

Evaluation of Finland's Climate Finance

Presentation of Findings

31/10/2023 Helsinki

Evaluation Questions

- **EQ1. To what extent is the Finnish international climate finance relevant to and coherent with national, global development and climate agendas and the priorities of those involved and affected?**
 - Drivers and objectives
 - Relevance to international needs
 - Coherence with climate diplomacy/development policy
 - Complementarity: international (e.g., IFIs), domestic (e.g., Finnish institutions)
- **EQ.2 To what extent has Finland's climate finance portfolio delivered results over the period 2016-22?**
 - Outcomes, impacts, transformational change (climate)
 - Co benefits, private sector mobilisation, multilateral and national policy influencing/diplomacy
 - Results and target setting considerations
- **EQ.3 Over a five-year period, how can Finland ensure that its Climate Finance Action Plan evolves to remain relevant, credible, influential and impactful?**
 - Trends and peer context
 - Scenarios for development (instruments, value-add)
 - Resourcing

Data collection and analysis

Data sources

- 100+ Interviews, desk research (MFA policy, programme documents), portfolio data (1000 budget lines)

Theory of change development

- Implicit strategy development (Theory of Change)

Portfolio review

- Portfolio classification (c. 500 interventions) by different parameters (thematic, geographic, instrument)
- Sub-portfolio assessment of sample of c. 50 projects (70% value) by OECD DAC criteria

In depth case studies

- Review of private sector instruments and impacts
- Thematic review of adaptation and cross cutting development impacts
- Institutional case study to assess alignment and engagement with Finnish interests
- Country case study (Tanzania)

