
ICMO5 Broker
ICMO8 Track Record
ICMO4 Vehicle
ICMO6 SCAF TA
ICMO7 SCAF Pipeline
ICMO2 Risk Perceptions
ICMO9 ESG



ICMO1 and ICMO2: Commercial returns and demonstration effect

ICMO1 and ICMO2 were drafted as two parts of one larger hypothesis – that CP3 would facilitate commercially viable investments and that these in turn would influence investor perceptions – and so are analysed together. In terms of the mechanisms explored, there is broadly supportive evidence that the CP3 funds maintained appropriate investments. However, there are several investments which sit outside the spirit of CP3 (and arguably outside the mandate completely) which has lowered the mechanism score. Such investments include those made in developed markets (such as in the US) or in non-LCCR projects (such as cloud storage). The evidence also shows that, where the mechanism has been demonstrated, the expected outcome of commercial return achievement has also been evidenced (based on those projects which have exited/reached operation). However, the ICMO does not hold entirely true, as there is limited evidence that the intervention, the UK government's investment in the main funds, has triggered the mechanism. Instead, evidence shows that the funds/sub-funds[63] would have likely made comparable investments with or without the UK government investment. It should be noted the evidence is split here between the CF, where there is some linkage, and ACP and the sub-funds, where there is less. This is in part due to the anchor role played by the UK government in establishing the CF, without which it was found in the MTE CF would not have been established, at least not in its current

[63] While the ICMO is phrased to look at CF and ACP only in the mechanism, the M&E agents have extended this to include the sub-funds for CF as they are making the actual project investments.

form.[64] Based on the contextual factors explored, the key drivers of the mechanism in this case are the availability of investment opportunities, as well as macro-economic factors and supportive policy environments.

For ICMO2 (demonstration effect), the mechanism generally achieved a weaker score. The evidence found indicates that investors operating in developing markets were active in those markets prior to CP3 or are public actors operating with a specific development focus, rather than crowding in based on changes in investment perceptions to the market risks. Furthermore, interview evidence indicates that some previously active actors have made the opposite move in recent years, finding the LCCR sector in developing markets to be too high risk. There is little evidence collected to date that CP3 has significantly influenced the mechanism through the intervention of demonstrating commercial viability in the focus markets, although it should be noted it is still early to fairly assess this intervention. The evidence for this ICMO highlights that the expected knowledge dissemination may not be occurring as envisioned in the ToC (Finding 25). There is also mixed evidence that the contextual factor of information asymmetry continuing to be a challenge has remained a driver for this mechanism (i.e. evidence does not suggest that a lack of information is the reason for current risk perceptions), although this is partly driven by data limitations in that the evidence gathered primarily came from financial actors with good existing access to necessary experience and information.

Overall, it is still early to assess ICMO1 and ICMO2, and analysis should continue through the final evaluation. At this stage, based on the available evidence, ICMO1 could be restructured as: *In a context where there are sufficient LCCR opportunities, supportive political, legal and macro-economic environments, and technical or financial analysis undertaken by the funds predicts positive returns, CF and its sub-funds make and maintain appropriate investments, resulting in commercial returns and satisfactory performance in sector indices.* There is insufficient evidence to restructure ICMO2 at this stage, and the M&E agents would instead choose to continue to explore the current iteration as more CP3 investments realise their returns.

ICMO3: Investment mandate

The mechanism for ICMO3 is similar to ICMO1, and reflects a similar score, receiving a slightly lower score overall due to the difference between “appropriate investments” in ICMO1 and “investments that are compliant with the mandate” in ICMO3. Again similarly to ICMO1, there is good evidence at this stage that where such investments are maintained, development impacts are realised in practice and that where investments have been made outside the mandate, these benefits have not occurred. However, ICMO3 also unfortunately demonstrates weak linkage between the intervention and the mechanism as the CP3 funds, particularly the sub-funds, appear not to have been significantly influenced by the UK government mandate. It should be noted that the ICMO3 intervention received a negative overall score but had a higher number of supporting evidence points – this indicates the positive evidence was of an overall weaker quality (i.e. less persuasive) than the negative evidence. As above, the driving factors have been commercial opportunity, supportive enabling environments, and, as an additional key factor, existing investment-for-impact strategies of fund managers. Regarding

