Business Case Summary Sheet

Title: The Global Innovation Lab for Climate Finance		
Programme Purpose: *The Global Innovation Lab for Climate Finance (the Lab) seeks to increase the stock of investment-ready, innovative climate finance projects in order to mobilise significant capital, particularly from private sources. The proposal included in this Business Case seeks to build on 10 years of successful delivery by adding two pilot components to the Lab to better support instruments' development and more rapidly reach investment-readiness.*		
Programme Value: *£6,770,000 (+ up to £500,000 for an independent evaluation)*		**Country/Region:** *Global, focus on Latin America and the Caribbean.*
Senior Responsible Owner: *Matt Toombs*		
Programme Code:	**Start Date:** *October 2024*	**End Date:** *December 2027*

Intervention Summary

What support will the UK provide?

The Global Innovation Lab for Climate Finance (the Lab) seeks to increase the stock of investment-ready climate finance instruments, showing greater innovation and mobilising finance, particularly from private sources. In order to achieve this, the UK will provide £6.77m over 3 years to facilitate the technical support necessary to develop these instruments across a range of geographies and sectors, and by so doing contribute to reducing greenhouse gas emissions and alleviating poverty. This funding represents a 153% increase in value compared to the £2.63m provided in the last three-year Business Case period. Up to an additional £500,000 is proposed to carry out an independent evaluation of the programme.

What are the main programme activities?

This funding will enable the Lab to deliver three distinct activities including piloting two new activity types:

1) **Continue to deliver Lab cycles** across two regional windows and one global lab window. This extends existing funding under the current Grant Award and is worth £3.42m.
2) Provide a **new 'go-to-market' support offer** to previously endorsed Lab instruments, overcoming remaining identifiable hurdles to them securing investment. This is a new pilot activity worth £0.35m.
3) Provide **new funding for a pre-seed capital facility**, to support endorsed instruments with grants between £125-200k/$150-250k to undertake pilot and testing activities. This is a new pilot activity for this BC, worth £3m.

These activities will be delivered by the Lab's secretariat, Climate Policy Initiative (CPI). The Lab operates on an annual cycle and this business case will cover three cycles between October 2024 and September 2027.

Why is UK support required?

Despite ample investment capital availability globally, there is still a vast shortfall in the funding going towards climate activity. The need and shortfall are particularly great in Emerging Markets and Developing Economies (EMDEs). To achieve the significant investment increases that are required, there need to be more channels by which large scale finance can be deployed, particularly by the private sector.

With EMDEs and Least Developed Countries (LDCs), which face the greatest challenge in attracting climate finance, there is a particular need to develop new, innovative solutions that can overcome the geographic and sectoral obstacles present. Whilst progress has been made through the Lab to date, continued UK support is required to increase the stock of high-quality financial instruments capable of receiving and deploying capital at scale.

Over the last ten years, the Lab has gradually evolved its approach and built a strong track record. Through this business case, the Department for Energy Security and Net Zero (DESNZ) will continue to provide business-as-usual support to high-performing funding windows. On top of this, new activities will be piloted with the aim of improving the rate and speed at which Lab proponents secure investment post-Lab support.

What are the expected results?

The Lab will increase the stock of climate focussed financial instruments which will then go on to mobilise particularly private climate finance. This will be evidenced by the amount of finance raised by instruments and the number of instruments which reach "expansion" stage. In doing so, the Lab will facilitate public private dialogue and enable opportunities for project proponents to access specialist advice from the Lab membership.

The proposed DESNZ Lab funding will support delivery of the following expected outputs over the BC period:

- Six DESNZ-funded Lab instruments being endorsed (two in each 12-month Lab cycle), with those instruments supported by window-specific funding.

- Up to seven (one in the first year and then up to three in years 2 and 3) previously endorsed Lab instruments receiving additional go-to-market support to aid them overcome barriers to continued development and investment mobilisation.
- ~15 Lab ideas receiving pre-seed capital funding to establish instruments ready for the market.

How does the project fit with the country priorities (such as Nationally Determined Contributions – NDCs), the ICF 3.0 theory of change, or the department's strategic objectives set out in the Operational Plan?

The Lab is most explicitly aligned with the goal of finance being mobilised from private and public sources at scale (ICF ToC – Intermediate Outcome 5; 2023 ICF Strategy) and the International Development Strategy's aim to develop innovative approaches to tackle climate change and protect nature. It also delivers across numerous other HMG, DESNZ and ICF objectives on building strategic relationships, a focus on Middle Income Countries (MICs) with largest mitigation potential and a strong nature/forest focus.

The Lab has shown in recent years its flexibility in adapting to the needs of DESNZ as a donor. This was most evident through the 2023 addition of the Latin America & Caribbean and High-Integrity Forest windows to respond to identified demands and opportunities. Similarly, the additional pilot activities proposed in this business case are directly aimed to better realise programme impacts which support DESNZ strategy. It's alignment with overarching strategic objectives will remain, along with a clear portfolio coherence.

What are the key risks to the success of the programme?

The programme naturally faces a wide range of risks which have been assessed and are within ICF portfolio risk appetites. The greatest risks to the programme are perceived to be:

1) **Donor funding uncertainty**. The Lab is a multi-donor programme and a number of donors operate with short-term funding commitments. DESNZ's funding commitment to the Lab is growing but we do not wish to see other donor support reduce in parallel, reducing the transformational potential of the Lab.
2) **Mobilisation Rates**. Capital mobilised by Lab endorsed instruments over its 10 years of delivery is strong, however, total private investment results to date have been skewed by large success stories, notably those of Climate Investor One a 2015 Lab instrument. To meet the Lab's goal of 'driving billions of private investment into the low-carbon, climate-resilient economy', the Lab must identify financial concepts with a realistic path to scale.

CONTENTS

1. STRATEGIC CASE

1.1 POLICY CONTEXT

Limiting warming to 1.5-2°C above pre-industrial levels will require a three-to-six-fold increase on current levels of climate change mitigation investment to 2030[1]. This investment need is particularly acute in Emerging Markets and Developing Economies (EMDEs), which are forecasted to account for about 80% of future global economic growth[2]. From a climate perspective, these countries will collectively account for approximately 70% of global energy demand by 2050, driven by growing levels of prosperity and improving access to energy[3].

The volume of climate finance for EMDEs mobilised has fallen short of the annual $100bn target (by 2020) required under the Paris Agreement to support delivery of its ambitious climate goals. Along with this, there remains an acute disparity between the level of public funding and investment coming from private sources, with the former representing more than 70% of total climate finance provided to EMDEs between 2013 and 2020[4]. Public sector investment alone will be insufficient to meet the necessary levels of investment to deliver the Paris commitment and address the current and future impacts of climate change.

The Songwe-Stern report states EMDEs other than China will need to spend c.$1 trillion per year by 2025 and c.$2.4 trillion per year by 2030. Approximately half of the required financing can be reasonably expected to come from local sources, leaving c.$1 trillion per year of external finance (of which $800bn is additional) required by 2030 to meet the scale of the investment needs on climate[5]. To achieve this, a significant increase in private finance is required, with the G20 Experts group estimating this to be up to $500bn per year[6].

Currently, climate finance flows are concentrated (75% of total flows[7]) in East Asia and Pacific, Western Europe, and North America, with only 16% of total climate finance in 2021/22 flowing to or within Least Developed Countries (LDCs) or EMDEs (excluding China)[8]. To broaden the geographic spread of these flows, there is a need to develop solutions that are country driven and embedded in the local context so that the specific needs of countries and regions are met by addressing the particular barriers and capacity constraints faced in differing environments.

Whilst specific contexts are hugely varied, there are a number of fundamental domestic and international barriers to mobilise greater climate finance and innovation in EMDEs, which include: policy uncertainty, underdeveloped markets, cost of capital, lack of tailored financial instruments to specific contexts, and weak financial institutions. These factors lead to a lack of innovative and bankable climate projects, and partly explain the big gap between investors' risk perceptions and risk appetite for innovative climate related activities in EMDEs.

To meet the investment needs set out above, public finance must be used strategically to leverage investment by others. Innovative financial instruments such as blended finance facilities, credit enhancement and guarantee facilities can de-risk private investment and increase investment flows at the scale required to meet the goals of the Paris Agreement. However, there remains a need for new innovative financial instruments[9] and increased dialogue between public and private actors to better understand respective needs.

1.2 PROPOSED INTERVENTION

1.2.1 BACKGROUND

[1] https://www.ipcc.ch/report/ar6/wg3/chapter/chapter-15/
[2] BP Energy Outlook, 2020 Edition https://www.bp.com/content/dam/bp/business-sites/en/global/corporate/pdfs/energy-economics/energy-outlook/bp-energy-outlook-2020.pdf
[3] Ibid.
[4] Songwe V, Stern N, Bhattacharya A (2022) *Finance for climate action: Scaling up investment for climate and development*. London: Grantham Research Institute on Climate Change and the Environment, London School of Economics and Political Science.
[5] ibid
[6] G20 Experts Group, 2023. Strengthening Multilateral Development Banks: The Triple Agenda.
[7] Global Landscape of Climate Finance 2021, Climate Policy Initiative, https://www.climatepolicyinitiative.org/publication/global-landscape-of-climate-finance-2021/
[8] Global Landscape of Climate Finance 2023 https://www.climatepolicyinitiative.org/publication/global-landscape-of-climate-finance-2023/
[9] International Monetary Fund 2022. Mobilizing Private Climate Financing in Emerging Markets and Developing Economies. https://www.elibrary.imf.org/view/journals/066/2022/007/article-A001-en.xml

The Global Innovation Lab ("the Lab") is a multi-donor public-private partnership which makes a transformative contribution to mobilising global climate investment by:

1. Incubating innovative, highly scalable and actionable climate finance ideas by providing analytical support and technical advice.
2. Promoting knowledge sharing between civil society, governments, and the private sector on how to tackle the barriers to attracting private investments in innovative climate finance.

The Lab is delivered by Climate Policy Initiative (CPI), a US-headquartered non-profit, and draws on its network of over 70 public and private member institutions to deliver its annual programme cycle (see Figure 1) across geographic and thematic 'windows'. In the 2024 Lab cycle, 10 Lab windows were supported, with each window typically supporting one idea or 'instrument'. Since 2014, the Lab has supported 68 instruments, with 37 having gone on to secure follow-up funding, mobilising over $4bn of public and private finance capital.

The UK, Germany and the United States co-founded the Lab. The UK has provided £4.35m since inception in 2014, including £2.64m in the current three-year Award period. Since inception, this equates to 18% of total donor funding to the Lab, although in recent years the DESNZ donor share has increased and was 33% in the latest cycle (see Annex M for a full breakdown of donor contributions to date). The 2022 Lab business case provided for two Lab windows (a 'global lab' window and the regional Brazil window), and funding for studies on the feasibility of a Latin America and 'stable forests' (subsequently becoming High-Integrity Forests) Lab windows. In 2023, following completion of these studies, DESNZ supported one year of funding to implement both of these new thematic Lab windows (such that in the current Lab cycle, DESNZ is directly funding three of the ten Lab windows, plus providing core funding for a global Lab window). In 2023, the Foreign, Commonwealth and Development Office (FCDO) provided funding for a new 'sustainable agriculture' thematic window via the ClimateShot Investor Coalition (CLIC) programme, which is subject to a separate FCDO business case.

Overall, the core donors who sit on the Lab's Steering Group are the German Federal Ministry for Economic Affairs and Climate Action, The U.S. Department of State, FinDev Canada via UNDP, the UK's FCDO and Bloomberg Philanthropies.

1.2.2 HOW THE LAB WORKS

The Lab uses a 'Hub-and-Spoke' model consisting of Global Labs, as well as dedicated regional Lab windows for India, Southern and Eastern Africa, Brazil, the Philippines and Latin America and the Caribbean (from October 2023). Each Lab window follows the same annual delivery cycle as illustrated in Figure 1 below.

Figure 1: Lab annual cycle

A call-for-proposals is promoted through Lab-led webinars and through their website and newsletter. In January and February, all applicants (hereon termed ideas) are shortlisted by CPI analysts against the following criteria:

- **Actionable:** Does the proponent have relevant experience? Is there a clear path to implementation? Are risks understood and identified?
- **Catalytic:** Does this idea have the potential to scale-up of private investment in the target market and/or the ability or potential to replicate in other markets?
- **Innovative:** Does this idea directly or indirectly address barriers to investment that are not yet being addressed or address them in an improved manner compared to other approaches?

- **Financially sustainable:** Does this idea have a clear approach to eventually operate on a commercial basis? Are risks identified in meeting this objective?
- **Value-add:** Can the idea allocate sufficient resources to the Lab process to fully benefit from the Lab team and Lab members' assistance?

The Lab convenes regional Selection Meetings in February followed by a Global Selection Meeting each March where Principal Advisors made up of senior public and private representatives vote on shortlisted ideas.

Selected ideas then benefit from support on instrument design where working groups stress test the mechanics of the concept. This is followed by implementation design and impact activities to turn ideas into investment-ready propositions. CPI analysts produce Analysis Reports, Instrument overview and two-minute videos to better promote the instruments and synthesise the outputs of the technical assistance.

Lab proponents then pitch each idea at the Global Endorsement Event held at New York Climate Week where Lab members decide whether to formally endorse the instruments. This is followed by a press release and online 'demo day' to launch the instruments and engage relevant investors. On a light-touch basis, CPI continue to provide post-Endorsement support to help proponents identify investment opportunities.

At all points, the Lab is designed to support an idea's development through the pertinent stages in the table below. This development progression is used as a core part of the Lab's logframe to track its impact. The table below also provides a clear indication of the stages at which ideas are likely to be appropriate for Lab support and how far Lab support is likely to take such ideas.

Table 1: *Lab Instrument Development Stages*

	Stage	Description	Lab stages
1	Idea Basics	Idea is in early-stage concept. Preliminary research has been done, but instrument structure, target market, and/or implementing partners have not been identified or defined	Typically, this is too early to receive Lab support, however, some ideas at this stage have been supported.
2	Initial development	Idea is undergoing research and testing but is not yet at a point which they can reasonably be deemed 'feasible'. Concept has been shown potential to work in practice, yet details on instrument structure and pathway to market are still unclear	This is stage at which most Lab ideas are received and assessed.
3	Proof of concept	The idea has been developed and tested to the point that it is in theory feasible, with further activity required to make next commercial steps (pilot, product development, required agreements etc) happen. Instrument has developed a viable product, with few details to still be developed	This is the minimum level which should be achieved through support for selected ideas in a Lab window.
4	Pilot	Instrument has been tested and financial vehicle development is nearly (or fully) complete.	Post-Lab support
5	Expansion	Instrument has been deployed and is successfully operating, with activities from the pilot now expanding	Post-Lab support
6	Scale	Instrument is active and in scale-up mode, refining model, seeking out additional funding or operational partners	Post-Lab support
7	Replication	The instrument has been shown to work and is being replicated in sectors and/or geographies	Post-Lab support

These development stages, and the potential to expand the Lab offering in them, are pertinent to the inclusion of the proposed pilot activities, as set out later throughout the BC.

1.2.3 LAB PERFORMANCE TO DATE

Changes over the past 10 years mean that The Lab now operates in a more crowded climate incubator/accelerator field, but its reputation as an established and high-profile programme means it still garners significant interest and engagement. The 10th cycle (October '23 – September '24) saw a 35% increase in applications to its windows, 9 new global Lab members being added to the network, and 48 regional panellists and members joining. However, to build on its enduring success, this Business Case recommends a number of updates to the Lab to address recommendations from a 2022 assessment and better target donor priorities, particularly focussed on private finance mobilisation.

Mobilising private finance is a fundamental aim of the Lab and whilst headline figures are positive, with $1.6bn of private finance having been invested into endorsed Lab instruments to date, approximately 66% of this has been captured in just one instrument.

Further to this, of the 68 endorsed instruments over its lifetime and the 37 which have secured investment following endorsement, only 16 have secured private investment. However, with 37 of the 68 instruments endorsed to date having gone on to mobilise either private or public capital, the Lab has a mobilisation success rate of 54% - a higher success rate than many other comparable incubators or accelerators[10]. Figure 2 below shows the finance mobilised over the Lab's year, with and without Climate Investor One & Two's investments. Full detail on Lab finance mobilisation can be found in Annex L.

