



PILOT

Tracking Mobilised Private Climate Finance

Final Report

Triple The logo for Triple, featuring the word "Triple" in a bold, black, sans-serif font, followed by a circular icon divided into three segments: red, blue, and grey.

Contract details

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Presented by

Triple E Consulting - Energy, Environment & Economics B.V.
Westersingel 32A
3014 GS, Rotterdam
The Netherlands

Contact main author(s)

Mr Hans Bolscher
Hans.Bolscher@tripleconsulting.com

Ms Elske Veenstra
Elske.Veenstra@tripleconsulting.com

Mr Jeroen van der Laan
Jeroen.vanderLaan@tripleconsulting.com

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Executive summary

The Ministry of Foreign Affairs of the Netherlands (MFA) has initiated a pilot to calculate the total level of mobilised private climate finance by Dutch public interventions in 2012 and to make an estimate for the 2015 budget. This report presents the results, and summarises the methodological issues we encountered during this process.

Methodology:

To estimate the total mobilised private sector contribution for climate finance, we have included all Dutch programs that aim to mobilise private funding for development. In our methodology, we have taken the following three main steps:

- Establish climate relevance of public program aimed at private sector (using the Rio-markers),
- Determine the public and private financial flows and establish the extent to which the private flow can be attributed to the Netherlands' contribution (avoid double counting).
- Calculating the results: In our results we have distinguished between mobilised through the Ministry's budget and mobilised through International Finance Institutions (IFIs)/ Development Finance Institutions (DFIs) budgets. See the respective formulas here below:

The mobilised private sector climate finance by the Netherlands for a climate related project:

$$\text{Total private finance} * \frac{\text{finance from fund}}{\text{total public finance}} * \frac{\text{Dutch public finance to fund}}{\text{total finance to fund}} * \text{Rio marker}$$

The mobilised private sector climate finance via IFI/DFIs is calculated as follows:

Mobilised private finance via DFIs =

$$\text{Total climate finance DFI} * \text{Dutch share in DFI} * \text{Estimated leverage factor}$$

Main results:

Based on our methodology, the Netherlands has mobilised - through its own 2012 budget i.e.€117 million of public interventions - a total of **€57 million of private funds for climate finance**. This results in a leverage factor of 1 : 0,5. This amount was mobilised through nine bilateral and multilateral funds. Based on the projected public expenses for 2015, we expect the mobilisation for 2015 to be €53 million of private capital. This is slightly lower, partially due to the fact that some expected contributions could not yet be included.

IFIs and DFIs do not receive annual contributions but work with paid-in capital and guarantees by countries as equity. To estimate the mobilised private sector funding that can be attributed to the Netherlands per year, we had thus to use a different methodology. **We estimate that €41 million private finance has been mobilised in 2012 through these channels**. For 2015, €31 million is expected to be mobilised.

Mobilised private climate finance by the Netherlands' Ministry of Foreign Affairs

| | Through MFA budget | Through IFIs and DFIs budgets | Total |
|----------------|--------------------|-------------------------------|-----------------------|
| Realised 2012 | €56.55 million | €40.64 million (est.) | €97.18 million (est.) |
| Estimated 2015 | €52.63 million | €30.98 million | €83.62 million |

Key choices made to arrive at these results:

By taking the three main steps, several choices had to be made, each with a large impact on the outcomes of the calculations. This report describes the methodological options and choices we made with explanations why we made these choices. The most important choices are related to the correct attribution of private capital to the mobilising public sector funding (e.g. to avoid double counting) and about data coherence (e.g. timing of measurements).

We decided to measure the financial flows at the point of a project's funding approval instead of disbursement to a fund, we have included the role of developing countries in the public contribution to a project and we have defined when private finance from a developing country is or is not calculated as private finance.

We found it necessary to make a distinction between public interventions channelled through yearly government budgets and public interventions channelled through DFIs (often paid-in capital or guarantees).

We only measured private co-finance at the project level. We decided not to include, in line with the OECD-DAC, private capital contributions used by DFIs for capitalisation of their bank. Nor did we include private capital as part of the equity of certain DFIs.

Other choices made, refer to (1) the timing for the determination of the 'amount involved' in a financial deal (2), the choice for 'direct' climate finance only and (3) the discussions regarding different financial instruments. From all financial instruments, guarantees and insurances are the most difficult to quantify. We note the special position of Export Credit Insurance and Export Credit Guarantees. Although designed to support national companies, they also can contribute to mobilisation of climate finance. We have not included this in our calculation as no money is flowing from North to South and no leverage can be calculated.

Conclusions:

This was a pilot to examine how mobilised private climate finance can be calculated. As there is no internationally agreed methodology yet, we made our own methodological choices. These choices form the basis of our calculations for the level of mobilisation. Some of these choices have a considerable impact on the outcomes and as such it is important to find international standards to make the outcomes comparable.

Another relevant issue is the availability of data. Especially the data from the DFIs is not sufficient yet to make accurate calculations of the mobilisation and the relation with yearly national contributions. We think it is necessary (and relatively easy) to improve the data gathering in a consistent way once an international methodology is accepted.

1 Introduction

1.1 Background

The Netherlands Ministry of Foreign Affairs (MFA) has appointed Triple E Consulting to design a pilot to review its climate finance programs on the ability to mobilise private climate finance. The pilot is a contribution to the international effort, led by the OECD research collaborative, to enhance transparency of mobilised private financial flows for climate action in developing countries. This study is a second of its kind and aiming at the very calculating of the public and private contributions. The first study “*Mobilisation of private sector capital for climate finance*”¹ (2012) was the start for thinking of a methodology.

1.2 Objectives

The main objectives of this study are:

1. Develop a methodology to measure private sector climate finance that has been mobilised by Dutch public instruments;
2. Establish a baseline of mobilised private climate finance by the Netherlands’ Ministry of Foreign Affairs (MFA) for 2012; and
3. Make a forecast for mobilised private climate finance in 2015.

To achieve the objectives, we have worked in close collaboration with the MFA’s climate finance team and have exchanged knowledge on several occasions with the OECD Research Collaborative on Tracking Private Climate Finance. This report summarises the methodological issues we encountered during this process, and how we have dealt with them. Chapter 2 outlines the methodological issues and how we have dealt with them; chapter 3 maps the results both for 2012 and a forecast for 2015. Chapter 4 finally, describes the findings and recommendations.

Important to note is that, since this study is one of the first in its kind, not all required data were always available to apply the proposed methodology coherently. If divergences from the proposed methodology had to be made due to data limitations, this is mentioned in the relevant description of these funds in chapter 3.

1.3 Dutch Programs and instruments

The MFA has made an internal evaluation of all programs related to climate finance. Together with the Climate Finance Team, we selected the programs that had the potential to mobilize private climate finance (see annex C). We have only included direct climate related projects and as such we have not included ‘readiness’ projects (technical assistance, feasibility, etc.) or ‘indirect’ climate finance projects (policy support, etc.) as they typically do not attract any private co-finance.

Important is that we made a major distinction between the ‘climate finance directly through the annual budgets of the MFA’ and the ‘climate finance going through Development Financial Institutions (DFIs)’. We explain this further in the next chapter.

