Global Climate Partnership Fund (GCPF) Annual Review 2022

Department for Energy Security & Net Zero

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Section A: Summary and overview

Title: Global Climate Partnership Fund (GCPF)		
Programme Value £ (full life): **£54.54m** (£48.54m CDEL, £6m RDEL) • 2013: £30m CDEL investment • 2016: £6m RDEL grant to Technical Assistance Facility • 2018: £18.54m CDEL investment		**Review date: (and review period start-end)** 1 Jan 2022 – 31 Dec 2022
Programme Code: GB-GOV-13-ICF-0011-GCPF	**Programme start date:** 1 December 2013	**Programme end date:** N/A

Year	2015	2016	2017	2018	2019	2020	2021	2022
Overall Output Score	B	A	A+	A	A	B	A	A
Risk Rating	Medium	Moderate	Moderate	Moderate	Moderate	Moderate	Moderate	Moderate

Link to Business Case:	https://devtracker.dfid.gov.uk/projects/GB-GOV-13-ICF-0011-GCPF/documents
Link to Logframe:	https://devtracker.dfid.gov.uk/projects/GB-GOV-13-ICF-0011-GCPF/documents
Link to previous Annual Review (if appropriate)	https://devtracker.dfid.gov.uk/projects/GB-GOV-13-ICF-0011-GCPF/documents

Description of programme

Fund Investments

The Global Climate Partnership Fund (GCPF) is a public-private partnership, which seeks to mobilise investment flows in energy efficiency and renewable energy projects in developing and emerging markets[1], with the aim to reduce greenhouse gas emissions. GCPF primarily operates by providing debt finance via local Financial Institutions[2], extending credit lines so they can offer loans, primarily for renewable energy and energy efficiency projects that reduce energy consumption and/or GHG emissions by at least 20%. A proportion of the Fund (15.7[3]% of the Fund's Net Asset Value (NAV) at the end 2022) is used for Direct Investments in eligible Energy Service Companies, renewable energy companies, and small-scale renewable and energy efficiency service and supply companies that serve the market in target countries[4]. GCPF also supports local Financial Institutions through technical assistance and capacity building.

[1] By the end of 2022 GCPF was working in 27 countries.
[2] Financial Institutions include local commercial banks, leasing companies and other entities which finance or are committed to financing projects of the final beneficiary.
[3] Q4 Shareholders Report
[4] Direct Investments include corporate lending (debt), project finance and equity (capped at 5% of the fund's NAV).

The UK's International Climate Finance (ICF) in the Department for Energy Security and Net Zero (DESNZ) invested GBP 30m in GCPF in December 2013 and a further GBP 18.54m in 2018 (in total USD 72.1m). DESNZ investment is in junior equity, which provides a risk cushion for other investors. Any losses or loan defaults are borne by the junior equity first, followed by mezzanine and then senior debt. In addition, the process for paying returns from the revenues accrued follows a waterfall principle: senior-share returns are paid first, then mezzanine, then junior. There is a super senior tranche in the form of time-bound notes (debt) that only targets private sector institutional investors. Public funds invested into GCPF therefore catalyse additional finance from the private sector and Development Financial Institutions (DFIs), increasing impact.

The DESNZ CDEL commitment (£48.54m) represents 11.69%[5] of the total capital subscribed by the investors. DESNZ held 44% of the junior shares until December 2022 when the German government provided (€14m (USD 14.9m)) new junior capital, lowering the UK's share to 40%. By the end of 2022, private investors (without taking into account DFIs shares) represented USD 226.6m in Notes and USD 1m in Mezzanine Share Class, totalling to 33% of Fund commitments. This equates to a 3% drop in private investment since last year, primarily due to responsAbility, the GCPF manager, not renewing their USD 28.75 Senior Shares investment into the Fund.

Subscribed Capital by investor is as follows:

Investor (all Notes investors are Private)	Subscribed Capital (%)	Investment Type
OeEB	8.08%	Public
FMO	6.48%	Public
EIB	6.48%	Public
IFC	12.16%	Public
KfW	12.16%	Public
responsAbility AG	0.16%	Private
KfW on behalf of BMWK	15.49%	Public
Danida	1.93%	Public
DESNZ	11.69%	Public
ÄVWL	9.72%	Private
ASN	7.88%	Private
Heilsarmee	0.24%	Private
Private Investor	0.08%	Private
Sparkasse Bremen	2.59%	Private
European Insurance Company	4.86%	Private

GCPF's latest business plan cites a target of 32-33% investment from private investors by the end of 2025, representing a significant decreased level of ambition from 2021 when the target was set at 38.7%. At the end of 2022, GCPF complied with the three NAV-related Fund risk ratios. Against the total Fund size, 24.13% were Junior Shares NAV, 36.60% were Junior Shares and Mezzanine Shares and 72.84% were Junior, Mezzanine and Senior Shares.

Technical Assistance Fund

In 2016, DESNZ committed GBP 6m to the GCPF Technical Assistance Facility (TAF) as a grant, which provides capacity building support and promotes transparency standards to Partner Institutions (PIs). The TAF aims to support development and growth building capability

[5] 2022 Q4 Shareholders Quarterly Report (p.8)

in setting up and establishing a green lending portfolio. They also support PIs to comply with stringent GCPF requirements for investments (e.g., implementing environmental and social management systems (ESMS) across the whole of the Partner Institution), funding market assessments, green finance training and Partner Institution peer-learning events to disseminate and enable knowledge transfer.

Summary of progress and supporting narrative for the overall score

Fund Investments

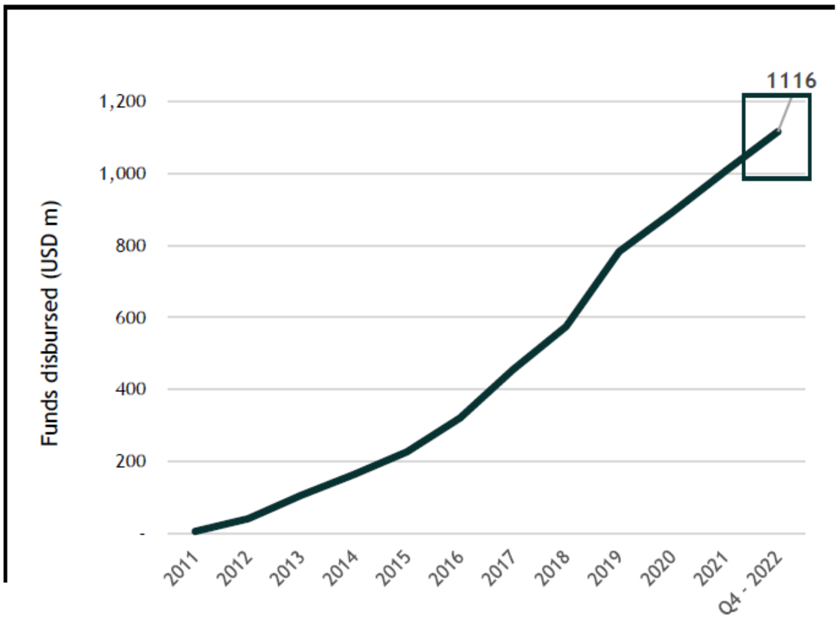
Since DESNZ's initial investment the total new money committed cumulatively has grown from USD 207m before DESNZ invested during Q4 of 2013 to USD 798.8m by Q4 2022 (incl. committed A-B-C-Shares and notes). However, the total private paid-in capital to the Fund has dipped by USD 20m between Q4 2021 and Q4 2022 due to responsAbility's investments maturing, and several Noteholders not renewing their investment. This was firstly due to the Fund prioritizing drawing down the investment from a new private insurance company (USD 100m commitment, with a first drawdown of USD 15m and a commitment period running through 2024) and the open EIB commitments, which were scheduled to expire at end-2022. Additionally, PI repayments in 2022 were historically high at USD 129.0m (compared with USD 76.8m in 2021), which reduced new funding/rollover needs and subsequently informed the decision not to renew the responsAbility shares as well.

This dip in the private financial flows into the Fund was accounted for within the previous business plan 2022-2024, and a drawing down of existing commitments are expected to redress this fall share of private investment in the fund. However, given the lack of new private commitments into the fund and the significant reduction in the target for the share of private investment in the fund for the new 2023-2025 business plan (reducing from a prior target of 38.7% to 33.0%) presents a potential risk to the longer-term sustainability of the Fund.