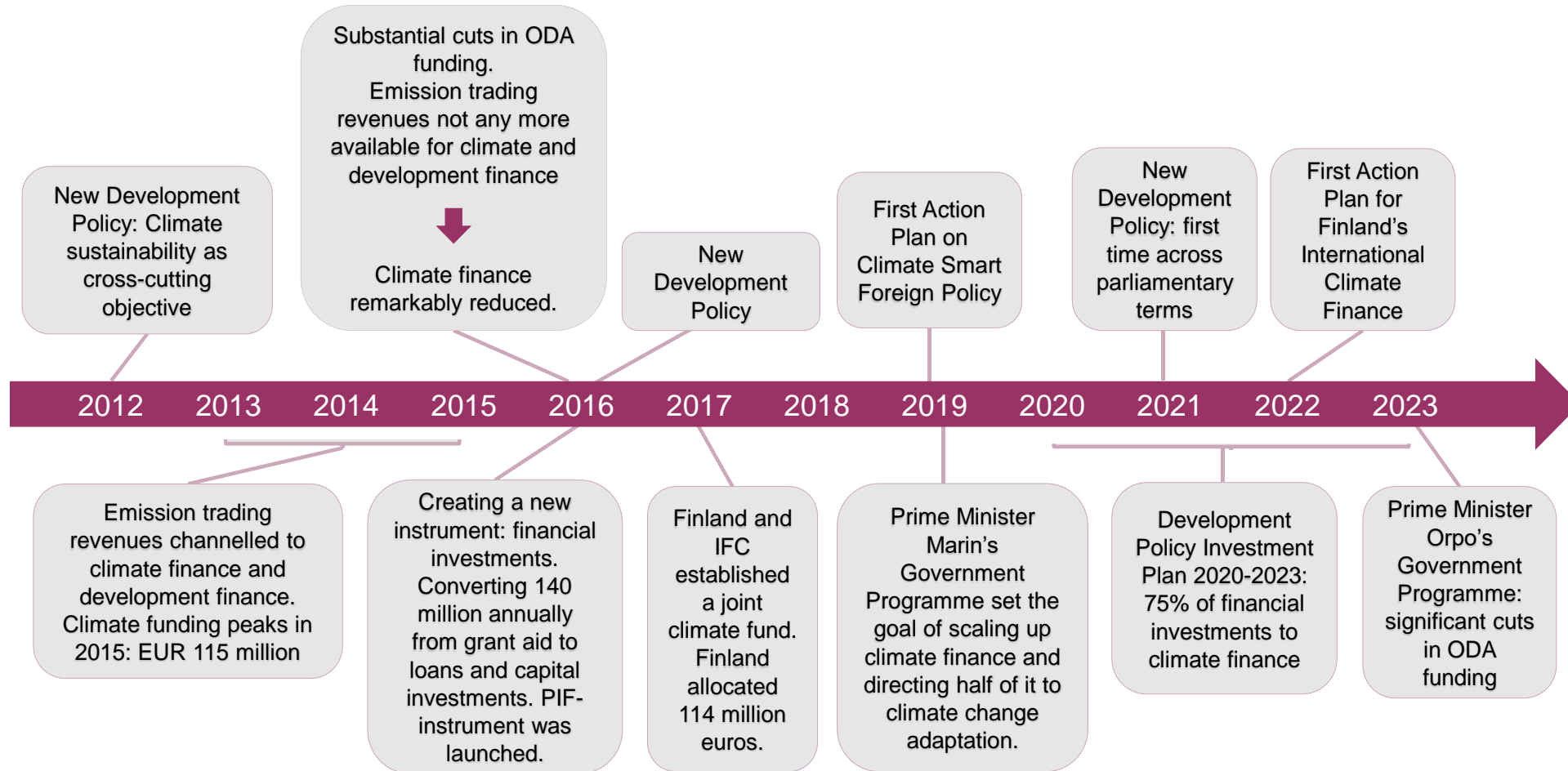
Horizon scanning

- Trend analysis on climate finance
- Peer review consultation and review process among comparator countries

High level portfolio overview

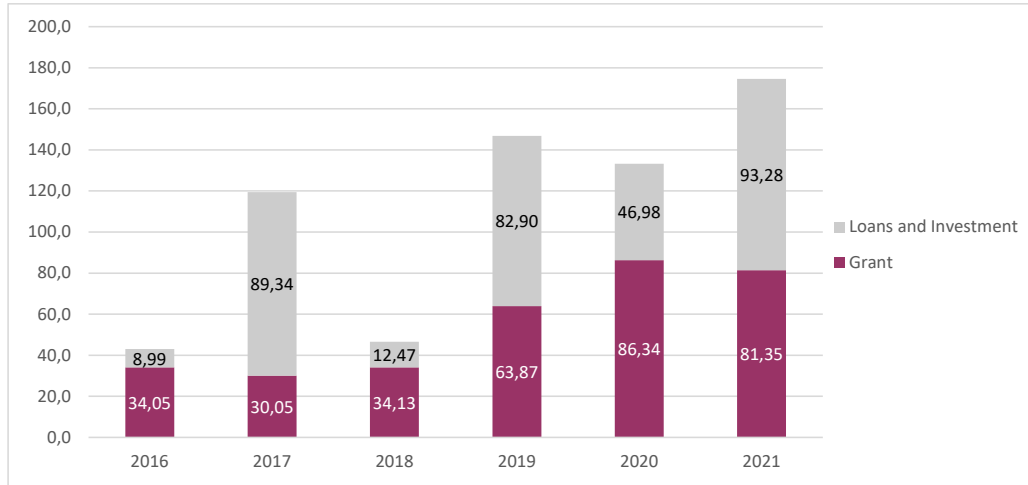
- Finland committed about EUR 664 million to climate finance from 2016-2021
- 500 interventions, 1000 budget lines
- Broad set of disconnected interventions and instruments
- Multiple channels (some dedicated climate finance, some mainstreamed)
- High level policy objectives (Paris Agreement, Africa/LDCs, mitigation-adaptation balance)
- Variable use of targets (e.g., DPI 75%)
- Shift from grants to loans (ODA limitations)
- Shift from bi-lateral to multi-lateral (capacity and reach)