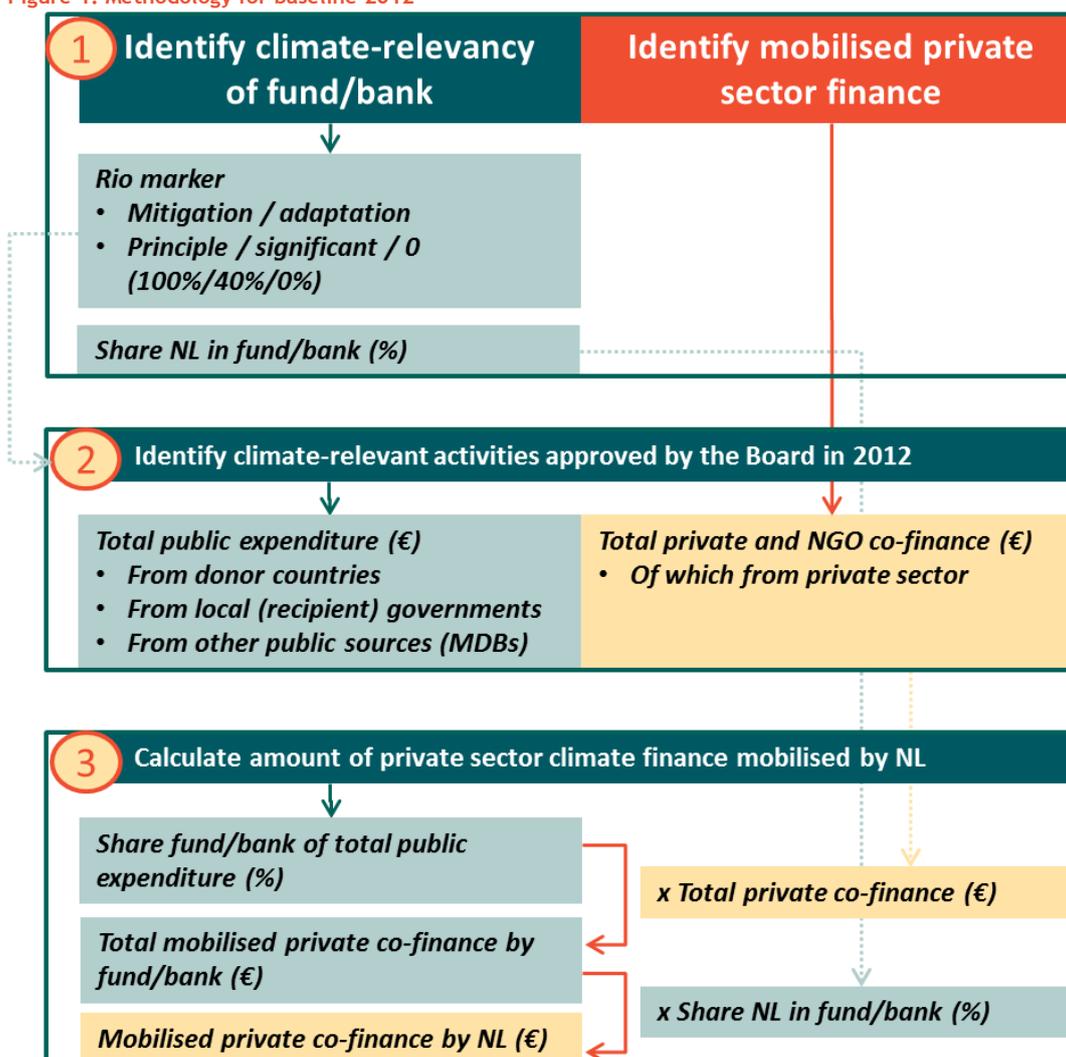
¹ Van Toledo, G., J. van der Laan and E. Veenstra 2012, Mobilization of private sector capital for climate finance.

2 Methodology

2.1 General methodology as applied

The figure below provides an overview of the different steps in our methodology for measuring mobilised private climate finance in 2012.

Figure 1. Methodology for baseline 2012



First, each fund is examined on its climate-relevancy and if any private finance has been mobilised. These are the two prerequisites for a fund to be applicable to the methodology. The Dutch share in the fund is calculated by looking at the share of Dutch disbursements as part of the total disbursements to the fund. This should be based on the cumulative disbursements to the fund from the first year up to the year of reference (in this case 2012). If this information is not available, the measurement should preferably be based upon a funding period of several years. Taking only 2012 as the reference year could lead to unrealistic figures, as donors usually do not allocate the same amount of funding every year.

Second, the climate-relevant activities that are approved in the reference year are identified. In addition to funding from the fund, additional funding from other public stakeholders such as developing countries and DFIs is added up to the total public expenditure. We propose to take all public interventions - also the ones external to the fund - into consideration when measuring mobilised private climate finance. Developing countries sometimes provide more financial resources than donor countries to climate activities. In the proposed methodology, *all* public interventions (i.e. within the fund or bank *and* external to the fund or bank) contribute to mobilising private finance. Private and NGO finance are also identified in this step. If the activities have a “principal” Rio climate marker, 100% of all public and private financial flows are measured. If the activities only have a “significant” Rio climate marker, 40% is measured.

Third, the share of the fund in the total public expenditure to the climate-relevant activity is measured. Only this share of the private co-finance will be considered to be mobilised by the fund; the rest is mobilised by the other public instruments (e.g. finance from developing countries or finance from industrialised countries that is external and additional to the fund). Finally, to arrive at the amount of private climate finance that is mobilised by the Netherlands, the mobilised private finance by the fund is multiplied by the Dutch share in the fund.

We could not use the same method for the funds directly governed and related to the annual MFAs budget (funds) on the one hand and the climate finance from DFIs’ statutory resources on the other hand. The latter not only report on their climate finance in a different way, also their contributions cannot be matched with the annual budget of the MFA. We have therefore calculated the Dutch share of DFI’ climate finance (as is reported in the Joint Report on MDB Climate Finance) on the basis of Dutch shares in the MDB’s Ordinary Capital Resources (OCR) and Trust Funds (see Chapter 3 results for more information and calculations).

This results in the following formulas:

The mobilised private sector climate finance by the MFAs budget activities is calculated as follows:

Mobilised private finance via Annual MFA budget =

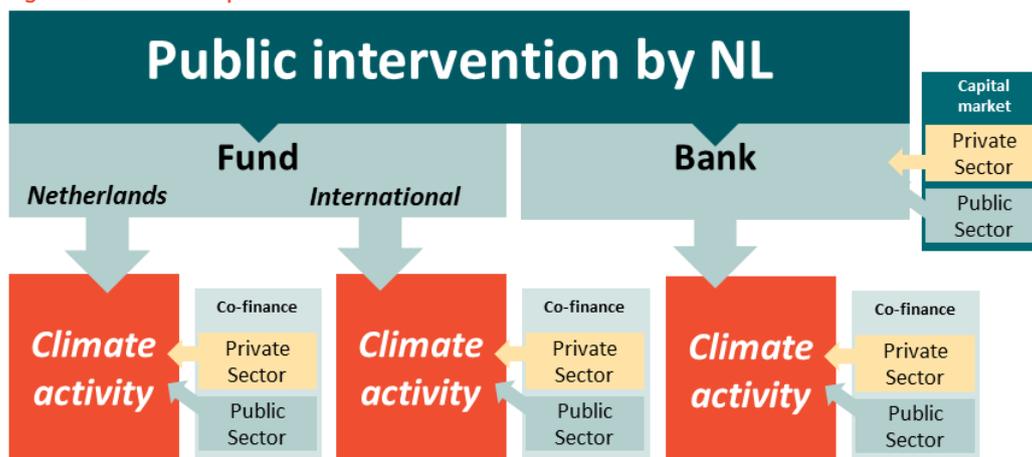
$$\text{Total private finance} * \frac{\text{finance from fund}}{\text{total public finance}} * \frac{\text{Dutch public finance to fund}}{\text{total finance to fund}} * \text{Rio marker}$$

The mobilised private sector climate finance via DFIs is calculated as follows:

Mobilised private finance via DFIs =

$$\text{Total climate finance DFI} * \text{Dutch share in DFI} * \text{Estimated leverage factor}$$

Figure 2. Channels of public interventions and mobilised climate finance flows



Channels of public interventions can be divided into two main categories namely funds and banks (see Figure 2). **Funds** are directly financed by the Directorate-General for International Cooperation (DGIS) of the Ministry of Foreign Affairs (MFA). **Governments finance development banks** by providing paid-in capital and state guarantees for the OCR of the bank. In other words, the government is shareholder in a development bank. With the capital and guarantees provided by governments (and possibly other stakeholders), a development bank can leverage financial resources from the international capital markets. These resources can come from private and public investors, such as pension funds, insurance companies and commercial banks. These combined financial resources are then used to finance climate activities. At the activity level, both funds and banks can mobilise co-finance from the private sector, the public sector, and NGOs.

For funds, attribution is measured on a **pro rata** basis. The share of the industrialised country is measured by its contributions in comparison to total contributions. Not only the contributions in the reference year, but preferably the total contributions since establishment of the fund are taken into account, since contributions can fluctuate substantially between years². If the public entity in an industrialised country only provides funding to one of the programmes under the fund, the share is calculated on basis of the contributions to this programme and not the entire fund. Only activities that are part of this programme are then taken into account.

The *Joint Report on MDB Climate Finance* enables governments to track how much has been mobilised on the capital markets by public interventions, channelled through the MDBs. However, it currently does not report on how much has been mobilised by private co-finance. In order to attribute the financial flows from the MDBs to the Netherlands efforts, we have calculated the share of the Netherlands in these MDBs (see Table 4 in Chapter 3).

² If there are no data available for the entire duration of the fund, calculations should be based on the longest funding period available.