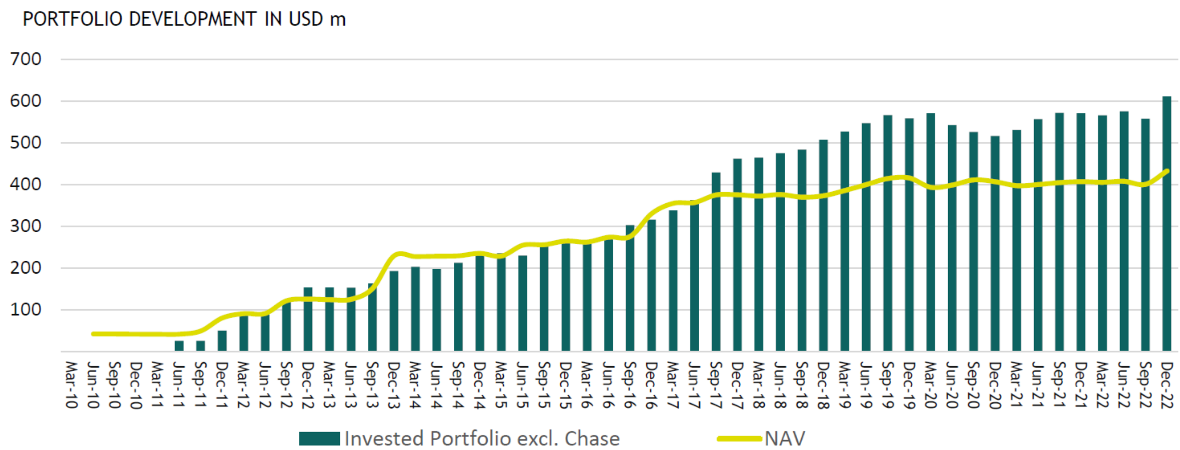
responsAbility have clarified the rationale behind these changes, firstly regarding the limits to the share of Notes within the Total Fund Size which is capped at 37.5% by Risk Ratio 3 (RR3). As the Fund has only succeeded in raising private investor capital in the Note class only so far, targeting this higher-level percentage risks a breach if impairments increase and the fund is too close to this threshold. However, responsAbility notes there remains a strong appetite for increase/renewals from existing Noteholders indicating private investor interest in the Fund remains high. This is further supported by the fact that in November 2021 the fund closed a USD 100m investment from a new private insurance company which was the largest private investment in the Funds history and tranches of this were drawn down in 2022, with the full USD 100m on track to be drawn down ahead of schedule.

During 2022, the Fund raised an additional EUR 14m (almost USD 15m) in Junior Shares from KfW on behalf of German Federal Ministry for the Economic Affairs and Climate Action (BMWK). Earlier in the year, a private investor also renewed its second investment in Notes [redacted].

3.1. DISBURSED SUB-LOANS, SINCE INCEPTION OF FUND (USD M)



During 2022, the Fund disbursed USD 168.8m and added 12 new PIs, ending the year with a portfolio of USD 602.5m invested across more than 54 PIs. The net portfolio increased by USD 17m or 2.9%, slower growth than the year before (9.5%). This was due to a sharp uptick in investment activity in 2022 well above 2021 levels (USD 131.2m) which was countered with significantly higher PI repayments during the year which amounted to USD 129m)[6] (Compared with USD 76.8m in 2021). Additionally, the one write off (USD 20.0m) was formalized in 2022 which also contributed to this net fall in growth.



The Fund added eight new Financial Institution (FI) partners to the portfolio in 2022 from Bangladesh, China, Colombia, Georgia, Guatemala, India, Uzbekistan, and Vietnam, whilst two FIs exited the GCPF portfolio. On the DI side, four new PIs were added to the portfolio - Norsk Solar (Vietnam) Sturdee Energy (Botswana), Vietrof RE (Vietnam), and Vinfast Trading and Production (Vietnam).

The fund currently has a number of investments with expected credit losses at Staging 3 which includes two FI investments in India and Peru with 132.4% and 25% impairment accordingly and one DI investment in Uganda with 100% impairment. Due to the challenging

[6] GCPF Audited Financial Statements for the year ended 31 December 2022

environment within which GCPF operates, a small level of such expected credit losses from investments is expected.

The funding profile of GCPF remains long-term, with 75% of funding commitments having a remaining maturity of at least 5 years and 36% with a remaining maturity of at least 10 years.

Technical Assistance Facility

In 2022, the TA Committee approved seven new projects amounting to USD 0.9m, significantly fewer than the 18 in 2021. ResponsAbility cites the limited prioritisation of new green strategies for most PIs whilst they are still returning to normal business operations as the global markets emerge from the Pandemic. Accordingly, engagement from PIs should be closely monitored over the next year to assess the degree to which this reduced engagement recovers post-pandemic or whether a renewed strategy of engagement from responsAbility is required.

The key focus of initiated projects in 2022 showed a return to in-person activities such as the GCPF Academy, GCPF Award and Environmental and Social training workshops which included meetings with experts, experience sharing and peer learning. The increasing number of PIs over previous years has necessitated the expansion of the TA team over the last year which should alleviate some of the pressures identified by responsAbility this year.

With a new contribution from Germany in 2022 and further funding available through the waterfall structure of the Fund, the UK is keen to see the number of high-quality projects increase in 2023. This should reinforce the performance of this year's TA work to strengthen existing projects such as the GCPF Awards which in 2023 was re-designed to recognize innovative climate finance ideas rather than past achievements as in previous years.

Fund modernisation discussions

As referenced in the 2021 annual review, GCPF's Shareholders agreed a Fund optimisation measure in 2018 to better protect junior shares from capital erosion. This measure made minor amendments to the cash waterfall structure and did not fully address the lack of protection for junior shares. Discussions on further reforms began in 2021 and, when an annual performance test for the UK's investment failed in February 2022, the UK wrote to the Board of Directors to request a review of the target rate of return for junior Shareholders and outlining possible options. GCPF's Board of Directors wrote back in July 2022 and two proposals were discussed at length in the Annual Shareholder Meetings in September 2022. In November 2022, the junior shareholders co-wrote a letter to all Shareholders to amend the proposals in response to the Annual Meetings. Shareholders have agreed to put both proposals to the vote which is expected in June 2023.

Summary

The programme has achieved an overall 'A' rating for 2022.

Indicator	Rating	Weighting
GCPF investments in partner institutions and growth of portfolio	A+	40%
GCPF attracts private investment at the Fund level	B	40%
Partner institutions develop their capacity and capabilities for green lending and/or green projects	B	20%

Overall, GCPF has maintained a good performance across all key indicators. Performance is marginally weaker than in 2021. Engaging a significant new number of PIs in new countries is a positive move which indicates a positive direction for future on lending. However, the challenges to attracting further private sector investment into the fund and engaging PIs with sufficient TA activities will be areas to monitor over the next year to mitigate against long term risks to the Funds viability in an increasingly competitive green lending environment.

See section C for more details.

Progress against recommendations from the last review

Recommendation	Progress
BEIS to complete the internal strategic review of GCPF. This will include potential to move the Fund from growth to maintenance to focus on its specialism within the climate financing landscape, and a comparative analysis (within the ICF portfolio) on how GCPF responds to market changes (e.g increasing competitiveness, emissions baselines shifting etc), abatement cost, and Fund governance.	Achieved – the Programme team considered future options for UK involvement in the Fund and its fit within the portfolio. This informed shareholder discussions in the September annual meetings. Further work will be done in 2023 to consider how GCPF can be looped into wider climate initiatives in key countries.
BEIS to engage shareholders in the context of the inflation test commissioned by BEIS. The ultimate aim is to reform the capital waterfall structure of the Fund by setting a cap for the Mezzanine shares to prevent the erosion of the Junior shares.	Achieved. The UK has held a number of bilateral discussions with both junior and mezzanine shareholders. A separate session was held at the Annual Meetings to discuss reforms, plus two sessions organised by the Fund manager.
GCPF to review the target return in relation to inflation with ambition to increasing the target return. Findings to be discussed with Board Directors.	Achieved. GCPF's Board of Directors wrote to the UK in July 2022 proposing a measure to amend the cash waterfall model of the Fund. This measure, alongside the UK's proposal, is being voted on by all Shareholders.
BEIS to complete analysis of GCPF's cost abatement data and circulate conclusions for discussion which will be used to inform BEIS' strategic review of the Fund and to influence other shareholders on the reforms needed.	Achieved. The bulk of the data analysis occurred in August 2022, supported discussions with other Shareholders around GCPF's sectoral support in September 2022, and will be compared to data from other ICF Programmes.
UK Board member of GCPF's Technical Assistance Facility to share summary of standardised feedback reports received by the Facility ahead of annual results collection period.	Rolled over or to be reviewed within the context of the logframe review and recommendation two below.
BEIS to review existing KPI methodologies to ensure that over attribution is not occurring, to review indicators and milestones for KPI 15, and to develop methodologies to report against relevant ICF Technical Assistance KPIs as part of a wider logframe update.	Partially achieved - a new KPI 15 methodology was approved in December 2022. In February 2022, DESNZ decided to align the remaining methodologies with OECD guidance on measuring results in innovative Fund structures. Very minor amendments were made to the Logframe, a fuller review will occur in 2023.
Ahead of the current Board Director's tenure coming to an end, BEIS to make a decision on how and when to secure his replacement.	Achieved - an advert was circulated through government networks in December 2022 and interviews held in February 2023.