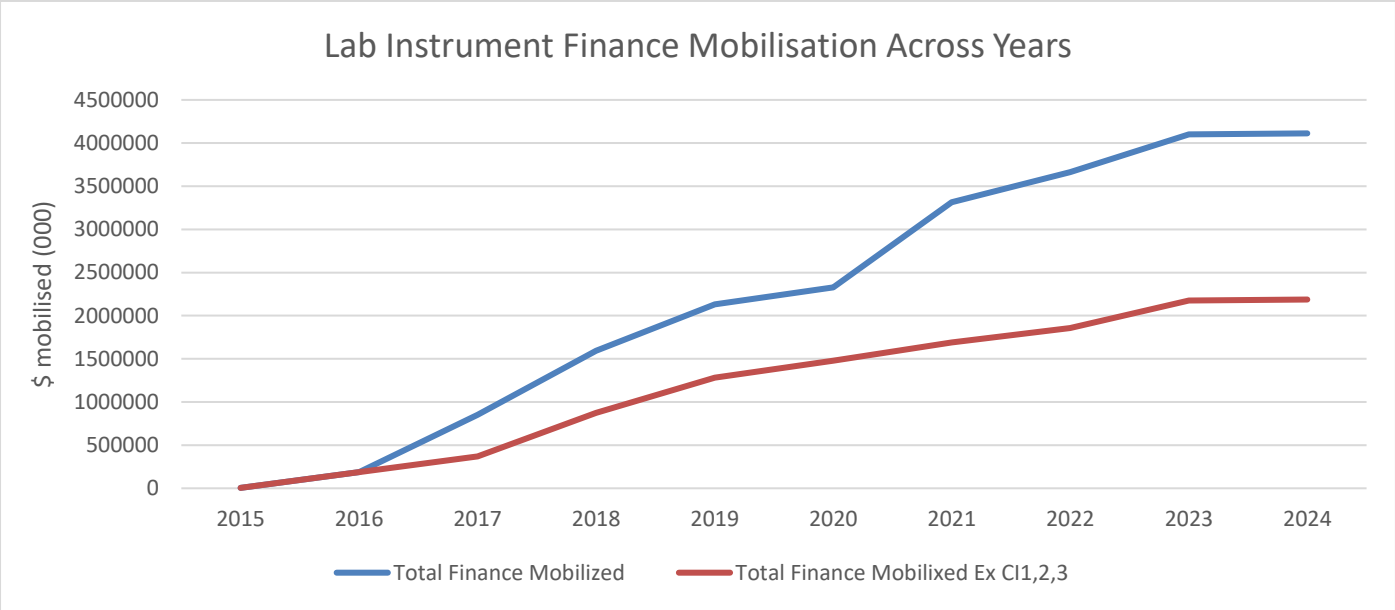

Figure 2: Lab instrument finance mobilisation across years

The Lab's greatest 'success story' is that of Climate Investor One (and its follow-ons), an early Lab-supported idea which provides financing to renewable energy projects across Africa, Asia, and Latin America. It has expanded into Climate Investor Two and Three, which together have gone to secure nearly $2bn in public and private finance. Lab support has been cited as a critical factor in its successful development.

The concentration of particularly private investment in this single instrument has been noted as a concern, however, 15 other Lab endorsed instruments have also gone on to secure private investment for a total of over $500m. With this said, further increasing the depth of the Lab portfolio which are capable of going on to mobilise large-scale private finance is a key focus for this BC's proposals. It should also be noted that the challenge of mobilising private investment into climate projects in EMDEs is far from unique to the Lab, especially when considering the often early-stage and innovative nature of the instruments being endorsed and the commercially challenging sectors in which they operate, such as AFOLU (Agriculture, Forestry and other land use) and Climate Adaptation.

Aside from private capital mobilisation, the Lab has seen great success in the variety and calibre of instruments which have been supported through the Lab's process, greatly enhancing the stock of innovative and quality climate finance instruments. A few such examples are below:

1. **The Green Guarantee Company,** 2022 Lab instrument. The GGC is the first specialist guarantor for emerging market climate adaptation and mitigation projects, unlocking access to global investors by de-risking green bonds and loans. The GGC has leveraged $100m from donors and investors (including FCDO via the MOBILIST programme) in order to provide up to $1bn of guarantees. It was listed on the London Stock Exchange in February 2024.
2. **TerraFund**, 2020 Lab Instrument. With the support of six funders led by the Bezos Earth Fund, TerraFund for AFR 100 financed 100 land restoration projects across Africa. In its second cohort, a further 92 organisations were supported and $17.8 was disbursed to them. TerraFund aims to scale to $1b, providing loans to SMEs involved in land restoration across Africa, South Asia, and Latin America.

[10] https://unfccc.int/climate-action/un-global-climate-action-awards/financing-for-climate-friendly-investment/global-innovation-lab#:~:text=The%20success%20rate%20for%20Lab,commercial%20incubator%20or%20accelerator%20programs.

3. **Responsible Commodities Facility,** 2018 Lab instrument. The RCF was launched in August 2022 with an initial investment of US$11m by Tesco, Sainsbury's and Waitrose. For the 2023/24 growing season the RCF Cerrado Programme expanded with an investment of US$36.24 million from commercial banks Santander, Rabobank, and impact fund AGRI3, thereby leveraging the impact of the initial investment made by the food retailers. It was awarded the 2023 Environmental Finance 'Impact initiative of the year: Latin America and Caribbean' award.

Finally, the Lab has developed its model in recent years to better centre itself in the regions it serves, with the success of this evident through results in these regional labs. The Lab operates a 'hub and spoke' model, with core global Lab windows, but increasingly region-specific Lab windows which have staff and a local presence. At present, there are five such regional Labs (Brazil, India, East and Southern Africa and The Philippines). These regional windows bring together relevant stakeholders from the climate ecosystem in the region, again providing a forum for dialogue and fostering enhanced capacity for those involved. These regional windows have been hugely successful once established and CPI have noted the benefits of this model.

1.2.4. LESSONS LEARNED

A programme review in December 2022, funded by BMWK and undertaken by CPI, identified a range of challenges experienced by the Lab, including a number related to the priority of mobilising private finance and which have been relevant to the thinking for this business case. A selection of these is indicated below:

- A shift towards endorsed instruments operating in sectors or geographies which are more commercially challenging. This has resulted in a decrease in private sector investment in endorsed instruments, while public sector investment has remained level.
- The value and efficiency of working groups varying substantially based on the individuals present in the group and the needs of the proponents.
- The Lab network has not been successful at supporting proponents to secure small investment sizes to fund early-stage operations and those seeking commercial capital.

The report also made a series of recommendations to address these points (amongst many others). These included:

- Adopt a two-track instrument development process which better meets the needs of instruments selected at varying levels of maturity and clarify the meaning of endorsement.
- Restructure the working group process to improve efficiency and quality of membership. [This is being implemented in the 2023/24 cycle]
- Launch of Catalytic Climate Finance Facility, enabling instruments to overcome the 'valley of death' between endorsement and pilot launch. [This was launched in 2023]. HMG currently has no involvement in this.
- Engage Lab members which can deploy small investment sizes. [This is ongoing]
- Continue efforts to engage private sector Lab Members to encourage greater participation. [This is ongoing]

1.2.5 RATIONALE FOR CONTINUED AND IMPROVED LAB SUPPORT

Whilst there have been significant developments in the climate finance landscape over the past 10 years, these underlying challenges, amongst others, still remain and the finance shortfall persists. As such, the objectives and methods of the Lab are as relevant as ever. Indeed, given the greater number of financial actors operating in this space[11], the added complexity as a result of the more diverse investor pool[12], and the increasing number of sectors that are both being looked to for, and are in need of, investment[13], it could be argued that the Lab is *more* necessary than ever.

With the Lab membership including a wide range of public and private actors that are involved day-to-day in this changing landscape (110 Lab members as of the current 2023/24 cycle), and the selection process rewarding innovativeness, the Lab aims

[11] https://www.mckinsey.com/capabilities/sustainability/our-insights/climate-investing-continuing-breakout-growth-through-uncertain-times
[12] https://www.gsam.com/content/gsam/global/en/market-insights/gsam-insights/perspectives/2023/climate-investing-increasingly-competitive-market.html
[13] ibid

to ensure that it remains relevant, and projects being selected are not just 'more of the same'. This ability to change with the evolving landscape has already been witnessed in shifts over the programme's lifetime in the following areas:

(1) **Portfolio Composition.** Greater focus on more commercially challenging and underfunded sectors relative to the impact they can deliver, such as AFOLU and adaptation. This has reflected a trend in the market to move from renewable energy-related sectors (that have become more mainstream) to land use-related sectors and NbS approaches.

(2) **Instrument Type.** 3 main trends which have emerged over the years: (i) credit enhancement mechanisms such as insurance and guarantees, either as the main value proposition of the instrument or used as an additional risk mitigation component, (ii) there is a clear correlation between sector and instrument type, such as debt funds for land use interventions and this has become more common with the aforementioned shift to land-use focused instruments, and (iii) emerging use of carbon credits or other types of credits as a secondary revenue stream in the structure (e.g., resilience credits, gender credits, etc.)

(3) **Proponent Type.** There has been a shift from initially seeing more public institutions as a proponents, to non-profits and younger organizations entering the climate finance space and then finally, following the focus on actionability, there has been an emphasis on more "consortium proponents" as a result of seeing the benefits of varied stakeholders coming together to make ideas and transactions viable.

Finally, whilst it has been identified that there is still scope to further increase the Lab's impact – particularly in relation to private-sector investment mobilisation which the proposed pilot activities in this BC seek to address – feedback from Lab proponent teams consistently attests to the importance of Lab support. The most successful Lab proponent in terms of capital mobilised, Climate Investor One (and its follow-ons Climate Investor Two & Three), was supported in the Lab's first cohort and whilst Lab support was not the only factor identified as aiding its early years, their founders noted that it was a critical building block. Since its launch, it has gone on to mobilise nearly $2bn in public and private capital.

With all of this in mind and 10 years of successful delivery to build off, the Lab is still seen to offer an effective and relevant channel for DESNZ ICF in mobilising private capital, even in the context of a market with alternative offers, as discussed in the appraisal case.

1.3 STRATEGIC FIT FOR HMG

1.3.1 FIT WITH HMG STRATEGIC PRIORITIES

The Lab is, and will remain, closely aligned with UK priorities in this space. Evidently it aligns with the goal of finance being mobilised from private and public sources at scale (ICF ToC – Intermediate Outcome 5; 2023 ICF Strategy), but it also delivers against numerous other HMG, DESNZ and ICF objectives. This includes:

- Contributing to UK leadership in climate finance programming being solidified with improved strategic relationships with partner countries, both via close engagement with other Lab donors and partner countries where Lab windows operate. (ICF ToC – Intermediate Outcome 1)
- Window-specific focus on large-scale climate mitigation opportunities in countries where climate mitigation potential is greatest - typically middle-income countries. (DESNZ ICF umbrella business case).
- Strong forestry, nature and land-use theme, with International Forestry Unit funding for the High Integrity Forests window this year (though discontinued for next year), and AFOLU instruments making up a significant component of endorsed projects. (DESNZ ICF umbrella business case)

The Lab's flexibility also means it can pivot and adapt to maintain alignment with emerging priorities. This was demonstrated by the addition of the DESNZ-funded Brazil, High-Integrity Forest and Latin America and Caribbean lab windows in recent years, the latter two following scoping studies to identify the opportunities they presented.

Alongside strategic alignment, it also offers clear links across, and fills gaps in, the broader DESNZ and HMG ICF programme portfolio. Figure 2 below provides a snapshot of how the Lab interacts with upstream and downstream partner programmes, contributing to the "end-to-end" climate finance offer provided by, in this instance, programmes delivered by the Green Finance and Capability Team.

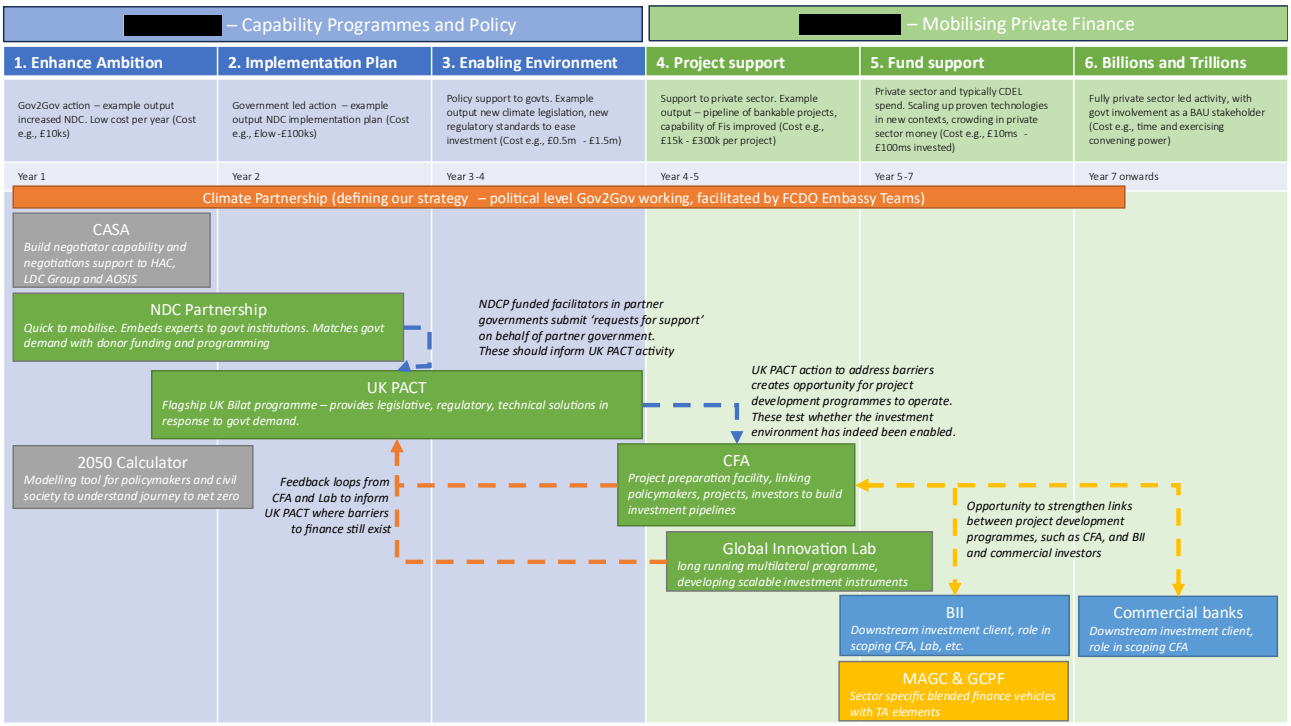

Figure 2 – Lab positioning in GF&C team portfolio

Links with other HMG ICF programmes are also evident, as shown with the examples highlighted in section 1.2.3, where Lab supported instruments have repeatedly gone on to secure funding from other HMG-financed initiatives e.g. FSD Africa, GCF and Mobilist. While these funding links have typically been made in funding *for* the Lab instrument, the DESNZ programme team is also actively seeking opportunities to link endorsed and operational instruments with businesses which could benefit *from* the instrument's services, such as those emerging from the CFA or Ashden Awards.

The DESNZ Lab programme management team actively engage colleagues at Post and policy leads across HMG ahead of Lab cycles to ensure that DESNZ-funded windows are reflective of priorities and activities with countries, continually looking at opportunities to amplify and link with existing initiatives. For example, discussions have been held with Post in Brazil about opportunities to specifically target industrial decarbonisation (in-line with discussions with the Mitigation Action Facility) and hydrogen related ideas in later Brazil window cycles. Further, Post or regionally focussed colleagues also act as Lab panel representatives and help determine which instruments HMG vote for through the Lab selection process.

1.3.2 FIT WITH WIDER CLIMATE FINANCE LANDSCAPE

The Lab operates within a unique space in the market by developing, and seeking to facilitate financing for, early stage, innovative ideas that are focused on climate finance themes. While the Lab is not the only 'incubator' for innovative climate finance ideas, other initiatives either provide high level support to more developed (post-pilot) proposals (e.g. International Climate Finance Accelerator) or limited support to less developed pre-concept ideas (e.g. Climate CoLab). CPI and Convergence (a non-profit global network for blended finance) have partnered to develop a new Fund, the Catalytic Climate Finance Facility which provides further grant and technical assistance support to projects that are ready to be scaled. Eligible Lab projects can apply to this Fund post-endorsement to help them accelerate implementation and crowd in further private finance.

The Lab already seeks to contribute to overcoming the 'valley of death', between the project development phase and being market-ready by providing targeted 'implementation' support to ideas following Lab 'endorsement'. This is similar to DESNZ's aims through the Clean Energy Innovation Facility (CEIF). However, CEIF focuses on capital support specifically for pilot projects for technological innovation while the Lab's technical assistance targets financial and business model innovation. Further, this 'valley of death' is still identified as a significant challenge to Lab instruments, with the bulk of Lab support being focussed on idea development. Overcoming this is a key focus of the proposed pilot activities in the BC.

The Lab has a broad remit to support innovation in different forms, from ideas that range from frontier 'first of a kind' finance models to 'catch-up' innovation that replicates existing models in new geographies or industries. The major differentiating factor, however, is the Lab's role in bringing together a broad network of expert public and private stakeholders to improve project design and implementation.

This includes its engagement with, amongst many other actors, Multilateral Development Banks (MDBs). As providers of climate finance, and institutions that often have strong regional networks, the Lab engages MDBs either as Lab members or observers. In these capacities, MDBs are able to contribute to reviews at selection stage and supporting Lab instrument development through Lab working groups. As such, they are aware of and involved with Lab ideas. MDBs currently engaged in the Lab include the Inter-American Development Bank and the European Investment Bank. These are accompanied by numerous other development finance institutions, national government ministries and an array of private banks and investors.

The Lab is highly complementary with the Climate Finance Accelerator (CFA), another UK-funded technical assistance programme building low carbon investment pipelines. The CFA supports existing commercially viable product and service-based businesses or projects to attract finance, whereas the Lab is explicitly focussed on earlier stage financial instruments. Globally, the Lab also complements the International Climate Finance Accelerator (ICFA), which exclusively supports fund-managers focussed on climate action.

1.4 PROGRAMME AIMS AND OBJECTIVES

Table 2 below captures the Lab's objectives to address the gap in available climate finance in EMDEs as discussed above and lists indicators to monitor progress. Objectives are designed to be specific, measurable, achievable, relevant, and time-bound (SMART). However, as a demand-led technical assistance programme, quantifiable input and output metrics used for capital investment programmes are not always appropriate or feasible.

Under this business case, DESNZ will provide new support for a monitoring, evaluation and learning strategy to better assess progress against the Lab's Theory of Change. Achievement is tracked through a logical framework (Logframe) in line with FCDO's Programme Operating Framework (PrOF). The Lab's draft Logframe (Annex A) contains 26 indicators designed to monitor progress and reflects learnings from previous years, including Annual Reviews. Critically, this logframe seeks to provide a clearer reporting 'picture' of DESNZ's aims from Lab support, and the process undertaken to achieve this. Exact milestones will be agreed with the delivery partner.