Pro rata versus lead arranger

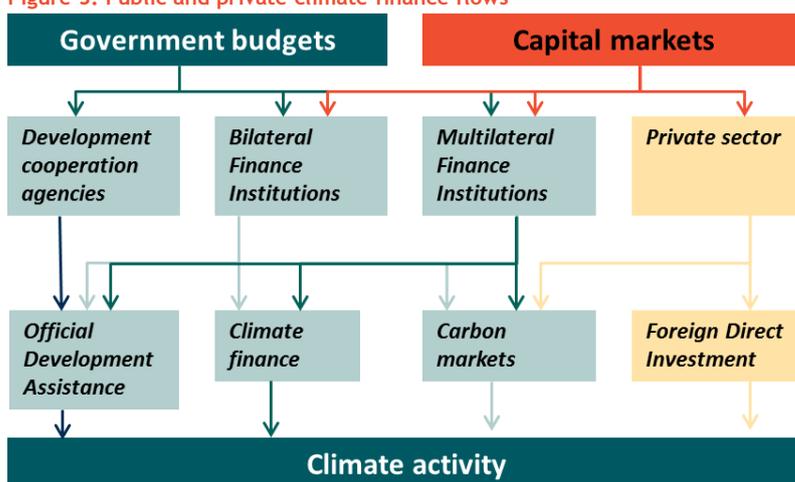
In order to avoid double counting, MDBs usually only attribute mobilised private finance to their instrument if they are the lead arranger of the funding. If the funding has a co-arranger structure, the share is calculated *pro rata* of the co-arrangers. Ultimately, finance flowing from MDBs is supported by paid-in and guaranteed capital from public (and private) governments and can therefore be attributed to them. The Netherlands is shareholder in many MDBs that mobilise private climate finance in developing countries. For now, the attribution is based on the Joint Report and Dutch shares in the respective MDBs

When applying this methodology, we came across several issues where we could not straightforwardly apply these formulas. The most relevant and impactful methodological choices are explained in more detail here below.

2.2 Attribution and double-counting

There are multiple actors involved in channelling and allocating climate finance. Double-counting of financial flows by different actors must be avoided by use of a clear and coherent method.

Figure 3. Public and private climate finance flows



Source: derived from World Bank³

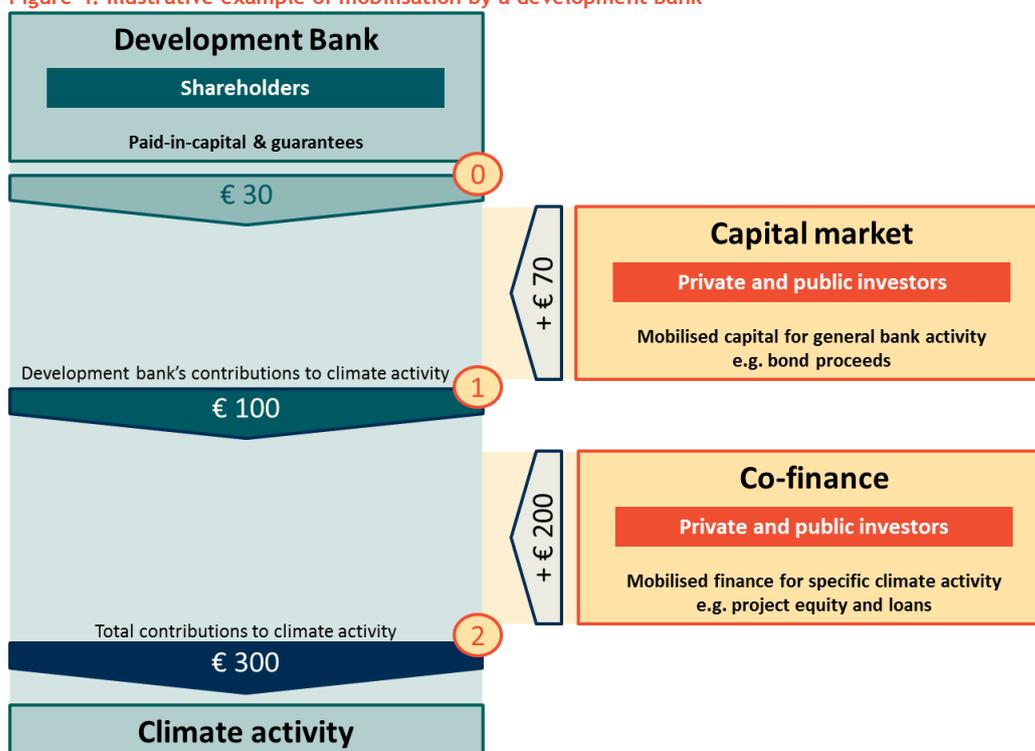
As the pledge of providing \$100 billion per year by 2020 is made by national governments, we think it is relevant that all their funding to climate activities can be ultimately traced back to them. Accordingly, our methodology attributes all public climate finance to national governments. Public interventions channelled through development cooperation agencies are relatively easy to trace back, while interventions channelled through DFIs are often mixed with other sources and can be channelled subsequently through other entities before they reach their final recipient (see Figure 3). A bottom-up approach (taking climate activities as a starting point and tracing these back to public interventions from governments) does not seem feasible here, so we chose a top-down approach (taking public interventions as a starting point and tracing climate activities that are financed as a result of these public interventions). A clear and common understanding for the calculation of DFIs activities and national budget activities is necessary to avoid double counting and attribution issues.

³ World Bank 2010 Monitoring Climate Finance and ODA

2.3 Levels of mobilisation

Private finance is flowing to climate projects at a variety of ways and levels. See figure below:

Figure 4. Illustrative example of mobilisation by a development bank



 = leverage level

We had to make a choice what flows of capital would be considered for the discussion on mobilized private climate finance. Development finance institutions (DFIs) such as multilateral and national development banks generally mobilise private finance at two (sometimes 3) stages (see above):

1. DFIs use paid-in capital and guaranteed capital from governments (public sector)⁴ to attract finance from the **capital markets** (private sector and sometimes public sector investors).
2. DFI climate activities are often **co-financed** by other actors, both public and private sector stakeholders.
0. Private capital can, in some more exceptional cases, be also part of the equity (shareholders of a Bank, e.g. the Dutch FMO has 49% private shareholders)

We have only included the actual private capital co-financing at the 2nd level (in direct climate projects). This is in line with the OECD-DAC reporting Directive⁵. We consider the private capital at the other two levels more as financial market operations only indirectly related to climate finance. Besides, measuring both steps would add a level of complexity to the methodology that can undermine practicality. However, if one would consider also level 0 and level 1 private capital as ‘mobilized private climate finance’ the share of private capital mobilization would increase substantially (even up to 3-500%). This would have NO impact on the total climate finance available.

⁵ “Official transactions are those undertaken by central, state or local government agencies at their own risk and responsibility, regardless of whether these agencies have raised the funds through taxation or through borrowing from the private sector.” - OECD-DAC 2013, “Converged Statistical Reporting Directives for the Creditor Reporting System (CRS) and the Annual DAC Questionnaire”, p. 7

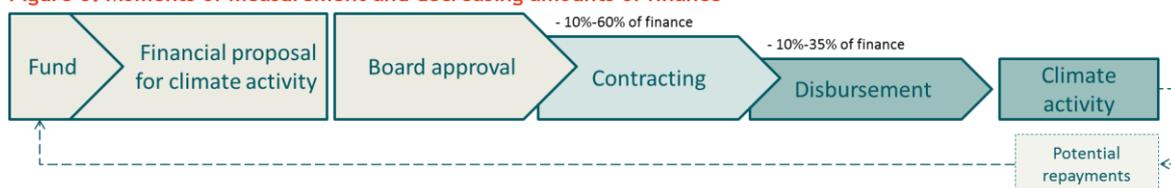
2.4 Timing and moment of measurement

One of the main methodological issues, is related to the moment of measurement. It is important to have a clear point in the financing chain to take measurement, in order to avoid double counting and lack of comparability and verification. There are three clear stages in the financing of climate-relevant projects⁶:

1. **Pledge** - a non-binding announcement by the donor of an intended contribution or allocation. It can be specific as to a fund or organisation and project, or only specify a crisis (e.g. climate change).
2. **Commitment** - a contractual obligation regarding funding between the donor and recipient. It almost always takes the form of a signed contract. Once a commitment is made, organisations can begin spending against the funding commitment, using cash reserves.
3. **Contribution / disbursement** - payment or transfer of funds or in-kind goods from the donor to the recipient, resulting from a commitment.

Disbursements are most accurate and often lower than the commitments. Figure 5 illustrates the decreasing amounts of finance throughout the financial chain of a specific climate-relevant activity, from the initial financial proposal to the actual start-up and implementation of the activity. Development banks have indicated that the amounts can decrease by 10% to 60% after Board approval in the contracting phase, and again 10% to 35% after contracting in actual disbursements. The point of measurement that is chosen can therefore have a strong impact on the final results.

Figure 5. Moments of measurement and decreasing amounts of finance



Disbursements are preferable because they reflect the actual financial flows to climate activities most accurately, but they can be difficult to track, for instance if the fund is managed by a third party. Since mobilising private climate finance is a relatively new topic, the Ministry of Foreign Affairs (MFA) and its ODA recipients do not have a system in place to automatically extract this information from their databases. Especially the information on private finance is limited. Commitments are indicated in investment plans, but actual disbursements are usually not reported (sometimes due to confidentiality issues).