Major lessons and recommendations for the year ahead

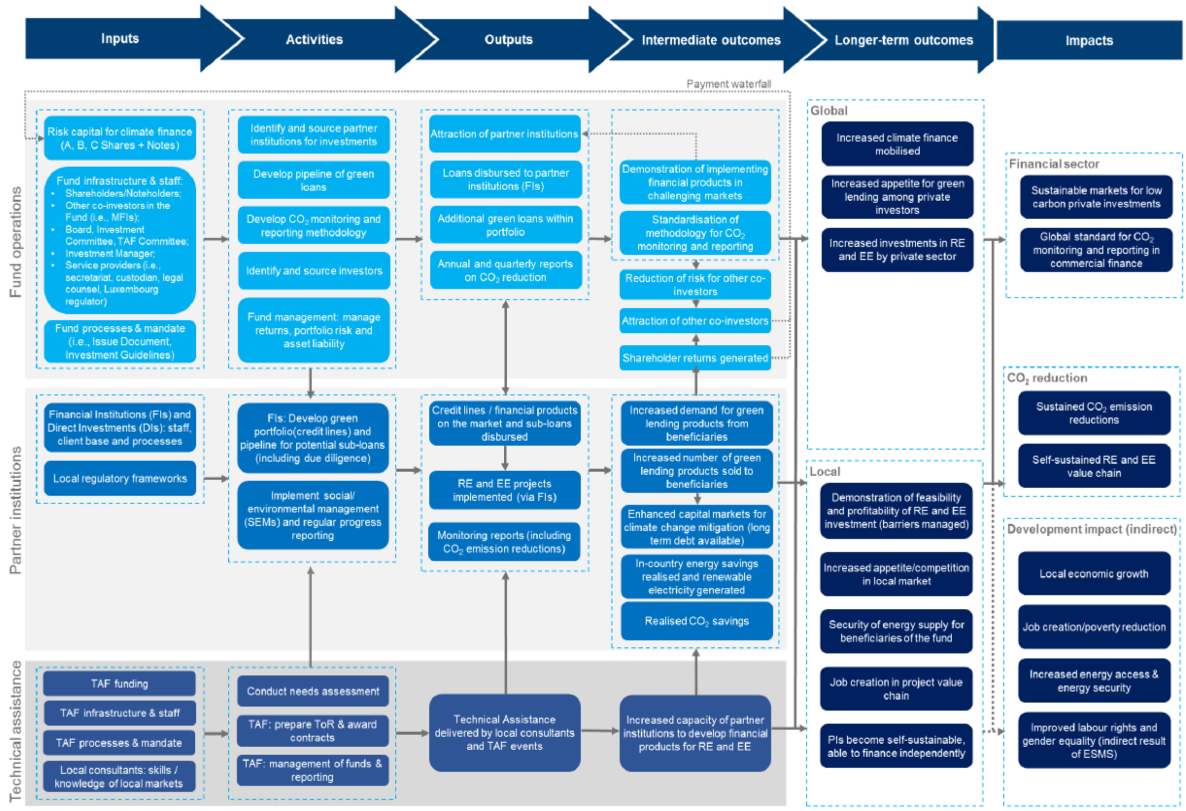
Lesson learned	Recommendation	Deadline
In 2022, DESNZ took a very strong position to promote Fund modernisation measures, both with the Board and other Shareholders. This work centred around driving value for money of public finance within the Fund, modelling best practise laid out in the Blended Finance Principles, and evolving the Fund based on lessons from the wider climate finance landscape. Given the divergent views among Shareholders and the importance of reaching consensus in order to move forward, it has been useful to work closely with the Investment Manager, to adapt proposals based on feedback from others, and to speak bilaterally where possible.	GCPF Shareholders to vote on UK and Board initiated Fund modernisation measures. The UK to review resourcing and management of the Programme following the decision.	*31st August 2023*
GCPF's decision to include the TAF within the Fund's cash waterfall model enabled a USD 1.11m top-up based on 2021 performance indicating a strong pathway to future sustainability of the TAF. The TAF had a renewed year of in-person activity with travel restrictions being lifted in 2022 which enabled new learning events. This remains GCPF's comparative advantage in an increasingly competitive green lending market. GCPF should continually review their additionality offer particularly building on the renewed interest in TAF activities from PIs.	DESNZ to refresh engagement with the Technical Assistance Facility, including by reviewing the role of the UK-nominated Committee member and establish further channels to understand TAF activities.	*31st December 2023*
	DESNZ to consider how to account for GCPF's TAF within the KPI 15 methodology for the next AR.	31 July 2023
The end of 2022 marked 5 years since the last independent evaluation of the fund which provided an in-depth analysis of the programmes performance and development benefits. Importantly, the available data gathered and reported against during the annual review process currently provides a limited insight into further development benefits of GCPF. Additionally, the GCPF Logframe indicators and milestones, particularly relating to the TAF have to date evolved with the changing programme and with an expanding PI network and TAF activities another review may be necessary to ensure appropriate tracking of programme performance and achievements. Similarly, on Outcome Indicator 1.2 (Cumulative annual energy efficiency savings (MWh/yr) of loans disbursed since inception of the Fund), in 2022 the Fund exceeded (35%) its target (>20%) for cumulative annual energy efficiency savings (MWh/yr) of loans disbursed since inception of the Fund. However, this is the lowest energy efficiency saving per investment since 2014 and 10% lower than any year to date. Subsequently, this 5 year mark in the programmes lifetime may be an appropriate point to ensure effective tracking of performance of year-on-year activities as well as the long-term programme outcomes.	DESNZ to complete an evaluation of the GCPF Logframe by reviewing the relevance of indicators and milestones to ensure effective priority setting and progress tracking over 2023 and beyond. A further review should be conducted following the publication of the 2024-2026 business plan.	31st July 2023
	DESNZ to improve data visualization for tracking programme performance and achievements with underlying data from GCPF on key indicators such as year on year disbursals and on lending.	31st December 2023
	DESNZ to explore the feasibility of undertaking an independent evaluation of GCPF within the next 1-2 years in order to better inform	31st December 2023

	understanding of GCPFs' transformational change.	
FI interest in new green lending programmes remained low due to a challenging global macroeconomic outlook as the world emerged from the pandemic. Despite this, for the second consecutive year, GCPF had the second strongest year in its history in terms of disbursements through Financial Institutions (USD 168.84m disbursed). GCPF's strong performance here may be attributed to the 2022 investment strategy focussing on supporting existing relationships with strong FIs in challenging markets with strong fundamentals and a proven ability to drive green lending.	DESNZ to look across similar green finance programming to identify any bridges between GCPF's work and that of the wider portfolio. Where relevant, more could be done to highlight risks and successes to HMG's Post network, particularly in areas of high GCPF investment activity such as Vietnam	*31st December 2023*
	DESNZ to engage with responsAbility to explore how to increase the share of private finance in the Fund over the period of the current business plan.	30th September 2023

Section B: Theory of change and progress towards outcomes

Summary of the programme's theory of change, including any changes to outcome and impact indicators from the original business case

The programme's theory of change is illustrated below and shows how public sector Official Development Assistance (ODA) funding is used to attract other finance. It does so by de-risking the investments, improving the return-risk profile, leading to an increase in private sector and other climate finance flows, demonstrating the viability of low carbon projects. Alongside this, providing TA to the Partner Institutions helps them to build their knowledge, awareness and systems to develop and offer appropriate products to the market. Combining these components leads to institutions offering financial products for SMEs and households and subsequently increases the uptake of energy efficiency measures and renewable energy. Together these outputs and outcomes contribute to developing sustainable markets for investing in low carbon technologies in developing countries that do not require public sector funding.



Progress against the expected outcomes and impact, and actions planned for the year ahead

For 2022, at the outcome level, GCPF met 3 out of 4 indicators milestones with an overall weaker performance compared with 2021. In 2022, the primary outcome statement to monitor GCPFs' performance against remained unchanged as 'Mobilised private finance for green energy projects' with 4 outcome indicators. This AR will also be reporting on two Impact indicators which inform the primary impact statement 'Contribute to developing sustainable markets for investments to support renewable energy and energy efficiency projects in developing countries that deliver associated emissions savings and developmental benefits'.

Impact Indicator 1: Transformational Impact (KPI 15)

Key Performance Indicator (KPI) 15 ("Extent to which ICF intervention is likely to have a transformational impact") is an indicator that all ICF programmes must report against and is particularly useful for determining the effectiveness of TA programmes. This methodology was updated in December 2022 to provide rubric statements that matched the transformational change Theory of Change within ICF and to better capture long-term change through GCPF, better use the data available to DESNZ, and avoid reliance on the 2018 evaluation.