Table 2: *Lab Objectives and Indicators*

Objective	Indicators
1. The Lab increases the stock of investment-ready climate finance projects, showing greater innovation and leveraging more private finance than without the intervention support	a. Total private finance raised by Endorsed Lab projects. (Impact 1) b. Number of Endorsed Lab instruments within the whole portfolio moving into Expansion (Stage 5), Scale (Stage 6), and Replication (Stage 7)* (Impact 2) c. KPI 15 methodology scores against at least partial evidence of transformational change being likely to occur. (Impact 3)
2. The Lab has an engaged network of Lab members who are able to provide expert input into the process and support endorsed instruments to receive investment	a. Number of Lab members and observers in the network - by organisation type (public, private, DFI etc) (Output 5a) b. Proportion of Lab members attending a minimum of 2 working group sessions or one 1-2-1 session (Output 3a) c. Amount invested into Lab instruments by Lab members (cumulative) (Outcome 2a)
3. More financial instruments are in an improved position to attract investment after receiving the Lab's high quality capacity building support	a. Instruments move by at least one Stage of Development* during the Lab cycle (Intermediate Outcome 1a) b. Number of organisations supported (TA KPI 2) c. Proportion of Lab endorsed instruments receiving investment within 2 years of endorsement (Intermediate Outcome 2b)
4. Additional pilot activities including the go-to-market support offer and the Pre-Seed Capital Facility facilitate endorsed Lab instruments to more	a. Proportion of Lab instruments receiving 'Go-to-market' support which advance at least one Stage of Development within 6 months of support (Intermediate Outcome 2a)

readily access investment than those without go-to-market support	b. Amount of capital disbursed from the pre-seed capital facility (Cumulative)(£GBP) (Output 6b)
5. Develops the UK offer that builds on the UK's COP26 legacy around finance mobilisation and support to implement NDCS. In doing so, the Lab should both complement and actively coordinate with existing UK initiatives (e.g., CFA, UK PACT and NDCP) to maximise impact across the climate finance investment chain.	a. Leverages the capability of the UK's Post network for regional windows and technical teams for thematic windows (confirmation of fit within Post's climate strategies). b. The delivery partner engages with programme teams and delivery partners from other UK initiatives.
6. Effectively engage with other institutional donors and steering group members (US State Department, BMWK, FinDev Canada etc) in order to ensure the programme's sustainability and to manage emerging programme risks and strategic opportunities, acting upon lessons learned where possible.	a. Risk management during delivery meets the programme's risk appetite. b. Quarterly steering group meetings are regularly attended by all institutional donors

1.5 BENEFITS SOUGHT: THEORY OF CHANGE, ASSUMPTIONS AND CONSTRAINTS

The Lab aims to increase the flow of climate finance from private and blended sources through innovative climate finance instruments which can support low-carbon projects with sustainable development benefits. To meet this aim the Lab actively engages a network of public and private sector organisations to pool expertise and to support innovative early stage ideas to reach a stage of readiness to receive private investment. Building on strong and consistent delivery against outcomes to date (evidenced by consistent A ratings in Annual Reviews and the results seen in them), the next phase of the Lab support will seek to build on the existing successful model and pilot new ways of working to maximise the impact of UK contributions.

The existing Lab Theory of Change has proved relevant in guiding the programme to making progress towards realising its impact objective and, as the primary aim of the Lab remains to increase the stock of climate finance projects while showing greater innovation and leveraging more private finance, there have not been substantial changes made to the Theory of Change. Where changes have been made, including the addition of new pilot activities these aim to strengthen delivery and build upon the existing model rather than create new causal pathways to address the impact statement. These activities are captured through the draft Logframe (Annex A).

Delivering transformational change through the Lab is reliant on the following assumptions holding:

- There is a supply of early-stage innovative climate projects who would welcome Lab support.
- The Lab can leverage external support to improve projects, and this advice is acted on.
- Lab support is relevant and utilised by projects.
- Progress of Lab ideas is directly attributable to Lab support.
- Regional support draws on local networks and expertise.
- Once endorsed, ideas are attractive and visible to private sector investors
- Lab ideas are additional to the existing stock of financial instruments.
- Regional support enhances opportunities for replication locally.
- Once endorsed, Lab ideas have the ability to develop externally to the Lab to the point of implementation.

Assumptions will be monitored by the Lab's annual review process and lessons fed back into delivery. The largest constraint to the Lab's intended impact being realised through this BC period is the continued challenge that endorsed instruments rely on accessing pre-seed capital and development financing in order to become attractive to private investment. To the extent possible, this is mitigated through the additional activities being trialled as part of this new business case including through the go-to-market support offer and the Pre-Seed Capital Facility.

1.6 HIGH-LEVEL RISKS

The Lab is found to be within DESNZ ICF's risk appetite with sufficient mitigations in place to manage risks (see Annex C for the detailed risk management matrix). Internal processes for risk management, including monitoring and escalation processes, are found in the management case in section 5.5.

External Context
1. Rising inflation impacts ability of the delivery partner to provide technical assistance activities and meet outcomes.
Fiduciary
2. The Lab is multi-donor. Other donors are currently in discussions with CPI on their respective funding amounts and duration. There remains a risk that these discussions, or as a result external events, do not secure the level of funding needed to deliver the Lab at the envisaged scale, reducing the likelihood of transformational change.
3. Donor burden share is skewed towards DESNZ. With minimal additions from other donors, The Lab could operate a smaller programme [redacted]
Delivery
4. The rate of finance mobilised reduces, impacting the ability of the Lab to meet its goals and foster the necessary levels of engagement.
5. CPI do not have sufficient technical capacity to mobilise or deliver the pre-seed capital facility effectively, with minimal impact resulting from this additional investment in instruments.
Supplier capacity and capability
6. See point 5.
Operational
7. Whilst team resourcing is adequate for Lab programme management and engagement, to effectively work across Lab windows requires X-DESNZ and X-HMG engagement, including time from colleagues at Post. Securing sufficient time from these colleagues for adequate and meaningful input into Lab instrument feedback and review can be challenging, especially when the Lab is not a formal part of their role. Inadequate engagement could lead to less meaningful input to the Lab process.

1.7 LEGAL CONSIDERATIONS

1.7.1 EQUALITY OBJECTIVE

Gender equality is not the principal reason for providing funds to the Lab, however we aim for this to be an important and deliberate objective. To provide a means of measuring and reporting on this in relation to Lab ideas which are supported, under output 1 the proportion of eligible Lab ideas that are women led will be measured. This is a new requirement for this BC period, building on previous requirements to record ideas which had included well-articulated gender considerations in their applications. This requirement has been mainstreamed into the Lab process, with the indicator above now included to better measure the gender equality of instruments receiving support at a management level.

Further to this, under output 3 of the new logframe, there will be specific inclusion of a GEDSI indicator to broaden the scope away from just gender. The indicator currently included in the draft logframe is the proportion of instruments with a GEDSI impact assessment or strategy by the point of endorsement, however, the DESNZ team will work with CPI to refine this and ensure it is both impactful and appropriate given the different types of instruments which come through the Lab process. HMG GEDSI specialists will be consulted.

1.7.2 PUBLIC SECTOR EQUALITY DUTY AND CLIMATE RISK SCREENING

Groups with Protected Characteristics as defined through the PSED are not considered to be at significant risk from interaction and participation of the Lab programme. However, we have considered the potential impact through various forums in the preparation of this Business Case.

As an Official Development Assistance (ODA) spending programme, the Lab programme is not deemed to have any significant impact upon individuals or groups within the UK with regards to the PSED. Based on recent case law, section 149 of the Equality Act (2010) does not apply extraterritorially. Further it is anticipated that the activity which is directly supported by DESNZ's funding

to the Lab – the provision of technical assistance and disbursement of grant capital to early-stage climate finance instruments – will have minimal impact on individuals or groups with protected characteristics.

However, there may be a limited impact on individuals or groups within the ODA eligible countries within which supported financial instruments from the Lab operate in if they successfully launch post-Lab support, and these have been considered. After review of the evidence, there are four groups with protected characteristic (Sex, Race, Age, and Disability) which the programme could have an impact upon. These matters are discussed in more detail in the full PSED assessment in Annex D but are found to not present a significant risk, with some level of mitigation available through the programme's activity and, in many instances, a positive impact likely to be realised.

Of the remaining groups with protected characteristics which we are required to consider under PSED, none are considered to be directly affected by the programme. However, the delivery partner will be required to provide evidence of internal policies which subscribe to principles of non-discrimination against any of the remaining characteristics and includes gender reassignment, marriage or civil partnership, pregnancy and maternity, religion or belief, and sexual orientation.

1.7.3 SPENDING POWER

Spending powers for the Lab derive from the International Development Act 2002 (IDA) and will be drawn from DESNZ's Official Development Assistance allocation.

The Lab funding complies with the requirements in Section 1 of the IDA, by virtue of being:

- likely to contribute to a reduction in poverty, and;
- provided for the purpose of furthering sustainable development in one or more countries outside the UK.

Evidence shows that poverty and climate change are interconnected challenges, and that "climate change represents a significant obstacle to the sustained eradication of poverty"[14]. EMDEs – the target geographies of the Lab – are particularly vulnerable to the impacts of climate change and account for the majority of the world's poorest people.

By incubating financial instruments which support low carbon projects the Lab is directly contributing to climate change mitigation and thus the risk of millions more being driven into poverty through unchecked climate change, estimated as up to 130 million people over 10 years[15]. Further, at a local level, Lab ideas contribute to poverty reduction through job creation, the development of financial markets and other associated business support which Lab ideas offer e.g. SME business loans, clean energy access. Many Lab ideas work specifically with under-served communities or sectors with high levels of poverty. Examples include Social Infra Ventures which is a gender-responsive, green, and affordable housing platform in Northern Africa specifically serving low and middle-income families. Similarly, The Smallholder Resilience Fund (SRF) is a blended investment fund and supporting venture studio that deploys synchronized investments and technical assistance across entire agricultural value chains of high-value, climate-smart crops to support African smallholder farmers.

Further, a mapping of Lab instruments' impacts against the SDGs demonstrates the sustainable development that the programme is realising. With the breadth of instruments supported, it is impossible to highlight each way the Lab can support sustainable development but the SDGs most commonly met by Lab instruments are SDG 7 (Affordable and Clean Energy), SDG 8 (Decent work and economic growth), SDG 11 (Sustainable cities and communities), SDG 12 (Responsible consumption and production), SDG 13 (Climate action) and SDG 17 (Partnerships for the goals).

In accordance with section 1A of the Act, regard has been given to the desirability of providing development assistance that is likely to contribute to reducing poverty in a way which is likely to contribute to reducing inequality between persons of different gender. Consideration of the funding's impact on gender equality is given in the sections above and in the PSED analysis.

1.7.4 ENVIRONMENTAL ACT 2021

[14] World Bank, 2016. Shock Waves – Managing the Impacts of Climate Change on Poverty.
[15] https://blogs.worldbank.org/en/climatechange/when-poverty-meets-climate-change-critical-challenge-demands-cross-cutting-solutions

Decisions to make sums available to a particular project made in the context of an existing wider policy framework will not typically constitute policy making and will therefore not typically attract the duty at s19 of the Environment Act 2021.

In this case the decision to provide funding for the Lab is intended to give effect to the wider ICF policy (as reflected in the ICF strategy, Umbrella Business Case and other relevant strategies outlined above), will not create a precedent for other ICF programmes, and does not change the overall policy objectives which DESNZ is working towards in this policy area. However, regard to the principles set out in the EPPS will continue to be considered as the programme is further developed (including the terms on which Lab ideas are selected).

The immediate effect of funding provided to the Lab is to facilitate the provision of technical assistance. The potential environmental impact of this technical assistance in itself is negligible, being delivered via workshops and meetings (in-person and virtual). This is reflected in the Climate and Risk Screening Tool in Annex K.

Although the overarching policy objective is to mobilise capital into climate finance instruments and thereby protect the environment from the global threat of climate change, there is potential for climate finance instruments which were previously supported by the Lab to, once operational, fund organisations and businesses which could cause a range of environmental harms at the more local level, even in the context of delivering greater positive climate impacts e.g. agro-forestry actors. These risks are thoroughly considered and assessed at selection and development stages of the programme and, where possible, will be appropriately mitigated. Further information in relation to potential environmental harms will support the application of the rectification at source principle, where relevant.

The expectation is that the polluter pays principle is likely to be of limited relevance given DESNZ's role in providing technical assistance and pre-seed capital facility funding to ideas explicitly focussed on climate mitigation activities and given that policies which would place a direct financial obligation on any person are likely to require changes to local regulatory regimes (which is outside the scope of DESNZ control and the scope of this project).

There is not currently any reason to expect that the Lab (or any project which may receive support) would cause serious or irreversible damage to the environment

1.7.5 PARIS ALIGNMENT

The UK government is committed to aligning all new bilateral ODA with the goals of the Paris Agreement. The Lab is a multi-donor initiative but the screen exercise still finds the programme to be Irisk (see Annex K). As a capacity-building programme, the Lab will not generate a material amount of emissions and will instead support projects to create investable opportunities to reduce emissions. The only emissions foreseen are associated with unavoidable international travel.

Table 3: *Paris Alignment*

Paris alignment pillar	Aligned?
How have you taken a proportional approach to climate and environment risk assurance?	Yes
How have you taken a proportional approach to using shadow carbon pricing?	N/A
Does the programme adhere to HMG's fossil fuel policy?	Yes
Are you ensuring the programme does not undermine impacted countries climate plans?	Yes

1.7.6 SUBSIDY CONTROL

With reference to the delivery partner CPI, the programme funding is not considered a subsidy for the same reasons stated in the previous internal legal assessment undertaken in September 2023 for the change request submitted for the inclusion of the HIF and LAC windows. At that time, it was determined that given the unique nature of the services which CPI provides it does not compete in any market in respect of this activity and thus this does not represent an economic activity on the part of CPI.

Section 2.3.2 sets out how the funding that is provided to CPI is used across the various Lab components. This primarily falls into three categories:

- Programme management and delivery
- Technical support provided to proponent teams

- Pre-seed capital directly distributed to proponent teams

In none of these instances is the funding provided through the Lab directly bringing a product or service to the market. The Lab is explicitly aimed at supporting idea development and bringing them closer to the point that they can be launched, however, as has been referred to repeatedly throughout this BC, in order for these services to be launched on to the market they require further investment or support from other sources before they can reasonably be expected to be brought to market. As referred to earlier, the table below indicates the development stages which the various Lab offers are intended to bring an instrument to.

Table 13: *Lab Development Stages*

	Stage	**Description**	**Lab stages**
1	Idea Basics	Idea is in early-stage concept. Preliminary research has been done, but instrument structure, target market, and/or implementing partners have not been identified or defined	Typically, this is too early to receive Lab support, however, some ideas at this stage have been supported.
2	Initial development	Idea is undergoing research and testing but are not yet at a point which they can reasonably be deemed 'feasible'. Concept has been shown potential to work in practice, yet details on instrument structure and pathway to market are still unclear	This is stage at which most Lab ideas are received and assessed.
3	Proof of concept	The idea has been developed and tested to the point that it is in theory feasible, with further activity required to make next commercial steps (pilot, product development, required agreements etc) happen. Instrument has developed a viable product, with few details to still be developed	This is the minimum level which should be achieved through support for selected ideas in a Lab window.
4	Pilot	Instrument has been tested and financial vehicle development is nearly (or fully) complete.	Point at which go-to-market support and pre-seed capital should leave supported ideas.
5	Expansion	Instrument has been deployed and is successfully operating, with activities from the pilot now expanding	Post-Lab support
6	Scale	Instrument is active and in scale-up mode, refining model, seeking out additional funding or operational partners	Post-Lab support
7	Replication	The instrument has been shown to work and is being replicated in sectors and/or geographies	Post-Lab support

As further funding would be required for these climate financial solutions to be launched on to the market, the funding does not satisfy the requirement in section 2 (1)(d) of the Subsidy Control Act 2022 in that the financial assistance does not have, or is capable of having, an effect on competition or investment within the UK or on trade or investment between the UK and a third country. In addition, it is arguable that CPI is not an enterprise for these purposes as it is not engaged in putting goods and service on the market at this stage of the programme.

2. APPRAISAL CASE

In order to undertake this appraisal case, the following appraisal sequence has been followed:

- Long-list (6 options) – SWOT analysis & Risk overview.
- Short-listed (3 options) – more detailed review and comparison of options, VfM assessment, Risk assessment & CSF scoring against pilot options.
- Window funding - SWOT and qualitative assessment of core vs window specific funding & which windows.
- Finalised option

2.1 CRITICAL SUCCESS FACTORS

The following five Critical Success Factors (CSFs) are identified. The first four directly align with the Treasury's Green Book Guidance and the fifth recognises programme lessons learnt from delivery to date.

Table 4: *Critical Success Factors*

CSF	Description

1. **Ability to meet objectives set out in the strategic case**	• Does this option directly address the objectives for the Programme?
	  ○ Will it promote the development of early stage, innovative financial instruments across a diverse range of geographies and sectors? (Improve the stock of financial instruments)
	  ○ Will supported financial instruments go on to mobilise climate finance, particularly private finance?
	  ○ Will the activity of the programme facilitate collaboration between, and engagement with, private and public sector actors?
	• Does the option's objectives align with the ICF Strategy and 2023 Green Finance Strategy?
	• Does the option complement wider HMG programming and remain additional within the broader climate finance landscape?