For this exercise, the contractual obligations have been taken as the most suitable point of measurement as this is what is best represented in the data system of the MFA. It is important to stress that these obligations are at the level of *activities* and not at the overall fund level. This means that contributions to a third party such as a fund are not taken into account until they are actually allocated towards the implementation of a climate-related activity. We take the formal approval of a specific activity as the point of measurement for multilateral funds or funds managed by third parties. We propose to track the commitments ex-ante and verify the figures ex-post by the disbursements made. For some funds and banks, data on disbursements were already available for 2012. For example the

⁶ UN Financial Tracking Service 2012, Definitions: Pledge, Commitment & Contribution

FMO and RVO have a detailed record of disbursements. In these cases⁷, we have used these (preferred) figures for our calculations.

A public intervention can attract private finance over several years after the initial intervention. Climate projects in developing countries are generally characterised by a long start-up phase and slow private sector development. For 2012, all contractual obligations that have been signed in 2012 are measured. The full amount of the funding commitment is measured, even if the commitment is disbursed over several years. A contractual obligation is only made once for a certain amount of funding, therefore there is no problem of double counting. It is important to note that this method can lead to relatively strong variation over the years, especially for funds with only a few activities. It also means that only the commitments made by the private sector at the time of the Board approval of the activity are measured. These can deviate from actual disbursements and may omit private finance that is committed at a different time.

2.5 Work with proxies?

For this study, we have based all figures on an extensive stocktaking exercise of public interventions and mobilised private finance for climate-relevant activities that were disbursed, contracted or approved by the Board in 2012. Since this was the first stocktaking of its kind, the exercise was time-intensive. In order to elevate the administrative burden for governments to report on finance for climate actions in developing countries, one could consider working with proxies in the future. The example below gives an indication of what this could involve. Other important aspects of lifting the administrative burden in the future concern improving reporting on private climate finance and establishing databases to extract the required data from.

Example: Private Infrastructure Development Group (PIDG)

PIDG provides information on leverage factors. These are not based on the newly approved activities in 2012, but on the overall PIDG portfolio. For the purpose of creating a 2012 baseline, we have calculated the expected mobilised private finance of the activities that reached financial close in 2012. These differ from the expected mobilised private finance based on the overall leverage factors. Both the figures for mobilised private finance based on the overall leverage factors and those on basis of the approved activities in 2012 are shown below.

Table: Working with proxies vs. actual numbers (PIDG-EAIF leverage factors vs. approved activities 2012)

| Expected mobilised private finance | |
|--|---|
| Based on approved activities in 2012 | Based on reported leverage factor (7.2) |
| 546 USD million | 725 USD million |
| <i>Applying our methodology: 40% climate-relevancy</i> | |
| 218 USD million | 290 USD million |

The table shows that the difference between the outcomes is USD 72 million; using the proxy increases the actual mobilised private finance by 33%. If one needs to know the overall figures of mobilisation, the proxy may be accurate enough, picturing an average of mobilised finance throughout the years. If it is important to examine the variation of mobilisation by a specific fund between different years, proxies are less useful.

⁷ This applies to the following funds: EnDev, DOF, DBM, IDF, AEF.

2.6 Impact of different financial instruments

Climate finance is provided through a wide variety of financial instruments. Before starting our calculations we had to analyse if and how a certain instrument should be included in the calculations for mobilised private climate finance. The most commonly used financial instrument within traditional Official Development Assistance (ODA) is a grant. However, loans, guarantees/insurances and equity are used more and more (also to mobilise finance for climate activities in developing countries).

2.6.1 Grants

Grants are the most clear and easiest to calculate. The money is given to a fund, a project or a country and does not need to flow back. Grants as an instrument therefore have the highest potential to improve a business-case for a climate related activity and hence to attract private finance. But grants are often used in sectors where there is little or no direct financial return expected in a project. In those cases it is more difficult to include private sector finance. Often a grant is added to a business-case to make it profitable enough and hence attract financing.

If a financial return is expected, three main instruments can be distinguished: equity, loans and guarantees.

2.6.2 Equity

Similar to a grant, equity involves capital invested from an industrialised country in a project in a developing country. The industrialised country becomes co-owner of the project. If the project is functioning well it will create financial returns. This can result in dividend payments, rising share value and the possibility to sell the shares (possibly to private parties). But if the project's returns are lower than expected there is no room for dividend and the share value diminishes and can ultimately become zero (e.g. bankruptcy). If a public donor is participating in equity this is a strong and positive signal of trust for private financiers as this money is subordinated to bank loans and other private finance constructions (except for private equity).

Although there is a chance that the capital eventually, even with a substantial increase, will flow back to the industrialised country, it is generally not disputed that this money is considered climate finance and hence all the private finance mobilised through this instrument is part of our calculations. We have INCLUDED all equity transactions.

2.6.3 Loans

There is an essential difference between equity and loans; the second has the intention to always flow back from developing countries to industrialised countries, even with interest, independent from the project's result. This could in itself be an argument to not take these financial flows into account for climate finance (public nor private), or to deduct all repayments (very complicated). For ODA it has been internationally agreed that all loans that are considered 'concessional' or 'soft' loans (not market conform) can be calculated as ODA contribution. In the climate finance these methodological choices have not yet been made. Especially the loans from Ordinary Capital Resources (OCR) operations (of MDBs etc.) are mostly market conform and not concessional. As long as a clear international agreement is lacking we propose to INCLUDE all loans for climate finance, as this is the most used practice in reporting so far.

2.6.4 Guarantees and insurances

Most guarantees and insurances to date are between industrial governments and the private sector in industrialised countries. Even without actual money transfer, these instruments have the potential to mobilise private climate finance flows. However, these flows mainly involve developing countries buying goods in industrialised countries. Therefore most guarantees will not result in a money transfer from North to South, even if drawn upon the original guarantee or insurance. We have therefore decided NOT to include these instruments in our calculations.

3 Results

This chapter shows the results by applying the methodology described in chapter 2. We do this both for 2012 (with given figures) and for 2015 (as a forecast).

3.1 Mobilised private finance by the Netherlands in 2012

The mobilisation of private finance has been tracked for all the public interventions that have been identified (see annex C). Table 1, 2 and 3 provide an overview of total climate finance from public interventions and mobilised private finance in 2012. The figures are based on reported private co-finance for climate activities approved in 2012 by funds and FMO and estimations of private co-finance for climate activities approved by MDBs.

Please see the respective tables for the underlying details for calculation

For the reference year 2012, this has amounted to:

- mobilised private climate finance by the Netherlands: €97.18 million (Table 1)
 - of which mobilised by funds: €56.55 (Table 2)
 - of which mobilised by DFIs⁸: €40.64 (Table 3)

3.1.1 Development Finance Institutions

DFIs can generally mobilise private sector co-finance. Unfortunately, there are no comparable data available on quantities. The Joint Report on MDB Climate Finance for 2012 reports on external sources, but these do not include mobilised private climate finance. When information was provided by the development banks, there is not yet a full consensus on the methodology that should be applied. So we had to use estimates or apply different figures per bank.

The ADB is the only MDB that has reported on mobilised private climate finance in the form of B-loans, namely €152 million, or 7% of total expenditures. Based on this figure, a first rough estimation or “first guess” has been made of total mobilised private climate finance by the MDBs that are similar to the ADB in their strategy and division between public and private sector mobilisation, namely the **AfDB and IDB** (see Table 3).

⁸ This is a “first guess” based on rough estimates.

Table 1. Total climate finance from funds and DFIs and mobilised private finance in 2012 (EUR millions)

| | Climate Finance from DFIs and funds | | | Private co-finance (estimate) | Mobilised by NL (estimate) |
|--------------|-------------------------------------|--|--|-------------------------------|----------------------------|
| TOTAL | 19,552.62 | | | 3,455.51 | 97.18 |

Table 2. Overview of climate-related finance from funds and mobilised private finance approved in 2012 (EUR millions)

| General information | Underlying climate-related activities: total approved commitments in 2012 | | | | | | | | Private mobilisation | |
|---------------------|---|----------|---------------------------|----------------------|--------------------------|------------|----------------------------|---------------------|----------------------|--------------|
| | Expenditures from fund | | Public co-finance | | Total public expenditure | | Private and NGO co-finance | | By fund | By NL |
| | TOTAL | Share NL | from developing countries | other public sources | Total public expenditure | Share fund | Total | from private sector | TOTAL | TOTAL |
| SREP | 15.80 | 15.20% | 0.07 | - | 15.86 | 99.57% | 70.85 | 26.18 | 26.07 | 3.96 |
| PIDG (EAIF) | 74.24 | 13.37% | - | 413.55 | 487.79 | 15.22% | 1,063.42 | 1,063.42 | 64.74 | 8.65 |
| GAFSP | 3.79 | 49.85% | - | 3.79 | 7.58 | 50.00% | 31.82 | 11.67 | 2.33 | 1.16 |
| GEF (CC Mitigation) | 101.71 | 3.00% | 429.10 | 428.03 | 958.84 | 10.61% | 584.77 | 472.21 | 50.09 | 1.50 |
| EnDev | 21.70 | 64.26% | 16.61 | - | 38.31 | 56.64% | 3.00 | 3.00 | 1.70 | 1.09 |
| DOF | 4.71 | 100.00% | - | - | 4.71 | 100.00% | 4.71 | 4.71 | 4.71 | 4.71 |
| DBM | 2.05 | 100.00% | 0.37 | - | 2.42 | 84.62% | 1.30 | 1.30 | 1.10 | 1.10 |
| FDW | 37.07 | 100.00% | - | - | 37.07 | 100.00% | 12.36 | 12.36 | 12.36 | 12.36 |
| FDOV | - | | - | - | - | | - | - | - | - |
| IDH | 25.00 | 80.00% | - | - | 25.00 | 100.00% | 23.00 | - | - | - |
| IDF | 30.60 | 100.00% | - | 368.14 | 398.74 | 7.67% | 156.38 | 156.38 | 19.00 | 19.00 |
| AEF | 11.50 | 100.00% | - | 246.89 | 258.39 | 4.45% | 79.79 | 79.79 | 3.00 | 3.00 |
| SUB-TOTAL | 328.16 | | 446.15 | 1,460.39 | 2,234.71 | | 2,031.41 | 1,831.02 | 185.10 | 56.55 |