[64] The same can be said of the UK government’s role as an anchor in ACP, but evidence on ACP shows that it did not act according to the mechanism in the same way the CF did.

the latter, it is important to note that an LCCR strategy to achieve climate and social benefits was a selection criteria for the CF when considering sub-funds, and so this is largely within expectation at this stage. At the conclusion of the Strategic Evaluation, the M&E agents are satisfied that the connection between mandate compliant investments and development impacts has largely been evidenced, and that further exploration of the role of the UK government's investment mandate or expectations should be addressed under ICMO1.

ICMO4: Vehicle choice

The ICMO4 mechanism, that CF, ACP, and SCAF would address the "missing middle" finance gap, has largely been evidenced as accurate. However, the evidence diverges due to certain investments undertaken by ACP and by several CFs focused on developed markets or non-LCCR sectors where the referenced finance gap is less prevalent. Notably, there is strong evidence emerging that, where the missing middle is addressed, projects are able to go on and reach financial close and secure additional financing. The UK government's choice of PE as the vehicle for CP3 has also been evidenced to be a key contributing factor to this mechanism – using PE has enabled the funds to target the finance gap to some extent. It should be noted that there are some opposing evidence points regarding the intervention linkage, specifically related to ACP where it was found that the combination of PE with the selected governance structure may have reduced ACP's ability to make investments at the desired level. As such, the establishment of appropriate governance structures appears to be a necessary contextual factor for triggering the mechanism. Other relevant contextual factors identified were the availability of compliant investment opportunities, an absence of other actors (particularly public financiers), and a sufficient level of risk tolerance among other parties to the fund or investment.

ICMO5: Broker role

ICMO5 considered the brokering role played by the UK government, CF and ACP. Unfortunately, there was limited evidence available to evaluate this ICMO during the Strategic Evaluation. This ICMO will be reviewed as part of the Final Evaluation.

ICMO6: SCAF technical assistance

Turning to the SCAF ICMOs, the first considers the enterprise development support and seed capital provided by SCAF. The evidence strongly indicates that SCAF-supported partners have been able to develop in a commercially secure manner, undertaking feasibility studies in new markets, conducting ESG and environmental and social impact assessments, and engaging local stakeholders. The evidence is equally supportive that the role played by SCAF facilitated this mechanism in relation to the partners considered. In both cases, there is strong triangulation of the available evidence. The evidence is less clear regarding the outcome, largely due to the early stage of the SCAF-supported projects that have not yet reached close, but does indicate that, where partners have acted in the sustainable manner described by the mechanism, commercial returns and reflowing of SCAF support have been achieved. It should be noted that, while the evidence is strongly supportive of the role played by SCAF, there are a variety of other factors that have also influenced the mechanism. The local investment-enabling environment has often been critical, with projects being substantially delayed due to the Covid-19 pandemic, political instability, and the energy crisis, all of which have influenced the mechanism triggering. The presence of other early-stage equity finance, typically from private individuals, is also a key contextual factor, with the role of SCAF support limited by its

size. Overall, the ICMO appears to be holding broadly true, but to reflect these contextual factors, it should be restructured as: *By SCAF providing enterprise development support and seed capital financing to cooperating partners (fund managers and DevCos) (I6), in a context where financially viable projects are available (C6a), operate in a supportive enabling environment (C6b) ,and SCAF partners have existing financial investments (C6c), SCAF-supported companies are able to develop in a commercially sustainable manner through feasibility and scoping studies, ESG integration, local engagement and development of exit strategies (M6), and as a result access conventional finance to reach financial close and flowback the initial SCAF financial support (O6)*.