2. **Delivers value for money**	• Does the option provide value for money in achieving expected outcomes compared to similar initiatives? • Will programme funding be catalytic, with other sources of finance mobilised as a result?
3. **Supplier capacity and capability**	• Does the supplier have sufficient technical expertise and capacity to deliver against objectives? • Can funds be managed and disbursed effectively? • Does the supplier have expertise to effectively manage and utilise both RDEL and CDEL funding from DESNZ? • Does the supplier have flexibility to meet changing demands?
4. Potential affordability and achievability for HMG	• Can delivery requirements be met by existing ICF budget availability? • Can DESNZ and at Post provide sufficient resourcing for this option?
5. Ability to shape and influence programme direction	• Can HMG meaningfully influence programme plans and strategy? • Will HMG be involved in governance fora? • Will the UK be an influential actor on the programme? • Will UK priorities be able to be reflected in future activity?

2.2 LONG LIST OF OPTIONS

The following long-list of options were identified.

Table 5: *Long List of Options*

Option	Description
1. "Do nothing" - Cease funding	DESNZ funding for the Lab ends in September 2024.
2. Deploy funding/ meet objectives through existing HMG ICF programmes	Equivalent funding is redeployed to, or activities are tailored within, other existing ICF programmes, such as the UK's Partnership for Accelerated Climate Transitions (UK PACT) or the Climate Finance Accelerator (CFA). Programme aims would be met through their programme activities.
3. Deploy funding to another existing non-HMG ICF programme/investment vehicle	Re-assign funding to another programme/ investment vehicle which is deemed capable of achieving the stated objectives. Programme aims would be met through their existing programme activities.
4. Design and undertake a procurement for a new programme	End Lab funding in September 2024. Instead, design and run a procurement for a new DESNZ-led programme.
5. BAU - Continue Lab funding (no 'structural' changes)	Funding for the programme continues in its current form, with funding provided for a selection of Lab 'windows' and 'core funding'.
6. Continue Lab funding with additional pilot activities	Funding for the programme is expanded to include pilot activities which have been identified as opportunities to better meet intended aims, specifically the mobilisation of private capital.

A full SWOT analysis and high-level risk review against all of the options above can be found in the full appraisal case (Annex E), but a summary of the analysis and allocated scores are contained in table 6 below.

2.2.3 ASSESSMENT AND SCORING SUMMARY TABLE

Scoring & weighting

- Scores of 0-4 will be assigned to each CSF and SF:
  - 0 = CSF/SF not met at all by the option
  - 1 = The CSF/SF is met in small part by the option (<30%)
  - 2 = The CSF/SF is partially met by the option (30-60%)
  - 3 = The CSF/SF is partially met by the option (60-90%)
  - 4 = option fully meets CSF/SF) (90% +)
- Weighting against each criteria is indicated below to reflect their importance to the programme.

CSF 1 - Ability to meet objectives set out in the strategic case	CSF 2 - Delivers value for money	CSF 3 - Supplier capacity and capability	CSF 4 - Potential affordability and achievability for HMG	CSF 5 - Ability to shape and influence programme direction
32.5%	22.5%	15%	15%	15%

Table 6: *Critical Success Factors*

Option	Critical Success Factors					Assessment & total score
	1 – Meets objectives	2 – Value for Money	3 – Deliverable?	4 – Affordable/ achievable?	5 – HMG influence	
Cease funding	No – stock of climate finance instruments is not improved and no capital mobilised.	VfM not achieved because objectives not delivered. But finance can be made available.	N/A	No financial obligations. Budget can be re-directed.	No – withdrawal from programme removes leverage.	No
	0	1	N/A	4	0	0.825

HMG ICF Portfolio Programmes	Existing HMG ICF programmes do not share the same focus of the Lab and thus ability to tailor activities to the Lab's existing remit is highly dependent upon programme flexibility; such options are assessed as not being immediately available.	Significant efficiencies available by utilising existing HMG programme structures and building on synergies in activity. However, given the lack of programmes with the same focus, this would not be effective in achieving the desired outcomes and reduces benefits from 10 years' engagement with Lab.	Existing suppliers may well have capacity to deliver new activity effectively, but this is unknown. Selection of a programme and supplier would be contingent on capacity and track record, which could be assessed. Utilising an existing supplier would reduce the potential supplier pool.	If an appropriate programme/supplier could be identified, this would avoid the expense of an additional programme, inc procurement. Efficiencies possible, including resource.	In the short-term it is likely that there would be limited scope to shape overall programme direction given it would be an addition to an existing, planned programme. Longer-term it is likely that with continued funding, programme direction would more effectively.	Shortlist
	2	2	3	4	3	2.6
Comparable (but non-HMG ICF Portfolio) Programmes	The Lab holds a near unique position in terms of its focus (sector, stage of readiness etc), so existing programmes do not have the same specific focus. However, there are such a large number of alternative opportunities that there is adequate flexibility to meet the majority of objectives.	Potential for efficiency by using existing structures and opportunity to improve effectiveness by channelling funds through programmes with existing investment pipelines. Dependant on whether relevant mechanisms are available with risk that private sector participation may be lower in other initiatives. Loss of benefits from 10 years' Lab engagement.	Selection would be contingent on successful programme delivery to date, with wide variety of suppliers available to review. Though working with a new supplier would lead to greater uncertainties.	Avoids expense of establishing an additional programme, inc procurement. Higher resource demand in participating with new programme in the short-term.	Dependant on programme, but less likely to have significant influence on an established, existing programme.	Shortlist
	3	3	3	3	2	2.85
Procure new programme	New programme can be designed, delivered and managed precisely to deliver against objectives. However, no existing performance to	Reduces benefits from 10 years' engagement with Lab to date. VfM can be rigorously assessed through procurement process, but significant costs associated	Can be thoroughly assessed in procurement process but unknown.	Significant resource demand to undertake programme design and procurement process – beyond current resourcing availability.	Complete control.	No – despite an acceptable score, CSF 4 indicates that this is

	build off of so increased uncertainty.	with new programmes set up. Potential to become duplicative and No evidence that it would be more effective in delivering objectives than the Lab.				not seen to be a practical option at this time.
	3	2	3	1	4	2.625
BAU - Continue Lab funding (no 'structural' changes)	Would meet objectives, with some concerns over trend in private capital mobilisation.	Continues to build on 10 years support for a strongly performing programme. CPI costs are at the higher end of expectations.	Strong. Known capacity to deliver well, with good reputation and links.	Continued funding and resourcing is available.	Strong presence in steering committee but sticking with the 'status quo' misses chance to build on lessons learned to date.	Shortlist
	3	4	4	4	3	3.5
BAU + pilot activities	Strong. Pilot activities specifically proposed to address perceived shortcomings in achieving objectives.	Continues to build on 10 years support and a strong performing programme, whilst pushing for changes which will better mobilise capital. Impact of additional activities is untested.	Strong. Known capacity to deliver existing activities, though some uncertainty over additional proposed activities.	Funding is earmarked but will require resourcing increases.	Uses existing role to push for changes perceived as beneficial to reaching objectives and sets precedent.	Shortlist
	4	4	3	3	4	3.75

2.3 SHORT-LIST

The top three scoring options will be taken forward for shortlisting and analysis. Whilst the third highest scoring option – to procure a new programme – was included in the long-list, the option is not deemed achievable due to the significant resourcing requirements and likelihood of duplicating the Lab's existing offer, even noting the potential benefits it displays in other areas. As such, despite the benefits it could theoretically offer, there is no merit in further evaluating it at this time due to these practical considerations. It does, however, highlight the potential for this as a longer-term option, and links to ongoing thinking around a larger 'fund-of-funds' style programme which could potentially more flexibly provide funding for a variety of incubators/accelerators/programmes which aim to catalyse private climate finance. With this in mind, the next highest scoring option will be taken forward for shortlisting.

Given the similarities between Option 5 and 6 – continued funding BAU or continued funding with pilot activities – these will be assessed in conjunction with each other, with key differences pulled out and assessed.

2.3.1 REDEPLOY FUNDING TO AN EXISTING (NON-HMG ICF) PROGRAMME/INESTMENT VEHICLE

The critical means of ascertaining whether the option of funding an existing programme/investment vehicle is viable is assessing those alternative options within the market. An analysis of all relevant programmes here cannot be expected given the number that exist, however a suitably thorough desktop review has been undertaken of the most relevant and comparable programmes. The full review can again be found in the appraisal case annex (pg 12). However, the review included the following programmes:

- Global Innovation Fund
- Catalyst Climate Resilience Fund
- ICFA
- Elemental Excelerator
- Convergence
- Climate CoLab
- IDB Lab
- Village Capital
  Third Derivative
- Landscape Finance Lab
- Capital for Climate
- P4G Partnerships
- IdeaLab
- ClimAccelerator
- Assorted private investment funds
- Assorted private climate accelerators

Findings are referenced in the 'qualitative assessment' section below.

2.3.1.1 VALUE FOR MONEY ASSESSMENT

Given the myriad other options available, and their inherent differences, it is not deemed feasible to conduct a representative VfM analysis of this shortlisted option and as such only a qualitative assessment is possible.

2.3.1.2 QUALITATIVE ASSESSMENT

From the assessment of alternative programmes noted above, it is assessed that no other individual programme offers the focus on early-stage financial instruments with the accompanied diversity of sector, geography and type of proponent to fully meet the stated objectives, or not as effectively as is known to be available through the Lab based on 10 years of previous engagement.

Specific reflections include:

- Most alternative initiatives assessed are not focussed on financial instruments whereas the Lab exclusively supports these. Whilst there are other important differences – including depth of technical assistance offer and stage of business development – if financial instruments are not the focus of a programme's support, then within DESNZ ICF programming we have an existing, and strong, support offer for service or product-based businesses which we would risk becoming more duplicative of, e.g The Climate Finance Accelerator. Further, as set out in the strategic case, financial instruments offer a unique means of channelling the large scale of capital that is required.
- Those initiatives assessed which are offering funding (instead of technical assistance alone), and particularly so for those initiatives being run by private institutions, are only open to projects at a much later stage of development, where a clear path to profitability already exists. Whilst this is entirely understandable, it fails to address the issue of early-stage idea

development, particularly in sectors or geographies which are challenging but also in greatest need of solutions. Therefore, objectives are only partially met.

- Similar to the point above, many initiatives also only partially address objectives by virtue of being solely focussed on:
    - Technology solutions
    - For-profit organisations
    - Developed markets

The analysis above suggests that the Lab provides a broader and more flexible offer than other single alternative initiatives and, therefore, continued Lab support is preferable to re-allocating funding to one of these programmes meaning this option is discounted. However, the breadth of alternative options demonstrates that an option for the future could be funding numerous different programmes to achieve ambitions, rather than a single programme. As noted earlier, there is inadequate resource to embark on a multi-fund initiative at this time, but this should be considered in the future and could yield long-term efficiencies.

2.3.2 CONTINUED FUNDING (BAU) VS CONTINUED FINDING + ADDITIONAL PILOT ACTIVIITES

An initial SWOT and CSF assessment of both options has been made in the first section of this appraisal case. As such, this section will initially outline the proposed differences between these options – the additional pilot activities – with a subsequent VfM analysis comparing these to the baseline (BAU) option. A full VfM analysis will be carried out on the selected preferred option.

With the option of continued Lab funding and pilot activities having scored higher in the first section when assessed against the CSFs, if the pilot activities are assessed to provide strong VfM then that option will be proceeded with.

The table below sets out the Lab components which would be delivered under these two options, with greater detail on what each component delivers and how funding is used included below.

BAU	With pilot activities
• Core programme funding • Window-specific funding	• Core programme funding • Window-specific funding • **Two-stream OR Go-to-market support pilot** • **Pre-seed capital facility**

Core programme funding: flexible funding to facilitate cross-window activities, including whole Lab management, oversight, operations, communications and back-office functions. In addition to management support, Lab core funding is also allocated towards Lab windows where there is no designated donor or a stream is only partially funded. In the tenth cycle, the East & Southern Africa and Open/Global Mitigation windows did not have a specific funder and thus received core funding. Other donors providing Lab core funding are USAID and BMWK.

Window-specific funding: badged funding allocated to delivery of a specific Lab window. This includes funding regional window leads who oversee management of the window through the Lab cycle, and the technical expertise provided to selected proponent teams through the development and implementation stages. This technical support includes, but is not limited to, market and instrument analysis, stress-testing and strategy development. In the 2023-24 cycle, UK-specific funding has been dedicated to the Brazil, Latin America & Caribbean (Mitigation) and High-Integrity Forests windows.

Two-stream selection: a new pilot approach to offer a differentiated support and endorsement package for instruments at differing stages of market readiness. This would work by having two 'streams' within a single Lab window, with Lab members selecting the best ideas for each stream. One stream would be dedicated to more commercially advanced instruments, with these ideas receiving lighter-touch technical support but still gaining the Lab's 'seal of approval' via endorsement and benefiting from the network it can offer. The other stream would support highly innovative earlier-stage ideas which would receive more extensive Lab support to develop their offer and market readiness, akin to the current Lab offer.

This approach is specifically intended to better capture later-stage ideas which risk being voted out in favour of ideas seen as more innovative or impactful by virtue of working in commercially challenging sectors, a trend which has been seen in recent years. The light touch support offer would also be an efficient means of bringing more developed ideas to a point where they are much closer to private finance mobilisation, achieving the aims of the Lab. By operating within existing windows, it is anticipated that there would also be significant efficiencies available through the Lab cycle, particularly at the application and selection stage.

Further to the greater support this approach would offer to later-stage ideas, the current Lab selection process accommodates instruments within the same window at varied stages of development and, whilst this has previously been noted as a strength of the programme, it also presents challenges. As identified in the 2022 Lab assessment report[16] and witnessed in-person during Lab selection events, this variety in idea development can result in a tension between selecting those instruments which are potentially perceived as more innovative but riskier and less developed, versus those which are more developed, likelier to successfully mobilise finance in the near-term but perhaps less innovative – a comparison between 'apples and oranges'.

The proposed differentiation in selection and support would enable instruments to receive the most appropriate support, efficiently utilise extensive activity which is already being undertaken through the selection process and avoid this selection tension. Referring back to Table 1, outlining development stages, the later-stage stream would be expected to move instruments from Stage 3 (Proof of concept) to Stage 4 (Pilot). Meanwhile, the early-stage stream would be expected to take instruments from Stage 1/2 (Idea Basics/Initial development) through to Stage 3 (Proof of concept). Adopting this approach would be intended to ensure that more ideas coming out of the Lab process were reaching Stage 4, and thus closer to the point they could receive investment.

This activity would be rolled out in a single window in the first year of the business case and then, if successful, rolled out to three windows in years 2 and 3. Given anticipated efficiencies noted above, it was expected that the cost to deliver the 'second stream' would equate to approximately 50% of a full Lab window cost: ~£180k. However, when discussed with CPI, they felt the potential efficiencies were minimal given the tailoring required to each stream and, as such, the cost of delivering a second stream would in fact be close to that of a full windows cost: £380k.

Go-to-market support: a new pilot approach proposed by CPI, supporting nearly 'investment ready' endorsed ideas to secure investment. The support offer, in the form of additional tailored technical assistance, would specifically target hurdles identified to securing investment through their post-endorsement activities.

By using the existing pool of endorsed Lab instruments and conducting a regular selection process to identify those best suited to the go-to-market support, this would forego the need for further due-diligence, utilise existing relationships and aim to make prior Lab support more catalytic by improving the 'conversion rate' of ideas supported through the Lab going on to mobilise capital. For many Lab instruments, the 'runway' to market can be as long as 3-4 years. Whilst lack of funding is an important factor in the failure of unsuccessful ideas, this length of time to market is also critical and targeted go-to-market support to address barriers could reduce this, leading to more being successful.

This approach would not address the selection issue of late-stage vs early-stage ideas by itself, and measures to address this would be sought in other ways if selected.

Referring back to Table 1 again, this approach would be expected to take those instruments which have already been supported to Stage 3 (Proof of concept) and by providing the additional technical support to address identified barriers, help them advance to Stage 4 (Pilot). This approach would again lead to more ideas reaching Stage 4 but through a higher proportion of the existing portfolio reaching that point, rather than more ideas coming into the Lab portfolio at a more advanced stage.

With the efficiencies in this approach outlined, costs would be significantly lower. The go-to-market support package would cost £50k per endorsed Lab instrument it was allocated to. Again, the pilot approach would foresee this being offered to one instrument in year 1 and rolled out to up to three instruments in years 2 and 3.

Pre-seed capital: New pilot approach to bridge the 'valley of death' funding gap which many endorsed Lab instruments face for small funding amounts – most usefully in the form of grants or concessional funds – to continue development post-Lab support. There is limited availability of such funding in the market and its absence is a major contributor to the long runway to market times noted above.

The funding would primarily be used for operational expenses and piloting or development activity. It would not be used for instrument capitalization (i.e. direct investment in the capital stack). Indicative examples of the use of the funding include:

- Operational expenses as instruments perform activities such as:

[16] Lab Assessment Report

    - Gender and Impact analysis and action planning
    - Early stakeholder engagement activities including but not limited to:
        - Pipeline consolidation - work on deal origination and due diligence to get ready for first transactions
        - Partner and implementation agreements
- Legal support for activities such as:
    - Developing Governance
    - Registration and set-up
    - Investor readiness and due diligence
- Funding for piloting transactions (executing model transaction)
- Marketing for instrument launch and fundraising support

The proposed pre-seed capital facility would see the distribution of conditional grants of $150-250k (~£125k-£200k) for endorsed Lab instruments at the necessary stage of development, assessed through the Lab's prioritization strategy which will focus on those with a high level of actionability and impact. Grant funding would be competitive, only available to approximately 40-50% of the Lab's annual endorsed instruments (based on the current number of windows) and would require detailed plans to be set out by proponents on how it would be effectively deployed to support their development. The funding would be available for a period of up to 18 months. A committee, convened by CPI, would then select which instruments receive the grant and agree the plans for its use, aligned with the Lab process. This plan, forming part of the agreement with proponents, will include milestones throughout the process, successful completion of which would trigger the staggered – or 'conditional' – grant payment. This conditional grant approach would be taken to ensure funds were delivering the intended results, and stopped if not, but also to foster the accountability of returnable capital that proponents are working towards securing.