Multiple influences on portfolio development

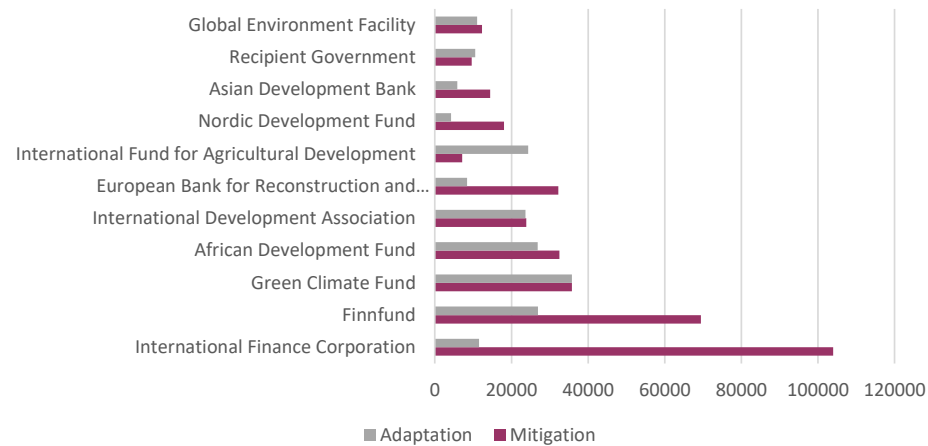


Portfolio shape (1)

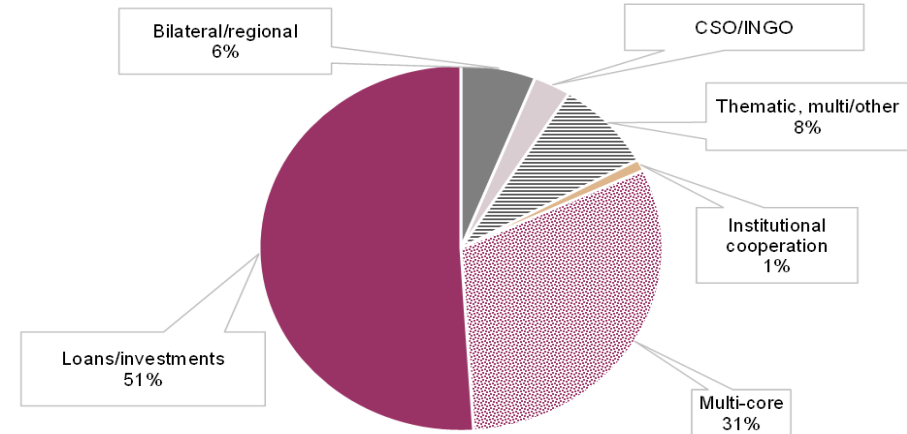
Disbursements by grants, loans and investment instruments 2016-2021 (in million EUR)



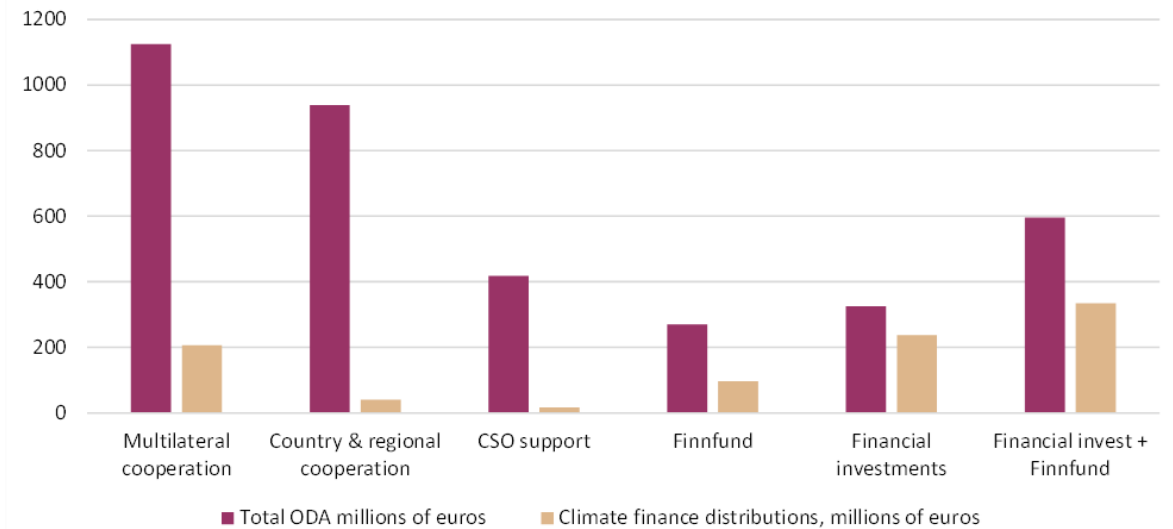
Top 11 recipient organizations 2016-2021 as per the data set identifiers (1000 EUR)



Disbursements by funding channels (categories by the Evaluation team, in million EUR)