ICMO7: SCAF pipeline development

The evidence for the pipeline development ICMO is similar to ICMO6 (TA), with both the mechanism – SCAF partners prioritising seed capital commitments – and role of the intervention – SCAF's provision of support to DevCos – being evidenced clearly and with high data saturation. It should be noted that the full intervention statement has been reworded in practice to better reflect SCAF's role which is described below. Where the evidence tells a less compelling story is regarding the outcome. The outcome statement is that SCAF partners would generate investment opportunities for the CF, ACP, and comparable PE funds, but this largely has not held true. There is a notable exception in Armstrong and The Blue Circle, but otherwise a majority of SCAF project investments have come from DFIs or other quasi-public financing. There are other examples of private capital investing in SCAF partners, such as Metier investing in Africa REN, but limited evidence was identified of this occurring at a project level. In terms of contextual factors, in practice it appears the availability of development finance is more critical than the role of PE funds – SCAF partners noted that DFIs were a priority for post-close project financing. Political stability has also been identified as a key contextual factor with certain projects progressing through feasibility activities but delayed or cancelled due to political unrest before seed capital could be committed. A key contextual factor between the mechanism and the outcome not occurring as expected was also identified in terms of the timing of fund investment windows aligning with SCAF development timelines. As such, the ICMO could be restructured as: *By the UK government providing funding to the SCAF and SCAF providing grant-based financial support to fund managers and DevCos (I7), in a context where SCAF is able to find suitable cooperating partners (C7a), DFIs are continuing to seek early- to mid-stage LCCR opportunities (C7b), fund investment windows can accommodate SCAF project origination timelines (C7c), and political stability is maintained in project countries (C7d), SCAF partners prioritise seed capital or very early-stage capital commitments (M7), which generates a pipeline of commercially viable LCCR investment opportunities for CF, ACP and other comparable investors (O7).*

ICMO8: Track record

The mechanism for ICMO8 is that CP3 fund managers develop the capacity to engage with LCCR investment opportunities and increase their track record of doing so. The evidence suggests this mechanism is at least partially accurate, in that all funds making compliant investments have effectively grown their track record, particularly those who have now started realising positive commercial returns. As such, there is also broadly positive evidence that the CP3 investments have enabled this track record growth, although this should be caveated due to positivity bias and the relative importance of CP3 compared to other investors, which could not be assessed. For example, in the AREF evidence, it was clear that CP3 provided capital

which was used to generate track record, but that it was a late entrant and another financial actor could have instead helped AREF reach close and develop the same track record. In terms of the outcome, the raising of follow up funds leveraging this track record, there is positive evidence that demonstrated capacity and capability to invest in and exit projects directly influences the achievement of follow up fund raising, with funds assessed going on to raise larger second funds. In terms of the context, available opportunities and fund manager capacity have both been found to be relevant, as were political and economic stability, in developing track record (the current mechanism) but this does not get to the heart of the issue, which is why investors commit to these follow up funds. Thus it is recommended that a new, higher order ICMO should be developed to instead assess the behavioural change of the fund limited partners (LPs), with the development of track record being presented as a contextual factor in future evaluation exercises. A revised ICMO could be proposed of *by the UK government, CF and SCAF investing in first-time LCCR fund managers (first-time LCCR investors or existing LCCR investors moving into new markets) (I8) in a context where there are opportunities to enter new markets or sectors (C8a), the fund managers have capacity to support patient investments (C8b), and are able to develop commercial track record in these sectors using CP3 funding (C8c), new or existing LPs commit fund to a second fundraise led by the fund manager (M8), resulting in fund close at a larger scale (O8).*

ICMO9 – ESG

There is good evidence to suggest that CP3 funds are applying ESG standards, although some weaknesses in terms of accountability and enforcement have been noted. These weaknesses are linked to the intervention of the UK government requiring ESG standards be applied (although again, these same weaknesses reduce this scoring). There is also some evidence that the outcome has been achieved due to the growing uptake of ESG by private investors. However, there is little evidence that the mechanism led to the outcome, or rather that CP3 funds applying ESG standards led to significant market replication. It should also be noted that while ESG adoption has risen significantly among Western investors and developers, the same is not necessarily true in Africa where there remain challenges of information asymmetry and high barriers of entry. The adoption of ESG investing presents challenges to the African energy transition, with the “E” and “S” frequently reflecting opposing ideals (i.e. the need to improve access to energy, but to avoid the use of utility-scale fossil fuels). Overall, the M&E agents are satisfied by the evidence that CP3 is not currently having, and is not expected to have, a significant impact on ESG adoption more broadly and would propose removing this ICMO for future evaluation exercises.