In the concept note, this pilot was initially proposed to be delivered in the form of soft loans/convertible equity via a Special Purpose Vehicle (SPV) that would be set up separate to CPI/the Lab. Whilst this offered some long-term financial sustainability benefits because funds could be recycled, detailed proposals were received too late to adequately scrutinise the commercial and financial complexities of this approach. Further, there were questions over the value-add of delivering such small loan sizes and the added complexity and resource resulting from this. Given this is a pilot and that grant disbursement through CPI is a commercial model that is more familiar, it was decided that to avoid potentially delaying the pilot in its entirety it would instead be pursued via the grant model. However, this model would be reviewed were it to move beyond a 'pilot' in this BC or if additional donor funding increased the scale it was operating at.

As noted, a CPI assessment of Lab instruments to date has found that while this absence of funding is an important factor in them going on to get future funding, it is not the sole factor. Therefore, in combination with an additional, tailored support package for Lab instruments – as set out above – it is hoped that the Lab would be able to provide a more rounded support offer to bring instruments to market quicker by addressing remaining technical barriers and providing much-needed capital. This pilot is again intended to improve the conversion of endorsed Lab instruments which have been supported to Stage 3 (Proof of concept) overcome the 'valley of death' and subsequently reach Stage 4 (Pilot) through the provision of this vital working capital for their continued development.

Over the pilot years in this BC, £1m for per Lab cycle will be provided for the grant facility. The first year of pre-seed capital will be made available at the start of the first Lab cycle of this BC (11th cycle), meaning it will be available to Lab instruments being supported in the current Lab cycle (10th cycle). A full breakdown of costs and disbursement schedule is available in the commercial case.

2.3.2.1 VFM ASSESSMENT

In order to undertake an effective VfM analysis of these two proposed options – BAU vs BAU + Pilot activities – an initial 'baseline' VfM will be undertaken against the BAU option, with a follow-up VfM analysis undertaken against the pilot options and how they would affect – for better or worse – the BAU VfM.

This high-level VfM assessment will be undertaken against the 4E's:

- Economy - Are we (or our agents) buying inputs of the appropriate quality at the right price?
- Efficiency - How well are we (or our agents) converting inputs into outputs?

- Effectiveness - How well are the outputs produced by an intervention having the intended effect?
- Equity – Who is benefiting, are we reaching targeted groups?

Table 7: *BAU Assesment*

Criteria	BAU Assessment
Economy	• Costs to date have been judged affordable. With CPI's office locations (San Francisco and London as key offices), staff costs are high but have been assessed as appropriate. • A significant amount of resource on the Lab is committed on a pro-bono basis and thus has no cost implication for DESNZ. • As CPI is a not-for-profit organisation there are no management fees; all funding goes towards delivering the Lab. CPI has a [redacted] overhead fee on direct expenses. Previously a [redacted] administration fee had been applied to total window costs. This overhead fee equates to [redacted] of total window costs. This increase has resulted from CPI's increased investment in operational, administrative, and financial systems. This is judged to be acceptable, comparable to other agreements and in-line with the costs required to deliver a global innovation incubator programme with a broad geographic and thematic remit. • Recent change requests and annual reviews have found the economy of the programme to be appropriate.
Efficiency	• Historically, efficiency has been assessed as strong, with programme deliverables being met on time. With continued engagement on programme activity that is well known to the DESNZ team, it is envisaged that this will continue and improve as changes are constantly suggested and implemented.
Effectiveness	• Whilst effectiveness is difficult to assess, findings to date have suggested that the Lab is effective in delivering outcomes and impact with a higher than typical proportion of Lab instruments going on to secure support than other comparable programmes. However, there has been a recent perception of reducing private-sector engagement on the programme – both in terms of support offered via working groups and investment – and thus there is an argument that effectiveness could be strengthened.
Equity	• A broad range of geographies are covered via the Lab windows and each applicant must include gender considerations in their application. The 9th Lab cycle included a specific 'gender equality' Lab window and there is ongoing work to further mainstream gender considerations into all windows.

Table 7: *Pilot Activities Assessment*

Criteria	Pilot Activities Assessment
Economy	• Two-stream approach: this model is not anticipated to deviate significantly from the existing nature of Lab activity so we would anticipate that the cost of inputs was easily comparable to that and not be an issue. NO IMPACT ON VFM.
	• Go-to-market support: this model is not anticipated to deviate significantly from the existing nature of Lab activity so we would anticipate that the cost of inputs was easily comparable to that and not be an issue. NO IMPACT ON VFM.
	• Seed capital – the grant facility will be administered by CPI, with the associated delivery costs being in-line with existing CPI-Lab staff costs that have been judged appropriate. To note, the [redacted] overhead fee will be applied to the first £115,500 of each pre-seed capital facility disbursement. This is likely to equate to the same [redacted] rate of a typical total grant disbursement amount and is again judged appropriate for the administrative costs associated with accounting, legal, banking, payments, procurement, financial and operational due-diligence, and monitoring of implementing partners to ensure CPI is responsibly managing donor funds. NO IMPACT ON VFM.
Efficiency	• Two-stream approach: this pilot was suggested to make more efficient use of existing programme inputs – time/funding – at the beginning of the Lab cycle, better leveraging these to support more projects in an appropriate manner – particularly more developed ideas in a cost-effective manner. So, it is anticipated that this will increase efficiency. • However, CPI have suggested that there are fewer cross-stream efficiencies than foreseen by the DESNZ team, and that as a result the second stream would still cost nearly as much as a full Lab window. If not worse VfM than BAU, similar support costs for more developed ideas than early-stage ideas would not be seen as strong VfM. MIXED IMPACT ON VFM.
	• Go-to-market support: This activity will be very closely related to existing Lab activity so the conversion of 'inputs into outputs' will not be vastly altered, however, by working with previously supported Lab

	instruments certain activities are not required to be undertaken again (e.g. due diligence) and thus there will be efficiency gains. IMPROVED IMPACT ON VFM.
	• Seed capital – By building off of existing Lab processes, the inputs (grants) should be allocated efficiently to the best-placed instruments. However, given this work stream is new, it is difficult to compare to baseline VfM and hard to confidently draw conclusions on. NO IMPACT
Effectiveness	• Two-stream approach: This pilot is specifically intended to better realise outcomes and impact from the programme's outputs – supported Lab instruments going on to secure investment. By providing tailored and appropriate support to instruments, and particularly later-stage instruments, it is anticipated that more would successfully go on to secure investment. IMPROVED IMPACT
	• Go-to-market support: As with the two-stream approach, this pilot is intended to better realise outcomes from programme outputs. The go-to-market support offer would be intended to more effectively convert those existing outputs – endorsed Lab instruments – to overcome the hurdles to investment. IMPROVED IMPACT
	• Seed capital: This pilot activity is aimed at bridging the gap that many endorsed Lab instruments encounter of additional development costs being required before they are able to attract outside investment. By providing pre-seed capital as part of the Lab offering, it is anticipated that more projects will be supported to a point where they can then attract the required follow-on investment, realising the intended impacts of the Lab. IMPROVED IMPACT
Equity	• At this stage, there is no indication that any of the proposed pilot activities would have any impact on the equity of the programme. NO IMPACT

2.3.2.2 RISK APPRAISAL

A full risk appraisal of the programme can be found in the Management Case in section 5.5 while the full risk appraisal of the different options and risks specifically associated to them can be found in Annex E.

A summary of those findings is below:

- All risks are found to be within DESNZ ICF risk appetite.
- One of the greatest identified risks is the potential for a slow decline in private sector engagement in the Lab if BAU continues without meaningful changes aimed at addressing this. As noted in the earlier 'lessons learned' section, there is already activity underway to address this, but the centrality of private sector engagement to the Lab offer, and later its stated aim of mobilising private capital, means this is a notable risk.
- All pilot activities would see an up-tick in DESNZ funding to the Lab and skew the donor share towards DESNZ. Whilst greater dependency on DESNZ funding is not sought, the reason for the greater burden share would be because of perceived opportunities to realise important DESNZ ICF policy aims and thus support for a successful programme is not a significant risk.
- Across the two-stream and pre-seed capital pilots, the greatest risk identified is resourcing. Both activities will require a meaningful increase in capacity to either manage or input into the processes set out. However, CPI have confirmed capacity and it is assessed that this could be managed from the DESNZ side too, even if this required an updated means of engaging on the Lab.
- The 'go-to-market support' pilot was found to have the lowest risk attached to it, given the similarities to existing Lab support.

2.3.2.3 PILOT OPTIONS: TWO STREAM VS GO-TO-MARKET SUPPORT

Throughout the analysis above, two competing pilot options have been presented and assessed: the 'two stream approach' and 'go-to-market support'. Only one will be taken forward, with a final comparative analysis building on that which is found above.

The challenges which were identified and that these were intended to address have been set out briefly already, namely: provision of tailored and appropriate support for more advanced instruments, addressing the selection tensions which emerge between late and early-stage Lab ideas and, by so doing, better engage private sector Lab members.

These challenges emerge from the Lab receiving applications from instruments with a wide range of maturity levels, "including both early concepts as well as instruments nearing pilot launch." This, in part, can contribute to the challenge of Lab instruments

going on to mobilise capital because of the very early stage at which some receive Lab support meaning they are still some way off being able to raise capital following the Lab process (the 3-4 year market runway).

As an incubator, the Lab is designed to and has always taken on such early-stage ideas, however, endorsement of these ideas as opposed to slightly more developed ideas has become more prevalent in recent years partly because of the greater public sector engagement in the Lab membership. Amongst this group, there is an observed preference for supporting those ideas which are perceived to offer greatest 'potential' in challenging sectors, but which are often less feasible from a private sector mobilisation perspective. Given this, these early-stage ideas are often of less interest to private sector investors, leading to reduced engagement from them.

The problems identified have been approached in different ways by the two proposals, and to assess their merits a SWOT analysis was undertaken ahead of scoring them against their ability to meet the programme's previously identified CSFs and, critically, address the specific challenges which led to these suggestions. The SWOT analysis can be found in the appraisal case (Annex E), while the scoring table summarising the results can be seen below.

Scoring in the table is calculated as follows:

- the same weighting as in the previous CSF table, but with scores across the first 5 points only making up 80% of the total score. The final 20% is specially given to meeting the challenges which have been identified for these pilot options to address.
- Scores of:
    - 0 = CSF/SF not met at all by the option
    - 1 = The CSF/SF is met in small part by the option (<30%)
    - 2 = The CSF/SF is partially met by the option (30-60%)
    - 3 = The CSF/SF is partially met by the option (60-90%)
    - 4 = option fully meets CSF/SF (90% +)

Table 8: *Pilot Option Scoring*

Option	Critical Success Factors						Score
	1 – meet objectives	2 – VFM	3 – supplier capacity and capability	4 – Affordability & achievability	5 - Ability to shape programme direction	6 – Addresses identified challenges	
Two-stream	Will better facilitate greater private sector mobilisation by more explicitly providing support for later-stage ideas likely to secure finance. Will also promote additional ideas being brought through the Lab, but given	Better utilises time/cost of selection process to facilitate support of two instruments through a single cycle. However, question of whether support offered to later stage ideas will be additional.	Supplier support the alternative option feeling it will offer better results and aligns more closely with existing activity.	No issues expected.	DESNZ will have significant input into the initial development and ongoing delivery of the new pilot activities.	Would reduce challenges with selection decisions, giving earlier/later stage instruments a 'fair playing field'.	

	later stage focus likely to have been successful anyway.						
	3	3	3	4	4	4	**3.44**
Go-to-market support	Will support a greater number of endorsed instruments go on to secure investment by overcoming critical barriers.	Better realises impact in instruments which have already received extensive support.	Supplier on board and feel this will be the most efficient option. The support is an extension of existing work so no capability issues.	No issues expected.	DESNZ will have significant input into the initial development and ongoing delivery of the new pilot activities.	Could provide required support to bridge the gap for instruments but does not immediately address the selection issue.	
	3	4	4	4	4	3	**3.54**

As the scoring above indicates, the 'go-to-market support' pilot has been found to be the preferred option.

It is important to note that it has been assessed as slightly weaker in addressing the specific issues which were originally observed and intended to be addressed through this pilot. Specifically, it fails to meaningfully address the selection challenges which will remain in the Lab process. However, with the expanded Lab offer proposed in this BC – pre-seed capital and go-to-market support – it is hoped that the selection challenge will also be eased to some degree by the opportunity for Lab members to take decisions knowing there is this fuller Lab offer in place to support ideas. Further thinking on how to address this selection challenge will continue with CPI too and this will be included as part of the July 2025 review, discussed in the management case.

The scoring above also supports the findings from the risk and VfM analysis in the earlier sections. The cost differences associated with the two options is dramatic, and given the significant increase in proposed total programme funding over this BC, taking the high VfM (and lower monetary value) option as a pilot is sensible and appropriate.

Further to this, it provides a more coherent, extended offer than the two-stream approach which would have expanded the scope/size of the Lab; this pilot will instead focus on better utilising support already provided and pushing programme inputs toward impact realisation.

2.3.2.4 OVERALL SHORT LIST ASSESSMENT

Through all of the analysis above, it is assessed that the addition of the selected pilot activities will significantly improve the effectiveness of the programme, with a more mixed, but still positive, impact on programme VfM too. This is in keeping with expectations given pilot activities were designed and proposed specifically to better realise programme outcomes and impacts.

Whilst there are risks associated with all of the new pilot activities, none of them are outside of appropriate risk appetites and there are adequate mitigations which can be provided.

Given the anticipated positive effect and the tolerable risk, the preferred option to be taken forward in this BC is 'continued lab funding + pilot activities', specifically with the pre-seed capital and go-to-market support pilot selected.

2.4 LAB WINDOW FUNDING

With the preferred option identified, only two decisions remain: the funding allocation between specific windows and core funding, and which windows should be funded.

2.4.1 CORE VS WINDOW-SPECIFIC FUNDING

As set out already, DESNZ's current funding for the Lab is split between 'core' funding and funding allocated to specific 'windows'. However, this is not a given and this split could be adjusted. The ways in which this funding is used is outlined in section 2.3.2.

Until 2021, all DESNZ funding had been allocated as core funding to the 'global Lab', meaning it was used flexibly across the global Lab windows in operation. However, from the 2021/22 Lab cycle, and aligned with the increasing roll out of the 'hub-and-spoke' model which saw more regional labs come into the programme, DESNZ allocated additional funding specifically for the Brazil Lab window and has since added further funding for the Latin America & Caribbean and High Integrity Forest Windows (the latter funded via IFU).

Figure 3 below shows the breakdown of funders between windows in the current Lab cycle:

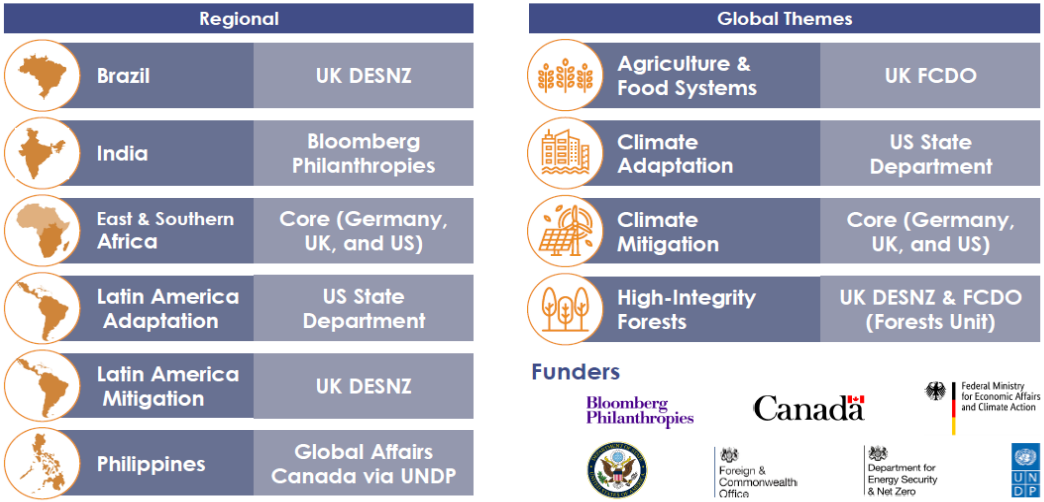

Figure 3 – Breakdown of funders between windows

In order to assess the merits of each funding avenue, a SWOT analysis was undertaken and is included below. Whilst the programme CSFs were considered when there are clear points of difference, the assessment was primarily based on experience to date and focuses heavily on Lab-specific programme dynamics.

Table 9: *SWOT Analysis – Core funding*

Strengths	Weaknesses
• Better enables CPI to manage business continuity without cutting windows due to low overall funding in a particular year. E.g without UK core funding in the current business case, it's unlikely that the Africa window could have gone ahead. • As a pooled resource, ensures a 'multilateral feel' to core funding windows, bringing donors together on specific windows. • Funding remains aligned to core strategic objectives.	• To date, DESNZ team less engaged with windows which receive core funding, including in terms of MEL and reporting. • Less clear tracking of how core funding is used and split across activities.
Opportunities	**Threats**
• Multi-donor development of ideas with cross-cutting reach. • Avoids overly siloed engagement from donors on single-window issues.	• Windows which are funded via core funding – and thus which are multi-donor – move away from UK priorities. • CPI are disincentivised to fundraise from new actors.