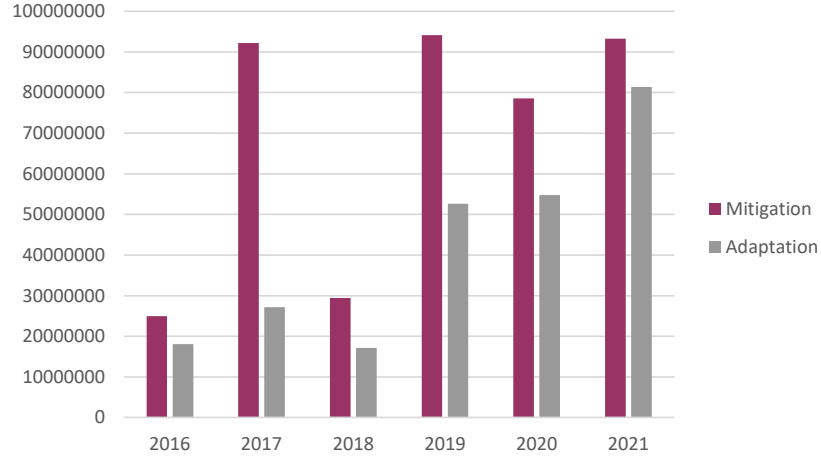


Share of Climate Finance relative to overall development cooperation

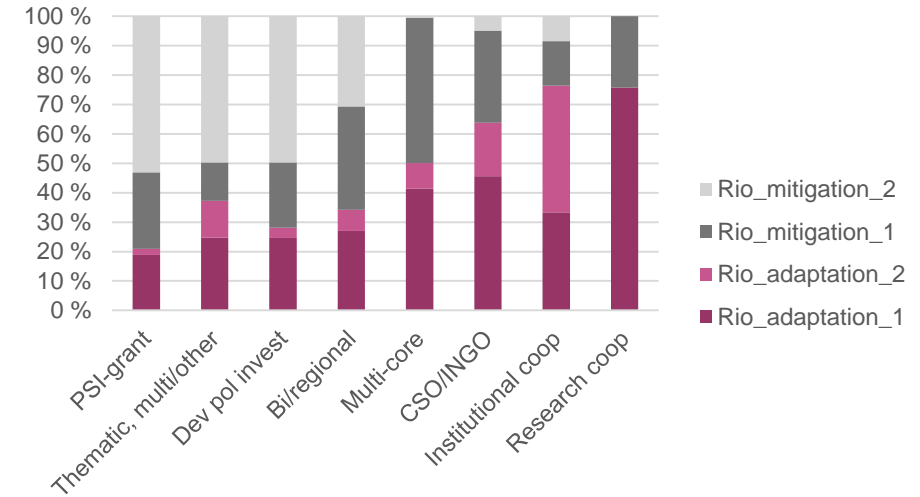


Portfolio shape (2)

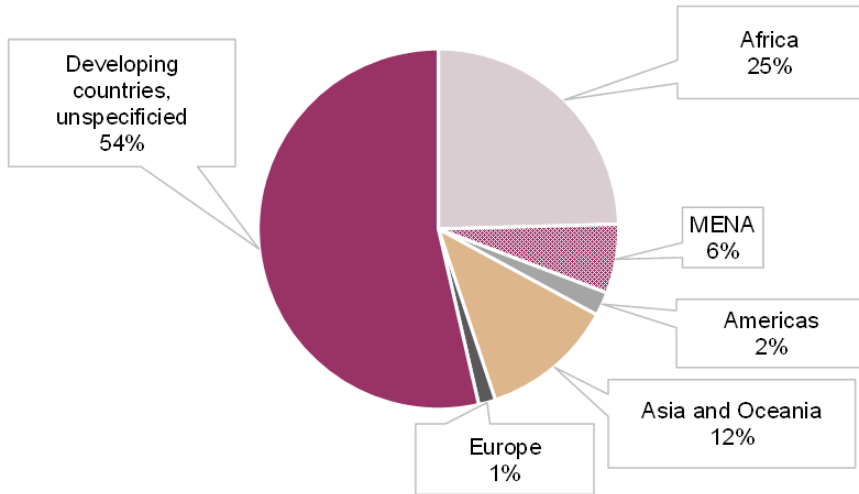
Climate financing focus on mitigation and adaptation (2016-2021)



