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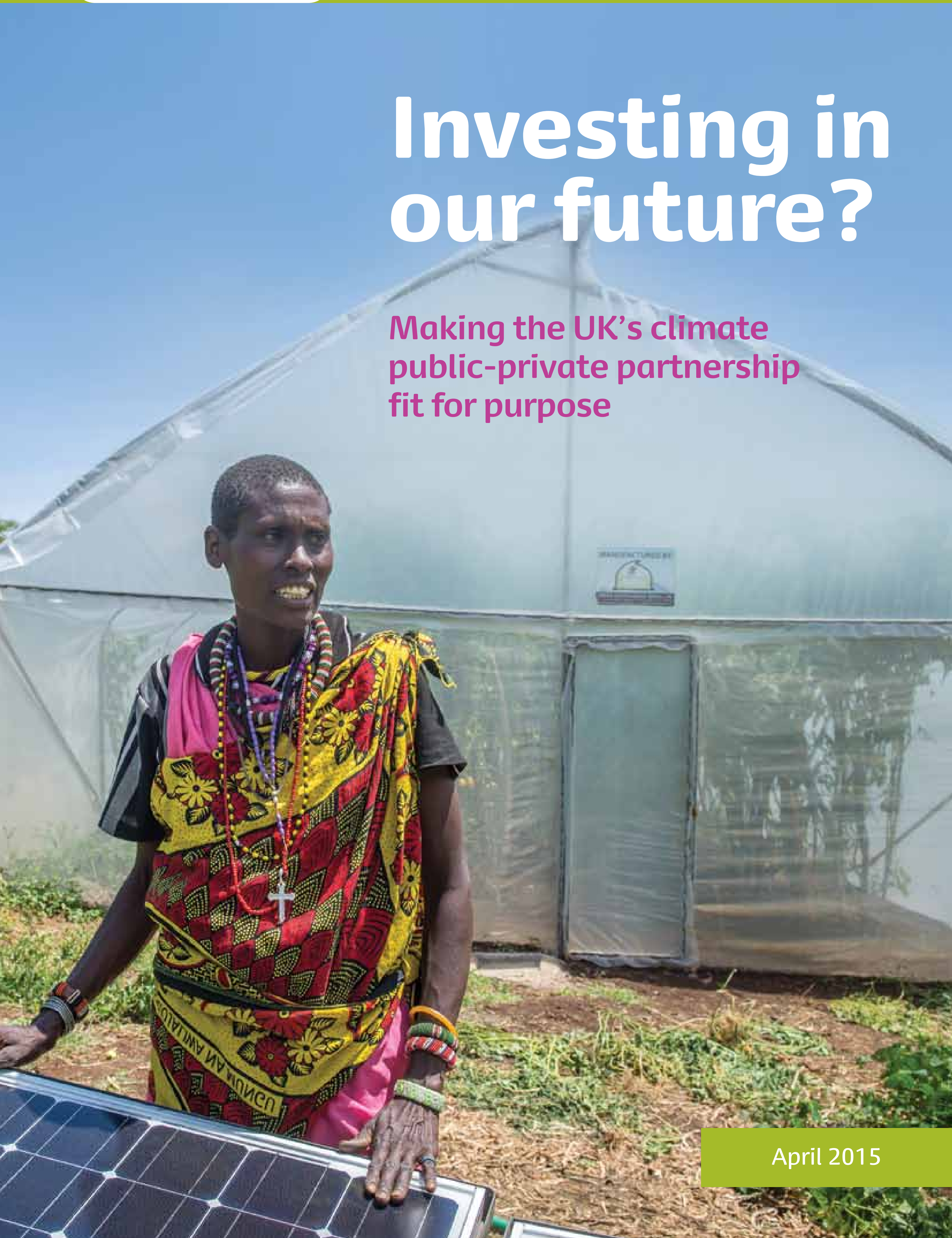
Making the UK's climate public-private partnership fit for purpose



April 2015

Making the UK's climate public-private partnership fit for purpose

Contents

We welcome any feedback and discussion on this topic.
Please contact Beck Wallace in our Policy Team at: bwallace@cafod.org.uk

Cover photo: Annie Bungeroth, Community Based Green Energy Project, Kenya, 2014

cafod.org.uk
Romero House, 55 Westminster Bridge Road, London, SE1 7JB, United Kingdom.
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Executive summary

In 2009 developed country governments met in Cancún and made a commitment to mobilise US$ 100 billion annually by 2020 to help developing countries address climate change. A key question for discussion was where the money would come from. The commitment world leaders made was that this investment would come from both public and private sources.

The climate public-private partnership (CP3) is one of the UK's responses. It is also a significant example of the trend towards channelling public money through private equity vehicles. CP3 uses this public-private approach based on the rationale that this will attract greater private investment and so will result in enhanced poverty reduction, greater climate protection and/or more sustainable development outcomes.

This is an innovative field. The UK government is trying to find solutions to the global challenge of addressing climate change in a world where the nature of development finance is changing and the amount of funding needed is significant. CP3 is also a model that other donors are interested in and are looking to replicate across other sectors. Key discussions in 2015 around financing for the post-2015 development framework and the Green Climate Fund are also looking at similar mechanisms.

The UK government is CP3's lead (anchor) investor. DFID (the Department for International Development) and DECC (the Department of Energy and Climate Change) will channel a total of £130.5 million in official development assistance (UK aid) into two private equity firms. The firms will manage two private equity funds on fully commercial terms, with the aim of attracting new public and private sector investments. The funds will each make some investments directly into low-carbon projects in developing countries and other investments into sub-funds which will invest in similar projects.

Expected impacts of CP3 include both poverty reduction and an "improvement in human development in target countries".[1] CP3's business case[2] and theory of change state that some of the main outcomes will be as follows:

1. £6.7 billion in additional private finance will be raised for developing country climate mitigation projects.
2. Environmental Social and Governance (ESG) standards will be applied to all projects.
3. 45 per cent of the benefits will contribute explicitly to influencing developing countries in pursuing a climate-resilient, low-carbon development path, which will result in growth, poverty reduction and climate change mitigation.
4. A further 45 per cent of the benefits will be for **environment**, including CO2 savings, investment in new technologies, new clean energy and energy conservation.
5. 10 per cent of the benefits will be for **people**. The intended outcomes include energy access for people living in poverty and the creation of 40,000 new jobs; it is not specified, however, who will benefit from those jobs.

CAFOD believes strongly that the UK government should be clear from the outset about how CP3 will deliver on its aims of low-carbon development and alleviating poverty, including providing jobs and access to energy for people living in poverty. These are key priorities in many of the countries where CAFOD's partner organisations work.

1. CP3's final log frame: 170314

2. https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/48451/5720-business-case-for-icf-support-for-the-climate-publ.pdf See p5 for CP3's theory of change

Since CP3 uses UK aid, it is obliged to comply with the International Development Act, which states that UK aid must be used for poverty reduction.[3] This is why we have undertaken desk research and interviews with key civil servants to try to understand how CP3 proposes to deliver on its aims.

CP3 is at an early stage of its implementation, so this is an ideal time to discuss how it functions, particularly since it could be a model for other investments. CP3 aims to be innovative, demonstrating that it is possible to attract private finance to deliver poverty reduction and low-carbon development. Precisely because it is likely to set a precedent for what is commercially viable, it is of primary importance that CP3 actually achieves its stated aims.

The intention of this paper is to outline the key areas we believe need to be more fully developed if CP3 is to be implemented effectively.

Main findings

1. CP3 could play an influential and innovative role in shaping the criteria against which donor governments and commercial markets make investment decisions that could deliver low-carbon energy and development in developing countries. However, it is not clear how CP3 will identify the needs of people living in poverty or if those needs will be placed at the heart of CP3's design and implementation.
2. The CP3 programme is structured in such a way that it delegates powers to private equity funds to make decisions and collect information about the low-carbon investments it funds. The way that the funds are currently set up appears to make it unlikely that the government or UK citizens will be able to ascertain if they have achieved CP3's objectives and managed to 'do no harm', especially to people living in poverty. We appreciate the challenges of measuring impacts, but CP3 in its current form is unlikely to generate learning about what does and does not work.
3. CP3 has already started to finance projects, before its monitoring and evaluation framework has been agreed or implemented. DFID and DECC are the only investors in CP3's Technical Assistance Facility, which covers all monitoring and evaluation of the programme; this means they have control over these areas of CP3.
4. There is a lack of pertinent information and data on CP3 in the public domain, which means it is difficult to judge if this financing model is sustainable. Documents about CP3's work and structure are available online. But these do not show the terms and conditions of CP3's partnerships or how the costs, risks and benefits of each project are being shared between donor governments, private investors, recipient governments and local communities in developing countries.

