FMO
Entrepreneurial Development Bank

Management Response to the Climate Investor One Mid-Term Evaluation

Five years after the start of Climate Investor One (CIO) the first out of four mid-term evaluations has been finalized. FMO has played a crucial role in setting up the management company behind CIO, Climate Fund Managers, and is also an investor in CIO. Therefore, we were eager to receive the findings, conclusions and recommendations from this learning-focused, independent external evaluation that assesses how this innovative concept has developed in practice.

Already at year five of a 20-year implementation period, the evaluation states that it is clear that CIO's model is proving to be a viable concept. CIO is making good progress in contracting and supporting project developers that are ultimately successful at completing construction, achieving full operations and, as such, providing access to clean energy. The concept of revolvability of Development Fund financing is also working, although slower than originally anticipated. This is amongst others due to Covid-19 which made it difficult to access project sites. CIO's ability to provide early-stage development financing and non-financial support to further strengthen projects and remove key barriers is helping projects succeed and proceed more quickly through to completion. CIO's focus on Environmental, Social and Governance (ESG) adds value and reduces risks and is generally seen positively by project developers. Many developers also appreciate that the Community Development Programs (CDPs) are important for building lasting community support for their projects. We are happy with these results. They strengthen our initial assumption that in response to the climate crisis a highly innovative blended finance tool like CIO is a valuable addition to the Renewable Energy market.

The report also points out lessons that FMO will take to heart in future endeavours, internally or together with CFM or other partners, in the set-up of a blended finance fund. One of the most important lessons is that twenty years is too long to lock in parameters for such a rapidly evolving context as the Renewable Energy market. Building in periodic milestones allows to update parameters for strategy (such as project types, projects' financial structure, and country selection), investment commitment and fee structure. The twenty-year lifetime of the fund was a deliberate choice at conception, permitting for two to three project funding cycles without having to fundraise again. Furthermore, it suited the long-term preferences of some commercial and institutional investors. However, it restricts the ability to reflect changes in the context. This limits the opportunity to adjust strategy, execution and fee structures.

Given the uncertainties during the start-up phase for this innovative and complex concept, the evaluation states that the fee structure developed for CIO should be considered fair for the market context in the 2015-2017 timeframe. The evaluation notes further that currently the overall CIO fees are seen as on the high end of the expected range of large Private Equity funds, per feedback from funders, market experts and public and confidential documentation. This is also driven by the size that CIO has been able to reach, which is larger than initially expected. Another factor to take into account is that CIO is not a typical PE fund, but rather a more tailormade financing approach with an objective to address the financing gap of executing difficult projects with high risk in underdeveloped markets.

Independent third-party verifications concluded that fees were appropriate giving the context and set-up.

As a shareholder in CFM, FMO already discussed the fee structure with CFM, prior to this evaluation, taking into account that existing contracts cannot be amended. These discussions were constructive and, considering the change in context and set-up, resulted in downwardly adjusted fees for CI2. In line with the evaluation's recommendation FMO will also address further improving the communication on fee structure to (potential) investors with CFM going forward.

FMO has taken numerous different roles in CFM and CIO (and CI2) to successfully establish these innovative initiatives. FMO takes the recommendations in this regard seriously. To manage potential conflicts of interest these roles are typically fulfilled by different departments and persons within FMO. Going forward, and in line with the evaluation's recommendations, FMO will designate a person at senior level to better coordinate all FMO roles and adjust where necessary. This internal appointment will be made before Q2 2024. This person shall be able to make overarching decisions regarding FMO roles, arbitrate misunderstandings or potential conflicts of interest within FMO and challenge CFM executive and non-executive management where necessary. Part of the responsibilities will also include a periodic reassessment of FMO's internal functioning relating to CIO.

We thank SQ Consult for their thorough work conducted on behalf of the Ministry of Foreign Affairs and FMO. We also thank CFM for their cooperation.