As part of the annual results collection process in March 2023, DESNZ found partial evidence of transformation already occurring as a result of DESNZ contributions to the GCPF. This result can be drawn from a variety of factors, including the high levels of on-lending through FIs which demonstrates successful capacity building in the long-term within these Tier 2 Banks and the financing provided is identified as filling a climate finance gap not fulfilled by the wider green lending market. Furthermore, GCPF's management of operational risks and effective disbursement of commitments have contributed to demonstrating the feasibility and replicability of low carbon investing for the wider market. However, areas of the GCPF theory of change which could be strengthened relate to the ability of the GCPF to mobilise new private finance into the Fund and to increase the delivery of TA activities.

The most recent evaluation of GCPF was conducted in 2018[7]. DESNZ would like to explore options to commission another independent evaluation of the programme in collaboration with other donors, to better understand the Fund's transformational potential and development impacts - however this evaluation may be dependent upon further Fund reform.

Impact Indicator 2: Development benefits

On development benefits, this is considered an indirect impact of GCPF by the demonstration of low carbon projects contributing to local economic growth via the increased affordable energy access and security for the end beneficiaries of the fund. Further indirect impacts that may potentially be seen are improved labour rights, gender equality and job creation. The GCPF Mid-Term Evaluation Report 2018 concluded that there were early signs of success for the Fund on development impact which was as follows:

- *With regards to local economic growth, evidence tentatively points to projects funded that would have been financed anyway. However, the green loans are considered to provide better conditions to end beneficiaries, resulting in money savings or more favourable terms increasing the chances of successful implementation of the project or technology. A number of PIs noted that without GCPF on-lending, projects would have been financed at a much slower rate and therefore outcomes for end beneficiaries would have taken longer to be realised.*
- *There are also signs that green loans have led to poverty reduction. In the case of energy efficiency technologies it reduced costs and enabled higher output, helping to reduce poverty An example is the case of drip irrigation. This technology increases income of farmers, leading to a better economic position.*
- *Development of a green loan product by a PI is often combined with the development of overarching sustainable policies. For example, improved labour rights and gender equality. For some PIs this may include safeguarding checks among end beneficiaries to ensure that they are not in breach of the law, (to be demonstrated by providing the required permits and licences) before which they can receive sub-loans. These requirements imposed by GCPF translate into an additional resource burden faced by PIs.*
- *Renewable Energy funded projects have also contributed to increases in the power supply within country. For example, when delivered to the national grid, more*

[7] GCPF Mid-Term Evaluation Report 2018

electricity is available to power economic growth. When stand-alone, the reliability of an operation or production facility is increased.

Ad-hoc anecdotal evidence of development benefits is available, for example:

- Through the work with Letshego Ghana, GCPF is helping to make energy efficient air conditioners and refrigerators more accessible to more Ghanians,
- In Cambodia, their support to LOLC enables customers to purchase energy efficient tuk-tuks, helping to grow small businesses.
- On the Direct Investment side, investments into Vietnam with VinFast Trading & Production have funded the first electric vehicle charging network in the country alongside the first fleet of electric buses, helping to lay the infrastructure needed to spur further development in the uptake of electric vehicles.

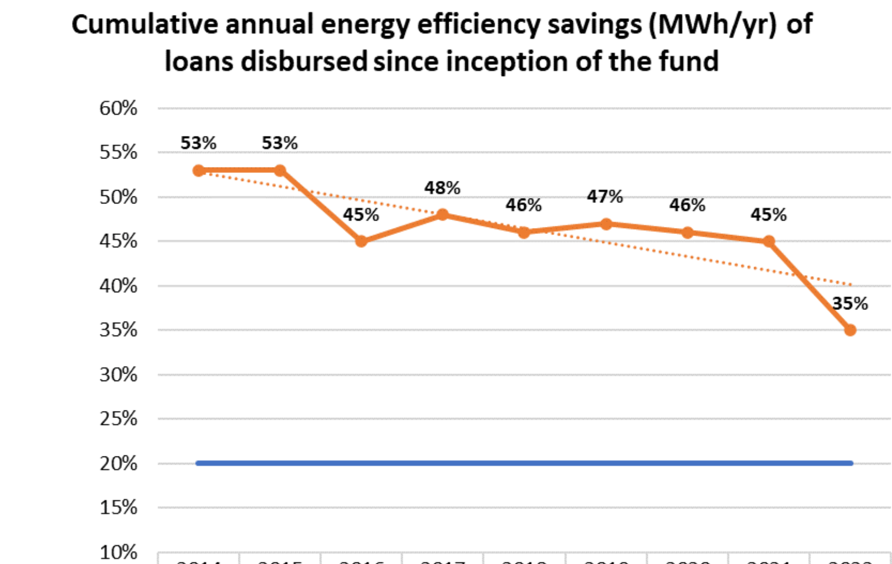
The second independent evaluation discussed above would further benefit the analysis of the development benefits of the GCPF's lending by informing the impact of PIs on-lending at a more granular level.

Outcome indicator 1.1: Annual CO2 emissions reductions achieved (tCO2/year).

The Fund had a milestone target in 2022 to achieve 1,050,000 tCO2/year. It marginally missed the milestone, achieving 994,263 tCO2/year. To note this target applied only to GCPF-relevant credit lines and the Investment Manager assumes an average lifetime of 22 years when estimating the GHG savings brought about by the fund.

GCPF assesses an investment against a baseline at the time of investment and then regularly throughout the investment's life. This dynamic approach to assessing CO2 savings helps to assess the wider market environment, supports FIs to identify suitable technologies, and improves the credibility of reported results. GCPF reports a decreasing trend in average cumulative CO2 emissions reductions from energy efficiency projects since 2012. This is because, generally, as wider energy sectors become greener, energy efficiency improvements and support to renewable power generation no longer deliver as much emissions reduction relative to the counterfactual. This has made it gradually more challenging for GCPF to comply with the 20% emissions savings threshold, leading to them to tighten eligibility criteria over time.

Outcome indicator 1.2: Cumulative annual energy efficiency savings (MWh/yr) of loans disbursed since inception of the fund.



	2014	2015	2016	2017	2018	2019	2020	2021	2022
Milestone	20%	20%	20%	20%	20%	20%	20%	20%	20%
Achieved	53%	53%	45%	48%	46%	47%	46%	45%	35%

This year the Fund exceeded (35%) its target (>20%) for cumulative annual energy efficiency savings (MWh/yr) of loans disbursed since inception of the Fund. However, this is the lowest energy efficiency saving per investment since 2014 and 10% lower than any year to date. It is worth noting that this milestone is the minimum requirement for the Fund of 20% energy efficiency savings per investment. The line graph below details the performance against milestones year-on-year between 2014 and 2022.

Energy efficiency savings are uneven across countries and across themes. Support to industrial processes accounts for 13.2% of sub-loans disbursed since inception but accounts for 5.3% of energy savings. Support to buildings also accounts for 12.6% of sub-loans disbursed but has supported 14.8% of energy savings. Transportation accounts for 16.4% of sub-loan disbursements since inception but only 2.3% of energy savings. Due to significant investments in renewable energy production projects in 2021 the share in CO2 emission reductions jumped to 78% whilst accounting for 46.3% of sub-loans since inception, taking the contributing share of all energy efficiency technologies down to around a fifth from roughly a quarter in 2021. Solar PV makes most of the new added capacity in renewable energy projects financed by the Fund, which in total has reached 548MW of installed capacity.

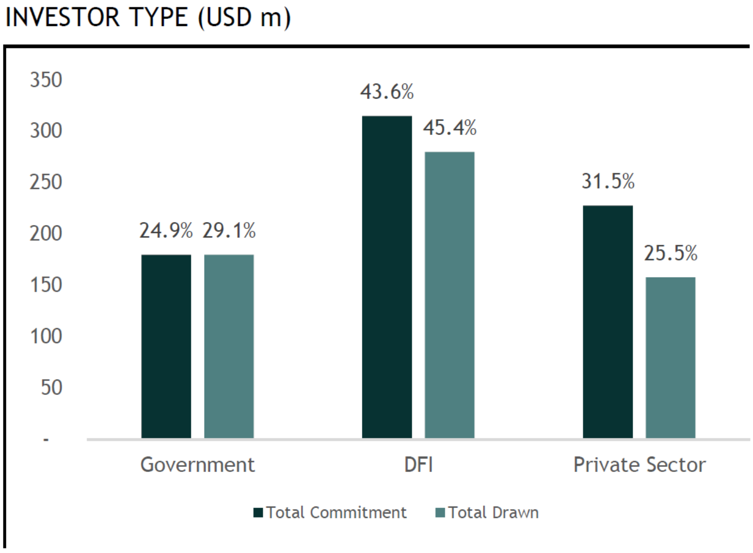
Since the last annual review, DESNZ has reviewed whether the 20% minimum energy savings threshold is suitably ambitious for GCPF. Comparable Funds use the same threshold, including the Green for Growth Fund, The European Energy Efficiency Fund and projects supported by the Green Climate Fund. Through the UK-funded Market Accelerator for Green Construction Programme, IFC offers two options, to use EDGE certification with a 20% threshold or to increase ambition through EDGE Advanced which meets a 40% threshold. This review finds that GCPF has adopted a standard benchmark and that a review of the threshold should look more broadly at climate finance mechanisms.