Recommendations

Overall, we think that CP3's management will need to be as innovative as the programme itself, if it is to be fit for purpose. Therefore, we make the following recommendations to DFID and DECC:

1. **Take a more hands-on approach to CP3, to ensure tax payers' money delivers poverty reduction and low-carbon outcomes in developing countries**

Because this is a public-private partnership, it is not sufficient simply to follow private equity management standards alone. Specifically, we recommend the following, to ensure CP3 delivers climate-compatible development and reduces poverty:

a. There should be a clear oversight mechanism for CP3 projects that goes beyond just cash flow to include economic, social and environmental costs, risks and benefits.

3. International Development Act 2002: http://www.legislation.gov.uk/ukpga/2002/1/part/1

b CP3's project design and evaluation process must include genuine participation from representatives of people living in poverty and vulnerable groups affected by the impacts of a changing climate.

c Project design should allow some flexibility of control.

d Lessons learned from each project should be captured.

e CP3-funded projects must ensure they 'do no harm' and have clear indicators to contribute to sustainable development outcomes.

2 Ensure CP3 adopts an innovative approach to energy access so its investments deliver real poverty reduction and development impact

CP3's purpose is to deliver low-carbon energy and poverty reduction in developing countries. Communities need a range of energy services for their development, at household and community level as well as for productive activities. CP3's definitions of energy access do not tell us if communities have energy services that are good quality, reliable, affordable and safe. CP3 investments could be innovative by ensuring services are designed and delivered in a participatory way to meet end-users' energy demands and are appropriate to their local context.[4] In addition, energy access cannot be addressed meaningfully without investments in decentralised energy, given that the vast majority of energy-poor people live 'off-grid'[5], so CP3 should prioritise such investments.

3 Strengthen CP3's results management framework to inform ongoing investment. In particular, it should report on:

a the economic, social and environmental costs, risks and benefits of CP3 projects, with details of to whom they accrue

b how much new (additional) finance CP3 is raising and from which sources

c the evidence to show that the additional private finance raised is going to low-carbon projects which reduce poverty. It should also demonstrate the 'added value' in using public development and climate finance to stimulate private sector investment through CP3.

4 Ensure CP3 is transparent, publishing relevant data to fuel innovation

The UK government must ensure that there is relevant information about CP3 in the public domain, to comply with open data standards and its commitments under the G8's Open Data Charter.[6] CP3 could accelerate much needed innovation by opening up wider debate about how to deliver its aims. But this would require CP3 to disclose the right information, including details of contracts, who controls the decisions of each CP3 investor and their agenda for CP3 projects.

5 Support the domestic enabling environment and build in a realistic exit strategy for CP3

CAFOD believes that, ultimately, governments in the developing world should design their own policies to build an enabling environment for low-carbon development and poverty reduction. They will need to have sustainable sources of public finance if they are to deliver public goods, services and infrastructure which are accessible to people living in poverty. It is clear that there are significant financing gaps, however investment from private sector actors alone will not address all the challenges which the poorest people face on a day-to-day basis. Any initiative drawing on UK aid should build in the aim of supporting development of the domestic enabling environment from the start.

a More analysis and multi-stakeholder discussion is needed in the design, implementation and evaluation of CP3 projects to understand:
- the role of donor governments, target governments and private sector investors within CP3. This understanding will help CP3 to keep a balanced approach to different investments.
- the value added and the limitations of CP3. This includes analysis of how public finance can be targeted effectively at vulnerable groups and people living in poverty who cannot be reached by market-based interventions.

4. CAFOD and IIED have developed an approach to designing energy models which work for people living in poverty. http://www.cafod.org.uk/Media/Files/Resources/Policy/Energy-models

5. See CAFOD et al (2014) Energy in the Post-2015 Development Framework, http://www.cafod.org.uk/Policy/Climate-and-energy

6. G8 Open Data Charter and technical annex: https://www.gov.uk/government/publications/open-data-charter/g8-open-data-charter-and-technical-annex

b The private sector must bear its fair share of the risks and costs of each project, if CP3 is to promote a sustainable model for investment.

c Funds, sub-funds and investee companies should also be required to disclose which person(s) ultimately control and benefit from their operations[7] and to report their financial accounts on a project-by-project basis. This would help the target country gain oversight of how investments can deliver low-carbon and poverty-reducing outcomes and allow accountability and anti-corruption measures to be put in place.

d As part of the exit strategy, CP3's contracts should require funds, sub-funds and investee companies to disclose to open data standards:

- disaggregated project-by-project financial and non-financial data
- the company structures used to make each investment
- the beneficial owner of each special purpose vehicle and/or other entities used by CP3's funds to finance projects in any one particular country.

This will help stimulate the strengthening of the host country's own institutional capacity to finance low-carbon and poverty-reducing investments.

7. A beneficial owner is the individual (natural person) who ultimately controls the decisions and benefits from a company or fund (legal person). This often the person(s) who is (are) the legal owner(s) of a company, but particularly in complex company structures this may not be the case.

What is the climate public-private partnership (CP3)?

The climate public-private partnership (CP3) was set up as one of the UK's responses to the 2009 agreements in Cancún. Developed country governments committed to mobilise US$ 100 billion annually by 2020, from both public and private sources, to help developing countries address climate change. Since CP3 is financed using official development assistance[8] (which we will refer to as UK aid), it also seeks to reduce poverty[9] and to achieve an "improvement in human development in target countries".[10] Debate continues worldwide about the best ways to achieve these ambitious twin goals but it is clear that this has to happen.

We welcome the ambition of the UK government to contribute to climate mitigation and poverty reduction in developing countries.[11] DFID and DECC have said that CP3 is innovative because it has set up the first ever funds which focus purely on low-carbon investments. Other funds also finance several sectors to spread their risk.[12]

CP3 is designed as a long-term project which will run until 2023 or 2026. During its 12–15 years of operation, it will receive an average equivalent to about 0.1 per cent of the UK's annual aid budget.[13] The UK government is the lead (anchor) investor in the climate public-private partnership. DFID (the Department for International Development) and DECC (the Department of Energy and Climate Change) will channel a total of £130.5 million in UK aid into the programme. £110 million will be channelled into two funds that will be managed on fully commercial terms. Each fund will make investments into low-carbon sub-funds and directly fund projects in developing countries (see box: CP3's target investment areas).

In addition, the UK will spend up to £500,000 on project development and a further £20 million will be channelled into a Technical Assistance Facility, of which £1 million is ring-fenced for monitoring and evaluation.[14]

CP3's target investment areas in developing countries include:

- energy access for people living in poverty
- renewable-energy generation
- energy and resource efficiency
- water conservation and efficiency
- low-carbon transport
- suppliers/manufacturers of equipment for low-carbon, climate-resilient investments.

The purpose of the UK government acting as the anchor investor is to attract significant new public and private investment to CP3. According to its business case,[15] CP3 aims to:

- demonstrate that climate-friendly investments in developing countries are commercially viable
- attract new forms of finance such as pension funds and sovereign wealth funds into climate-friendly investments
- stimulate low-carbon, climate-resilient, sustainable growth in developing countries.