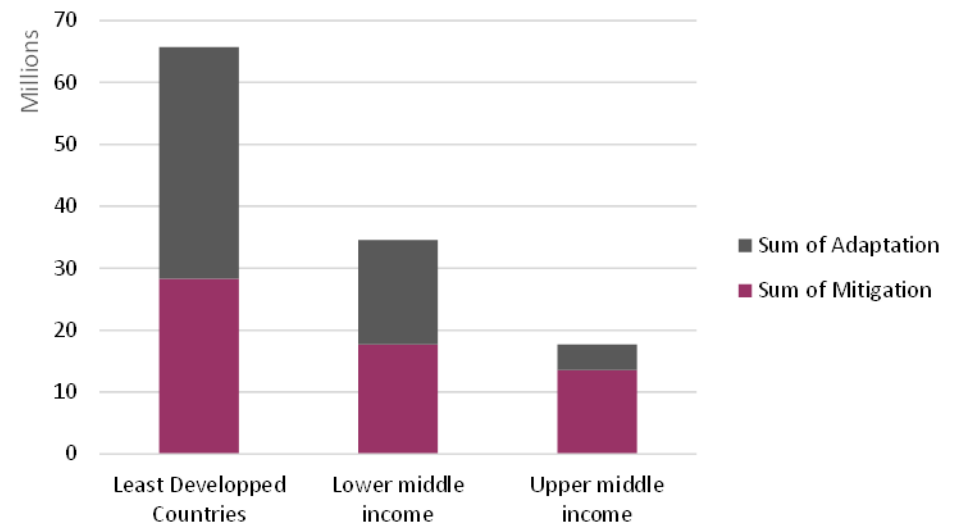
Focus on mitigation and adaptation by channels (recoded channels)



Approximate geographic focus of Finland's climate finance portfolio (in million EUR)



Focus at the country level (million EUR)



Conclusions (1)

Conclusion 1. Strategy: The lack of overall strategy and clearly defined objectives for the climate finance portfolio reduces transparency over funding decisions, limits the discussion around the role of different instruments, and hinders attempts to measure overall progress or success.

Conclusion 2: Relevance and Coherence: Despite the lack of strategy, Finland's programming is well aligned with multilateral objectives around climate action, responds well to developing countries' priorities, international partner expectations, and wider Finnish development objectives (e.g. gender and human rights).

Conclusion 3: Mainstreaming and Paris Alignment: While climate finance is reflected across the range of development cooperation instruments, the MFA has yet to fully embrace the international shift towards Paris Alignment. More effective mainstreaming provides an opportunity to increase climate finance without the need for additional financial resources.

Conclusions (2)

Conclusion 4. Finnish Interests: MFA instruments provide opportunities for Finnish participation in climate finance delivery, but funding streams are relatively small, there are barriers to participation (particularly for private sector and in multi-lateral instruments), and the areas of Finland's comparative advantage are not well defined or understood.

Conclusion 5. Country level influencing: At the country level, Finland's climate finance is transitioning from bilateral programming to multilateral and domestic instrument-based approaches. In this context, it is vital to support climate mainstreaming, maintain line of sight to national climate policy discussions, and encourage coherence and visibility across different instruments.

Conclusion 6. Multi-lateral influencing: Finland is well regarded as a small but supportive partner in the international climate finance arena, with a particular strength in promoting stronger climate-social equity linkages. Further influencing opportunities exist to improve multilateral approaches to additionality, development impact and consistency of reporting.