Outcome indicator 1.3: **Total % of notes and shares of which from private investors.**

In 2022, the share of private investment into the Fund dropped to 33.13% from a high of 36% in 2021 but was in line with the planned milestone of >33%. This was within the bounds of GCPF's forecasts in the 2022 business plan which accounted for the repayment of rA funds shares, a number of Noteholders not renewing their investments, and aided by the inflow of new EUR 14m in Junior Shares from KfW on behalf of German Federal Ministry for the Economic Affairs and Climate Action (BMWK). The below graph details the breakdown in shares across Government, DFIs and Private sector. However, the latest business plan aims to halt the downward trend that has seen the share of private investment decline and across 2023-2025, primarily through the drawdown of Notes, GCPF expects to stabilize private investment at 32-33% by the end of this period.

It is worth noting that this target has dropped significantly since the previous business plan which expected private sector investment to reach 38.7% share of investments into the Fund by the end of 2024. This may be an indicator of the challenging global environment for new investment in climate finance as recovery from the pandemic continues with near-term growth prospects for the world being weak. The outlook of global economic activity continues to be full of uncertainties amid stresses in the financial sector caused by a rapid rise in interest rates. In April 2023, International Monetary Fund ("IMF") forecasted global GDP growth to be at 2.8% in 2023, 0.1% lower than its previous forecast in January 2023, and below the historical (2000-19) average of 3.8%. However, emerging Asia is expected to grow above the global average rate, at 5.3% in 2023 and 5.1% in 2024, underpinned by a post-COVID recovery in China, and robust domestic demand as well as strong foreign investment in India.

This outcome should be monitored closely over the next year to monitor future risk of falling private sector support, however, responsAbility still see a strong demand from private sector investors for the Fund's Notes which are capped at a maximum of 37.5% of the Total Fund Size due to RR3. responsAbility are currently exploring an amendment to RR3 which would allow for a higher share of Notes in the Fund and hence private sector investment in addition to pushing to raise private sector Senior Shares.



Outcome indicator 1.4: Increased capacity and capability of Partner Institutions to develop green lending and/or green projects.

GCPF demonstrated substantial evidence of progress against this outcome indicator, with 83% of FIs meeting their on-lending targets at the end of the year against a target of at least 70% which was an improvement compared with 2021 at 73%. The 2022 Investment Strategy may be credited with this improvement, in particular the first two pillars which aimed to:

1. Support and continue relationships with **strong FIs in challenging markets**, focusing on those with strong fundamentals and a proven ability to drive green lending.
2. Increase participation with FIs that joined GCPF in the last two years **to scale up green lending programs**.

GCPF has laid-out a series of planned activities in lieu of the Investment Strategy deployed in previous business plans which take into account the challenges and opportunities faced by the fund in 2022. The following initiatives aim to address the challenges and opportunities faced by the fund in the years ahead:

- **New FI Portfolio Monitoring Officer.**
- **Gradual expansion of GCPF scope.**
- **Reviewing ESG and CO2 reporting criteria.**
- **Investigate changing the DI limit to be relative to fund size instead of NAV.**

Logframe updates since the last review

Minimal changes were made to the Logframe this year, none of which have a significant impact on progress against milestones and indicators.

Section C: Output scoring

Output 1: GCPF invests in partner institutions and the portfolio grows

Output Title	**GCPF investments in partner institutions and growth of portfolio**		
Output number:	1	Output Score:	***A+***
Impact weighting (%):	40%	Weighting revised since last AR?	No
Risk rating	Moderate	Risk revised since last AR?	No

Indicator(s)	**Milestone(s) for this review**	**Progress**
1.1 Total Net Portfolio value (net of provisions, renewals and non-renewed repayments) USDm	619.5	609.9 - Progress met expectation[8] Milestone fell short by $9.6m (1.55%).
1.2 Net increase in number of partner institutions (DI and FI)	5	10 – Progress substantially exceeded expectations 12 new partner institutions (4 new Direct Investments and 8 new Financial Institutions) and 2 FIs exited the Fund.

Output summary and supporting narrative for the score

Indicator 1.1 Total Net Portfolio value (net of provisions, renewals and non-renewed repayments) USDm:

The total amount invested across the portfolio up to 31st December 2022 was USD 609.9m, which met the target for this year (USD 619.5m) and leaving a USD 9.6m gap. This net change can be attributed to the significant level of investment in 2022, with the Fund disbursing USD 168.84m – a significant increase on 2021, with an all-time high of USD 99m in Q4 alone. This was also the second consecutive year that disbursements were the second highest year since fund inception. Additionally, PI repayments during the year amounted to USD 129m)[9] (Compared with USD 76.8m in 2021) and one write off (USD 20.0m) was formalised in 2022 which all contributed to this net fall in growth.

GCPF is facing increasing competition within the green lending space as the cost of capital falls for implementing climate solutions and as such the ongoing interest for new investments into GCPF and demand for lending through the fund should be closely monitored.

[8] a +/-5% margin for meeting the target is counted as 'met'.
[9] GCPF Audited Financial Statements for the year ended 31 December 2022

Indicator 1.2 Net increase in number of partner institutions: Financial Institutions (FIs) and Direct Investments (Dis):

Investments in FIs:

GCPF invested in eight new FIs and four new DIs to exceed its target.

- **Banco Promerica S.A. (Guatemala)** (Guatemala, USD, 10m). Retail/SME focused bank in Guatemala, a new country for GCPF. On-lending efforts focused on green building product, alongside EE for industry & manufacturing, as well as EE household appliances.
- **Bank of Georgia** (Georgia, USD 10m). Systemic universal bank in Georgia. On-lending focused on RE (wind energy), green buildings and EVs.
- **Chongo** (China, USD 10m): Large Microfinance Institution, with significant agriculture exposure and expertise. On-lending focus is on RE/EE solutions for small-holder farmers, including climate-smart agriculture practices.
- **Finanzauto** (Colombia, USD 10m)**.** Leading vehicle lender in Colombia. On-lending focus on hybrid and electric passenger cars.
- **Hamkor** (Uzbekistan, USD 10m). Tier 1 privately-held bank in Uzbekistan, a new country for GCPF. On-lending focused on EVs and EE for industry and manufacturing.
- **Mutual Trust Bank** (Bangladesh, USD 10m). Private commercial bank, with DFI (Norfund) as main shareholder. On-lending focus on EE garment & textile manufacturing machinery.
- **Viet Capital bank** (Vietnam, USD 5m). Retail focused bank in Vietnam, the Fund's 4th partner in the country. On-lending focus on e-mobility and EE household appliances.
- **Zuoli,** (China, USD 4.63m). SME focused non-bank financial institution in China. On-lending focused on solar PV for commercial & industrial clients.:

In the case of investments in FIs, as of 31 December 2022, SREI and Acceso Crediticio were investments classified as Stage 3 meaning that they experienced a credit-impairment event (a deterioration of their creditworthiness). The FIs portfolio has Expected Credit Losses (ECL), impairments amounting to USD 42.7 million representing 7.1% of the total portfolio, representing a decrease from 8.8% at the end of 2021.

Direct Investments:

- **Norsk Solar** (Vietnam, USD 1.18m): non-recourse project financing to commercial & industrial (C&I) solar projects in Vietnam.
- **Sturdee Energy** (Botswana, USD 2.87m): non-recourse project financing to the first grid-connected solar PV projects in Botswana.
- **Vietrof RE** (Vietnam, USD 6.8m): non-recourse project financing to commercial & industrial (C&I) solar projects in Vietnam.
- **Vinfast Trading and Production** (Vietnam, USD 17m): long-term debt financing for manufacturing the first e-bus fleet and electric vehicle (EV) charging station network in Vietnam.

GCPF had one investment in Stage 3 as of 31 December 2022: SolarNow. The investment is small and its total impairment amounts to USD 0.86m. The overall Direct Investment portfolio has ECL and impairments amounting to USD 1.65m, representing 1.73% of the total DI portfolio (USD 95.5m in 2022).

The Fund's total impairments amount to USD 42.7m[10], which is 7.1% of the total GCPF portfolio, down from 9% in 2021.

[10] GCPF Audited Financial Statements for the year ended 31 December 2022

Changes to this output, and any planned changes as a result of this review

No changes this year.

Output 2: GCPF attracts private investment at the fund level

Output Title	GCPF attracts private investment at the fund level		
Output number:	2	Output Score:	***B***
Impact weighting (%):	40%	Weighting revised since last AR?	No
Risk rating	Moderate	Risk revised since last AR?	No

Indicator(s)	**Milestone(s) for this review**	**Progress**
Annual additional private sector subscriptions to GCPF, including renewals (USDm)	$30m	$26m – Progress moderately did not meet expectation.