8. Climate Public Private Partnership (CP3) Platform: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/48451/5720-business-case-for-icf-support-for-the-climate-publ.pdf, (accessed 10 July 2014), p2

9. The UK's International Development Act states that UK aid must be used for poverty reduction. See: International Development Act 2002: http://www.legislation.gov.uk/ukpga/2002/1/part/1

10. CP3's final log frame: 170314

11. CAFOD has set out considerations for policy-makers aiming at green and just development (see: Bass S, Raworth K & Wykes S (2014) Securing social justice in green economies: A review and ten considerations for policy makers, CAFOD & IIED: http://tinyurl.com/obsueya) and criteria for policy-makers aiming to achieve inclusive growth (see: CAFOD (2014) Discussion paper: What is 'inclusive growth'? http://www.cafod.org.uk/Policy/Economic-justice)

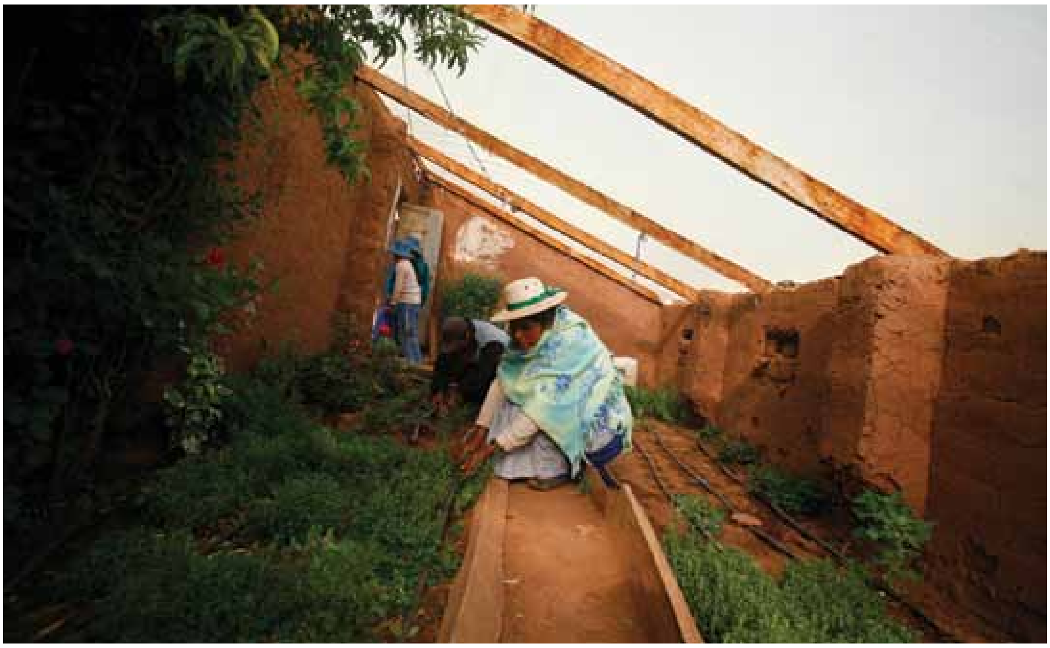
12. Phone call with DFID and DECC on 19th March 2015.

13. CP3 will not receive an equal amount of UK aid each year, but this estimate is to give an idea of CP3's scale. The calculation is based on £8,698 million total annual overseas development assistance (ODA) for 2012–13 and the total £130.5 million UK aid budget for CP3 for the 12–15 years of operation. See: DFID (2013) Statistics on international development: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/254277/Statistics_on_International_Development_2013a.pdf

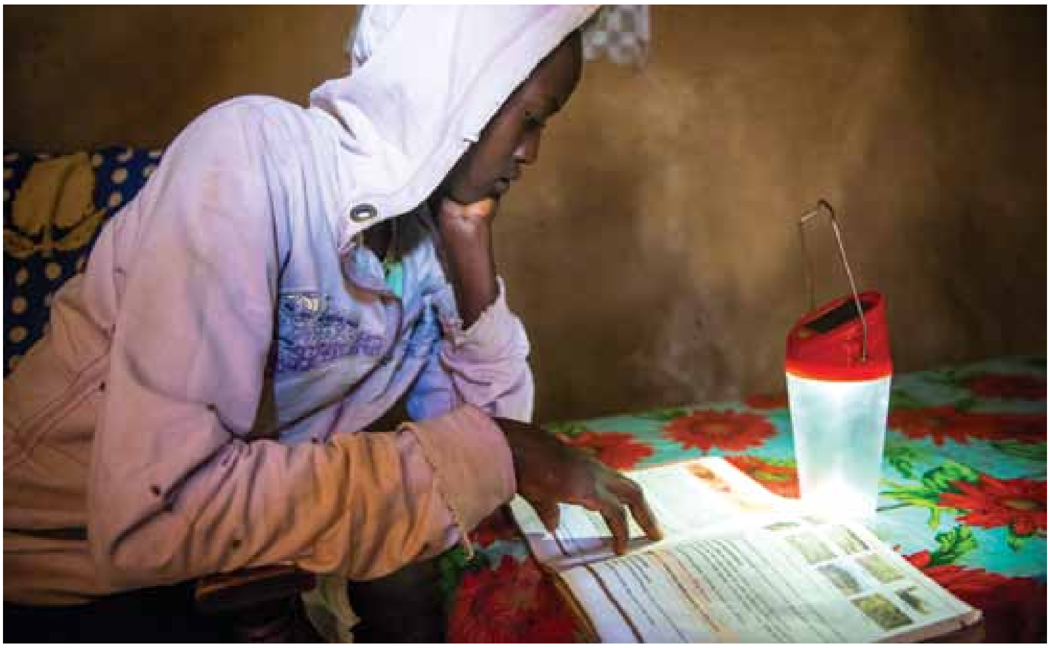
And some of the main outcomes of CP3 are expected to be:

- £6.7 billion in additional private finance will be raised for developing country climate mitigation projects.
- Environmental Social and Governance (ESG) standards will be applied to all projects.
- 45 per cent of the benefits will contribute explicitly to influencing developing countries to pursue a climate-resilient, low-carbon development path, which will result in low-carbon growth, poverty reduction and climate change mitigation.
- 45 per cent of the benefits will be for **environment**, including CO2 savings, investment in new technologies, new clean energy and energy conservation.
- 10 per cent of the benefits will be for **people**. The intended outcomes include energy access for people living in poverty and the creation of 40,000 new jobs; it is not specified, however, who will benefit from those jobs.

CP3's theory of change[16] is set out in the chart opposite.



Drip irrigation system to conserve water in an arid area of Bolivia (CAFOD)



Solar lamp, Kenya (CAFOD)

14. http://devtracker.dfid.gov.uk/projects/GB-4-91090/ (accessed 23 July 2014)

15. Climate Public Private Partnership (CP3) Platform: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/48451/5720-business-case-for-icf-support-for-the-climate-publ.pdf (accessed 10 July 2014)

16. Diagram taken from: Climate Public Private Partnership (CP3) Platform: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/48451/5720-business-case-for-icf-support-for-the-climate-publ.pdf (accessed 10 July 2014), p5

INPUTS	PROCESS	OUTPUTS	OUTCOME (PURPOSE)	IMPACT (GOAL)
		INFLUENCE 45%		
UK Gov Equity Investment £110mn + UK expertise in working with MDBs	Speed up private sector investment in climate in developing countries via large financial influx, accelerating projects, deals and new PE funds. Signal and demonstration effect for private sector. TA – removes risks of first mover disadvantage and other market failures especially in LICs	£6.7bn extra estimated private flows into climate finance in Dev countries	Additional private sector finance into developing countries climate projects	Developing countries pursue a climate resilient low carbon development path resulting in growth, poverty reduction and climate change mitigation
Grant Technical Assistance 20mn		Funds perform well in indices	Dev country climate projects routinely invested in by pensions, foundations etc	
Fund manager/ expertise in raising capital, sourcing deals or new funds		180 new upstream and downstream climate projects	ESG standards mainstreamed	
MDB local country and ESG knowledge		>15 climate funds, with 50% first time fund managers	All funds with ESG standards	

New technology investments	ENVIRONMENT 45%
265m Co2 savings	
6.96 GW Installed new clean energy	
237,684 Energy saved	
40,000 new jobs	PEOPLE 10%
Energy Access for the Poor	

Understanding the UK government's role within CP3

CP3 exemplifies the wider trend of increasing the number of public-private partnerships (PPPs) used to deliver public goods and services over the last two decades.[17]

CP3's contracts are not in the public domain, on the grounds of commercial confidentiality.[18] From our research to date, we understand that the UK government's contract with each fund outlines the criteria which the fund managers will use to decide which projects to invest in. For example, the contracts include a legal requirement for CP3's funds and sub-funds to apply the International Finance Corporation Performance Standards.[19, 20]

The UK government has taken a hands-off approach in setting up CP3. It has a seat on CP3's Advisory Board but, in line with standard private equity fund practice, this provides the UK government with a very limited ability to influence at a project level or to apply ongoing learning during the 12- to 15-year implementation of the programme.[21] However, since the UK is the sole investor in the Technical Assistance Facility, it retains control over how to support the whole programme and over all monitoring and evaluation.

This seems to be a new way of working. CP3 combines private equity fund management styles with public policy objectives. It also requires collaborative working by different government departments. For example, the UK aid contribution to CP3 comes from the International Climate Fund (ICF), which is a joint pool of finance from DFID, DECC, DEFRA (Department for Environment, Forests and Rural Affairs) and FCO (Foreign and Commonwealth Office).