Table 3. “First guess” of mobilised private finance by MDB climate finance in 2012 (EUR millions)

| General information | Underlying climate-related activities: total approved commitments in 2012 | | | | | Private mobilisation | |
|---------------------|---|----------|---|-----------------|-----|----------------------|--------------|
| | Climate Finance Total | | Climate Finance To developing countries | | | Private co-finance | |
| Name of DFI | TOTAL | Share NL | % of Total DFI Finance | Climate Finance | | % of total finance | Total |
| AfDB | 1,467.69 | 2.80% | 100% | 1,467.69 | 7% | 102.74 | 2.87 |
| ADB | 2,170.77 | 1.39% | 100% | 2,170.77 | 7% | 151.95 | 2.11 |
| EBRD | 2,307.69 | 2.79% | 43% | 997.83 | 50% | 498.91 | 6.03 |
| EIB | 2,817.69 | 4.47% | 13% | 363.34 | 50% | 181.67 | 1.05 |
| IDB | 1,352.31 | 0.26% | 100% | 1,352.31 | 7% | 94.66 | 0.24 |
| IFC | 1,193.85 | 3.78% | 88% | 1,053.03 | 50% | 526.51 | 17.55 |
| WB | 7,678.46 | 2.54% | 76% | 5,837.93 | 1% | 58.38 | 1.13 |
| FMO | 236.00 | 100.00% | 100% | 236.00 | 4% | 9.65 | 9.65 |
| SUB-TOTAL | 19,224.46 | | | | | 1,474.76 | 40.64 |

ESTIMATION

The **IBRD and IDA** have a strong focus on the public sector. Their climate-relevant projects between 2005-2011 included less than 1% private sector co-finance (0.8% for IBRD and 1.5% for IDA)⁹. There are no indications that this would have increased in 2012, therefore we apply this percentage to our calculations for 2012.

The **EBRD, EIB and IFC** are focused on the private sector. In general, the IFC and EBRD do not provide more than 35% of the total financing requirement for a climate project and equity investment typically does not exceed 20%-25% of total share capital¹⁰. This means that at least 65% of climate-related project finance is mobilised from other parties, mainly private sector but often also other public sector actors. Based on their private sector focus, we assume that at least 50% of the project finance is mobilised from private sources.

The Dutch development bank **FMO** was able to measure mobilised private finance by its ordinary capital resources ('FMO A') in 2012, in accordance with our methodology. This amounted to €9.65 million mobilised private finance, or 4% of total expenditures.

3.1.2 Sectorial analysis

Table 4 shows an overview of climate finance and leverage factors per sector, based on the results from the baseline study. Due to data imperfection we see this as a first indication only.

Table 4. Sectorial analysis

| <i>Figures in € million</i> | Public climate funding from NL (€)* | Share NL of total public expenditure | Share of mobilised private finance in total funding | Mobilised private sector climate finance by NL (€) | Leverage factor | Mobilised "other" (NGO) climate finance by NL (€) |
|-----------------------------|-------------------------------------|--------------------------------------|---|--|-----------------|---|
| Energy | 34.60 | 11% | 24% | 13.87 | 0.40 | 6.76 |
| Water | 37.07 | 100% | 25% | 12.36 | 0.33 | |
| Food security | 0.76 | 25% | 30% | 1.16 | 1.53 | 2.01 |
| Infrastructure | 34.57 | 5% | 58% | 27.65 | 0.80 | |
| Climate (GEF) | 3.10 | 0.32% | 31% | 1.50 | 0.48 | 0.36 |
| Trade (IDH) | 8.00 | 80% | | | | 7.36 |
| Total | 118.05 | | | 56.55 | | 16.49 |

* Based on share NL in funds. For the comparative analysis, the funding has been multiplied by the Rio marker.

Based on these preliminary results, we provisionally conclude that funding to food security was the lowest, but had the highest leverage factor. This is due to the IFC programme GAFSP, which is focussed on the private sector. Reported private co-finance was based on expected finance only and therefore needs to be verified. Infrastructure has the second highest leverage factor, but a low Dutch share in total public expenditure. In contrast, water shows the highest Dutch share in total public finance, but the lowest leverage factor. This can be explained by the nature of the funds and the sectors.

⁹ WRI 2012, Public Financing Instruments to Leverage Private Capital for Climate-Relevant Investment: Focus on Multilateral Agencies

¹⁰ IFC 2014, Catalyzing Private Sector Finance for Climate Change Mitigation Projects in East Asia and Pacific; EBRD 2012, Catalyzing Private Sector Climate Finance: Presentation prepared for the Second UNFCCC Workshop on Long Term Finance; EBRD 2014, EBRD - Power & Energy Utilities

Infrastructure usually involves large up-front investments and is therefore more suitable to large multilateral funds so public interventions can be pulled together. It is also a sector with high interest from private investors. Water is one of the focal points of the Dutch ODA and receives a substantial amount of funding in the form of a bilateral fund. The Sustainable Water Fund requires at least 25% of the activity budgets to be covered by the private sector.

3.2 Mobilised private finance by the Netherlands in 2015

In this section, we will use the results and methodology from the previous section and try to come to a forecast for mobilised private finance in 2015. On top of the baseline information for 2012, we have added the information available for the expected funding in 2015. In most cases, there are no data available on funding to climate-relevant activities that will be approved in 2015. In these cases, we look at the Dutch contributions to the funds and compare these to the baseline.

The mobilised private sector climate finance by the Netherlands for 2015 is calculated as follows:

Mobilised private finance =

Expected public resources to fund by NL in 2015

Public resources to fund by NL in 2012 * Mobilised private sector climate finance by NL

3.2.1 2015 Expectations via Funds directly on MFA's annual budgets

The forecast consists of two columns. **Reported expected finance 2015** shows the figures that were reported by policy officers on private sector finance. **Estimates based on 2012** show the figures that we have calculated by use of the baseline 2012. The first category is preferred. If there are no figures available on the first category, the estimates are used (see Table 5, next page).

The call for the Facility for FDOV is expected to open on June 1, 2014. The call will close on November 24, 2014. The calls are biannually; therefore the expected mobilisation in 2015 amounts to zero.

There are four new funds compared to the baseline that are relevant to the quantification of the forecast for 2015. They are briefly discussed below.

IDH SLWP Sustainable Land and Water Programme

According to the IDH programme manager, at least € 9 million will be mobilised from the private sector over the total programme period (2014-2018); in the assessment memorandum it has been mentioned that half of € 11 million will have to come from the private sector (€ 5.5 million). Most probably, companies will initially only contribute in kind. The IDH expects that they will also start to contribute financially after about two years. For 2015, the MFA has a contractual obligation of €2.97 million to the fund. The Dutch share in total public finance is 73%. The €5.5 million expected from the private sector is divided by the total funding period (five years) and multiplied by the Dutch share, resulting to €0.81 million in 2015.