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Annex VI: Evaluation outputs, users, and our use and influence plan

The following outputs will and have been produced as part of the 2022 strategic evaluation. Table 29 below provides more detail on the purpose and users for each output.

1. **Comprehensive report summarising the strategic evaluation.** The report is between 40-60 pages. A 10–15-page Executive Summary has been included in addition to the main report as well as all necessary appendices and annexes to provide full documentation on methods and data sources.
2. **Slide deck and presentation of results to BEIS & FCDO.** A slide deck with key results and figures, was created. The results were presented in person to BEIS & FCDO by the M&E agents.
3. **Case study report on demonstration effect independent of the final strategic evaluation.** Findings from this output were synthesised in the main report.
4. **Three contribution case studies as technical annexes to the main evaluation report.** These are stand-alone in their analysis of CP3's contribution to any observed changes. Findings from these outputs have been synthesised in the main report.
5. **Infographics showing key CP3 results for public communication.** Included in main report, but could also be shared more widely.
6. **Updated CP3 investment database and internal data visualisation tool for BEIS/FCDO use** with operational, sectoral, geographical, financial information and results on CP3 holdings.

It is proposed that the following three outputs which have yet to be generated but draw on the evidence from the evaluation are produced following the conclusion of the 2022 strategic evaluation. This approach was discussed and agreed with FCDO and BEIS in October 2022. It was agreed that there would be need for them to be jointly owned and done collaboratively with UK government colleagues.

7. **Webinar with wider UK government ICF colleagues to share the knowledge and learning from the evaluation and M&E approaches applied.** This would likely be focused on sharing knowledge related to climate finance methods. For example, a few discrete webinars could focus on the CP3 approach to attribution and additionality as well as the impact methods applied (contribution analysis, demonstration effect) and our realist synthesis inspired approach.
8. **Webinar with UK government climate finance partners to share the knowledge and learning from the evaluation and M&E approaches applied.** This could be focused on the results, but also support consistency in reporting and tracking climate finance.
9. **Updated ToC** based on evaluation evidence collected to date. It was agreed that this would be done collaboratively in 2023.

Evaluation Users

Evaluation users are individuals and organisations we expect to have an interest in our evaluation and/or its results. We have split our evaluation stakeholders' users into three categories, primary stakeholders, secondary stakeholders and wider audiences, as outlined in Table 30 below. The primary stakeholders are main intended users of the evaluation. These are the stakeholders who are who we envision will be engaged throughout the evaluation process, including in design and providing initial feedback. The evaluation outputs have been

specifically targeted at their needs and interests. The secondary stakeholders are stakeholders who will be interested in the evaluation outputs and the lessons emerging from the evaluation. Consideration has been given to sharing relevant and targeted lessons with these groups through outputs 7 and 8 listed above. Finally, the third group of stakeholders, the wider stakeholders, will have access and be able to use broader lessons and information from the evaluation when the report is published by the UK government. They will be able to access information that is not identified as sensitive.

Table 30: Evaluation users

Primary stakeholders	Secondary stakeholders	Wider stakeholders
1. FCDO/BEIS programme managers. 2. Component leads, in particularly IFC and UNEP/Frankfurt School. 3. Investee funds and companies, particularly those featured in case studies and research.	4. Stakeholders within the UK International Climate Fund. 5. Other FCDO/BEIS stakeholders focused on climate investment, PE, or programme evaluation.	6. Other donors and public entities allocating and managing climate investments 7. Private investors 8. Researchers 9. UK taxpayers

Evaluation stakeholder engagement

In addition to the above outputs, the M&E agents established a process of regular check-ins with FCDO/BEIS programme managers throughout the evaluation process. This included opportunities for these stakeholders to feed into and comment on the evaluation process, including engagement at design stage, initial data collection, findings and final reporting. This included a feedback workshop with participation by a large group of UK government colleagues at the beginning of October on early findings, conclusions and recommendations. This ensured that the outputs generated by this evaluation remain useful and relevant, incorporated new and emerging ideas and priorities as well as integrated feedback on findings, lessons and recommendations in our draft reports. In these processes, care was taken to ensure that any data that could be traced to an individual or organisation was anonymised to respect confidentiality.