ICF's stated aims include helping people living in poverty to adapt to climate change and stimulating lower-carbon or more climate-resilient patterns of development, for example by providing off-grid energy access to people living in poverty. Alongside leveraging additional public and private finance, the ICF's performance indicators include: [22]

- improving access to clean energy[23]
- increasing resilience
- increasing integration of climate change in national planning
- contributing to transformational impacts.[24]

It will take a long time for the impact of many of CP3's investments to become clear. Since CP3 started to fund its first projects in 2014, it is too early for us to measure the impacts. However, there is already considerable interest in applying this investment model to other policy and programme areas.

We therefore decided to look at CP3 to:

- open up discussion about this complex new style of financing, to stimulate informed debate among donors, parliamentarians and development actors
- examine CP3's contractual terms, conditions and programme management structures, to understand how we would expect them to work
- outline the impacts we would expect CP3 to deliver as part of the UK's publicly financed aid programme.

17. Today, 15 to 20 per cent of all infrastructure projects across 134 developing countries are PPPs. Independent Evaluation Group (IEG) (2014) World Bank Group support to public-private partnerships: Lessons from experience in client countries, 14 July 2014, fy02–1202–12: http://ieg.worldbank.org/evaluations/world-bank-group-support-ppp (accessed 14 July 2014), p1

18. The UK government has Limited Partnership Agreements (otherwise known as trust fund agreements) which set out the terms and conditions to which all the Limited Partners investing in the CP3 agree and with which each of the funds (General Partners) must comply when making investments. In addition, the UK has side letters with each fund. We have been told by civil servants that these set out more specific UK requirements not shared with other investors, such as compliance with the UK's Bribery Act 2010. There may also be other annexes. Together, all these documents comprise the legally binding contract.

19. Annual review (2) 201733 (October 2014), available from: http://devtracker.dfid.gov.uk/projects/GB-1-201733/documents/ (accessed 22 October 2014), p5

20. This is an example of CP3 giving a clear lead to funds about the minimum standard for their ESG.

21. DFID's Monitoring and Evaluation Terms of Reference – Climate Public Private Partnership (CP3)

22. The Independent Commission on Aid Impact, The UK's International Climate Fund (ICF): http://icai.independent.gov.uk/wp-content/uploads/2014/01/ICAI-Study-The-UK-International-Climate-Fund-ToRs.pdf, p12

Methodology

This report is based primarily on desk research using information that is publicly available. DFID now has a website called Development Tracker where it publishes information about the projects it invests in so that UK tax payers can hold it accountable. Information about CP3 has now been posted there.[25] However, it has been a real challenge to access the specific information we need to answer our questions. We have also carried out interviews with key civil servants to try to piece together an understanding of how CP3 proposes to deliver its aims.

23. ICF's KPI 2: Number of people with improved access to clean energy as a result of ICF projects defines clean energy access as "new household connections to off-grid renewable energy sources (NB: on-grid access cannot be included in these figures because once on-grid, it is impossible to determine the energy source)" and "households with more efficient cook stoves, solar lanterns or other clean technologies which generate energy".

24. ICF's KPI 15: Extent to which ICF intervention is likely to have a transformational impact defines transformational impact as "change which catalyses further changes, enabling either a shift from one state to another (e.g. from conventional to lower carbon or more climate-resilient patterns of development) or faster change (e.g. speeding progress on cutting the rate of deforestation)".

25. Climate Public-Private Partnership on Development Tracker: http://devtracker.dfid.gov.uk/search?query=CP3

Recommendations

This section sets out five key areas of concern that we identified during our research and recommendations for DFID and DECC on how to address them.

1 Take a more hands-on approach to CP3, to ensure tax payers' money delivers poverty reduction and climate-compatible development outcomes

The CP3 programme is structured in such a way that it delegates powers to private equity funds to make decisions and collect information about the low-carbon investments it funds. Yet, because the UK's contribution includes aid money, the government needs to ensure that ultimately CP3 will deliver its objectives of alleviating poverty and providing access to energy for people living in poverty. CAFOD believes that this requires a more proactive approach from DFID and DECC.

One of the two private equity funds is called the IFC Catalyst Fund. It closed in June 2014[26] with a total fund value of approximately £418 million. DFID claims this is one of the biggest emerging markets and climate private equity fund of funds and a "clear success for the climate financing space".[27] While we recognise that one objective is to raise a large amount of funds, our criteria for success would also require a strong focus on what that money finances, particularly since CP3 is likely to set a precedent for what commercial investments in low-carbon development and poverty reduction will look like.

The UK government has outlined to fund managers its criteria for investment. These include a legal requirement for CP3's funds and sub-funds to apply the International Finance Corporation (IFC) Performance Standards.[28, 29] In this way CP3 is giving funds a clear lead on what their environmental, social and governance (ESG) minimum standards should be. This is a more defined and thorough approach to ESG than that taken by some other investors. We think these standards are a reasonable start, but they need to be built on to ensure CP3-funded projects 'do no harm' – and to deliver CP3's ambitious aims. For example, a project could comply with IFC Performance Standards yet fail to deliver other outcomes such as jobs and energy access for people living in poverty.

In interviews with DFID, DECC and the CDC Group plc (the government's development finance institution), the view was expressed that the government has to adhere to current private equity security regulation in order to use private equity funds. For example, in the private equity sector, it is currently regarded to be poor practice for board members or Limited Partners to interfere with project-level decisions. Therefore security regulations for international private equity funds have been designed to prevent interference from Limited Partners and doing so would be a breach of current contracts. But, in our view, one of the benefits of pursuing a new form of public-private partnership is to create transformative change. A genuine hybrid, taking the best from each sector's practices, could stimulate new commercial investment *which contributes to CP3 aims*. This would mean CP3 playing a proactive role to change the status quo. Even within the existing legal arrangements, the UK is the sole investor in the Technical Assistance

26. Meeting with DFID/DECC on 5 June 2014

27. Email from DFID on 13 March 2015

28. Annual review (2) 201733 (October 2014), available from: http://devtracker.dfid.gov.uk/projects/GB-1-201733/documents/ (accessed 22 October 2014), p5

29. This is an example of CP3 giving a clear lead to funds about the minimum standard for their ESG.

Facility and retains full control over how this supports the whole programme and over all monitoring and evaluation.

The Independent Commission for Aid Impact (ICAI) recommended that DFID should identify how its private sector work can have greatest impact for the poor. Since DFID is a development agency, it has the opportunity to support economic development in developing countries in pro-poor ways which the private sector alone cannot.[30]

More of a hybrid approach could deliver some of the benefits of private equity while drawing on DFID and DECC's expertise in delivering climate action and development projects to send the right signals to commercial markets. In addition the government should use public money to play its proper role in identifying what works and what does not in this innovative field. Because this is a public-private partnership, it is not enough simply to follow purely private equity management standards. The government has a duty to taxpayers to be accountable and transparent in its use of public funds. Below are some of the specific ways the UK government might increase the likelihood that CP3 delivers its aims:

1.1 CP3 needs management and oversight mechanisms which can help deliver its aims

The management of CP3 needs to be as innovative as the programme itself if it is to be fit for purpose. DFID and DECC will need clear oversight of what is happening at the project level if they are to gather the necessary learning to understand the benefits and challenges of developing this new approach to delivering UK aid. At present we are unclear what actual project-level information DFID and DECC will receive, since the monitoring and evaluation framework has not yet been finalised and the DOTS reporting system used by the fund managed by the IFC Asset Management Company focuses on cash flow, not wider indicators (see below).

1.2 CP3's design and evaluation process must include genuine participation by representatives of people living in poverty

DFID has written a terms of reference for developing a monitoring and evaluation (M&E) framework for CP3. It has contracted two companies to develop and implement this framework. The terms of reference states that there will be a detailed work plan for stakeholder participation. However, it has not yet been defined who the stakeholders are, what the participation process will be (for example, will stakeholders be involved at the upstream stage of project design or only in giving feedback on project impacts?) or how the results of that participation will be applied to ongoing project design and implementation.[31]

It is essential that the design and evaluation process includes participation by representatives of a range of stakeholders, including civil society and especially people who live in poverty, since they are the intended beneficiaries of CP3 projects.

