Evaluating Transformational Change and Additionality in Private Equity Renewable Energy Investments

Lessons from the UK Climate Public Private Partnership and UN Environment Seed Capital Assistance Facility Evaluations

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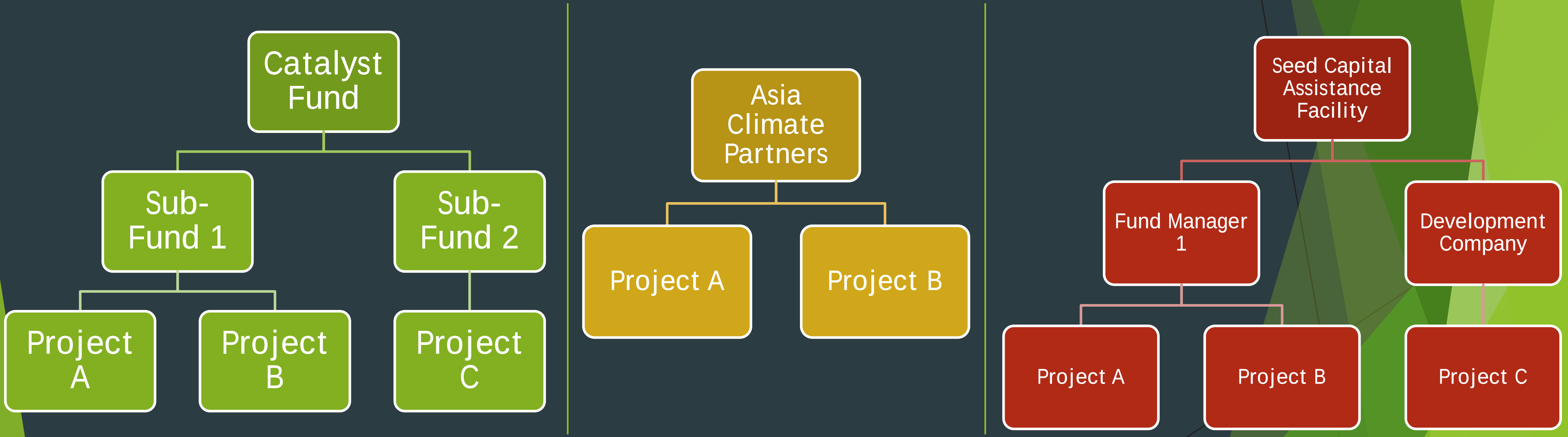
- LTS International and Arepo Consult

- Transformational Change

Climate Public Private Partnership Programme



ICF KPI 15

- **Drivers** are inducers of change onto a system (e.g. demonstration that low carbon climate resilient technologies are a profitable investment).
- **Mechanisms** are established processes and practices, a change in which can sustain a transformation (e.g. ESG compliance becomes part of due diligence for all investments).
- **Enablers** sustain and scale up a transformation, mainstreaming new mechanisms to become the status quo (e.g. new law to enable faster integration of renewables into the grid).

Drivers

- **Early demonstration effects / replicability**
  - Investments initiated under CP3 should demonstrate financial feasibility and influence others
- **Capacity and capability**
  - SCAF aims to support fund managers in underserved markets and develop a pipeline of projects through an increase in availability of early stage capital, thereby building capacity in the market.
- **Leverage**
  - The ability to leverage finance at fund of fund, sub-fund and project/company level is critical to the achievement of transformational change.

Mechanism

- **“First mover”**
  - CP3 should be the first to move in a particular country, sector or technology in order to play a catalytic role in the market.

Enablers

- **Innovation and technology transfer**
  - CF, ACP and SCAF invest in high risk technologies or innovative business models. However, it is not expected that these investments would form a large part of the portfolio. Transformational impacts will be best secured through achieving an optimal balance between profitability, scale and innovation.
- **Sustainability**
  - Over the longer term, CP3, through demonstrating high rates of return, will catalyse private equity investors worldwide to make similar investments and therefore transform the amount of money going into low carbon growth in developing countries.

Definition of Additionality

- **CP3 Objectives**
  - *Leveraging* or ‘crowding-in’ additional private finance into climate investments.
  - Building a track-record that *demonstrates* that climate investments in developing countries can generate commercial returns, which encourages additional investment.

- **CP3 investments must not displace other private equity investments in achieving these objectives.**
- **CP3 investments should be *additional to normal private investor behaviour* and deliver climate finance in regions and sectors where markets alone aren’t delivering it.**

Context-specific criteria

- Policy Environment
- Institutional Environment
- Market Environment
- **Value Chains and Human Capital**

Venture-specific criteria

- **Crowding-in Private Investment**
- **Access to Finance**
- **Demonstration Effect**
- **Improved ESG Standards and Project Quality**

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