Output summary and supporting narrative for the score

In 2022, the annual additional private sector subscriptions moderately did not meet the expected milestone of USD 30m, resulting in a lower output score compared with 2021. ASN Bank renewed its second investment in Notes for USD 25m, for a total investment of USD 50, however, a number of Noteholders did not renew their investments. This was firstly due to the Fund prioritizing drawing down the investment from a new private insurance company (USD 100m commitment, with a first drawdown of USD 15m and a commitment period running through 2024) and the open EIB commitments, which were scheduled to expire at end-2022.

This has contributed to the fall in the share of private sector investment in the Fund (To 33% from 36%) and whilst this is expected to be offset with future drawdowns next year, new private sector investment should be monitored going into 2023 and beyond to ensure the Fund continues to be well positioned as an attractive investment opportunity for the private sector. However, it is important to recognise that the current RR3 caps the share of Notes in the Full Fund Size at 37.5% which is the primary source of private sector investment currently and as such responsAbility aim to avoid a potential breach of this with unexpected impairments by avoiding being too close to this threshold. responsAbility does note that there remains a strong appetite for increase/renewals from existing Noteholders indicating private investor interest in the Fund remains high.

5% of private investment came from wider responsAbility funds which was repaid in 2022. responsAbility AG had 0.16% subscribed capital at the end of 2022.

Changes to this output, and any planned changes as a result of this review

No significant changes.

Output 3: Partner institutions develop their capacity and capabilities for green lending and/or green projects

Output Title	**Partner institutions develop their capacity and capabilities for green lending and/or green projects**		
Output number:	3	Output Score:	***B***
Impact weighting (%):	20%	Weighting revised since last AR?	No
Risk rating	Low	Risk revised since last AR?	No

Indicator(s)	**Milestone(s) for this review**	**Progress**
Annual number of capacity-building activities approved which increase capacity of PIs for green lending and/or green projects.	23 TA	Substantially did not meet expectations. The TAF made progress with 20+ projects already underway but only approved seven projects and completed eleven.

Output summary and supporting narrative for the score

To date, the Technical Assistance Facility has supported 41 organisations in 14 countries, plus overseen four global projects. In 2022 the waterfall contribution from GCPF to the TAF based on 2021 results of the fund was USD 1.11m. In addition, GCPF TAF received contributions from KfW on behalf of BMWK of USD 1.06m.

GCPF cite the reason for the significant drop in the number of approved TA projects in 2022 partly to (i) an almost entirely new team working on pre-pandemic TAF projects across the regions that finally were realized, and (ii) it took more time to re-engage with Partner Institutions to better understand their needs, priorities, and ability to start new projects. Subsequently responsAbility took the measure to re-staff the TAF unit to replace the three project managers that had worked on the GCPF TAF projects in 2021 that took on new responsibilities. Despite the drop in the number of completed TA projects, the quality of GCPF's TA advice and activities appears to have continued to be of high quality.

In October 2022, 38 green lending champions from 24 countries participated in the 2022 GCPF Academy, which helped to identify new tools and solutions to build their green lending portfolios, to develop E&S risk management approaches, and to improve communications around green lending. An example of cross-learning within the event is Banco Promerica Costa Rica sharing their e-car Savings Calculator which motivated other Partner Institutions to consider using the tool themselves. At the end of the Academy Week, GCPF presented the Bank with the annual GCPF award for their role in boosting electric vehicle uptake.

Another example of GCPF's technical support supporting PIs is Sturdee Energy referencing GCPF as being integral to project success in Botswana. GCPF provided top-tier technical, legal and environmental consultants and supported Sturdee Energy to meet global best practises.

GCPF also produced a number of booklets and other promotional material in 2022, including the Green Lending Journey booklets documenting the experiences of nine PIs, tailored e-learning materials shared through responsAbility's online platform, ten studies and three regional webinars. It is worth noting here that many of these projects are captured under one TAF activity but account for multiple projects directly implemented by the responsAbility such as the regional webinar series which counted as 1 project but represented 3 peer learning projects and the creation of e-learning materials.

Changes to this output, and any planned changes as a result of this review

From 2022 onwards, the Technical Assistance Facility Committee will not review the ‘compliance projects’ and these will be funded through the GCPF Fund going forward and these accounted for 12 projects. DESNZ will work with GCPF to determine how to better capture results from the TAF, including recording how TA is supporting GCPF’s capital investments.

Section D: Programme performance not captured by outputs

In 2022, responsAbility worked to classify GCPF's portfolio under the EU's Taxonomy for Sustainable Activities and this is an ongoing piece of work. Where activities were classed as not sustainable under the Taxonomy despite meeting GCPF's E&S and Carbon requirements, this related to investments into hedging or other money market instruments, or where there was insufficient data available. A small number of investments were sustainable at the time of investment but are no longer classed as sustainable due to the shifting of the EU Taxonomy criteria over time which includes the omission of 'Agriculture' under the EU Taxonomy which subsequently excludes activities such as drip irrigation projects funded by GCPF.

Section E: Risk

***Overall risk rating*: Moderate**

GCPF operates in countries with varied inherent risks, including relatively advanced developing economies to low-income developing economies. The prominent and programme-specific risks remain attracting private sector finance, preservation of equity capital, and delivery risk.

Description	Risk Response Description	Residual Risk Rating
Preservation of equity capital	DESNZ anticipates the value of its stake in GCPF to erode over time. This is as it is Official Development Assistance deployed as high-risk equity in the first-loss position; if and when losses on loans materialise, the first-loss capital will be eroded. The Covid-19 pandemic, low LIBOR rates has exacerbated the risk of downward pressure on the net asset value of DESNZs' stake in the Fund. The majority of losses to date have been driven by 'significant events', related to two Financial Institutions entering administration and the adoption of IFRS 9 in 2018. These losses are compounded by GCPF's waterfall structure which does not sufficiently recapitalise junior shares. In 2022, the UK and both other junior shareholders progressed discussions on capital modernisation reform, outlining these issues through a series of letters and meetings with other Shareholders.	Major (Increased from moderate since last review)
Attracting private sector capital	Private investment is still considered a risk as the market becomes more competitive. GCPF offers its loans at commercial rates and it must compete with other, often cheaper (concessional) sources of finance. As discussed on Output indicator 1.3, the share of private sector finance in the fund fell compared with 2021 and the new business plan amended the expected future share of private sector finance between the most recent business plans, reducing by more than 5% which is of concern for future sustainability. The returns to private sector investors in the Fund could be improved to mobilise more investment from that sector, bringing greater benefit on the ground. This risk is being monitored by DESNZ on a continuous basis.	Moderate (No change since last review)
Delivery risk – GCPF's investment strategy is inherently risky	GCPF assesses its additionality on a country and on investment basis and has the flexibility to move to different markets and work with different technologies to remain additional. At the Partner Institution-level, GCPF performs intensive eligibility and due diligence checks prior to investment and this is continually monitored throughout the partnership. As noted above, 7% of GCPF's Portfolio is classified under IFRS 3. GCPF mitigates market risks by predominantly using variable interest rate loans (limiting exposure to changes in interest rates) and predominantly investing in USD and seeking to fully hedge currency risk through currency swaps. GCPF update their Business Plan annually to navigate risks and maximise opportunities.	Moderate (No change since last review)

Overview of risk management

GCPF's risk management policy defines the framework of the Fund's risk management system. The Fund's risk management is performed under the overall responsibility of the Board of Directors while the day-to-day risk management is performed by the Fund's Investment Manager. The in-house risk management team of the Investment Manager, responsAbility Investments AG, is separate from the portfolio management and closely monitors all processes. The Investment Manager is an asset manager subject to Swiss and Luxembourg regulations.

The Board of Directors is responsible for i) approving the risk management policy, ii) approving remedial measures as appropriate, iii) ensuring compliance with the Fund's risk limits, iv) periodically reviewing the effectiveness of the risk management system and v) approving risk measurement methods including but not limited to, exposure limits and rating methodologies that serve as inputs to the IFRS 9 impairment model.

The overall impairment level of the fund fell by 1.9% relative to 2021.

DESNZs' investment into GCPF is equity and the investment sits on DESNZs' balance sheet. Despite being equity, DESNZs' investment (junior, mostly lossmaking shares with few options for later being sold) is more akin to a grant. Central DESNZ Finance are updated quarterly with the reported Net Asset Value of DESNZs' shares. If the shares lose value, this requires Annually Managed Expenditure (non-departmental government expenditure) budget cover.

Section F: Programme management: delivery, VfM, commercial and financial performance

Delivery against planned timeframe

There is no end date to the Fund or to DESNZ's investment. Delivery is monitored against a Logframe that aligns to GCPF's Business Plan targets.