CAFOD has worked over several years on participation models, for example in relation to the post-2015 framework.[32] It is important to explore models of effective and informed participation which will include people living in poverty targeted by CP3 projects as well as experts from civil society at international level. DFID has a real opportunity to play a proactive role in ensuring CP3 actually does this. However, this would require changes in its general approach. The ICAI found that, in its private sector work, DFID "largely excludes from its learning community the private sector itself, non-government organisations, implementing partners and beneficiaries". [33]

Information about CP3 projects needs to be disclosed to open data standards[34] and in ways which facilitate fully informed and freely-given feedback from people living in poverty. Feedback may be positive and/or negative, but it can all help to improve the effectiveness and design of future investments.

30. ICAI (May 2014) DFID's private sector development work: http://icai.independent.gov.uk/reports/dfids-private-sector-development-work/, p13

31. DFID's Monitoring and Evaluation Terms of Reference – Climate Public Private Partnership (CP3)

32. CAFOD & Participate, Setting the post-2015 development compass: Voices from the ground: http://www.cafod.org.uk/Policy/Post-2015

33. ICAI (May 2014) DFID's private sector development work: http://icai.independent.gov.uk/reports/dfids-private-sector-development-work/

34. See the UK's commitments to the Open Data Charter: https://www.gov.uk/government/publications/open-data-charter and the Open Government Partnership: http://www.opengovpartnership.org/country/united-kingdom

"Any mid-term evaluation of CP3 is of limited use in terms of influencing or changing the implementation of the project itself."

DFID

As well as participation to deliver desired CP3 outcomes and to prevent harm, it is important to ensure that mechanisms exist so that people living in poverty can seek redress if things go wrong. Fund managers should respond appropriately where there is an actual or perceived negative impact on people living in poverty. To achieve this, CP3 should contractually oblige its fund managers to ensure adequate remedy will be accessible, especially to people living in poverty. In many cases, a one-off financial compensation payment would be insufficient to fulfil the remedy requirement.[35]

1.3 DFID & DECC should take a more proactive role in shaping how this partnership works

DFID states that "any mid-term evaluation of CP3 is of limited use in terms of influencing or changing the implementation of the project itself".[36] The UK government should consider whether it needs to use its influence as a CP3 board member to carve out a different role as a *public* financier within a private equity delivery model. Rather than following private equity management standards, this public-private partnership could adopt more of a hybrid approach, which would allow some flexibility of control over the criteria for project design and selection. This would maximise the chances of sending the right market signals to this new sector in ways which are more likely to deliver CP3's aims.

The complete CP3 contracts are not in the public domain and therefore their exact terms and conditions are unknown. However, as a priority, DECC and DFID need to set clear criteria, if these do not already exist, so that the UK aid channelled through CP3 delivers its stated development outcomes and does no harm. For example, CP3 could contractually oblige its fund managers to carry out adequate due diligence and effect changes in project design that will lead to an overall positive impact and do no harm.

Even within the existing legal arrangements, the UK is the sole investor in the Technical Assistance Facility and therefore retains full control over how this supports the CP3 programme and over all monitoring and evaluation. This actually gives the UK government considerable powers in comparison to other CP3 investors, but not if DFID and DECC wait until after the end of this 12- to 15-year programme to shape project design.

1.4 Lessons learned from each project should be shared

Based on information that CAFOD has seen, the project-level information that DFID and DECC receive appears to be quite limited. One of the two funds is managed by the World Bank's International Finance Corporation (IFC).[37] This IFC Catalyst Fund reports using the Development Outcome Tracking System (DOTS). DFID and DECC have told us that they are satisfied with this system,[38] but the Independent Evaluation Group (IEG) of the World Bank recently concluded that the DOTS system is not fit for purpose. Its concern is that DOTS focuses on aspects which are relevant to cash flow and does not measure specifically pro-poor or wider impacts.[39]

A major part of the UK's role as a government investor in CP3 should be to identify how to invest in this challenging new field so as to deliver pro-poor and sustainable development impacts. However, it is not clear that CP3's current structure, will inform the UK government how each project has been set up and what economic, social and environmental impacts it has had. This is a fundamental flaw in the CP3 model.

CP3 could play a truly innovative role by documenting and disclosing its learning and opening it up for wider debate. For example, based on CAFOD's learning on what works best to deliver energy access for people living in poverty, this could include:

- plans for how to invest in off-grid solutions
- a working holistic definition of access to energy for people living in poverty
- participatory methodologies for designing and delivering energy projects so they meet end-user needs and are locally appropriate

35. See, for example, principle 25: "Remedy may include apologies, restitution, rehabilitation, financial or non-financial compensation and punitive sanctions (whether criminal or administrative, such as fines), as well as the prevention of harm through, for example, injunctions or guarantees of non-repetition. Procedures for the provision of remedy should be impartial, protected from corruption and free from political or other attempts to influence the outcome." http://www.ohchr.org/Documents/Publications/GuidingPrinciplesBusinessHR_EN.pdf

36. DFID's Monitoring and Evaluation Terms of Reference – Climate Public Private Partnership (CP3)

37. Meeting with DFID & DECC on 5 June 2014

38. Ibid

39. Independent Evaluation Group, World Bank Group support to public-private partnerships, https://ieg.worldbankgroup.org/evaluations/world-bank-group-support-ppp, p140, p196

- indicators to measure the affordability, quality and reliability of energy services provided to end-users (rather than indicators that merely capture energy supply through grid connection or megawatts of power generated).

It will also be important to know specifically what the private finance is funding, ideally on a project-by-project basis. This will inform learning and debate among stakeholders about good practice for development agencies using public finance to leverage private sector finance for climate mitigation and poverty reduction.

DFID's plans are that CP3's 2017 evaluation will consider what information could be disclosed, to whom and how this could be done.[40] CAFOD thinks that this element should be prioritised now, if not to maximise the options for innovation, then at least to ensure that adequate information is being disclosed for CP3 to meet its own ESG standards on consultation.

1.5 Ensure that CP3-funded projects 'do no harm' and that they contribute to sustainable development outcomes

Carrying out thorough human rights and environmental due diligence, and basing project design and management on those results, can go a long way towards avoiding harm. This requires fully informed and free participation from representatives of people living in poverty who will be affected by CP3-funded projects.

CP3 has set a target that 50 per cent of its fund managers will be new[41] (see theory of change above). This will incentivise the expansion of financial services that can deliver this kind of investment in developing countries. However, even experienced fund managers may not be familiar with the highly technical ESG investment standards that CP3 requires. The UK government is in a position to control and have oversight of CP3's Technical Assistance Facility. It will need to provide clear guidance and considerable support to fund managers, even simply to enable them to deliver projects according to current ESG standards.

CP3 fund managers are expected to receive training on ESG standards. However, the target investment areas, such as biomass or hydro-power, each require a complex understanding of the energy sectoral issues. For example, CP3's only steer for fund managers on biomass is that it should be "sustainable". However, academic research has found that power generation using wood from conifer plantations emits 80 per cent more carbon than from burning coal[42] and whether a particular source of biomass is sustainable can be a complex calculation and requires considerable scrutiny of data and oversight. Risks such as this are not clear in the IFC Performance Standards and guidance notes.[43] Managers who do not have the skills to make informed decisions have the potential to invest in projects that do harm.

For these reasons, it is important that CP3 guidance to fund managers on target areas is clear and detailed enough and that ongoing oversight is also adequate to avoid investment in projects that could cause harm or fail to deliver the desired results. CP3 contracts should specify that projects should be required, at a minimum, to report evidence which demonstrates both that the project is environmentally sustainable and that it does no harm, especially to people living in poverty.

2 Ensure CP3 adopts an innovative approach to energy access so its investments deliver real poverty reduction and development impact

Access to sustainable, affordable, safe and reliable energy services is critical for many areas of development and for lifting people out of poverty.[44] Based on this research we are pleased to see that CP3 already has an explicit target (an "impact indicator") of "number of poor households provided with improved energy access".[45]

40. Phone call with DFID and DECC on 19 March 2015.

41. As stated in the CP3 theory of change above

42. Searchinger T (September 2012) Sound principles and an important inconsistency in the 2012 UK Bioenergy Strategy, Princeton University, cited in Friends of the Earth: Felled for fuel? Why burning trees for electricity should not get UK government subsidies: https://www.foe.co.uk/sites/default/files/downloads/felled-fuel-46611.pdf (accessed 5 September 2014), p5

43. The World Bank's IFC Performance Standards and Guidance notes can be found here: http://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/ifc+sustainability/our+approach/risk+management/performance+standards/performance+standards+-+2012

44. See Garside B, Leopold A & Wykes S (2014) Energy in the post-2015 development framework, CAFOD, IIED, Practical Action et al: http://www.cafod.org.uk/Policy/Climate-and-energy

45. Final log frame: 170314

This is one of the areas where CP3 has the potential to be truly innovative. Awareness is already growing among decision-makers that better energy access for people living in poverty is a potential 'win-win' situation for both climate protection and poverty reduction.[46] For this reason we have examined this particular CP3 outcome in more depth. Much will depend on how the next steps are developed to deliver this important target. A first step will be to develop a clear baseline for each project. In this way it will be possible to see what the impact of these projects has been and whether these investments would have happened without CP3 funding.