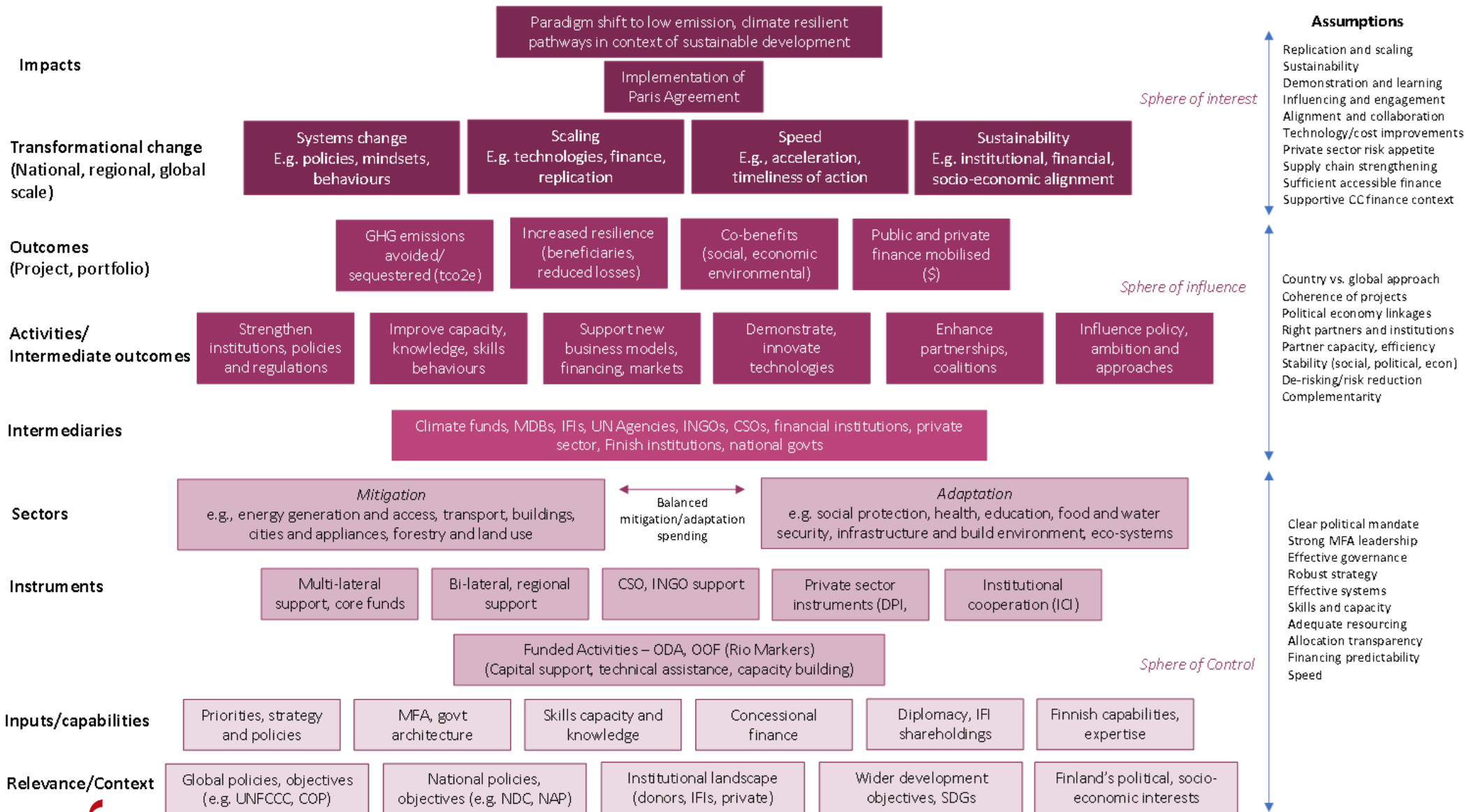
Conclusions (3)

Conclusion 7. Results narrative: Climate and wider development results are not well captured across the portfolio and could be better synthesised into clear and compelling narratives. The absence of a clear strategy reduces the ability of the MFA to frame achievements around strategic priorities, leaving funding decisions around climate finance politically exposed.

Conclusion 8. Transformational change: Many interventions show ambition towards, and emerging signals of transformational change. However, pathways to transformation are poorly described (particularly around development policy investments and the private sector) and could be better monitored over time.

Conclusion 9: MFA staffing and capacity constraints: MFA and partners have shown strong portfolio oversight and management, adapting flexibly to challenges like COVID-19. However, ongoing MFA staffing and capacity constraints, alongside other MFA operational demands, reduce the organisation's ability to engage on important areas such as strategy formulation, project origination, reporting and results, Paris Alignment and multilateral influencing.