Table 5. Forecast 2015: mobilised private finance by funds

| General information | Mobilisation 2012 | | Forecast 2015 | | | | |
|-----------------------|-------------------|---------|---------------|---|-------------------------|---|--------------|
| | Name of fund | By fund | By NL | (Expected) public resources to fund by NL | | Mobilised private finance by NL in 2015 ¹¹ | |
| | | | 2012 | 2015 | Estimates based on 2012 | Reported expected finance | TOTAL |
| FUNDS 2012 | | | | | | | |
| SREP | 26.07 | 3.96 | 20.00 | 8.36 | 1.66 | 15.13 | 15.13 |
| PIDG (EAIF) | 64.74 | 8.65 | 5.60 | 0.70 | 1.08 | | 1.08 |
| GAFSP | 2.33 | 1.16 | 42.27 | 8.91 | 0.25 | | 0.25 |
| GEF CC Mitigation | 50.09 | 1.50 | 3.05 | 1.47 | 0.73 | | 0.73 |
| EnDev | 1.70 | 1.09 | 18.00 | 0.00 | - | | 0.00 |
| DOF | 4.71 | 4.71 | 4.71 | 0.21 | 0.21 | 0.21 | 0.21 |
| DBM | 1.10 | 1.10 | 2.05 | 0.00 | - | | 0.00 |
| | | 12.3 | | | | | |
| SWF | 12.36 | 6 | 1.12 | 9.15 | 101.23 | 1.18 | 1.18 |
| FDOV | - | - | 1.70 | 23.50 | - | | 0.00 |
| IDH | - | - | 14.00 | 14.00 | - | | 0.00 |
| | | 19.0 | | | | | |
| IDF | 19.00 | 0 | 19.00 | 30.00 | 30.00 | 19.00 | 19.00 |
| AEF | 3.00 | 3.00 | 11.50 | 20.00 | 5.22 | 10.00 | 10.00 |
| NEW FUNDS 2015 | | | | | | | |
| IDH SLWP | | | | 2.97 | | 0.81 | 0.81 |
| IUCN/DAWCA | | | | 2.44 | | 0.03 | 0.03 |
| DGGF | | | | 100.00 | | 4.22 | 4.22 |
| GCF | | | | | | | 0.00 |
| SUB-TOTAL | | | | 56.55 | | | 52.63 |

IUCN/DAWCA SUSTAIN Africa & DAWCA

SUSTAIN-Africa aims to promote and support climate smart, sustainable and inclusive development in Economic Growth Corridors on the African continent, safeguarding ecosystem services like water provision, and promoting social equity. The funding for SUSTAIN Africa is still under discussion. The total costs of the five year intervention via the DAWCA Leaders for Nature Flagship programme are estimated at €1.64 million and participating Dutch companies in the agro and water sectors will contribute €0.36 million to the costs of the programme. DAWCA will result in at least several millions new private climate finance. However, this cannot be quantified at the moment. The MFA will provide €2.44 million in 2015. This is 22% of the total funding that the MFA will provide. Therefore we estimate the mobilisation of private finance at €0.03 million.

DGGF Dutch Good Growth Fund

The Dutch Good Growth Fund will start this year, and it is expected that climate-relevant activities will be started up under this fund. From the €100 million that is allocated to this fund by the Netherlands, a third can mobilise private finance. The DGGF estimates that approximately 20% of the fund will be

¹¹ Figures are based on share NL in fund in 2012

climate-relevant. This would amount to €6.6 million climate-relevant public finance. We have added a rough estimate of €4.22 million mobilised private climate finance, based on the leverage factor of the IDF in 2015 (0.63). This estimate will need to be verified by an ex-post evaluation.

GCF Green Climate Fund

The Green Climate Fund is expected to become a major player in climate finance for developing countries. To date, there is not enough information available to make a first guess or rough estimation for 2015.

3.2.2 2015 Expectations via Development Finance Institutions

Due to lack of data on mobilised private climate finance by the MDBs, it is not possible to make a substantiated forecast for 2015. The estimations that are applied for 2012 are therefore also applied to 2015. We have no reasons to believe that the amount of mobilised private finance will change considerably between 2012 and 2015. FMO has reported that expected mobilised private finance for 2015 amounts to €0. Therefore, the amount of mobilised private finance by the Netherlands in 2015 is estimated to be smaller than in 2012.

Table 6. Forecast 2015: “first guess” of mobilised private finance by MDBs and FMO

| General information | Mobilisation 2012 | | Forecast 2015 | | |
|---------------------|-------------------|--------------|---|---------------------------|--------------|
| | By DFI | By NL | Mobilised private finance by NL in 2015 ¹² | | TOTAL |
| Name of DFI | | | Estimates based on 2012 | Reported expected finance | |
| AfDB | | 2.87 | 2.87 | | 2.87 |
| ADB | | 2.11 | 2.11 | | 2.11 |
| EBRD | | 6.03 | 6.03 | | 6.03 |
| EIB | | 1.05 | 1.05 | | 1.05 |
| IDB | | 0.24 | 0.24 | | 0.24 |
| IFC | | 17.55 | 17.55 | | 17.55 |
| WB | | 1.13 | 1.13 | | 1.13 |
| FMO | | 9.65 | | 0.00 | 0.00 |
| SUB-TOTAL | | 40.64 | | | 30.98 |

3.3 Two case studies

Two case studies are described below to show how the methodology works in practice.

3.3.1 Greensource

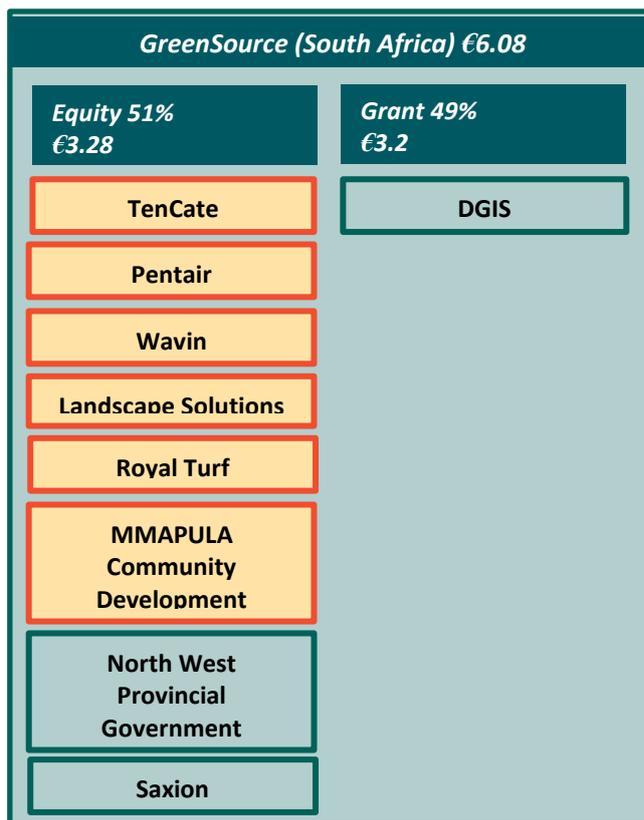
This project is part of the Sustainable Water Fund (SWF), a Public-Private Partnership facility from the Ministry of Foreign Affairs that aims to finance projects in the area of water safety and water security. The projects of the SWF must follow the strict criteria of having at least 25% of the total investment originate from private sector partners, and a maximum of 75% exist of grants, including the grant from the Ministry of Foreign Affairs.

¹² Figures are based on share NL in fund in 2012

The project was commissioned by the Dutch companies Pentair, TenCate and Wavin to jointly install twenty drinking water systems in the North West Province of South Africa.

It is important to note that while the project will be able to generate sufficient cash flow within the life cycle to cover the financing and maintenance costs, it is not commercially viable within the program period, which runs for four years. Financial support through the SWF was thus critical for the implementation of this project.

The figure shows the investments made by the various parties. Besides the grant provided by the Ministry of Foreign affairs there were two other public investors namely the Saxion University and the North West Provincial Government in South Africa.



While the grant of the Netherlands consists of 50% of the total budget, the share of the Netherlands in the total amount of public investment is 77%. The amount of private investment mobilised by the Netherlands is thus €1.5 million.

3.3.2 Lake Turkana Wind Power

Lake Turkana Wind Power involves the construction of a 300 MW wind farm in Kenya. It was initiated by Kemperman, Paardekooper and Partners Africa B.V. (KP&P), consisting of Dutch and Kenyan companies and individuals. Additional shareholders are Aldwych, Vestas, and three Scandinavian funds. The African Development Bank is the lead arranger of €435 million in debt finance (loans) and €63 million mezzanine finance (e.g. subordinated loans).

The EU and the Government of the Netherlands have granted €35 million to fill the remaining financial gaps. The Board of the AfDB approved financing in 2013, and the project reached financial close in 2014. It is therefore not part of the quantified mobilised climate finance in 2012, but provides an interesting case study for deploying our methodology.

The Rio marker is “mitigation principal”, thus 100% of the finance is considered climate finance. The total project finance adds up to €658 million, of which €194 million is provided by private stakeholders.

The Netherlands provides €52.5 million public finance (Grant € 10, Loan € 35, Mezzanine € 7.5).

The share of the Netherlands in total public finance (€464 million) is 11.31%. Therefore €22 million of total mobilised private climate finance can be attributed to the Netherlands.