Having the right definition for energy access is essential. Current binary definitions of energy access (for example, *having or not having a household electricity connection* and *cooking with non-solid or solid fuels*) do not tell us if communities have energy services that are good quality, reliable, affordable and safe enough to be usable. CP3 should adopt indicators which measure the quality, reliability, safety, affordability and sustainability of energy services provided to end-users, rather than ones that merely capture energy supply through grid connection or megawatts of power generated. The Global Tracking Framework (GTF) developed for the Sustainable for Energy for All (SE4ALL) initiative, for instance, takes an innovative, "multi-tier" approach to defining access and has been designed to measure progress across the range of attributes of a usable energy service, including quality, affordability, safety and reliability. CAFOD and other civil society and energy access practitioner organisations are also proposing that access investments should aim to deliver a minimum level of meaningful access.[47] For household, productive and community uses, GTF tier 3 should act as the minimum level of access that can produce real development impact. GTF tier 4 should be the minimum level of access for cooking, given new evidence from the World Health Organisation on the devastating health impacts of indoor air pollution from cooking.[48]

In addition, the vast majority of the energy poor live in rural areas where off-grid (mostly renewable) solutions – particularly for electricity – are the most feasible, sustainable and cost-effective way to deliver access.[49] CP3 would need to invest explicitly in these kind of solutions for real development impact.

Financing energy services for the poorest people also usually requires a combination of innovative public-private partnerships, social enterprise initiatives and national government investment.[50] The design of payment systems that are affordable and that suit local end-users' preferences is also essential, including pay-as-you-go models and flexible payment schedules. CP3 could be truly innovative by supporting such leading-edge financing models and partnerships, and also further analysis of the different roles that private and public sector can play in financing energy access. This can also help identify where public finance can be targeted more effectively at the poorest groups who cannot be reached by market-based interventions.

Finally, more tailored finance and technological solutions alone will not guarantee that energy access interventions are sustainable and deliver long-term development impact. Understanding end-user demand through using participatory approaches to designing and delivering services and ensuring that they are appropriate for varied local contexts is also crucial. CP3 projects could add real value and be more likely to deliver poverty reduction and sustainable development impacts if CP3's investment framework centred on building understanding of end-user demand and their local contexts, including a nuanced understanding of the needs of different segments of groups living in poverty, and designing and delivering services to meet these needs.

3 Strengthen CP3's results management framework to inform ongoing investment

CP3 provides an opportunity to learn about what works and what does not in delivering sustainable/climate-compatible development to people living in poverty and also what

46. For example, as part of the discussions around the Sustainable Development Goals

47. See CAFOD et al, 2015. Measuring what matters in the Energy SDG. http://www.cafod.org.uk/Policy/Climate-and-energy

48. Tier 3 for household electricity comprises a low but adequate level of electricity which is affordable, reliable and available for eight hours a day, a package of energy services including lighting, phone charging, radio and television and an electric fan, food processing applications or a washing machine. For productive uses, Tier 3 would allow for the use of, for example, a sewing machine, a drilling machine or a potter's wheel. For cooking, Tier 4 would mean at least the use of a stove which either uses non-solid fuel, or a very high-quality biomass stove which is well-vented.

49. Garside B, Leopold A & Wykes S (2014) Energy in the post-2015 development framework, CAFOD, IIED, Practical Action et al: http://www.cafod.org.uk/Policy/Climate-and-energy

50. See Best S, Rai N & Wilson E (2014) Sharing the load: Public and private sector roles in financing pro-poor energy access, IIED: http://pubs.iied.org/16560IIED.html

roles private sector actors can most usefully play to that end. Measuring effectively the impacts of CP3 projects is the first step to enabling this learning to take place. The ICAI has raised concerns about the impacts of the International Climate Fund (ICF) – which channels UK aid into CP3 – describing it as being "hard to comprehend as a whole. Its outreach has been variable." It is important that CP3 learns from this feedback by ensuring that what it is doing is measured properly and transparently and the results are shared to inform ongoing learning.

This is an innovative field, where the UK government is trying to find solutions. However, we are concerned that the way that the funds are currently set up will not allow the government or UK citizens to know if they have achieved CP3's objectives. We appreciate the challenges of measuring impacts, but CP3 in its current form will not generate learning about what does and does not work. Since CP3 is using UK aid, the government would benefit from rethinking its approach.

The government should use CP3 to collect evidence of the impacts of CP3-funded projects, both positive and negative. This information should be made public, complying with open data standards, to open up discussion and ensure that UK aid investments do no harm.

In practical terms, we recommend that CP3 measures:

3.1 The costs, risks and benefits of CP3 projects, and details of to whom they accrue

CP3's theory of change suggests that some innovative and transformative outcomes could be achieved which will result in poverty reduction and climate action. However, CP3's current design is not explicit about how these outcomes will be achieved. Intended benefits that DFID and DECC have identified include:

- CP3 supports developing countries to choose their own low-carbon and poverty-reducing growth strategies.
- 180 new projects finance low-carbon and poverty-reduction outcomes in developing countries.
- The private sector supplies £6.7 billion in additional investments to projects which may deliver low-carbon and poverty-reduction outcomes alongside commercial returns.
- Some people who live in poverty could access the energy services they need.
- 40,000 new jobs could be created (though it is not specified who will benefit from those jobs).

These potential benefits will need to be weighed against the potential costs and risks, which may include:

- Projects funded by CP3 might have a negative impact on some communities and/or the environment in developing countries. CP3's current design could result in this happening without the knowledge of DFID or DECC.
- CP3 may not share the costs and risks for each project evenly between its public and private sector investors. This could create an unsustainable precedent for donors and commercial markets.
- If investments prioritise commercial viability above poverty reduction and climate mitigating outcomes, CP3 may fail to achieve its overall goal.

To assess whether CP3 is delivering on its stated aims of climate action and poverty reduction, DFID and DECC should require the two funds they invest in to provide evidence of the economic, social and environmental costs, risks and benefits of each project, and details of to whom they accrue.

There needs to be a clear baseline for each project, a participatory monitoring and evaluation system and an appropriate management and governance framework in place in order for DFID and DECC to gather this data on a project-by-project basis. The aim should be not just to ensure that projects do no harm, but that they deliver additional sustainable development benefits to people living in poverty. An evaluation of their impacts should also inform further development of both this and future UK aid and climate financing models and programmes. This would fit with the UK government's commitment to the OECD Principles for the Evaluation of Development Assistance, often referred to as the Paris Principles.[51]

As stated above, DFID has written a terms of reference for developing a monitoring and evaluation framework for CP3 and has contracted two companies to develop and implement this framework. The first task for the selected agent will be to define the overall baselines and milestones against which aggregate evidence of impact can be measured. It will also be required to monitor and verify compliance with ESG standards set out in the M&E framework, as well as monitor the data reported by fund managers against agreed ESG criteria.[52] This will include assessing reports provided by the fund managers and some independent verification (the exact nature of which is not yet clear). They will carry out various other key tasks, including designing and establishing a system to manage monitoring and data collection on CP3's financial and developmental impacts and to produce a detailed work plan for stakeholder participation throughout the project, which should include what is required of fund managers.[53]

While DFID has recognised the role of monitoring and evaluation in mitigating the risks associated with this innovative programme, it is of concern that project funding has begun prior to the M&E framework being designed.

In our view, this means CP3 does not yet have a monitoring and evaluation system that is fit for purpose. Most importantly, it should be clearly stipulated that the findings from the monitoring and evaluation of projects are shared with CP3 fund managers, who should be contractually obliged to ensure that the lessons learned are applied to projects being implemented and to the design of new projects, on an ongoing basis over the 12- to 15-year lifespan of CP3. This will also require clear guidance being given to fund managers. If, as DFID have indicated, current contracts make applying this learning to new and ongoing CP3 projects impossible, this would represent a serious concern.