There is a strong implicit theory of change



Each instrument has different strategic value

	Dedicated vs reactive	External alignment, coherence	Thematic	Influencing/ diplomacy	Geographic	Transformation/ scale	Private finance /markets	Cross cutting (gender, ND)	Finnish Interests
Dev Pol Invest.	Both	Possibly, weak elaboration. Transactions.	Broad (trends heavily mitigation)	Transaction focused, more towards MDBs	Trends towards (L)MICs	Potentially large, but transaction based	Strong, varied mobilisation e.g. MDBs	Evolving. Shifting from returns to impact but slow	Ambition exists, but limited (excl. domiciled funds)
ICI/ Research	Reactive	Aligned but not proactive	Broad (trends adaptation)	Strong networks (diplomatic substitute)	Broad	Low	Low	Low-medium (technical focus, compliance)	High - Direct funding (incl. companies)
Multi-thematic	Dedicated	Intermediary focused	Trends mitigation	Some link to policy dialogues	Broad	Potentially high	Mixed	Mixed	Limited access
Multi-core	Both	High (but through intermediary)	Broad based	Paris Agreement Alignment	Broad	Potentially high	Mixed	Aspire towards	Limited (procurement)
CSO	Reactive	High (country/ community priorities)	Trends adaptation	Mixed (some influence in CSO networks, policy)	LDC, Fragile states	Demonstration focused, limited replication	Small scale markets and value chains	High	Direct Funding, attempts to link to commercial
PSI	Reactive	Limited	Trends mitigation	Low	(L)MICs	Low (small scale)	Limited	Low	High (Direct funding)
Bilateral/ regional	Mostly reactive	High alignment in theory	Both	High (when properly coordinated)	Priority countries	High - national level systems	Market systems, value chains	High	Attempts to link to other Finnish actors

Results have been significant, but are poorly synthesized

GHG Emissions reductions from sub-portfolio analysis

Bi/Regional	CSO/INGO	DPI	Multi-core	Thematic, multi/other
<p>Rural Village Water Resources Management Project, phase III: Cumulative 352 167 MTCO₂e (Million Tonnes of carbon dioxide equivalent) Greenhouse gas emissions mitigated using sustainable technologies (during the project) (exceeding the target of 250.000 MTCO₂e).</p> <p>Private Forestry Programme Phase I in Tanzania: During their first rotation, the plantations established on degraded grassland have the potential to sequester an additional 2.3 million tonnes of CO₂ from the atmosphere.</p> <p>EEP programme in the Mekong Region: The funded projects contribute to the reduction of 141,800 tCO₂ per year.</p>	<p>Global Alliance for Clean Cookstoves: China: A pilot intervention reaching 10.000 households, led to 13 kg reduction in sulphur dioxide, a 4-ton reduction in CO₂, and a 30 kg reduction of PM_{2.5}. The Ministry for Agriculture considers the recommendations developed based on the pilot in its future policymaking decisions.</p> <p>WWF: 36 967 481 tCO₂e estimated to have been avoided in the MFA and WWF Finland supported areas in Kenya, Madagascar, Tanzania, Uganda, Bhutan, Indonesia, Laos and Nepal in 2018-2020 calculated based on the avoided deforestation rate.</p>	<p>IFAD concessional loan, 12th replenishment: Target set: 112 million tons of CO₂ avoided.</p> <p>Finland-IFC Blended Finance for Climate Program: Total expected GHG abatement: 579.000 tCO₂e annually.</p> <p>ADB venture investment fund 1: 126k CO₂ emissions reduced by the end of 2021.</p> <p>Finnfund ODA equity project examples:</p> <ul style="list-style-type: none"> • Annual emissions around 19.000 tCO₂ and annual removals 198.000 tCO₂ • Lifetime GHG avoided: 7.305 kilo tonnes; annual emission avoided: 245.000 tonnes • Total annual carbon sequestration in investee companies about 3 MtCO₂ • Cumulative avoided emissions until 2028 estimated to be 21.000 tCO₂ 	<p>NDF replenishment 2020: 70 million tCO₂e emissions reduced or avoided (cumulative by 2021).</p> <p>GEF: 339.59 MTCO₂e emissions avoided (reported in terminal evaluations of GEF-5).</p>	<p>EEP Southern and East Africa Multi-donor Trust Fund: 119,466 t CO₂eq GHG emissions reduced or avoided (cumulative in 2021).</p> <p>EBRD Eastern Europe Energy Efficiency and Environment Partnership Regional Fund – E5P Over 772,735 tonnes of CO₂ reduced per year.</p>

Recommendation 1: Strategy

1. Develop overall strategy for Climate Finance: Create a clearer and more integrated strategy for climate finance. This should clearly state the goals considering the resources available, prioritise funding based on clear objectives, and understand the linkages between policy goals and different MFA instruments.