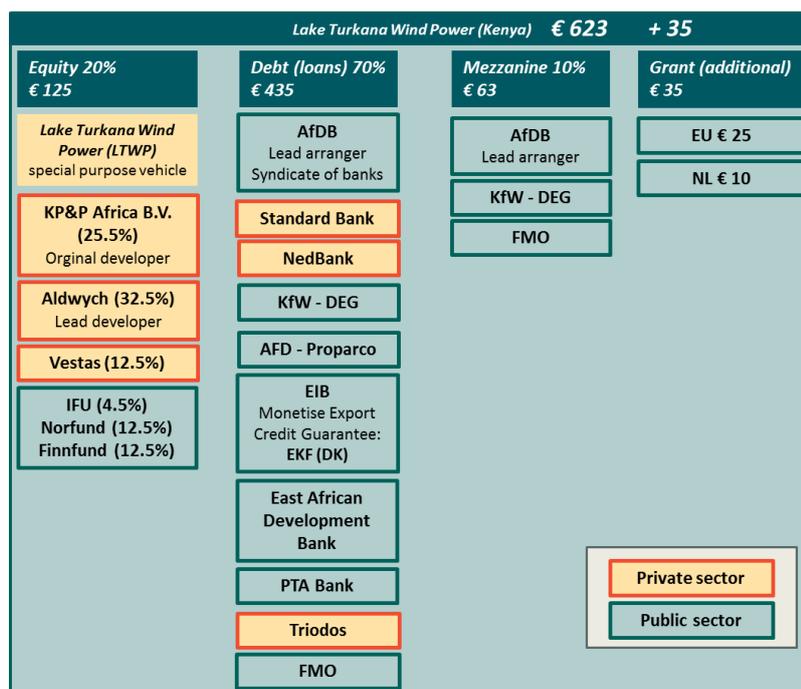
Another method that could be deployed is the one of the MDBs and DFIs,

where the lead arranger of the debt finance counts all finance provided by other stakeholders as mobilised by the lead arranger. In this case, the AfDB could then attribute the entire €658 million minus the two grants of €35 million as mobilised by the AfDB. The share of the Netherlands in the AfDB is 0.87%. Mobilised private climate finance by the Netherlands would then result to €1.7 million. There are several methodological issues involved in this method. It could be argued that the two grants also mobilise part of the private finance and should therefore be attributed part of the total mobilised private finance. This leads to the complex question of which part of the private finance is solely mobilised by the AfDB and which part is mobilised by all. Also, although the AfDB acted as the lead arranger for a syndicate of loans, some banks have provided funding outside of the syndicate. Such questions fall outside the scope of our study, which focuses on the *pro rata* method described above.

Lessons from case studies:

One of the lessons visible from these case studies is the very high impact of the chosen methodology. It can make easily 2-300% difference in the outcome.

Also these case studies show that the definition of private is not yet 100%. We have taken in the ‘Lake Turkane Windpower’ case the Vestas contribution as ‘Private finance’ as this is how they are in the books. We think however that this private finance is mainly made possible by DK Government support that is not visible in the documentation. The moment you go deeper into any casestudy, the definitions and methodology show that there is some level of arbitrariness in the choices made.



4 Findings and Recommendations

We were asked by the Netherlands Ministry of Foreign Affairs to conduct a pilot to measure the mobilised private financial flows for climate aid development. As there is no international agreed methodology, we have made assumptions and developed first steps for such a methodology. We realise that more work needs to be done. However, we have been able to come up with a methodology and with results that are transparent and can be repeated.

Methodological decisions can change calculation outcomes considerably. Especially the choice of what levels of mobilisation to consider - co-finance at the project level only or attracting finance on the capital markets as well - and when to measure the financial flow, makes a substantial impact on the results. Two other important findings were the in- or exclusion of the different types of financial instruments and the importance on how to attribute the mobilised private finance amongst different public stakeholders. The choices we made are open for debate, in order to come to comparable results between countries, agreement on these major choices must be reached.

To find out all the actual data, and to interpret them in the correct way is labour intensive and can only be done with the help of people knowing the underlying projects (in our case the MFA's Taskforce). Adaptions of public data systems are required to make reporting on mobilised private climate finance easier and more accurate.

Also from the IFIs and DFIs, more data on private co-finance in climate activities is needed, in order to apply the methodology in a coherent manner. For our methodology, especially the clarity of the contribution from private sector should be improved. A division made between "hard" and "soft" commitments from the private sector would help for ex-ante measurements. Between DFIs and national governments the attribution problem must be further worked out, our methodology could be a way to solve this.

Our proposed methodology makes it possible to measure private climate finance mobilised by direct public interventions. It is a very relevant discussion and needs further work. However, it is often a discussion on the attribution between private and public sources, this does not have a direct impact on the overall available climate finance. But a good system for MRV is required as a sound basis for further expanding the overall climate finance. We have not looked at the issues around 'additionality' nor have we found a good way to include the effects of 'readiness' and 'indirect' public climate finance on private climate finance.

We hope this report will contribute to the international discussion on next steps in methodology for measuring mobilised private climate finance.

Annex A: List of abbreviations

| | |
|----------|--|
| ADB | Asian Development Bank |
| AfDB | African Development Bank |
| CIF | Climate Investment Funds |
| CTF | CIF-Clean Technology Fund |
| DAC | OECD's Development Assistance Committee |
| DBM | Global Sustainable Biomass Programme (Duurzame Biomassa Mondiaal) |
| DFI | Development Finance Institution |
| DOF | Daey Ouwens Fund |
| EAIF | Emerging Africa Infrastructure Fund |
| EBRD | European Bank for Reconstruction and Development |
| EIB | European Investment Bank |
| EnDev | Energising Development |
| FDOV | Facility for Sustainable Entrepreneurship and Food Security |
| FDW | Sustainable Water Fund |
| Finnfund | Finnish Fund for Industrial Cooperation Ltd |
| FMO | Entrepreneurial Development Bank (Financierings Maatschappij voor Ontwikkelingslanden) |
| GAFSP | Global Agriculture and Food Security Programme |
| GCF | Green Climate Fund |
| GEF | Global Environment Facility |
| GHG | Greenhouse gas |
| IBRD | WBG's International Bank for Reconstruction and Development |
| IDA | WBG's International Development Association |
| IDB | Inter-American Development Bank |
| IDF | Infrastructure Development Fund |
| IDH | Sustainable Trade Initiative |
| IFC | WBG's International Finance Corporation |
| IFI | International Finance Institution |
| KfW | KfW Group, a German development bank |
| LDCF | Least Developed Countries Fund |
| MDB | Multilateral Development Bank |
| MFA | Ministry of Foreign Affairs of the Netherlands |
| MRV | Measurement, Reporting, and Verification |
| NGO | Non-Governmental Organisation |
| OCR | Ordinary Capital Resources |
| ODA | Official Development Assistance |
| ODI | Overseas Development Institute |
| OECD | Organisation for Economic Co-operation and Development |
| OOF | Other Official Flows |
| PIDG | Private Infrastructure Development Group |
| PPP | Public Private Partnership |
| REDD+ | Reducing Emissions from Deforestation and Forest Degradation |
| SREP | Scaling-up Renewable Energy Programme |
| UNFCCC | United Nations Framework Convention on Climate Change |
| WBG | World Bank Group |

Annex B: Definitions

There are two main components that need to be defined:

1. **Climate-relevant public intervention**
What is climate-relevant and what is public intervention?
2. **Mobilised private sector climate finance**
What is mobilised and what is private sector?

What constitutes a climate-relevant public intervention?

From the pledge to jointly mobilise \$100 billion per year by 2020 to address the needs of developing countries, we see several fundamental criteria to assess and measure commitments and disbursements towards this pledge:

1. The public interventions must be directed towards a **climate-relevant activity in a developing country** and
2. The **public instruments** originate from an **industrialised country**.

Climate specificity

We only consider public interventions as climate-relevant if they meet the criteria of the Rio markers for climate change (see Annex E for more information).

In accordance with the European Commission and the Government of the Netherlands, we have assigned the following percentages to the Rio markers:

- *Principal* objective: 100% is climate finance
- *Significant* objective: 40% is climate finance

These figures are a gross simplification of the underlying reality of many projects. Still we consider it, for the scope of this assignment, important to uphold the method that is currently in place instead of diverging from it, which would place additional administrative burden and discussion to an already complex issue.

An alternative method is deployed by Multilateral Development Banks (MDBs) for their joint report on climate finance. The approach for climate mitigation is based on a positive list of activities that are considered climate-relevant. The climate adaptation approach could not be based on such a list as the subject is too context-specific, and is therefore based on an assessment of the purpose, context and activities in light of climate vulnerability¹³. This method is indirectly also applied here, as calculations on mobilisation from core funding to MDBs is based on the figures from the joint report on climate finance. Although the two methods have differences, there are more similarities and the OECD-DAC and the MDBs have explored options to harmonise the two methods¹⁴.