We have also established a similar process for engagement with the SCAF and IFC-CF components lead, with engagements and feedback sessions held around evaluation design data collection and then on initial findings and recommendations. As key beneficiaries and evaluation stakeholders, this engagement should has been useful to facilitate the evaluation process and should support better uptake of evaluation lessons and recommendations. In addition, it helped ensure that recommendations could be usefully integrated into future activities.

The evaluation report reflects the comments received by the two primarily stakeholders and where there was disagreements, this has been acknowledged in the text.

Evaluation output use

Each of the deliverables listed above was designed to be used for communication with different stakeholders and in different forums, with messages tailored to group needs to support utility. The following table summarises the use and influence plan for these outputs.

This plan outlines the key stakeholders for each output (linked to the stakeholder numbering in Table 30), the dissemination pathway for each output and the primary use of the output. The M&E agents intended to explore with the UK government how the evaluation findings have been used and facilitate discussions with the UK government about how the lessons can be put into practice. Where possible the M&E agents will monitor the impact of the evaluation findings.

Table 31: Evaluation output uses

Output number	Output	Primary audience/ stakeholder group	Primary use	Dissemination pathway
1	Comprehensive report and executive summary	1 and 2	• Provide in-depth, contextualised findings and recommendations based on review. • Present full analysis and evidence base supporting findings and recommendations	Report including executive summary to be published by the FCDO/BEIS and accessible by stakeholder groups (6,7,8,9); Draft report to be shared with Stakeholder group 2 Link to the published report to be shared by consortium. (6,7,8,9)
2	Slide Deck	1, 2, 4, 5	• Share early findings, lessons and recommendations and collect feedback from stakeholders to inform final report • Disseminate findings to a wider audience to share lessons learned by FCDO/BEIS for sector level information.	Slides were shard and discussed with stakeholder groups 1 &2 as part of dissemination meeting; The October 2022 meeting included several colleagues from stakeholder group 4 and 5 FCDO/BEIS to share with wider audiences via engagement platforms/internal meeting (group 4,5,6).
3	Assessment of demonstration effect	1	• Provide detailed analysis of CP3's potential demonstration effect and a description of the methodology used	Annex will be shared with the main report, but separately and not published to reduce potential confidentially issues.
4	Three contribution case studies	1	• Provide detailed analysis and evidence of CP3 contribution to changes observed	Annex to be shared with the main report, but separately and not published to reduce potential confidentially issues.
5	Infographics	4, 6, 7, 8, 9	• Demonstrate the impact and results of the CP3 programme and other similar programmes. • Demonstrate VFM of development aid for climate change, high-level impacts.	To be shared publicly via consortium members websites and on relevant blogs/LinkedIn posts, once the report is published on UK government websites. (6,7,8,9).

Output number	Output	Primary audience/ stakeholder group	Primary use	Dissemination pathway
8	Investment database	1	• Track, measure and monitor CP3 performance to support performance and understanding of results.	Internal tool for the benefit of BEIS/FCDO users to be able to access information about CP3 investments more easily.
7	Webinar with Climate Finance Partners and M&E partners of other similar instruments	6	• Share the lessons and impact of the CP3 programme • Share lessons on M&E approaches that could be used across other similar instruments • Demonstrate VFM of development aid for climate change, high-level impacts. • Demonstrate the value of M&E of climate finance.	Webinars and presentations to be done in partnership with UK government colleagues aimed at supporting learning and consistency in M&E for other similar instruments (stakeholder group 6, 7 and 8).
8	Webinar with relevant UK government colleagues (including ICF colleagues)	4,5	• Share lessons on the M&E approaches that could be integrated across other similar instruments • Share the lessons from the CP3 programme to inform future programming	Webinars and presentations to be done in partnership with UK government colleagues aimed at supporting learning across the UK government.
9	Updated ToC	1	• Track, measure and understand the change envisioned by the CP3 programme based on lessons learned.	To be jointly reviewed following the 2022 evaluation (in 2023) and updated based on evaluation evidence.