Performance of partnership

DESNZ is an active shareholder aiming to have a positive relationship with GCPF's Investment Manager and specialists, and actively participates in shareholder calls. DESNZ is updated quarterly on Fund performance in Shareholder calls and through their high-quality regular reporting. There has been significant churn at working-level within the GCPF team in ResponsAbility in 2022.

DESNZ worked closely with the German and Danish governments to discuss options for modernising the Fund. This culminated in a joint letter to all non-public Shareholders. DESNZ also engaged either bilaterally, through UK-initiated meetings, or through responsAbility-convened meetings to discuss Fund reform at length. Although Shareholders had conflicting views, these meetings were productive and enabled DESNZ to better understand the priorities of Shareholders into the mezzanine asset class.

James McEwen is the UK-nominated Board Director, who has served on the Board since 2016. In 2022, with Mr McEwen, BEIS (now DESNZ) held a recruitment process to select a new candidate to replace Mr McEwen when his terms ended in 2023. This was a successful process, with interviews held in February 2023 and the nomination now with GCPF's regulator for approval.

DESNZ has been represented in the Technical Assistance Facility Committee by a Head of Team in the Department for Environment, Food and Rural Affairs. In 2023, DESNZ will refresh engagement with the Technical Assistance Facility, including by reviewing the role of the UK-nominated Committee member and establish further channels to meaningfully understand and support TAF activities.

DESNZ should look across similar green finance programming to identify any bridges between GCPF's work and that of the wider portfolio and where relevant, more could be done to highlight risks and successes to HMG's Post network. This is particularly the case in areas of high GCPF investment exposure such as Vietnam where the DESNZ team have connected with colleagues in post to align work with the Vietnam Just Energy Transition Partnership (JETP).

Asset Monitoring and Control

DESNZ has a relatively high level of confidence over safeguarding of assets as a result of the reviews, the external evaluation in 2018, GCPF's independent compliance review every three years and the regular reporting and shareholder calls. In addition, we receive quarterly share values for our investments which provide regular oversight of the financial progress between the annual financial statements.

A new external evaluation following the one carried out in 2018 would provide additional confidence regarding these measures.

Financial performance

DESNZ's commitment is fully invested into GCPF. This annual review assesses GCPF against the 4 Es framework (economy, efficiency, effectiveness and equity).

Economy

As the fees to the delivery partner are paid from the returns that the Fund makes, the UK does not need to add new expenditure on management fees or a service contract. The fees are, however, taken from revenue before the returns are made to shareholders, so indirectly they are paid from the return that DESNZ gets. However, DESNZ's investment does not aim to make a significant return and any return is recapitalised into the Fund.

The evaluation of GCPF benchmarked the Investment Manager's fees against other industry segments and found them to be reasonable. The TAF team manage a team of five, managing procurement of consultants, quality assessment and follow up. They have demonstrated to the TAF's governing body, the TA Committee, that fees are negotiated to a reasonable minimum as a matter of course, as well as through its own operations such as in-sourcing event management as well as the team drawing on colleagues to reduce consultancy fees and reducing banking fees. The below excerpt from the GCPF Mid-Term Evaluation Report 2018 further contextualises this assessment:

Benchmarking of the fees incurred in the management of the GCPF suggests the Fund is being delivered at comparable levels of efficiency to other similar funds; total fees by headcount are comparable to a range of other public and private funding sources.

It is important to note when comparing GCPF with all of these comparators that there are a number of challenges. For example, public sector comparators such as CDC, FMO and the IFC offer blended financial instruments (specifically debt and equity). This may make direct comparison challenging. As such, caution should be used in considering these as direct comparators. Similarly, in the case of private sector comparators – few (if any) are working in environments as challenging as GCPF.

An assessment of the fees incurred should, however, also be considered in the context of favourable feedback about the value of, and additionality of, the TA the GCPF provides; it was commonly identified by most PIs as the most valued element of the Fund for them.

No new contribution to the TAF is expected as new governance changes (whereby the TAF better benefits from the waterfall model of GCPF) means that the Facility is on track to become fully independent of donor contributions.

<u>Efficiency</u>

DESNZ judges GCPF to be efficient in delivering outputs. In 2022, 1,100 new sub-loans with a value of USD 36m were disbursed by GCPF's partner institutions and 83% had met their on-lending targets. GCPF also had the second strongest year in its history in terms of disbursements through Financial Institutions (USD 168.8m disbursed).

The UK made a strong case to make GCPF more efficient at the Fund-level by capping the dividends of the mezzanine shareholders for the benefit of the whole Fund. This would go some way to improve the sustainability and efficiency of GCPF, lessening the need for regular public funding contributions in future. This builds up the recommendations from last year to ensure that junior shares are adequately recapitalised in the funds future to enable efficient delivery of outputs in a sustainable manner.

GCPF continues to be proactive in monitoring and responded quickly to emerging risks in the portfolio and communicates this in a timely manner. Their specialists operate from offices in Switzerland, India, Vietnam, Georgia, Kenya and Peru, enabling them to become a trusted partners to FIs and providing on the ground support.

Delivery of Technical Assistance Facility projects had a renewed year of in-person activity with travel restrictions being lifted in 2022 which enabled new learning events. This remains GCPF's comparative advantage in an increasingly competitive green lending market. However, there was a reduced number of new TAF activities approved with focus instead placed on providing quality support to ongoing TA projects as discussed in previous sections.

Effectiveness

BEIS judges GCPF to be effective if it is successfully encouraging new financial institutions to come forward to receive funding and if new investors are coming forward to invest into GCPF. The revised KPI 15 methodology for the Programme judges 'evidence of effectiveness' against a) GCPF supporting an increasing number of countries and Partner Institutions, b) GCPF managing operational risk well, c) GCPF meeting Business Plan targets for emissions reductions and energy savings. Analysis found that GCPF met the first two metrics and slightly missed the third.

Cost effectiveness of emissions abatement:

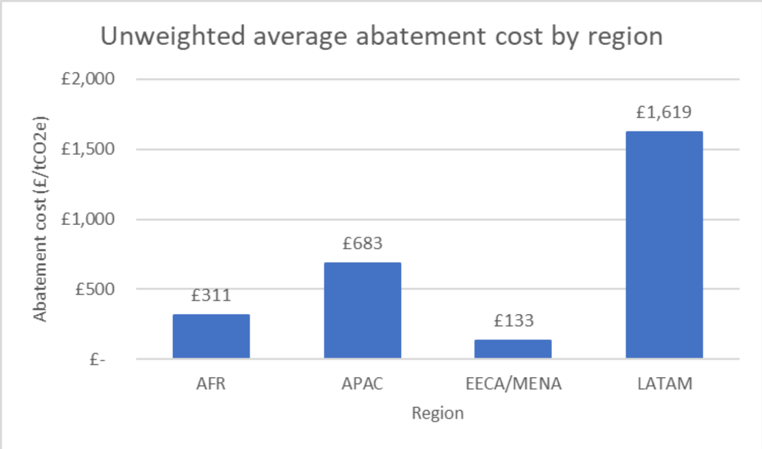
The cost for a GCPF-funded project to remove a tonne of carbon dioxide is used as a measure of the cost effectiveness of the GCPF portfolio. This cost of abatement is not considered in GCPF's appraisal of sub-loans and is not included in their Investment Guidelines. Whilst a low abatement cost may indicate that loans and projects are highly effective at abating large volumes of emissions at low cost, high-cost abatement activities often target hard to abate sectors and deliver other co-benefits including developmental or wider environmental benefits. Value-for-money metrics like abatement cost should therefore be interpreted with caution as comparisons between projects and programmes can be complex and highly dependent on methodologies and caveats – the overall value-for-money and effectiveness of a programme cannot be defined by one metric alone.

Based on data shared by GCPF on 66,054 sub-loans disbursed since inception in 2011 (and 3,621 sub-loans disbursed in 2022), the abatement cost of projects funded by GCPF sub-loans can be analysed as a demonstration of the distribution of abatement cost across the GCPF portfolio. Overall, the sub-loans analysed appear to continue to be concentrated in the Asia-Pacific region and Latin America where abatement costs have been higher than average, whilst new sub-loans in the Industrial Process and Transportation sectors show a shift away from the Renewable Energy sector but also increasing the average abatement cost as a result.