- Accept that Finland doesn't have capacity to be a 'full service' donor, but can still be present at scale
- Build around multi-lateral core funding (e.g., GCF), with additional priorities, strengths
- Multiple routes exist for greater focus (e.g., thematic, geographic, instrument, Finnish interests)
- Link priorities to instrument combinations to achieve objectives

Recommendation 2: Paris Alignment

2. Improve approach to Paris Alignment: Offer clear guidance on integrating climate considerations across all MFA finance instruments, ensuring they align with the Paris Agreement. This guidance should be integrated into the overall climate finance strategy and align with the MFA approach to climate finance reporting.

- Review and strengthen PA/mainstreaming guidance across instruments
- Set increasing targets for climate finance as % share of development assistance
- Link broader country engagement to relevant sectoral and climate strategies
- Improve reporting on Paris Alignment outcomes (see Rec. 6)
- Align/Integrate Rio Marker process with Paris Alignment

Recommendation 3: Finnish interests

3. Strengthen linkages with Finnish institutions and interests: Undertake further consultation with Finnish partners and build clusters around areas of Finnish comparative advantage and interest. Identify funding channels to enhance engagement (particularly with the private sector) and integrate into overall climate finance strategy.

- Undertake more detailed, realistic review of Finnish capabilities (incl. Forestry)
- Assess barriers to and incentives for participation (particularly private sector)
- Explore linkages to domestic climate policy and strengths (e.g., circular economy)
- Develop climate finance – gender/human rights linkages as thematic focus
- Reinvest in areas of technical success (e.g., EWS, Met Services)
- Enhance Finnish participation in multi-lateral and development policy investment funding

Recommendation 4: Instruments

4. Structure instruments around priority themes or geographies: Explore opportunities to integrate and align funding instruments towards specific thematic or regional priorities, including creating common funding windows, and promoting partnerships between different types of organisation (research, CSO, private sector).

- Create more focused (cross-instrument) calls that target strategic priorities
- Align programming cycles and partnership opportunities to support cross instrument cooperation
- Enhance visibility of institutional participation to support partnership formation
- Build stronger linkages between climate finance and climate diplomacy
- Improve guidance on complementarity (phasing, aligning efforts around individual themes)

Recommendation 5: Influencing

5. Enhance multilateral influencing: Strengthen MFA capacity to influence and improve climate operations of bilateral and multilateral partners through clearer guidance and resourcing. Influencing should focus on improving Paris Alignment, raising ambition on development impact (climate resilience, lower income), strengthening additionality and private capital mobilisation, leveraging Finnish expertise and enhancing transparency of results and reporting. Incorporate this into any climate finance strategy.

- Review and enhance multi-lateral influencing plans (reporting, innovation, ambition, Finnish interests)
- Engage on strengthening Paris Alignment processes with partners (learning lessons for MFA)
- Ensure sufficient staff capacity and time to engage with and influence key multilaterals

Recommendation 6: Results narrative

6. Strengthen MFA focus on climate narrative and results: Put a greater focus on narratives and results, including providing the necessary resources for analysis and integration of reporting around strategic themes across instruments. Review opportunities for external support from Finnish research community. Include a plan and guidance on reporting on impact in any climate finance strategy.

- Review core indicators and work to improve methodological consistency and aggregation with partners
- Strengthen results reporting around priority themes (integrating instruments)
- Source external expertise, guidance to support collection, synthesis and integration of impacts
- Build a clear results narrative framework, informed by strategy, to build the case for climate action
- Agree approach to reporting on multi-donor contributions

Recommendation 7: MFA Resources

7. Align resources with strategy: Ensure that MFA capacity aligns with strategic goals, ensuring sufficient resources for key operational objectives (Paris Alignment and mainstreaming, multi-lateral influencing, results synthesis and reporting). Include a plan and guidance on resourcing, including possible outsourcing, in any climate finance strategy.

- Additional staff time to ensure strong Paris Alignment and climate mainstreaming
- Ensure at least 1FTE to support climate strategy reporting (narrative, evidence, indicators)
- Explore opportunities for external support from Finland's research and academic community
- Maximise staff time on value-added activities (origination, influencing, insight generation)