Table 10: *SWOT Analysis - Window-specific Funding*

Strengths	Weaknesses
• Gives maximum ability to shape and develop Lab windows which are well aligned with priorities and other HMG activity. • Provides the best platform for pro-actively engaging national/regional/policy colleagues throughout the process. • Clearer tracking of use of funds and its impact.	• Does not benefit from cross-donor engagement/input. • If all ideas from a window are weaker, this can lead to less promising ideas being supported (via winning a window) compared to stronger ideas that were 'pushed out' in a more competitive window.
Opportunities	**Threats**
• Greater tailoring of windows and flexibility to change as priorities do. • Create distinct geographic offers in conjunction with other related programmes e.g. CFA, MAF.	• Window becomes dependent upon specific donor funding. • If all donors only provide badged funding, there is a risk that geographies or sectors currently underserved by donor funding are eventually de-prioritised.

From the analysis above, window-specific funding clearly offers a distinct advantage in terms of the programme offer it allows DESNZ to create and shape via the Lab, ensuring close alignment with existing HMG activities and priorities. However, core funding still funds an important set of functions across the Lab at a global level, not least when funding windows which do not have specific funders identified. Further, as a core funder, DESNZ is provided a position amongst the Lab donors and steering group to meaningfully contribute to whole-programme strategic and operational decisions. It also aids the donor collaboration and engagement on the programme, particularly in relation to those core-funded windows.

With this said, core funding should never exceed the cost of a single Lab window given the benefits which are outlined for window-specific funding, and where unfunded windows go on to receive funding in future cycles the level of core funding provided by DESNZ should be re-assessed with CPI and reflect continued needs. DESNZ core funding should also not exceed that of other donors given the increased DESNZ funding committed to other Lab components.

2.4.2 WHICH WINDOWS?

Given the preference outlined above for primarily allocating Lab funding to specific windows, the assessment below briefly outlines the opportunities for window specific funding on the Lab and a recommendation for how to proceed. This does not include all Lab windows because there are existing funders for most of these and it is not reasonable to assume we could overtake funding a window because of its alignment with HMG priorities, expecting the other donor to reallocate their funding as a result.

As such, below is an assessment of the Lab windows which DESNZ currently funds and those which do not have a specific funder.

- Brazil (existing DESNZ funded window) – strong rationale to continue directly funding:
    - Brazil is a priority ICF country with a large body of ICF programming to link with.
    - The window is well established and has seen high quality ideas come through.
    - The Brazil Lab has a strong and engaged membership and network.
    - There is strong support from Post to continue with the Lab, in conjunction with other HMG activity.
- Latin America & Caribbean - Mitigation (existing DESNZ funded window) – strong rationale to continue directly funding:
    - LAC is an important region for climate mitigation, with a strong body of HMG programming to link with.
    - The window operates in tandem with a US-funded LAC – Adaptation window, providing a useful donor link.
    - The first year of delivery was successful, with a strong network developed, and now a good platform to build off of.
    - Regional climate attaché is supportive of continued activity and has been heavily involved in our work.
- High-Integrity Forests (existing DESNZ funded window) – no continued funding:
    - This window was funded by the joint DESNZ-FCDO International Forests Unit in the 23-24 Lab cycle. After the selection process, both IFU and CPI felt that this challenging sector was not best suited to the Lab and so no further funding was allocated.
- Open/Global Mitigation (currently funded via core funding):
    - Benefits from being a flexible, multi-donor window that donors co-operate on and can be adapted accordingly.
    - Too disperse a window to effectively engage teams in advance.
    - Expectation that BMWK will look to re-allocate the bulk of their currently core Lab funding to this window.
- East & Southern Africa (currently funded via core funding):
    - Well aligned with HMG programming and could be considered for specific funding by DESNZ.
    - Relevant geography for meeting objectives – promoting improved stock of climate finance instruments and mobilising private capital in challenging but necessary geographies and sectors.
    - Given the broad focus, there would be a preference for the global mitigation window to remain core funded but DESNZ would not want to disincentivise core funding from US/Germany if only one window was left unfunded.

- Providing window specific funding becomes more resource intensive as DESNZ is required to play a more active role in the selection process for them. Given additional activity that is already being proposed through the pilot activities, it would be wisest to focus on those rather than funding another specific window at this time.
- Ongoing, but early, conversations with CPI and a new donor on funding this window.

Based on the above, window-specific funding should continue to be provided to the Brazil & LAC windows, with DESNZ's core funding contributing towards the Open Mitigation and East and Southern Africa windows as required. Specific funding for the E&S Africa window could be considered in the future as a replacement to core funding to the programme, should resourcing permit this and based on other donors' commitments.

2.5 SELECTED OPTION

As explored through the appraisal case and above and based on its analysis, the selected option is for 'continued Lab support with pilot activities'. This includes:

1. Continued core Lab funding, up to the value of one Lab window
2. Continued window-specific funding for two Lab windows: Brazil and Latin America & Caribbean (mitigation)
3. Go-to-market support offer
4. Pre-seed capital pilot

A full outline of milestones and deliverables across each of the selected programme workstreams can be found in section 5.1 of the management case.

3 COMMERCIAL CASE

3.1 EXISTING ARRANGEMENTS

The Lab is a programme delivered by the Climate Policy Initiative (CPI); a US-based analysis and advisory not for profit organisation with deep expertise in finance and policy. Their services include analysis, the design and implementation of new financing solutions, and convening and have supported governments and businesses. Since the Lab's inception in 2014, CPI has provided the secretariat and analysis function to launch the competitive process for climate finance ideas, run the selection process and working groups, and provided direct assistance to project proponents. To date, CPI have performed to a high standard as evidenced by the programme achieving consistent 'A' scores in all the Lab's Annual Reviews.

In 2014 an open tender competition was launched and awarded to CPI to undertake the secretariat and analysis function for the first six months of the Lab. This was equally funded by the UK (via DECC) and Germany (£220K each). The US and CPI stepped in to fund the remainder of the first Lab Cycle. In 2016 DECC agreed to continue funding the Lab, which by then had secured funding from multiple governments and private philanthropic sources (Bloomberg Philanthropy and the Rockefeller Foundation). Since the initial procurement, no further tender was launched. DESNZ and other donors have provided grants to CPI to deliver the Lab. A full record of donors to the Lab over the past 10 years can be found in Annex F.

A Delivery Partner Review is currently being carried out by KPMG and will be completed ahead of a new grant agreement.

3.2 PROCUREMENT/COMMERCIAL STRATEGY

This Business Case sets out a 3-year continuation to an existing programme. Using guidance documents taken from the Cabinet Office's Grant Centre of Excellence[17] an assessment was undertaken to understand if CPI's services should be considered a contract or a grant. Utilising this guidance, a grant was identified as a more appropriate funding vehicle than a contract.

Further, extending this programme via a direct award is in accordance with the Grants Standard Five[18], which states that it is appropriate to directly award a grant to an organisation that is in a unique position to deliver the service that the grant is being set up to fund and/or the organisation inhabits a unique position offering a specialist function. CPI's expertise, track record, network and financial resources have become integral to the continued functioning and effective running of the Lab.

Furthermore, CPI's current provision of the Lab as a multi-donor programme places them in a unique position with exclusive rights as the secretariat of the Lab where competing a new requirement would not be appropriate due to this exclusivity existing.

Whilst this BC does extend the scope of the Lab's activities via the pilot pre-seed capital, this activity is a natural extension of the programme; the provision of grants, prizes or small loans is not atypical for accelerator or incubator programmes. Further, this extended scope does not deviate from the existing capacity of CPI who operate, together with Convergence, the Catalytic Climate Finance Facility which provides in a similar model to that of the pre-seed capital facility, as set out in the appraisal case.

A direct award grant is therefore justified based on the unique position of CPI managing an existing programme, which they have exclusive rights to deliver and its non-profit status.

The Grant Agreement will take the form using the Cabinet Office's model Grant template, which will be legally binding. CPI have experience of using this Grant template and will be familiar with its clauses and conditions. The Grant Agreement will be drafted by the policy area with support from the INZ Commercial team. The Grant Agreement has standard provisions for managing disputes, termination, managing intellectual property rights as well as clawback of funding.

It has been agreed that the DESNZ Central Grant and Loans team are not required to be a stakeholder during this development process. Once approved, the grant record will be entered on the Government Grants Information Service.

3.2.1 PAYMENT MECHANISM

DESNZ funding disbursements for a Lab cycle will be made will be made at three separate points: December, June, December as set out in table 11 below, including indicative payments that will be made in each. The final December payment in a cycle will overlap with the first payment of the following cycle. To note, due to BC timelines and pre-seed capital facility set up requirements, the payment schedule in the first year of the BC will be slightly different to that of the final two years, with a February payment instead of a December payment to again align with the pre-seed capital facility disbursement requirements – this is reflected in table 11, but would be a December payment in years 2 and 3.

This payment model has been updated from the previous two payment points in a Lab cycle (April and October) primarily to enable payment of the pre-seed capital ahead of disbursement to proponents in Jan/Feb. A June payment point provides an opportunity for significant window delivery over the Dec-June period to be invoiced. A final payment in December allows CPI to accurately capture costs in arrears for activity up to and beyond the September endorsement, and also provides a second payment point for the pre-seed capital. This second payment point will be for remaining pre-seed capital for proponents with a project plan – and thus payment milestones - that lasted between 12-18 months. This later payment will provide greater assurance on updated plans and required funds.

[17] https://grantshub.civilservice.gov.uk/s/

[18] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1014033/2021-08-27_Grants-Standard-FIVE-Competition.pdf

Table 11: *Payment Point Outline*

Payment	Included
Feb 2025	• Oct-Feb Lab resource costs for delivery of 11th Lab cycle (core and specific-windows) - (in arrears and based on actuals) • Oct-Feb go-to-market costs for 11th Lab cycle – (in arrears and based on actuals) • Oct-Feb pre-seed capital delivery/resource costs for 11th cycle - (in arrears and based on actuals) • Pre-seed capital to be disbursed for the next 4 months based on IC decisions - (with the pipeline/forecasts setting out the required pre-seed capital over that period)
June 2025	• Feb-June Lab resource costs for delivery of 11th Lab cycle (core and specific-window) - (in arrears and based on actuals) • Feb – June go-to-market costs for 11th Lab cycle – (in arrears and based on actuals) • Feb – June pre-seed capital delivery/resource costs - (in arrears and based on actuals) • Pre-seed capital forecast to be disbursed between June – Dec.
Dec 2025	• June – Dec Lab resource costs for delivery of 11th Lab cycle (core and specific-window) - (in arrears and based on actuals) • June – Dec go-to-market costs for 11th Lab cycle - (in arrears and based on actuals) • June - Dec pre-seed capital delivery/resource costs - (in arrears and based on actuals) • Pre-seed capital to be disbursed for final 6 months of first pre-seed capital cohort - (with the updated pipeline/forecasts setting out the required pre-seed capital over that period) • Oct-Dec Lab resource costs for delivery of 12th Lab cycle (core and specific-window) - (in arrears and based on actuals) • Pre-seed capital delivery/resource costs - (in arrears and based on actuals) • Pre-seed capital to be disbursed for the next 6 months from 12th cycle based on IC decisions - (with the pipeline/forecasts setting out the required pre-seed capital over that period)

All payments, apart from the pre-seed capital which is to be directly disbursed to proponents (i.e. excluding the associated delivery costs), will be made through an invoice in arrears of the activities being delivered and based on actual costs incurred. The invoice will be broken down by consultant costs, staff costs and expenses across the different delivery components – window-specific funding, core funding, go-to-market support and pre-seed capital facility management. As is currently practiced, accompanying the invoice CPI will send a 'narrative report' detailing the activity delivered during that period, this will include actual vs forecast pre-seed capital disbursement to proponents based upon milestone completion. The DESNZ programme management team will review the invoice and narrative report and, if satisfied, process the payment. The June payment will span financial years and so an accrual process for costs incurred up to end of FY in that period will be undertaken.

The pre-seed capital facility funding will be provided in advance to CPI so that it can then be disbursed to selected proponents according to their required milestone disbursement schedule. As reflected in the indicative payment schedule above, payments to CPI will only be made once the investment committee for the pre-seed capital facility has reviewed and voted on proponent's ideas and plans for the use of the pre-seed capital. The finalised investment committee decision will provide a clear pipeline of the expected capital disbursement timeline and needs for the coming 12-18 months from proponents.

However, to provide the maximum level of assurance for DESNZ given these are advance payments, pre-seed capital payments will only be made from DESNZ in 6-month tranches, reflecting the forecast capital disbursement over the next 6-month period. CPI's payment requests will include an update on proponents' progress against forecasts, specifically on completion of milestones that trigger payments. This update will then provide an updated 6 month forecast which will inform the payment value requested. This approach enables adjustments to be made for those proponents proceeding faster or more slowly against their agreed workplan. These requests will be made at the stated 6-month intervals (December - June - December) and will be reviewed by the DESNZ programme team ahead of processing.

Pre-seed capital funding will then be disbursed from CPI to recipients in line with agreed completion of milestones. This timing means that grant funding will begin to be disbursed to proponents within 6 months of CPI receiving it at the latest, though it is expected that this will be much sooner in most instances.

An indicative forecast payment schedule across the three Lab cycles supported in this BC can be seen in the table below, broken down by Lab cycle instalments and Lab components. Given the pre-seed capital facility and go-to-market support is yet to commence, a degree of change to these should be anticipated.

Table 12: *Lab Payment Schedule by Cycle Instalment*

Lab cycles	Payment Instalment	Lab component	Spend by component	Total instalment spend	Total Lab cycle spend
Round 11 (Oct 2024 – Sep 25)	Instalment 1 (Feb '25) FY24/25	Core funding	£76,000	£623,000	£2,190,000
		Window-specific funding	£152,000		
		Go-to-market Support	£5,000		
		Pre-seed capital facility delivery	£90,000		
		Pre-seed capital facility - disbursement	£300,000		
	Instalment 2 (June '25) FY24/25 & 25/26	Core funding	£152,000	£868,500	
		Window-specific funding	£304,000		
		Go-to-market Support	£22,500		
		Pre-seed capital facility delivery	£90,000		
		Pre-seed capital facility - disbursement	£300,000		
	Instalment 3 (Dec'25) FY25/26	Core funding	£152,000	£698,500	
		Window-specific funding	£304,000		
		Go-to-market Support	£22,500		
		Pre-seed capital facility delivery	£20,000		
		Pre-seed capital facility - disbursement	£200,000		
Round 12 (Oct 25 – Sep 26)	Instalment 1 (Dec '25) FY25/26	Core funding	£38,000	£569,000	£2,290,000
		Window-specific funding	£76,000		
		Go-to-market Support	£15,000		
		Pre-seed capital facility delivery	£140,000		
		Pre-seed capital facility - disbursement	£300,000		
	Instalment 2 (June '26) FY25/26 & 26/27	Core funding	£190,000	£977,500	
		Window-specific funding	£380,000		
		Go-to-market Support	£67,500		

		Pre-seed capital facility delivery	£40,000		
		Pre-seed capital facility - disbursement	£300,000		
	Instalment 3 (Dec'26) FY26/27	Core funding	£152,000	£743,500	
		Window-specific funding	£304,000		
		Go-to-market Support	£67,500		
		Pre-seed capital facility delivery	£20,000		
		Pre-seed capital facility - disbursement	£200,000		
Round 13 (Oct 26 – Sep 27)	Instalment 1 (Dec '26) FY26/27	Core funding	£38,000	£569,000	£2,290,000
		Window-specific funding	£76,000		
		Go-to-market Support	£15,000		
		Pre-seed capital facility delivery	£140,000		
		Pre-seed capital facility - disbursement	£300,000		
	Instalment 2 (June '27) FY26/27 & 27/28	Core funding	£190,000	£977,500	
		Window-specific funding	£380,000		
		Go-to-market Support	£67,500		
		Pre-seed capital facility delivery	£40,000		
		Pre-seed capital facility - disbursement	£300,000		
	Instalment 3 (Dec'27) FY27/28	Core funding	£152,000	£743,500	
		Window-specific funding	£304,000		
		Go-to-market Support	£67,500		
		Pre-seed capital facility delivery	£20,000		
		Pre-seed capital facility - disbursement	£200,000		
			Total	**£6,770,000**	

3.2.2 COST CONTROL

A full breakdown of costs by each Lab window/component can be found in Annex F. Costs have been reviewed and assessed as acceptable by the Policy area. This consideration included the high costs of some of CPI/the Lab's key office locations where many of their staff are based: London and San Francisco.

As CPI is a not-for-profit organisation there are no management fees; all funding goes towards delivering the Lab. Previously CPI has charged a [redacted] administration fee across total window costs. In this BC, this fee has been altered to a [redacted] overhead cost on direct expenses (this does not include the entirety of the pre-seed capital disbursements). In comparison to the previous [redacted] administration fee on total costs, this now equates to [redacted] on total window costs. This [redacted] increase is explained by CPI forecasts projecting an increase in supporting services and administrative costs associated with Lab work, and recent investment in operational, administrative, and financial systems and support resources. Though difficult to accurately compare, the [redacted] overhead figure is seen as high but comparable to previous or existing overhead rates seen in other programmes.

The [redacted] overhead cost will be applied to the first £115,500 ($150,000) of each pre-seed capital facility disbursement. This is the lowest grant award amount that will be made from the pre-seed capital facility. Overhead costs will cover the administrative costs associated with accounting, legal, banking, payments, procurement, financial and operational due-diligence, and monitoring of subaward grantees to ensure CPI is responsibly managing DESNZ funds. If all grants disbursed were the largest size possible (~£200k) then the overhead cost would equate to [redacted] per grant disbursed. This would be [redacted] for a mid-sized grant (£150k). The forecast in Annex F indicates overhead costs for total pre-seed capital facility equivalent to [redacted].