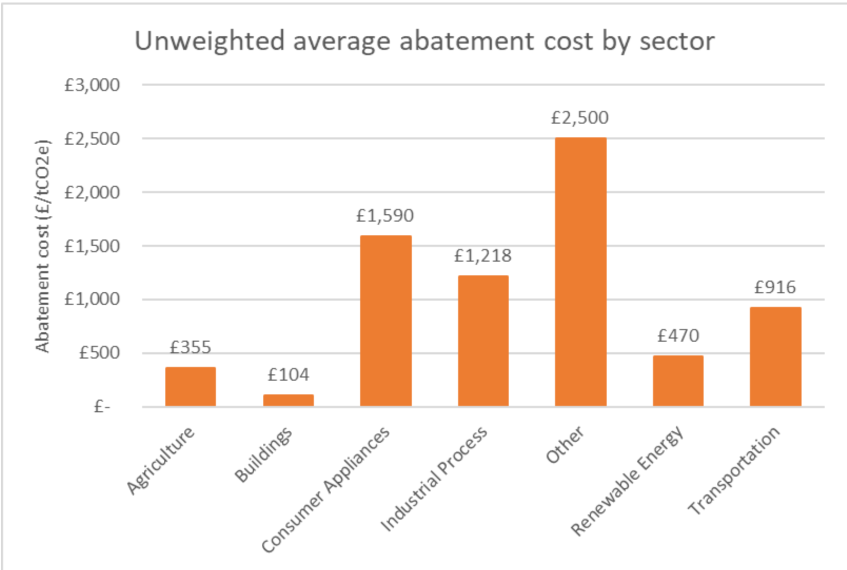
In this analysis, the abatement cost per project is defined by the total project cost divided by expected lifetime emissions savings per project. Abatement costs are then disaggregated by sector, technology and region to examine variations across the GCPF portfolio. A weighted average abatement cost is calculated according to each project's share of GCPF funding (i.e. sub-loan value) to give greater weight to loans that represent a larger share of GCPF's portfolio – an unweighted average is also presented for comparison. Disaggregated average abatement costs are unweighted. Projects with abatement costs above the 99^{th} percentile are excluded from the calculation of average abatement costs to avoid skewing this metric due to projects that coincidentally abate very small volumes of emissions and to exclude potential reporting errors.

In 2022, GCPF-funded projects had an average **weighted abatement cost of £590/tCO2e** (compared to an unweighted cost of £1,199/tCO2e). A lower weighted abatement cost indicates that projects that are given larger sub-loans tend to be more effective at abating emissions, which could be interpreted as GCPF effectively identifying and focusing investments on projects that are more likely to have greater direct abatement benefits.

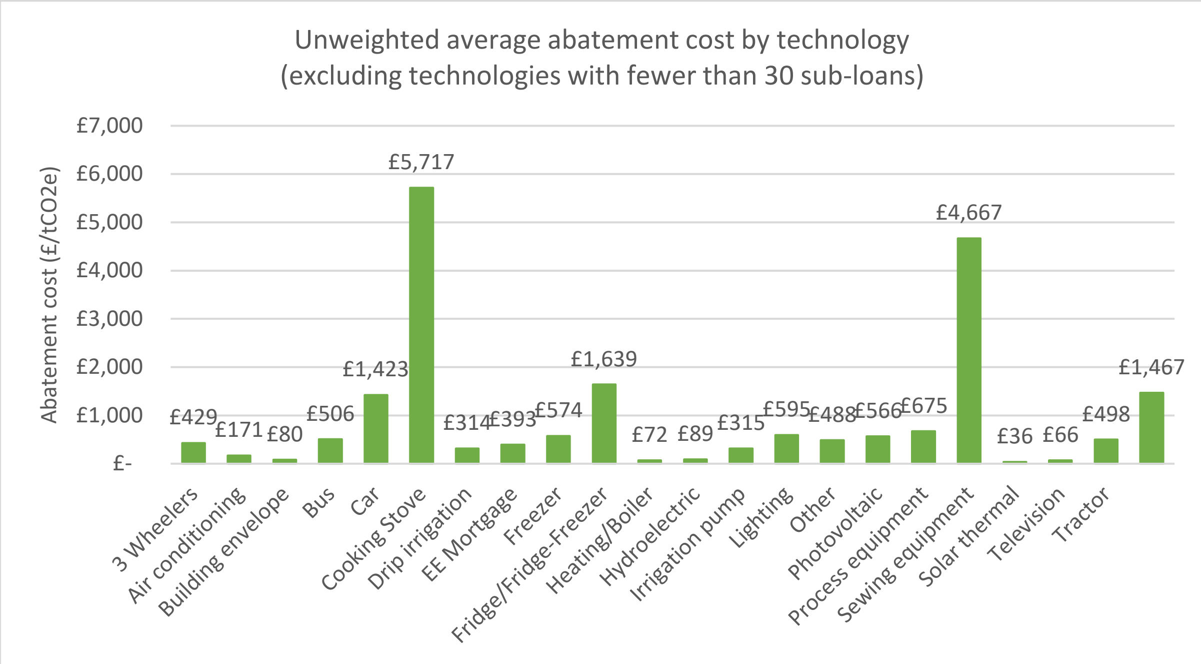
At the same time, this compares to an overall **weighted abatement cost of £310/tCO2e** (or £918/tCO2e unweighted) **since GCPF's inception**, which may serve as evidence that projects supporting energy efficiency improvements or renewable power generation are no longer delivering as much emissions abatement compared to earlier projects as wider sectors and host countries become greener over time.



Across regions, the majority of sub-loans were disbursed in the Asia-Pacific region (70%) and Latin America (26%) in 2022. This is consistent with the total distribution of sub-loans disbursed in Asia-Pacific (45%) and Latin America (30%). Abatement costs are dissimilar in these regions – **£683/tCO2e in Asia-Pacific** and **£1,619/tCO2e in Latin America**. In comparison, the abatement cost is **£133/tCO2e in Eastern Europe and Central Asia / Middle East and North Africa (EECA/MENA)**, representing 21% of the total GCPF portfolio (but only 4% of sub-loans disbursed in 2022).



Across sectors, average abatement costs (and the distribution of new sub-loans) are similarly diverse. The largest two sectors by total sub-loan value, **Renewable Energy (46%) and Transportation (16%), have abatement costs of £470/tCO2e and £916/tCO2e** respectively. In comparison, the lowest abatement cost of **£104/tCO2e is in Buildings** and the highest (excluding those labelled as Other by GCPF) is **£1,590 in Consumer Appliances**. 70% of sub-loans disbursed in 2022 (by value) were concentrated in Industrial Process (41%) and Transportation (35%), suggesting that GCPF may be diversifying away from Renewable Energy given that loans in Industrial Process make up 13% of the total portfolio since inception.



Across technologies, the majority of sub-loans disbursed in 2022 were in two technologies, Process equipment (54%) and Car (33%), consistent with the distribution across sectors. In comparison, the total distribution of sub-loans is much more diverse – Photovoltaic is the largest technology with 33% of all sub-loans since inception (Process equipment and Car are the next largest technologies with 10% each). Abatement costs in these technologies are relatively similar – **£566/tCO2e in Photovoltaic**, **£675/tCO2e in Process equipment** and **£1,423 in Car**. Abatement costs in other technologies are significantly more diverse (although 10 of 32 technologies have fewer than 30 loans so are not considered sufficiently representative to be included here). The lowest abatement cost is **£36/tCO2e in Solar thermal** and the highest is **£5,717/tCO2e in Cooking Stove**.

Abatement costs in photovoltaic and solar thermal technology projects are low compared to other technologies and are the primary driver for a relatively low abatement cost in Renewable Energy, which would be expected given the typically low monetary input required to achieve high volumes of abatement in these technologies. Conversely, Consumer Appliances has the second-highest abatement cost by sector, driven by technologies such as Cooking Stoves and Sewing equipment where projects are more likely to deliver items and volumes of emissions abatement at significantly smaller scales. However, it should be noted that even abatement costs of projects within countries, sectors and technologies can be varied such that using cost effectiveness metrics alone to guide investments would not guarantee that low (or high) abatement costs could be successfully targeted by GCPF.

Equity

GCPF ensures minimum safeguards and processes are in place to prevent unlawful discrimination and to advance equality of opportunity. GCPF does this on two levels, at the level of the Partner Institution and at the project level. In order to meet GCPF's ESMS requirements, Partner Institutions must develop favourable management practices for labour and working conditions to achieve good worker management relationship, fair treatment, non-discrimination and equal opportunity, safe and healthy work environments. GCPF requires compliance with local regulation and with IFC Performance Standards and EHS Guidelines, as well as with other international frameworks regarding non-discrimination and adequate management of human rights issues such as the UN Guiding Principles on Business and Human Rights and the ILO Declaration on Fundamental Principles and Rights at Work.

At the project level, the Investment Manager requires and reviews project-specific documentation (permits, HR policies, environmental licenses, environmental impact assessments, etc.) to approve sub-loans being reported to GCPF. The extent of documentation required varies with the sub loan's size, tenor and risk category, in line with the GCPF ESMS. Project-specific information may be updated and monitored on an annual basis if required. Technical assistance activities also cover environmental and social risk management.

To ensure compliance GCPF requires the following reporting: 1) annual environmental and social questionnaire; 2) annual environmental and social compliance certificate; 3) periodic project-specific audits as required ("environmental and social monitoring visits").

Date of last narrative financial report	31st December 2022
Date of last audited annual statement	31st December 2022