3.2 Measuring how much new finance CP3 is raising and from which sources

It is a challenging task to understand how to use public money to raise private investment which delivers public goods, services or infrastructure that are accessible to people living in poverty. CP3 has real potential to test out new ideas of how to do this.

CP3 should disclose whether and how much of its financing is new and additional, including its methodology and assumptions made in its calculations. We recognise this is a key challenge. There are no obvious answers to this question but, to evaluate CP3's 'added value', it is vital to measure if CP3 projects would have been financed in any case, and by new investors, without the existence of a specific instrument aimed at attracting new and additional finance, such as CP3.

The methods used to calculate financial additionality vary between organisations. Terms such as "mobilising", "leveraging" and "catalysing" of private financial flows are frequently used. However, these terms can mean different things, depending on which financial instrument is used and which organisation is using the term, for example a development agency or a private company.[54] By clarifying its methodology and its assumptions, CP3 could also contribute to the wider public debate around the pros and cons of different financing mechanisms.

3.3 Evidence that the additional private finance is going to low-carbon projects which reduce poverty

It will be important to gather and disclose evidence of specifically what the private finance is funding, ideally on a project-by-project basis. This will inform learning and

51. OECD (2002, updated 2010) Glossary of key terms in evaluation and results based management: http://www.oecd.org/dac/evaluation/2754804.pdf, p24. These principles set out the most important requirements when donors are evaluating their impact. The principles require an understanding not just of the direct outputs that have happened as a result of project/programme activities but also "the basic impacts and effects on the social, economic, environmental and other development indicators resulting from the activity". Impact is defined as "positive and negative, primary and secondary long-term effects produced by a development intervention, directly or indirectly, intended or unintended". By applying OECD principles to measure all impacts, any harm done can be identified. This step is one part of OECD Development Assistance Principles which the UK government has endorsed. See: OECD Development Assistance Committee (1991) Principles For Evaluation Of Development Assistance, Paris: http://www.oecd.org/development/evaluation/daccriteriaforevaluatingdevelopmentassistance.htm, p11

52. Annual review (2) 201733 (October 2014), available from: http://devtracker.dfid.gov.uk/projects/GB-1-201733/documents/ (accessed 22 October 2014)

53. DFID's Monitoring and Evaluation Terms of Reference – Climate Public Private Partnership (CP3), p4

54. Mirabile M, Benn J & Sangaré C (September 2013) Guarantees for development, OECD Working Paper: http://tinyurl.com/ojqoelq (accessed 22 Sep 2014), p11

debate among stakeholders about good practice for donors using public funds to leverage private sector finance for climate mitigation and poverty reduction.

It is quite straightforward to achieve a target ratio of public finance to private finance in investments which are already commercially viable. However, it is a real challenge to seek out and/or design new projects with projected poverty-reduction impacts that can also overcome barriers to attract private sector investment. CP3 aims to set a precedent to show commercial markets that this is indeed possible.

A clear understanding of what private sector investments fund specifically will therefore be particularly important if the CP3 model is to encourage low-carbon private sector investment in developing countries. Research shows that the private sector currently accounts for about 57 per cent of climate investment[55] in low-income countries, whereas it accounts for about 88 per cent in developed countries.[56] It is possible that this indicates that more private capital is needed to finance climate investments in low-income countries. However, a report prepared for DFID and DECC found there is no data available to confirm whether this is the case, or specifically where the shortages are.[57] It is also unknown whether there are other barriers to private investment and if so what those barriers are.

The UK's Development Finance Institution has developed an ESG toolkit to try to influence decision-making in the commercial sector. It asks fund managers to consider any alternatives to a particular project as part of the environmental and social impact assessment (ESIA). This analysis provides the basis for the project management plans and decisions as to whether and how the project goes ahead.[58] Since it remains unclear if there are shortages of private capital for climate investments in low-income countries, or where those shortages are, it will be helpful to identify and compare the economic, social and environmental costs, risks and benefits of different modalities of UK aid and climate finance and have details of to whom they accrue. This information can then be used to shape future developments of funding models and their applications.

3.4 The UK government should be clear on the 'added value' in using public development and climate finance to stimulate private sector investment through CP3

There are several options for delivering UK aid. Using private finance is widely understood to be one of the most expensive of these options since it aims to earn a profit. For example, the World Bank's IEG states that, because the costs of using private capital are so high in comparison to public sector finance, public-private partnerships generally do not provide additional resources to the public sector.[59] For this reason, it is particularly important when using private finance to deliver development and climate action objectives that its added value is clearly defined, for specific and time-bound purposes, and that this is all transparent to open data standards.

As noted above, ICAI has suggested that DFID needs to do more to identify how its private sector work can have greatest impact for the poor, since it has the opportunity as a development agency to influence economic development processes in pro-poor ways.[60]

The UK sees itself as an anchor investor in CP3 because private investors and other donor countries are sceptical about the commercial returns to be gained from investing in low-carbon projects in developing countries.[62] However, a 2011 survey found that 62 per cent of venture capitalists wanted to invest in clean technology over the next five years[62] and there were large private sector pledges at the 2014 UN climate summit.[63] There is some doubt regarding the extent to which this commitment and interest expressed will translate into actual private sector investment. However, if interest continues to grow in low-carbon infrastructure investments, the UK government may need to adapt its CP3 strategy during its implementation to ensure it is clear about – and clearly communicating – CP3's added value in a changing investment landscape.

55. Climate investment is used here to refer to climate resilience, REDD and renewable energy investments. See: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/318874/delivery_options_icf.pdf

56. DECC & DFID (June 2014) Delivery options for the International Climate Fund: report prepared for ICF spending departments. Available from: https://www.gov.uk/government/publications/delivery-options-for-the-international-climate-fund-report-prepared-for-icf-spending-departments (accessed 22 July 2014), p5

57. Ibid

58. CDC Group (2010) Toolkit on ESG for fund managers: http://www.cdcgroup.com/PageFiles/147/finalcdctoolkitforfundmanagers20101.pdf (accessed 22 Aug 2014), p46

59. Independent Evaluation Group (July 2014) World Bank Group support to public-private partnerships, p6: https://ieg.worldbankgroup.org/evaluations/world-bank-group-support-ppp

60. ICAI (May 2014) DFID's private sector development work: http://icai.independent.gov.uk/reports/dfids-private-sector-development-work/, p13

61. Annual review: Climate Public Private Partnership Programme (CP3), 2012–13

62. British Private Equity and Venture Capital Association (BVCA), Deloitte et al (June 2011) Global trends in venture capital: http://www.bvca.co.uk/ResearchPublications/ResearchReports/2011GlobaltrendsinVC.aspx (accessed 24 September 2014)

63. Financial Times (24 Sep 2013) http://www.ft.com/cms/s/0/e7fa7e04-433a-11e4-be3f-00144feabdc0.html?siteedition=uk#ixzz3EEEV9qqo

"Freely-available government data can be used in innovative ways to create useful tools and products that help people navigate modern life more easily... [and]... fuel better outcomes in public services."

The G8's Open Data Charter, (2013)

In particular, DFID and DECC should identify and communicate how CP3 is catalysing an overall private sector shift to investing in low-carbon projects which demonstrably deliver poverty-reduction benefits, especially for the poorest and most vulnerable groups.

4 Ensure CP3 is transparent, publishing relevant data to fuel innovation

The government has committed to meeting open data standards.[64] The G8's Open Data Charter's first principle is "open data by default". This means that all government data will be publicly available unless there is a legitimate reason for it not to be, such as a national security risk.

The Charter states that "freely-available government data can be used in innovative ways to create useful tools and products that help people navigate modern life more easily... [and]... fuel better outcomes in public services... Open data can do this by:

- showing how and where public money is spent, providing strong incentives for that money to be used most effectively
- enabling people to make better informed choices about the services they receive and the standards they should expect."[65]

One of the reasons why CAFOD has focused on CP3 is because it represents a new generation of public-private partnership in the development sector. There is already a strong political appetite for this approach to financing and it is being considered more widely than just in climate change programming, for example, in relation to delivering the Sustainable Development Goals (SDGs) as part of the post-2015 process.