Total overhead costs against total budget, is forecast to be [redacted], less than the previous [redacted] administration fee, though as per the point above this could increase with the size and number of pre-seed capital grants disbursed.

At the programme level, increases in window costs over the course of the programme have also been assessed and deemed appropriate. In the 2019/2020 Lab window the average cost for a Lab window was $383,000, this increased to $460,000 for the current 2023/34 Lab cycle, an increase of 20% over a 5-year period which saw significant inflationary pressures along with expanding activities on windows (e.g. more regional window leads being hired).

Reporting Requirements

As noted above, before DESNZ processes a payment, CPI are required to provide a Narrative Progress Report, which demonstrates completion of activities and updates the DESNZ team on the progress of the Lab, along with an invoice and Financial Report (showing spend against forecasts) which breaks down the spend for the period. This documentation is then approved in line with internal delegated authorities.

A pipeline of forecast pre-seed capital disbursements and the milestones upon which they are based will be provided ahead of pre-seed capital disbursements.

Delivery Partner Performance Management

As set out in the management case, we plan to undertake an independent programme review during this BC period. We will look to split the costs of this review with other donors. In 2022, Germany funded a CPI-led assessment of the programme which has been valuable in shaping recommendations for this BC.

On an annual basis, delivery partner performance is considered in the Annual Review which is undertaken by the DESNZ Lab programme management team. To date, delivery partner performance has always been assessed as strong.

Key Performance Indicators relating to the performance of CPI delivering the Lab (as opposed to the performance of the Lab itself) will be considered for inclusion in the Grant Agreement, to be negotiated with CPI. These could focus on quality of deliverables, reporting accuracies and adherence to budget, for example. Measures to improve deliverability through rectification plans will also be sought to be included to provide further support to the DESNZ Grant Manager.

The qualifications and resourcing for managing the Grant is detailed in the Management case, including accreditation to HMG's Contract Management Capability Programme (CMCP[19]).

[19] https://www.gov.uk/government/publications/civil-service-helping-you-with-managing-suppliers-and-contracts/contract-management-capability-programme-html

3.2.3 EXIT MANAGEMENT

The new Grant Agreement for this extension will include standard exit clauses, allowing us to vary or terminate funding commitments, and to manage any future funding risks which emerge post Grant award. Payments for operation of the Lab windows will be made on a reimbursement of funds basis directly to CPI, meaning no unspent grant funding for delivery of the Lab will be held by CPI.

For the pre-seed capital, this will be paid in advance of disbursement as per the milestone schedule set out. Should unspent funds remain with CPI for any reason after the end of the final grant disbursement agreement with a proponent, the Grant Agreement will include lines to require CPI to repay funds within 30 days (as in previous Grant Agreements).

With this BC taking DESNZ engagement with the Lab through to 13 years, over this period there will be significant consideration of the case for continued support beyond this BC period in relation to evolving strategic priorities and funding trade-offs. These are considerations which have been made ahead of and during this BC too, and it has been judged that the Lab still offers a compelling programme offer that merits further funding. However, with funding deployment and resource demands needing careful balancing, there is a discussion around ways of incorporating the Lab into a larger fund-of-funds programme.

3.2.5 INDEPENDENT EVALUATION PROCUREMENT & ROUTE TO MARKET

An independent impact evaluation will aim to be delivered in year 2 of the business case (2025-2026) to assess the Lab's role in a dynamic climate finance landscape, testing its continuing relevance, additionality, impact and value for money.

Based on previous costings for relevant evaluation exercises, up to £500,000 is budgeted to cover the costs of the evaluation. Other donors have previously noted an interest in being involved with such an evaluation, and this avenue will be tested to try and split costs between the relevant parties. However, there is no agreement on this at this point and so the full cost of the evaluation has been included here to enable its completion even without other donor support. This will include costs of procurement for an evaluation partner organisation.

Given the exact scope and timeline of the evaluation will also depend on the asks of other potential donors, it is not reasonable to produce a 'Should Cost' model for the independent evaluation at this point, nor detail an exact route to market. However, as stated, previous comparable examples have been reviewed to inform the high-level figure above. The funding and operation of this evaluation between other donors will be explored and determined within year 1 of the business case period and a Memorandum of Understanding (MoU) will likely be drafted to formalise the agreed approach.

The DESNZ programme management team will work with commercial colleagues to define and refine the necessary content and structure, and follow the most appropriate commercial processes to deliver it. Further details on commercial considerations would be provided in a Commercial Approval Form at the point of procurement.

4 FINANCIAL CASE

4.1 FINANCIAL RESOURCES & BUDGETS

Spending powers derive from the International Development Act 2002 and will be drawn from DESNZ's Official Development Assistance allocation. The Lab budget will be fully classified as UK International Climate Finance, helping to meet the UK's commitment to deliver £11.6bn of climate finance between 21/22 and 25/26, and the UK's commitment to contributing to the joint goal of mobilising $100bn per year in climate finance.

The Lab's activities will be split between funding that is classified as Resource Departmental Expenditure Limit (RDEL) and Capital Departmental Expenditure Limit (CDEL).

All work related to the delivery of the Lab windows and go-to-market support offer will be classed as RDEL. This activity provides a short-term service through capacity building support rather than the transfer of capital to enable e.g., infrastructure development.

Resourcing costs for the pre-seed capital facility will also be classed as RDEL, however, all pre-seed capital disbursed will be classed as capital grants, as set out in HMT's Consolidated Budgeting Guidance. Capital grants are counted as CDEL.

The breakdown of the forecast budget for the programme, split by spend type and FYs, is set out in the table below. A full forecast of costs is included in the commercial case, section 3.2.1

Inflationary pressures will be managed by the delivery partner, and there will not be subsequent inflationary increases during this grant agreement.

Table 14: *Programme Budget Forecast by Financial Year*

	FY24/25	**FY25/26**	**FY26/27**	**FY27/28**
RDEL	£493,550	£1,300,950	£1,490,000	£1,085,500
CDEL	£300,000	£800,000	£800,000	£500,000
Total	£793,550	£2,100,950	£2,290,000	£1,585,500

The payment mechanism, schedule, triggers and financial management have been set out in Section 3.2.1 of the commercial case.

The currency risk of converting Pounds Sterling to US Dollars (or project currency) is managed by the delivery partner. DESNZ is not liable for any additional sums, including those due to currency fluctuations and value-added tax (VAT).

Lab spend and resource has been included in the ICF Portfolio Review. Spend up until 2025/26 will be delivered as part of the UK's commitment to providing £11.6bn in climate finance. The remaining planned spend will fall outside of the current Spending Review period and is therefore subject to Director General and Finance Deputy Director approval.

Although there is less certainty on total budget availability between 2025/26 and 2027/28, DESNZ ICF judges that delivering the Lab until October 2027 is unlikely to carry substantial risk on budget availability due to the relatively low value to be carried forwards relative to the current total ICF budget which is not expected to be smaller than present and noting that the Programme has performed well to date.

Risk that budget will not be available in the next Spending Review period will be mitigated within the grant agreement with CPI, e.g., through the standard inclusion of a termination for convenience clause as well as options to scale down funding and scope.

4.2 FINANCIAL RISK

Financial Risks are outlined in the programme risk register found in Annex C.

5 MANAGEMENT CASE

5.1 MILESTONES

High-level delivery milestones and timelines are set out below.

Table 15: *Delivery Milestones*

Programme cycle	**Start date**	**End date**	**Milestone**
Lab Round 11 2024-2025	September2024	October 2024	Pre-seed capital facility steering committee agree application and selection criteria.
	September2024	September2024	Pre-seed capital facility launch is announced at Global endorsement event.
	October 2024	November 2024	Applications to the pre-seed capital facility opens to 10th Lab cycle instruments, CPI evaluates applications and prepares briefs for pre-qualification decision.

	October 2024	December 2024	Lab Round 11 kick-off & call for ideas
	November 2024	December 2024	Lab team conducts due diligence on pre-qualified ideas and submits recommendation to the investment committee.
	December 2024	January 2025	Go-to-market support portfolio assessment to identify potential instruments to support for 1st cohort
	January 2024	February 2024	Investment Committee reviews recommendations and vote to approve ideas. Lab team conducts final checks and issues contracts. Funding is disbursed as agreed milestones are reached.
	January 2025	March 2025	Lab Round 11 selection, including regional selection meetings and the global selection meeting
	February 2025	March 2025	Go-to-market support instrument interviews and selection for 1st cohort
	March 2025	September 2025	Lab Round 11 capacity building
	May 2025	December 2025	Go-to-market support capacity building for 1st cohort
	August 2025	September 2025	Pre-seed capital facility opens for funding requests from cycle 11 instruments and CPI evaluate applications
	September 2025		Lab Round 11 endorsement event (New York Climate Week)
Lab Round 12 2025-2026	September 2025	November 2025	Pre-seed capital facility due diligence, Lab investment committee vote for 'pre-qualified' ideas at the September endorsement event and give final approval for funding for cycle 11 instruments in November.
	October 2025	December 2025	Lab Round 12 kick-off & call for ideas
	November 2025	January 2025	Pre-seed capital facility contracting and funding disbursed for cycle 11 instruments by January 2025
	December 2025	January 2026	Go-to-market support portfolio assessment to identify potential instruments to support for 2nd cohort
	January 2026	March 2026	Lab Round 12 selection, including regional selection meetings and the global selection meeting
	February 2026	March 2026	Go-to-market support instrument interviews and selection for 2nd cohort
	March 2026	September 2026	Lab Round 12 capacity building
	May 2026	December 2026	Go-to-market support capacity building for 2nd cohort
	August 2026	September 2026	Pre-seed capital facility opens for funding requests from cycle 12 instruments and CPI evaluates applications

	September 2026		Lab Round 12 endorsement event (New York Climate Week)
Lab Round 13 2026-2027	September 2026	November 2026	Pre-seed capital facility due diligence, Lab investment committee vote for 'pre-qualified' ideas at the September endorsement event and give final approval for funding for cycle 12 instruments in November.
	October 2026	December 2026	Lab Round 13 kick-off & call for ideas
	November 2026	January 2027	Pre-seed capital facility contracting and funding disbursed for cycle 12 instruments by January 2027
	December 2026	January 2027	Go-to-market support portfolio assessment to identify potential instruments to support for 3rd cohort
	January 2027	March 2027	Lab Round 13 selection, including regional selection meetings and the global selection meeting
	February 2027	March 2027	Go-to-market support instrument interviews and selection for 3rd cohort
	March 2027	September 2027	Lab Round 13 capacity building
	May 2027	December 2027	Go-to-market support capacity building for 3rd cohort
	September 2027		Lab Round 13 endorsement event (New York Climate Week)

5.2 DESNZ PROGRAMME MANAGEMENT

The DESNZ Senior Responsible Owner will be the Director for International Net Zero: Climate, Finance and Strategy. The SCS Programme Director will be the Deputy Director for Green Finance & Capability. The Deputy Director will oversee key implementation and risk management decisions, within their delegated authorities, through ordinary internal team processes.

This programme is less resource intensive than a bilateral intervention with DESNZ resource focused on specific UK-funded activities and high-level input into Lab strategy via the Steering Group. Day-to-day delivery oversight and engagement will be led primarily by two members of the GF&C team's climate finance pipeline development team who are also responsible for managing DESNZ's funding to the Climate Finance Accelerator and the Ashden Awards. Together these programmes form a mini-portfolio of project preparation and investment pipeline building activities. Managing the programmes as a mini-portfolio creates headcount efficiencies, enables stronger cross-programme collaboration, and enhances resilience given high levels of staff turnover. The existing team is experienced and has already or is in the process of obtaining programme and contract management formal qualifications (such as the HMG CMCP training or Prince2 training). Staffing is covered by existing headcount. A breakdown is listed below but DESNZ will keep resourcing arrangements under review and act as necessary.

Grade and role	FTE
SRO	0.01
Deputy Director	0.02
G6: Head of Enabling Climate Action	0.05
G7: Pipeline Development Team lead	0.2
SEO: CFA and Lab Senior Programme Manager	0.5
HEO: CFA, Lab and Ashden Programme Manager	0.5

HEO: Economist	0.1
HEO: MEL advisor	0.1
G6: Corporate Finance advisor	0.05

Whilst not formally part of the delivery team, there is also up to 0.05FTE commitment from INZ's Corporate Finance specialists who review shortlisted instruments ahead of voting and engage in working groups throughout the capacity building support phase. The advisor will also inform the set-up of the Pre-seed capital Facility and this involvement will be expected to taper off after this point down to typical cyclical involvement in instrument shortlisting and working group engagement.

Resourcing requirements are subject to significant peaks and troughs; apart from those requirements across all INZ/ODA programmes (Annual Review, Results Note), the period which is by far the most time intensive for the team is ahead of the regional and global selection events. Ahead of these events, there is significant work required to collect and coordinate views from across HMG teams to inform voting positions. Regional selection and global selection typically occur at the beginning of February and beginning of March respectively.

The G6 will hold delegated authorities on authorising financial payments below £5m (and will be updated as per requirements). Either the G7 or SEO Programme Manager will represent DESNZ at the Lab's Steering Group and lead engagement with CPI and other donors. The SEO programme manager, with support from the HEO and G7, will provide day-to-day programme delivery oversight, and ensure sound X-HMG coordination. DESNZ legal, commercial, finance, Portfolio Management Office (PMO) and communication leads will support delivery and oversight against UK and DESNZ rules and standards as appropriate.

Brazil is the only country-specific window which DESNZ funds and thus has a predictable demand on colleagues at Post. The DESNZ team and relevant colleagues at Post are closely engaged on Lab and other programme requirements. Colleagues at Post are most actively required during the instrument selection process where they attend and vote on the Lab instrument shortlists. On the LAC lab, and given its regional coverage, DESNZ have engaged the regional climate coordinator to support their work. It is anticipated that over the course of a year, the FTE requirement of the Lab from colleagues at Post is less than 0.05 FTE.

5.3 GOVERNANCE STRUCTURE OF THE LAB

Existing Lab programme governance

DESNZ is both a global Lab member, enabling us to vote on and endorse Lab instruments, and a part of the Lab's steering group which is made up of Lab donors, is held quarterly and takes strategic decisions on the Lab's direction and approach. As specific window funders, DESNZ also has significant input into the direction of those windows with regular meetings and 'calibration calls' ahead of member-wide voting points to ensure shortlisted instruments align with DESNZ priorities. This structure reflects that which is currently used and is not anticipated to change through this BC. See figure 4 and 6.

Go-to-market support governance

For the pilot go-to-market support, the governance structure and process will involve a reduced portion of the existing governance structure of the 'main' Lab programme reflecting DESNZ as the sole funders and the reduced scope of the work. The Lab team will present findings of their portfolio analysis to DESNZ in a 'calibration call' which will ensure that proposals being made are in-line with DESNZ priorities and requirements. In the first year of the pilot, where just one instrument will receive this additional support, the DESNZ team will decide with CPI on the selected instrument.

In years 2 and 3 of the pilot, with up to 3 instruments being supported, after the calibration call, a finalised set of recommendations will be provided to the Lab steering group who will discuss and vote on the instrument(s) to receive the additional support offer. DESNZ will have a vote in this final decision. This governance structure is flexible and will be reviewed and updated as necessary.

Pre-seed capital facility governance

The pre-seed capital facility will have a different and more rigorous governance structure, reflecting the distinct (though linked) activities within the Lab offer and the capital disbursement function. It is structured in a way to make the most effective and credible decisions on these funding allocations and suited to the possibility of additional donors joining the facility in the future. Critically, it includes an independent Investment Committee (IC) who will make final funding decisions.

Informing the broader strategic direction of the facility will be a Steering Committee. Whilst DESNZ are the sole funders of the facility, members of this committee will be entirely at DESNZ's discretion. The Steering Committee will approve the facility mandate and sign-off on the strategy. It will have 3 main responsibilities:

1. approve the selection criteria,
2. approve list of qualifying people for IC, and
3. approve parameters for amendments or material changes to subgrants.

An initial shortlist of proposals following Lab team review of applications will be submitted to the broader Lab membership who will discuss the proposals at the global endorsement event. Following their input, the steering committee (DESNZ) will have a calibration call with the Lab team to agree 'pre-qualified' ideas. These pre-qualified ideas will then undergo due-diligence and a full funding proposal will be submitted to the Investment Committee for decision.

In the first year of the pilot, ideas will not be discussed at global endorsement because of differing timelines, instead they will just progress directly to the investment committee for review following calibration calls with the steering committee.

The Investment Committee will be made up of independent professionals, primarily drawn from the Lab membership, who bring a diverse set of knowledge and represent relevant sector and geographic expertise. As noted above, the steering committee will approve the list of IC members. The IC will have 2 main responsibilities:

1. vote for funding approval,
2. vote for amendments and material changes (if needed).

See figure 5 and 6.

Across all these strands of Lab activity, the following responsibilities exist.

DESNZ programme team will:

- Input into the selection criteria for the call for ideas, particularly for the global, Brazil and LAC (mitigation) windows, followed by participating in calibration calls with CPI ahead of regional and global selection meetings.
- Identify DESNZ representatives for the Brazil and LAC working groups and hold regular progress update calls with representatives. This will likely be a member of FCDO's Post in Brazil and the Regional Climate Coordinator for LAC.
- Coordinate internal (and cross-HMG) evaluation and feedback on shortlisted ideas to score and vote for final ideas.
- Oversee development and implementation of the new Pre-seed capital Facility, via membership of the advisory/steering committee and input into selection criteria and calibration calls.
- Monitor overall programme delivery through regular calls and meetings with the delivery partner. This will be supported by monthly operational calls and quarterly steering group calls. Monitoring is expected to include travel to major events and meetings as necessary (this may include regional and global selection meetings and endorsement).
- Review and approve financial reporting, processing payments on receipt of invoices and evidence of need.
- Complete the annual results collection process and annual performance review processes.