¹³ Joint Report on MDB Climate Finance 2012

¹⁴ Both methods have the same basic principles. They both look at commitments (contractual, financial obligation of an approved project) and strictly separate own resources from external resources to avoid double-counting. The two main differences between the two systems are related to 1) granularity: MDBs' screening operates at the level of project *components* while Rio markers are applied at the overall project level; and 2) objectivity: MDBs' methodology is based on a "positive" list of activities for mitigation, and on more restrictive criteria for adaptation than Rio markers. See for more information: OECD 2013 Workshop with International Financial Institutions (IFIs) on Tracking Climate Finance - Main Points of Discussion

Definition of public intervention

Public interventions consist of interventions by public entities from industrialised countries and can consist of financial and/or non-financial incentives, such as (tax) policies and regulations, **that aim to mobilise private finance** for the purpose of the climate relevant projects. Public financial flows are the financial flows provided by publicly funded stakeholders that **do not have a profit motive**. If the financial flows are provided by an entity comprised of both private and public stakeholders, the flows are considered public if **more than 50% of the flows are from public entities**.

There are three types of public interventions that flow towards climate activities:

- **Readiness:** Preparatory work for climate activities: technical assistance, feasibility studies, capacity building, pilots, etc.
- **Direct:** Implementation of climate activities
- **Indirect:** Institutional strengthening, policy, improve investment climate

Only the private finance mobilisation from **direct public interventions** is quantified.

From an industrialised country to a developing country

The public intervention comes from an industrialised country and is directed at a climate activity in a developing country. We have considered the **industrialised countries** to be the UNFCCC Annex I countries. Public interventions originate from an industrialised country or the public entity providing the financial flow has its head office in an industrialised country.

The **developing countries** are the DAC List of ODA Recipients. Countries that are not part of Annex I of the Convention (“non-Annex I countries”) include countries that have made considerable economic progress since the Convention was written in 1992. A good example is the Republic of Korea, a non-Annex I country that has become the second largest donor to the Green Climate Fund (GCF). Many countries that fall under the non-Annex I definition are now classified as High Income Countries by the World Bank. In order to appropriately deliver the pledge to the countries that are challenged the most by climate change and adhere to the common but differentiated responsibilities principle¹⁵ we exclude the High Income Economies from the definition of developing countries and use the DAC list of ODA Recipients which reflects to the current state of affairs more accurately.

What is mobilised private sector climate finance?

1. Private finance is not limited by geography. The only limitation we propose is to exclude financial flows from developing countries that are not **linked to the international capital market**¹⁶.
2. In order to be able to calculate leverage between public and private finance, we look at public interventions that are triggering a **private sector financial flow** by a public financial flow. If there is no public or private sector financial flow, in currency or in-kind, then there is nothing that can be measured.

What is and what is not part of the private financial flows?

Mobilisation means attracting financial flows from the private sector to climate mitigation and/or adaptation activities as a result of public interventions. Private financial flows are the financial flows

¹⁵ Principle 7 of the Rio Declaration on Environment and Development, available at <http://www.un.org/documents/ga/conf151/aconf15126-1annex1.htm>

¹⁶ Stock exchange and bank loans are connected to the capital market. Savings from households or SMEs in developing countries that are allocated towards climate activities are hence excluded.

provided by privately funded stakeholders in the form of in-kind payments, equity, mezzanine, debt, guarantees or other varieties, which are undertaken with a profit motive.

Private financial flows are not limited to industrialised countries in order to be counted as mobilised by public interventions. Private finance from non-Annex I countries are also counted if the source is sufficiently connected to the international financial markets (e.g. from banks, major investors or listed companies). Savings from households or SMEs in developing countries are hence excluded.

Mixed ownership structures

There are several structures where the division between public and private is not clear-cut. We consider the most relevant ones here, namely: public-private partnerships (PPPs), state-owned enterprises, international finance institutions (IFIs) such as MDBs, and NGOs. As a general rule, we count an entity as public if more than 50% is owned by public stakeholders.

Public-private partnerships (PPPs): If more than 50% of the shareholders are public, all flows from the PPP are considered public.

State-owned enterprises: Finance from state-owned enterprises is considered public finance.

International finance institutions (IFIs): If the majority of shareholders are public, financial flows are counted as public finance. Development banks are therefore considered public.

Non-Governmental Organisations (NGOs): NGOs can also be a source of private climate finance. NGOs generally participate in climate finance with a 'Not for Profit' objective. This distinguishes them from the private sector. But they clearly differ from governmental institutions, which are grouped under the public sector as well. We therefore treat this group as a separate category additional to public and private finance.

New and additional:

In the text of the international climate negotiations it is sometimes mentioned that climate finance must be 'new and additional'. We have not looked at this element of the discussion.

If there is no financial flow:

Some instruments (especially guarantees and insurances) do not (always) include a financial flow. We have not included these instruments in our calculation (see also 2.6.4).

Annex C: Overview of Dutch public interventions aimed at private finance

Overview of MFA's public interventions aimed at private climate finance

| Name | Sector | Type of public intervention | | |
|---|--------------------------------|-----------------------------|--------|----------|
| | | Readiness | Direct | Indirect |
| FUNDS 2012 | | | | |
| SREP | Energy | | x | |
| PIDG (EAIF) | Infrastructure | | x | |
| GAFSP | Food security | | x | |
| GEF (CC Mitigation) | Climate | | x | |
| EnDev | Energy | | x | |
| DOF | Energy | | x | |
| DBM | Energy | | x | |
| FDW | Water/PPP | | x | |
| FDOV | Food security/PPP | | x | |
| IDH | Private sector development/PPP | | x | |
| IDF | Infrastructure | | x | |
| AEF | Energy | | x | |
| NEW FUNDS 2015 | | | | |
| IDH SLWP | Sustainable development | | x | |
| IUCN / DAWCA | Sustainable development | | x | |
| Dutch Good Growth Fund | Private sector development | | x | |
| Green Climate Fund | Climate | | x | |
| READINESS FUNDS | | | | |
| ASTAE | Energy | x | | |
| ESMAP (incl AFREA) | Energy | x | | |
| IFC NIPP-RE | Energy | x | | |
| PPIAF | Infrastructure | x | | |
| IFC SBA | Sustainable development | x | | |
| DEVELOPMENT FINANCE INSTITUTIONS | | | | |
| AfDB | | | x | |
| ADB | | | x | |
| EBRD | | | x | |
| EIB | | | x | |
| IDB | | | x | |
| IFC | | | x | |
| WB | | | x | |
| FMO | | | x | |

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Annex E: Criteria scheme for Rio markers

The Rio markers data collection follows the general principles of the DAC policy marker system¹⁷. The (aid activity) data come from aid donors (DAC members, the EC, multilateral organisations). Non-DAC members can also report to DAC CRS.

Following the ‘Reporting on the Policy Objectives of Aid’¹⁸, a marking system can have on of the following three values which are assigned after examining **project documentation**:

- Principal objective;
- Significant objective;
- Not targeted to the policy objective.

Principal (primary) policy objectives are those that can be identified as being fundamental in the design and impact of the activity and which are an explicit objective of the activity. They may be selected by answering the question “would the activity have been undertaken without this objective?”. **Significant** (secondary) policy objectives are those that, although important, are not one of the principal reasons for undertaking the activity. The score **not targeted** means that the activity has been screened against, but was found not be targeted to, the policy objective.

To qualify for a score principal or significant, the objective has to be **explicitly promoted** in **project documentation**. Avoiding negative impact is not a sufficient criterion. Finally, an activity can have more than one principal or significant policy objective.

More specifically, a project can be classified as a climate-related by using the Rio markers “climate change - mitigation” and “climate change - adaptation”. The eligibility criteria for a project to be classified as a “**mitigation project**” are related to the fact that the project should contribute to¹⁹:

- The mitigation of climate change by limiting anthropogenic emissions of GHGs, including gases regulated by the Montreal Protocol; **OR**
- The protection and/or enhancement of GHG sinks and reservoirs; **OR**
- The integration of climate change concerns with the recipient countries’ development objectives through institution building, capacity development, strengthening the regulatory and policy framework, or research; **OR**
- Developing countries efforts to meet their obligations under the Convention.

The activity will score **principal objective** if it **directly** and **explicitly aims to achieve** one or more of the above four **criteria**.

An “**adaptation project**” intends to reduce the vulnerability of human or natural systems to the impacts of climate change and climate-related risks, by maintaining or increasing adaptive capacity and resilience²⁰.” The criteria for eligibility include²¹:

- The climate change adaptation objective is explicitly indicated in the activity documentation; **AND**
- The activity contains specific measures targeting the definition above.

¹⁷ Reporting Directives for the Creditor Reporting System, DCD/DAC(2007)39/FINAL

¹⁸ DCD/DAC(2007)39/FINAL

¹⁹ DCD/DAC(2007)39/FINAL

²⁰ Reporting Directives for the Creditor Reporting System

²¹ DCD/DAC(2007)39/FINAL/ADD3

Triple E Consulting - Energy, Environment & Economics B.V.
Westersingel 32A
3014 GS Rotterdam
Netherlands

T +31 (0) 10 3414 592
www.tripleeconsulting.com

KvK n°: 56028016
VAT n°: NL8519.48.662.B01