Wider audiences

In terms of public dissemination, several public facing documents and materials have been be produced as described above aimed at our wider stakeholders. We recognise that each that each of these stakeholder groups have different information needs and interests from the evaluation (Table 32 below). We have taken care to ensure that only relevant and useful information is included for stakeholders within each group (i.e. at an evaluation workshop, information will be focused on researcher needs). We expect to have further discussion with FCDO/BEIS on the dissemination with these wider audiences throughout the evaluation process.

Table 32: Audience information needs

Audience	Information they need
Researchers	Methodologies
Policymakers & public investors	Effectiveness of programmes such as CP3, gaps, other strategies
Private investors	Understanding the non-financial impacts
UK taxpayer	VFM of development aid for climate change, high-level impacts

Due to the commercial and financial sensitivity of the CP3 programme, all products presented to a wider public audience will ensure/confirm consent of investors and investees to share data publicly; redaction of sensitive and confidential information; and redrafting to minimise jargon and improve accessibility.

Annex VII: Evaluation Management

This section provides more detail on the M&E agents and the approach taken to risk management.

M&E Agents' Team

Integrity (who holds the prime contract), NIRAS and CPI have been contracted as M&E agents for Phase II of the Evaluation contract over a six-year period from 2020 to 2026. CPI and NIRAS held the previous Phase I contract from 2014-2019. The M&E agents have been responsible for developing and implementing an approach for monitoring, evaluation and learning of the CP3 programme as outlined in the CP3 Phase II inception report.

The 2022 Strategic Evaluation of CP3 was carried out by the CP3 M&E Core team, comprised of CPI and NIRAS team members. Integrity support the core team by providing QA reviews. The team is composed of staff members from all consortium partners – Integrity (who holds the prime contract), NIRAS-LTS and CPI. None of the consortium partners have any conflict of interest in implementing this project.

The CP3 programme is unique in its approach to utilise PE fund structures to support climate change mitigation and adaptation activities. With CP3 being at the junction of ODA and private investment, it presents a challenge in conducting M&E. There is a need to develop a deep understanding of the needs of private investors as well as an understanding of the challenges of development assistance. The M&E agents are well placed to meet these challenges, composed of finance specialists with industry experience, M&E specialists, and climate change and development economists. The table below outlines our team and their roles.

Table 33: M&E agents' Team Members

Core team	Strategic advisory and quality assurance panel	Resource pool
Donovan Escalante (CPI), Team Leader/Senior Climate Finance Economist. Benjamin Thomas (CPI), Climate Finance Analyst Angela Ortega Pastor (CPI), Climate Finance Analyst Rebecca Adler, Evaluation Lead (NIRAS). Callum Murdoch, Climate Finance Evaluation Expert (NIRAS). Yujie Shen, Data Analyst (NIRAS)	Bella Tonkonogy – (CPI) CPI U.S. Director Charlie Michaelis (NIRAS) – Renewable Energy Evaluation Expert ***Quality Assurance:*** Ada Sonnenfeld – Programme Director (Integrity) Bonnie Stuart – Programme Manager (Integrity)	Matt Savage – Climate Funds Evaluator Samer Zawayed – Jordanian RE Expert John Mayhew – Climate Evaluation Specialist

Risks to the evaluation

As part of our general risk management approach, CPI and NIRAS have completed a risk assessment for this evaluation, which outlines the contextual (political/macro-economic) programmatic, management and fiduciary risks. The risk assessment is a 'living' document and is easily understandable through a simple 'traffic-light' format. The process has highlighted a few risks, primarily related to the limitations in data that can be collected. The table below outlines the risks, rating and the mitigation mechanism the evaluation deployed to address these risks.