CPI will:

- Provide core secretariat duties for the Lab (including the pre-seed capital facility), including overall programme delivery, risk management, tracking progress against financial and delivery milestones, and providing advice to inform strategic direction. Progress is to be reported to DESNZ through monthly operational calls and supported through quarterly steering group meetings.
- Engage and support the Lab membership to retain sufficient involvement in working groups, regional and global selection and post-endorsement support.
- Deliver annual Endorsement events to a high-quality.
- Quality assure and submit financial reporting and invoices and produce an independent audit annually.
- Collate data, working with the MEL component where needed, and input results into the Logframe.
- Lead communications and branding (in line with DESNZ policies), including through the Lab website.

DESNZ programme team and CPI will jointly:

Monitoring

- Review and input into the Theory of Change, Logframe and results collection methodologies.
- Collect and collate data to report against agreed Logframe indicators.
- Review and input into the design of KPI 15 methodology.

Learning

- Effectively disseminate learning throughout the programme's lifetime in collaboration with DESNZ.

An independent evaluation partner organisation will be procured through an open tender and will be responsible for:

Evaluation

- Produce a workplan, risk register, management plan, budget and plan to deliver an independent impact evaluation of the programme's performance over the 10 years of the Labs history to date, including conducting a Gender Equality, Disability & Social Inclusion (GEDSI) analysis and Value for Money (VfM) analysis.
- Evaluation deliverables will include producing one independent impact evaluation by December 2026.

The primary reporting points to DESNZ, including on continued progress around the pilot activities, will come through the quarterly steering group meetings, monthly DESNZ-CPI meeting, narrative reports provided at invoicing points and a specifically designated review point in July 2025, with more information found in section 5.4 below.

Further to this, and specifically in relation to the pre-seed capital facility, there will be a review point in June 2026 and 2027 to have a detailed review of progress made by recipients of the pre-seed capital. The June timeline aligns with when funding should have been fully utilised by proponents after the first and second cycles of the pre-seed capital funding. Whilst in some instances impacts will still be coming to fruition, there should be adequate data for CPI to present on the impact that has already been seen and any lessons learned. This can build off of information provided in the narrative reports provided by CPI at invoicing (also June).

Figure 4: *Expected governance structure of the Lab*

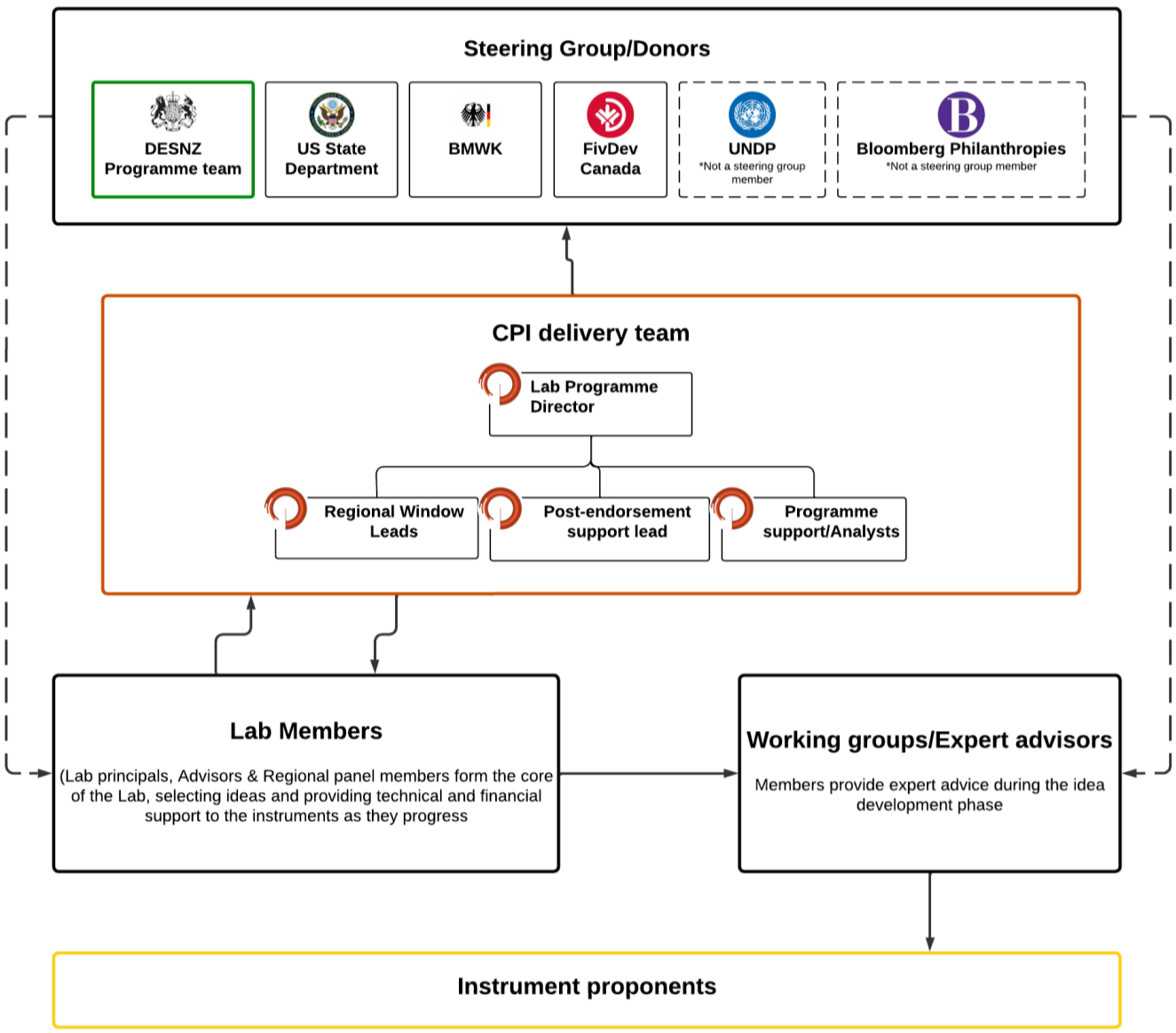

Figure 5: *Governance Structure for the Pre-seed capital Facility*

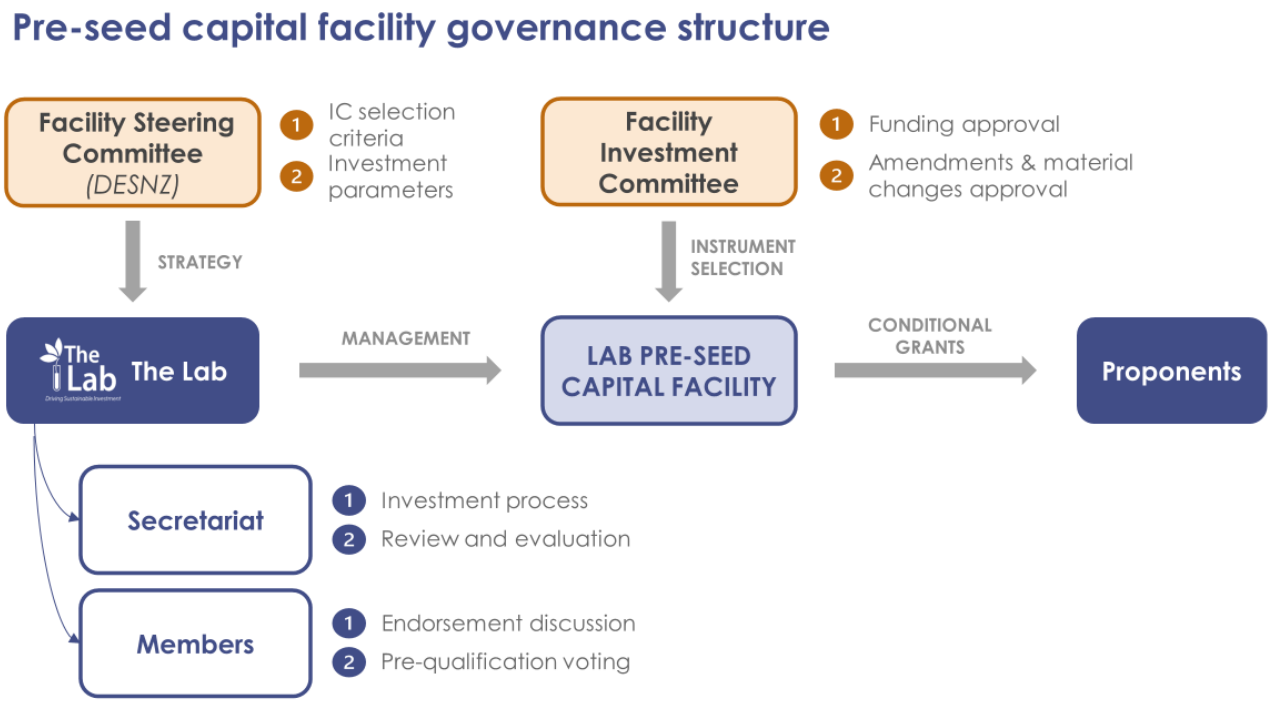

Figure 6: Lab and pre-seed facility governance bodies and roles

5.4 INTERNAL GOVERNANCE OF LAB DECISIONS

First Year review

With the addition of two new pilot activities for the Lab through this BC, a specific and additional review point will be established in the BC's first year to assess the performance of these activities and confirm their continued funding and, in the case of the go-to-market support, expansion in years 2 and 3. This review will be held in July 2025, enabling a decision to be made by the GF&C Deputy Director and communicated to CPI no later than August 2025 on future years' funding. The option to continue/withdraw funding from the pilot activities following the August 2025 decision will be included in the Grant Agreement.

With the timelines involved in these activities, it is not possible for this review to be fully based on their end results. In both instances, proponents receiving support will be in the middle of that process. However, the review will include:

- Effective delivery of the pilots to date.
- Feedback from proponent teams receiving the support.
- Feedback from CPI delivery team.
- Any early results which have been witnessed.

Alongside a review of the progress of the pilot activities, the July 2025 review will also include an update against progress made by CPI against the 2022 Lab recommendations and plans to address the selection tension between early and late-stage applicants, which had been identified as a challenge for addressing through the proposed 'two-stream' pilot, discounted at appraisal stage.

Future Lab inclusion in GF&C umbrella business case

During the next business case period, the DESNZ programme team will input key learnings from the Lab into the potential development of a new fund-of-funds programme, as previously referenced, which will look at distributing funds across a number of funds and vehicles. The Lab is one such funding opportunity and if this programme does proceed then any future Lab BC will be considered in this context.

5.5 RISK MANAGEMENT

The Lab has received a 'minor' risk rating in all DESNZ annual reviews since 2018. The risk rating for this business case is judged as moderate noting the increase in funding size and proposed expansion of activities. Overall, risks are assessed to be manageable, with the successful 10-year track record of CPI and the Lab a point of assurance for the increase of funding.

Risks will be managed in line with the ICF Risk Management Framework (which reflects the FCDO risk framework). To ensure oversight and escalation of project level risks, the risk register will be reviewed and updated at least on a monthly basis in the Programme Development Plan (PDP) and will be owned by the Project Manager. If risks increase past the programme's risk appetite they will be escalated to the SRO via the regular ICF Portfolio Delivery Group meetings or immediately in the case of serious risks requiring immediate action. A full assessment of risks and mitigations for the Lab is found in Annex C.

There are no severe risks in the current assessment, and post-mitigation, the programme has no high-level risk classified as major. The risk profile for the Lab was therefore found to be moderate, with risks in line with DESNZ ICF's risk appetite.

Table 16: *DESNZ ICF risk appetite*

Risk type	Risk appetite: portfolio	Risk appetite: programme
External context	Moderate (Minimalist)	Moderate (Minimalist)
Reputational	Minor (Averse)	Moderate (Minimalist)
Fiduciary	Minor (Averse)	Minor (Averse)
Delivery	Moderate (Minimalist)	Major (Cautious)
Compliance	Minor (Averse)	Minor (Averse)
Operational	Minor (Averse)	Minor (Averse)

Balance sheet	Minor (Averse)	Moderate (Minimalist)

5.6 MONITORILNG, EVALUATION AND LEARNING

Monitoring

Existing Lab monitoring arrangements are expected to continue, with the delivery partner responsible for the collection and collation of all the data outlined in the draft Lab Logframe (Annex A). The Logframe has been revised to reflect the changing ambitions of DESNZ' support and go-to-market supported activities, along with addressing key issues identified over the previous delivery period. Logframe milestones have been drafted but will be reviewed and agreed with CPI ahead of Grant Award.

Logframe data informs, alongside wider evidence, the Annual Review process led by DESNZ programme managers and annual Results Collection process. The Lab is expected to continue reporting against HMG's ICF Key Performance Indicator (KPIs):

- ICF KPI 15: The extent to which the ICF intervention is likely to deliver transformational change

The Lab will also report against ICF Technical Assistance (TA) KPIs, including:

- TA KPI 1: Number of countries supported by ICF technical assistance
- TA KPI 2: Number of individuals and organisations informed by ICF technical assistance

The programme's performance will be monitored through ICF Annual Reviews and results collection processes, using the Logframe as the primary data source. The performance of the programme will be measured against each output indicator in its Logframe, and then given a score between A+ to C. The Annual Review will analyse and assess progress, highlighting any successes or shortcomings in the programme, as well as the key programme risks and mitigations and the VfM performance. It will include specific, time-bound recommendations for action, consistent with the key findings.

As per the ICF Operating Framework, the Logframe, indicators and KPI 15 methodology will be reviewed regularly, with milestones set in advance and revised as needed. The DESNZ programme team will carefully consider and monitor where outputs have been delivered effectively and ensure that learning is integrated back into the programme and shared widely with stakeholders. The first Annual Review will be finalised within 18 months of the Business Case approval. The Annual Review will be delivered annually, and a date will be set with consideration of the reporting cycle of the MEL Partner and Delivery Partner to ensure coherence and efficiency.

Evaluation

UK support for the Lab is now in its 10th year and as such, evaluation activities are essential given the changing climate finance landscape over this time and so are the opportunities to build and share the evidence base for capacity building programmes. An independent impact evaluation has not been carried out to date, however, in 2022 CPI conducted an in-depth self-assessment and lessons learned from the Lab which has been used in conjunction with Lab annual reviews to assess the programmes relevance and success. Climate incubator programmes are increasing in popularity and opportunities to test the Lab's relevance and additionality in a dynamic climate finance landscape will be key to its continued relevance, impact, and value.

DESNZ will allocate up to £500,000 for an independent impact evaluation to be carried out in Year two of the new business case period (2025-2026). It is expected (but yet to be confirmed) that other donors will provide co-financing, meaning DESNZ's share of funding will be less than the total £500k. This will include costs of procurement for an evaluation partner organisation.

The final scope of work will be agreed between DESNZ and the evaluation supplier ahead of appointment but is expected to cover:

- *Relevance:* The extent to which the objectives of the Lab are consistent with the global and regional priorities for climate finance mobilization.
- *Effectiveness:* The extent to which the Lab's capacity building objectives have been achieved through an assessment of past instrument's development from pre-engagement to post-endorsement from the Lab.
    - The relevance and appropriateness of an additional assessment of the two pilot activity streams for the go-to-market support offer and the Pre-seed capital Facility will be explored in the scoping stages of the research.

- *Efficiency:* A measure of how economically resources/inputs (funds, expertise, time, equipment, etc.) are converted into results.
- *Impact:* Assessing the Lab's impact on the long-term goal of increasing the amount of private finance available for climate change mitigation through supported instruments.
- *Sustainability:* As assessment of the continued relevance of the Lab in an increasingly crowded space in climate finance incubator landscape to compare the Lab's impact compared to other similar programmes as well as identifying the level of support and engagement from the supporting stakeholders such as financiers offering pro-bono support in the long-term.

Activities will also cover dissemination of findings, including teach-in sessions to enhance learning across HMG capacity building programmes. Data collection will include desk research, interviews with CPI, the Lab membership and instrument proponents.

Learning

The Lab will continue the current model of continual adaptive learning. Previous examples of adaptive learning and management through the Lab include:

- The 2022 CPI Lab Assessment report identified a number of recommendations to improve the Lab into its 10th year of delivery. These lessons have shaped thinking ahead of the BC, and clearer communication on CPI's progress to address the suite of recommendations will be sought throughout year 1 of this BC up to the July review.
- Feedback from CPI and Lab members noted the changing Lab instrument support over the year to more commercially challenging geographies often and resultingly it has been more difficult to engage private investors in the Lab's activities. As such, the revised approach in this BC and additional work CPI are undertaking is working to better facilitate private sector involvement.

Examples of planned dissemination of learning through the Lab include:

- Feedback loops with wider programming – a greater focus will be given to sharing connections with Lab instruments with other relevant programmes and identify bottlenecks in funding and challenges to accessing financing in specific geographies and sectors.
- Evaluations – On completion of the independent Lab impact evaluation, findings will be presented to government policy and analysis stakeholders, and shared through the internal ICF Analyst newsletter

ANNEXES

A. *Draft Lab Logframe*
B. *Theory of Change*
C. *Programme Risk Register*
D. *Public Sector Equality Duty assessment*
E. *Options Appraisal - Full*
F. *Lab donors by window over years*
G. *Pre-seed capital facility proposal*
H. *Go-to-market proposal*
I. *Cost Breakdown by windows*
J. *Integrated Assurance and Approvals Plan*
K. *Paris Alignment (Climate Risk Assessment)*
L. *Lab mobilisation figures & analysis*
M. *Lab donor contributions over years*