In the light of this, there is an urgent need to understand the ways in which these vehicles are delivering on their objectives. CP3 could be a very useful learning example. The government should ensure that there is relevant information about CP3 in the public domain, disclosed to open data standards. This may include public disclosure of:

- contract terms and conditions, as well as project reports
- information on which actors have a majority control in designing and delivering specific CP3 projects
- the beneficial owners[66] of funds, sub-funds and investee companies
- funds, sub-funds and investee companies' financial accounts on a project-by-project basis
- ShareAction has suggested that the criteria for the selection of the actual fund managers should also be publicly disclosed.[67]

CP3 could accelerate much-needed innovation by disclosing this level of information and opening up wider debate among stakeholders about its results and how to deliver its aims. Discussion based on the evidence of impacts should involve all stakeholders, with a priority given to inputs from those who live in poverty and vulnerable groups. This will require disclosing information on CP3's measurement methodologies and the results (as per the previous section). In this way a range of actors – academics, governments, investors and civil society – will have the raw data needed to develop a variety of solutions to the challenges CP3 identifies.

We agree with ICAI's recommendations that "improved transparency would lead to improvements in accountability, learning and influence" and that "better reporting is an important step, but would not be enough to meet this need".[68] Therefore, it will be essential for the government to disclose contract terms and conditions, as well as project reports, to enable wider participation in both learning and support processes of accountability.

64. https://www.gov.uk/government/publications/open-data-charter/g8-open-data-charter-and-technical-annex

65. Ibid

66. Please refer to the definition given in footnote 7 above.

67. Email from ShareAction on 17 February 2015. ShareAction is a charity that promotes Responsible Investment by pension funds and fund managers.

To ensure that new private sector investment and innovation is focusing on poverty reduction and climate mitigation outcomes, it will also be important to have transparency about who controls CP3 investor decisions and who benefits from them. This will help to understand their agenda for CP3 projects. For this reason, funds, sub-funds and investee companies should be required to disclose their beneficial owners and to report their financial accounts on a project-by-project basis.

"Improved transparency would lead to improvements in accountability, learning and influence."

ICAI (2014)

5 Support the domestic enabling environment in developing countries and build in a realistic exit strategy for CP3

Tackling climate change, providing energy access for people living in poverty and supporting sustainable growth are clearly all long-term challenges. The solutions will take time to develop and will vary according to different contexts and end-user needs. So it is important to have realistic expectations: private sector investment alone will not address all the challenges which the poorest people face on a daily basis.

CAFOD believes that ultimately governments in the developing world should design their own policies to build an enabling environment for low-carbon development and poverty reduction. Sustainable sources of public finance will continue to be needed to deliver public goods, services and infrastructure which are accessible to people living in poverty. Therefore, any initiative drawing on UK aid should build in this aim of sustainability from the start. This will also ensure that spending on CP3 contributes to, and does not undermine, existing policy commitments on aid sustainability, such as participation, closing tax loopholes and supporting good governance.

Our recommendations are:

5.1 More analysis and multi-stakeholder discussion is needed in the design, implementation and evaluation of CP3 projects

More analysis and multi-stakeholder discussion are needed to understand:

- the role of donor governments, target governments and private sector investors within CP3. This understanding will help to keep private sector investment in perspective and avoid it being misinterpreted as a panacea.
- the value added and the limitations of CP3. This includes analysis of how public finance can be targeted effectively at vulnerable groups and people living in poverty who cannot be reached by market-based interventions.

5.2 The private sector must bear its fair share of the risks and costs of projects, so that CP3 is a sustainable model for investment

Attracting private investors is a priority for DFID and DECC. The business case clearly states: "The funds must be run on a commercial basis (with no public sector interference in decision-making) and avoid being perceived as being too developmental in nature because of the risk of otherwise deterring private sector investors who are looking for good financial returns."[69]

As discussed in Recommendations sections 1.5 and 3.1 above, the risks and costs will vary widely between specific projects. A central challenge will be how to balance the tension between this explicit aim of avoiding the funds being "too developmental", with the fact that CP3 is funded with UK public finance and must therefore have the right terms, conditions and management systems in place to ensure the funds deliver CP3's stated poverty-reduction and climate action impacts. There must be a focus on long-term returns for people living in poverty. Principles of transparency and accountability must be observed.

68. ICAI (Dec 2014) The UK's International Climate Fund: http://icai.independent.gov.uk/wp-content/uploads/2014/12/ICAI-Report-International-Climate-Fund.pdf, p33

69. CP3 business case, Climate Public Private Partnership (CP3) Platform: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/48451/5720-business-case-for-icf-support-for-the-climate-publ.pdf, p2, (original emphasis)

5.3 CP3 structures and practices should enable developing countries to drive their own development

The UK government has been leading G8 and G20 efforts to improve transparency and crack-down on corruption, as this increases the cost of doing business and harms development.[70] Developing countries also need to be able to shape their institutions and regulations in ways which develop a pro-poor and low-carbon economy. They also need to be able to raise their own public finances, for example by ensuring that taxes are collected effectively. The way CP3 funds are set up should explicitly support them in this endeavour – but currently some funds effectively undermine developing countries' efforts, both in practice and in principle.

So, for example, for policy to be coherent, CP3 funds should not be channelled via tax havens or secrecy jurisdictions. At present, one of the funds is a Limited Partnership based in the Cayman Islands.[71] The UK government points out that the Cayman Islands are a member of the OECD's voluntary initiative, the Global Forum on Transparency and Exchange of Information for Tax Purposes and that they are "largely compliant".[72, 73] Yet, such jurisdictions support legal tax avoidance. This reduces tax paid to states and therefore the amount of public finance available. So donor and target countries lose out on public finance and have to use a higher proportion of more expensive private finance alternatives to fund their pro-poor and low-carbon development.

Officials have told CAFOD that it is unrealistic to expect private equity not to use these locations. But this passive approach also fails to use UK aid money in a proactive way to build the capacity of governments in the developing world. It militates against CP3's own aim to ensure that "improved regulations and laws to encourage private sector investment in climate are adapted and implemented by national and local governments".[74]

5.4 To develop future investment capacity, governments and citizens need to know who is in control

In the longer term, CP3 could be supporting the development of an effective domestic enabling environment for private sector investment in developing countries. This means helping to create an environment where local and national governments can develop the institutional capacity that they need to mobilise and manage funds for pro-poor and low-carbon financing. Again, this would seem to be in line with CP3 objectives to see "improved regulations and laws... adapted and implemented".[75]

As part of a future exit strategy, the transparency measures set out in the Recommendations section 4 will need to be applied. In addition, CP3's contracts should require funds, sub-funds and investee companies to disclose:

- disaggregated project-by-project financial and non-financial data
- the company structures used to make each investment
- the beneficial owner of each special purpose vehicle and/or other entities used by CP3's funds to finance projects in any one particular country.

This information should be shared with the target country's tax authorities and ultimately placed in the public domain in a format that meets open data standards. This would help the target country see how the private sector investments designed to deliver low-carbon development and poverty reduction in their jurisdiction are actually set up. Gaining oversight of this will help target countries to put in place the right rule of law, infrastructure and incentives to strengthen their national financial services to deliver these aims. It will also allow appropriate accountability and anti-corruption measures to be put in place.

70. David Cameron has prioritised this: "Corruption is wrong. It starves the poor. It poisons the system... But by nding the era of tax secrecy and driving real openness over what governments and businesses do - it can change." https://www.gov.uk/government/speeches/prime-ministers-speech-at-g8-open-for-growth

71. House of Commons Debate, 5 December 2014, cW: http://www.theyworkforyou.com/wrans/?id=2014-12-02.216944.h&s=%28catherine+mckinnell%29+section%3Awrans+section%3Awms%20-%20g216946.q2

72. The UK government has been leading G8 and G20 efforts to crack down on corruption, as this increases the cost of doing business and harms development. David Cameron told the Open for Growth event at the G8, 2013: "Corruption is wrong. It starves the poor. It poisons the system... But by ending the era of tax secrecy and driving real openness over what governments and businesses do - it can change." https://www.gov.uk/government/speeches/prime-ministers-speech-at-g8-open-for-growth

73. Email from DFID on 13 March 2015

74. CP3's Final Log frame 170314

75. Ibid

Next steps

This document has set out CAFOD's priorities and recommendations for effective implementation of the climate public-private partnership. We hope that it will be a helpful contribution to an ongoing discussion among stakeholders on CP3's investments and results.

More widely, we hope that a range of actors including governments, investors and civil society will use any learning generated by CP3 to inform future decision-making around public-private financing vehicles for climate action and poverty reduction.

We welcome any feedback and discussion on this topic. Please contact Beck Wallace in our Policy Team at: bwallace@cafod.org.uk

Back cover photo: Solar water purification system in a health centre in Kitui, DRC (CAFOD 2013)

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Romero House, 55 Westminster Bridge Road, London, SE1 7JB, United Kingdom.

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