Table 34: Risks matrix

Risk category	Rating	Mitigation
Contextual risks		
Periodic changes in FCDO/BEIS departmental priorities and structure impact CP3 priorities.	Low	The strategic evaluation structure and scope has been designed to be flexible and adaptable to the changing circumstances within government departments. The CP3 M&E agents have already made changes to content and scope based on feedback on government priorities. The regular engagement with FCDO/BEIS and our use of a highly experienced core team gives us the ability to manage changing priorities and re-focus as required.
Inadequate historical market data due to underdeveloped financial systems in countries with CP3 investments	Low	CPI and NIRAS have extensive experience in the CP3 countries, markets, and sectors and are able to access global data sets to construct historical trends.
Programmatic risks		
The CP3 investors or fund managers are reluctant to engage constructively with the M&E agents.	Medium	Previous engagement with fund managers did not encounter substantial problems, however in several instances the evaluation struggled to engage fund managers, particularly for the demonstration effect study. We looked to work with cooperative fund managers and used other methods, such as the substitution of interviews with questionnaires and surveys, to facilitate engagement with evaluation efforts.
The results of small sample size of interviews might skew our results as how network actors interact with the system (as bottlenecks or facilitators) is not correlated to location but inherent to individual fund managers. In some cases our sample size is small and may not enable generalisable results. More active fund	Medium	Any outlier answers were corroborated with follow up interviews and further investigation was presented as part of the evaluation. There were instances (i.e. the follow up fund study) where evidence from studies was contradictory and did not enable generalisability of findings. In these instances, multiple sets of evidence was presented.

Risk category	Rating	Mitigation
managers might also be more willing to talk to the M&E agents.		
Willingness of fund managers and CP3 stakeholders to engage in discussions, particularly for organisations who have invested in the CP3 instrument.	Medium	Introduction and engagement was led by the relevant CP3 programme lead. This facilitated many discussions when key stakeholders were unwilling to originally participate. There were challenges in accessing to wider investors in the CP3 follow-on funds, given the sensitive nature of ongoing investment decisions. It is suggested that this line of inquiry be followed up in future evaluations when there are likely to be less sensitive ongoing discussions.
As in-depth study into each investment is not feasible, there is a risk that data required for evaluation will have only a single source.	Low	All sources have been subject to a “strength of evidence” protocol. Data sources originating from single case studies were corroborated with additional primary and/or secondary sources where possible.
CF Portfolio Fund Managers are unwilling to share data that they consider to be confidential.	Medium	The M&E agents have good relationships with the fund managers that have been interviewed for case studies in the past. The M&E agents have been able to access confidential information on co-investors and leverage through the evaluation. It was harder to access information on what influenced investment decisions, particularly by entities outside the CP3 ecosystem. Other data sources were used to triangulate and support findings, and where there was limited data this has been highlighted in the report.
Data security problems or insufficient data processing (data getting lost or corrupted).	Low	Data protection protocols were put in place to manage the information obtained from CP3 and the funds. Cloud based data systems were used that comply with UK government data security requirements.
Lack of relational data/ low-quality relational data from interviews	Low	The M&E agents established a standardised questionnaire to guide interview results to gather the required relational data.
Management risks		
Consortium staff turnover leads to loss of valuable programme knowledge.	Low	There was no turnover of core team members during the evaluation. When M&E agents’ members need to be replaced, we identify staff with equal or better qualifications and experience in close collaboration with the client. We also have a strong knowledge management process, which ensures all key programme knowledge documents are saved and accessible to all team members.

Risk category	Rating	Mitigation
Evaluation judgement is biased or compromised.	Low	Strict conflict of interest protocols are put in place for all members of the team. The judgements made were checked for quality and bias by the quality assurance panel.
Lack of agreement on management and delivery of the contract between consortium partners.	Low	The consortium structure is simple and mainstreamed. Alongside our clear governance structure, a formal consortium agreement between partners has been signed and agreed that clearly documents the partners' roles and responsibilities within the programme. The consortium will comply and seek to meet the expectations of our client.
Fiduciary risks		
Financial and fiduciary risk that may arise from financial loss and risk of institutional liability for loss / failure resulting from corruption or financial mismanagement.	Low	NIRAS and CPI each have financial controls and procedures in place which are regularly audited.

Ownership and copyright

A full overview of Intellectual Property Rights provisions is available in Section 14 of the Supplier Contract for this assignment. In summary, we will adhere to the following:

- All intellectual property rights in all material produced as part of this assignment are the property of the Supplier
- The Supplier grants to FCDO a world-wide, non-exclusive, irrevocable, royalty-free licence to use all the Material.
- "Use" shall mean, without limitation, the reproduction, publication, and sub-licence of all the Material and the intellectual property rights contained therein.