Ministry for Foreign Affairs of Finland

Finnish Climate Finance: Bridging the Gap between Commitment and Action

Background and Rationale

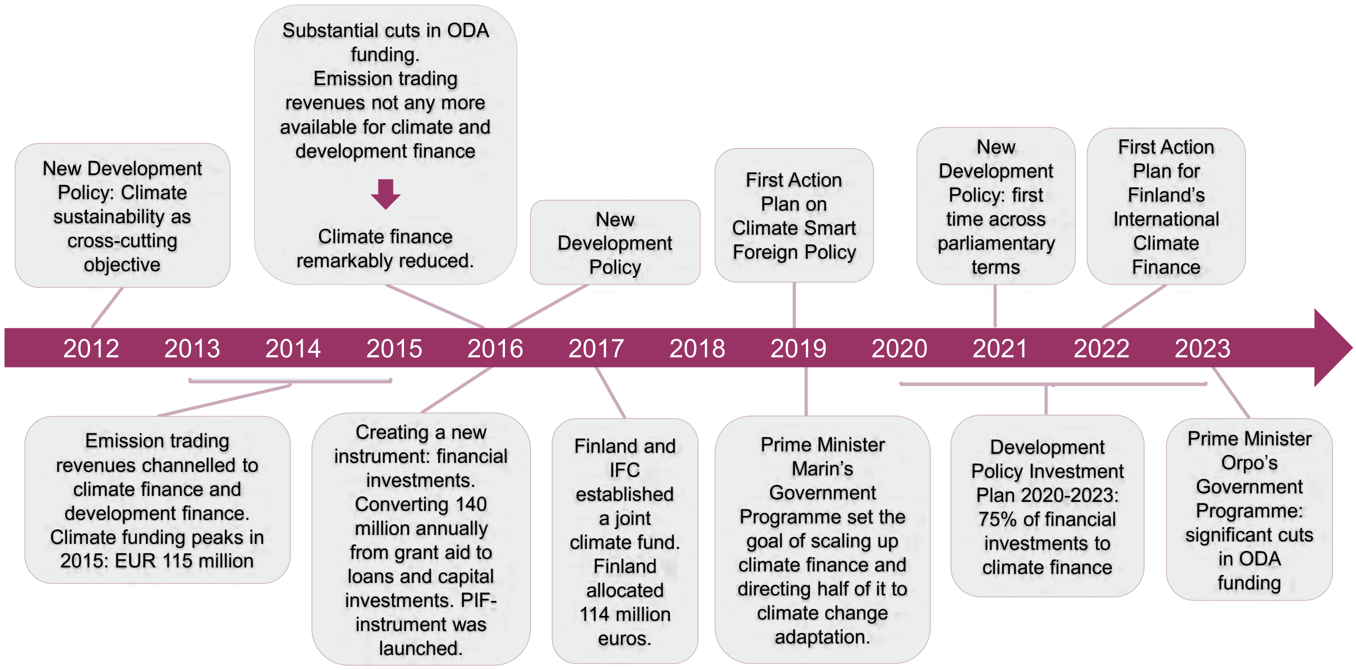
The International Panel of Climate Change (IPCC) recently reported that human activity has already caused global surface temperatures to rise by 1.1°C over the period 2011-2020 compared to the 1850-1900 benchmark. Weather and climate extremes are increasing in every region, resulting in losses and damages to both social and environmental systems, and impacting those least responsible. Current policies and measures indicate that the 1.5°C temperature goal will be challenging to meet, with 2°C of warming likely in the absence of increased policy ambition and financing support.

At the same time, there is insufficient public and private investment both to help developing countries deliver low carbon and climate resilient development. Through a broad range of funding instruments and intermediaries, Finland makes significant public finance contributions towards addressing the climate challenge. However, the Ministry for Foreign Affairs has lacked a coherent strategic plan to inform decision-making and prioritise funding allocation across a potentially wide range of objectives.

The evaluation assessed the **relevance and coherence** of the Ministry's **international climate finance** objectives and actors, **identified results** that have been delivered over the period 2016-2022 and **made suggestions** on how the Action Plan for Finland's Public International Climate Finance could be enhanced going forward. It builds upon earlier assessments undertaken by the National Audit Office of Finland (NAOF) and Development Policy Committee (DPC) on Finland's climate finance portfolio.

The evaluation covers the period 2016 to 2022 focusing on a broad range of funding instruments. The period under review spans several of the latest Finnish government programs, as well as the development of a range of relevant climate policies and action plans (see Figure 1). The drivers of climate finance disbursement are also influenced by earlier decisions introducing climate as a cross cutting objective.

Figure 1: Timeline of Events shaping Finnish Climate Finance



The main users of the evaluation are different units in the Ministry managing climate finance and development policy investments. The secondary users are the Ministry of the Environment, Ministry of Finance and the Development Policy Committee (DPC) as well as different partners, actors and stakeholders. The evaluation results will be used to inform the longer-term planning and coordination of Finland's international climate finance as a whole and thereby in further strengthening the effectiveness and impact of climate finance.

In this brief, the Development Evaluation Unit highlights relevant findings and conclusions reached by the evaluation team.

MFA is viewed as a collaborative and engaged partner in climate finance but not a very innovative one

Finnish support for large climate funds and other multi-lateral facilities provides Finland with opportunities for influence. Finland has had some success, particularly on climate-development linkages such as gender and human rights. It is not, however, seen as an innovative partner on climate change instruments or approaches. Finland has successfully launched international climate diplomacy and policy initiatives. However, cross-fertilisation between climate diplomacy and climate finance has been limited. Climate policy linkages and influencing opportunities can be lost at the country level.

Finland's climate finance supports global objectives and developing country priorities

In terms of funding volumes, Finland has prioritised multilateral engagement as the core of its approach. The Ministry's interventions are highly consistent with major global commitments under the Paris Agreement and UNFCCC processes, and strongly aligned with developing country policy ambitions and priorities. Wider development priorities such as gender and human rights are also well reflected across the portfolio. In the absence of prioritisation, the Ministry has sought to offer a 'full service' approach like that of other (often larger and better-resourced) donors.

Finland has lacked a clear and overarching strategy for its climate finance allocation…

Several different strategies and policies have influenced the shape and direction of Finland's climate finance. There have also been some high-level objectives, such as a geographic focus on Africa and Least Developed Countries and the aim to balance support for mitigation and adaptation. Over the period, there has been a shift away from grants towards loans and investments. There has also been a movement from bilateral to larger multilateral contributions. The desire to leverage Finnish expertise and encourage private sector development and finance are also considerations in programming.

…but has nevertheless achieved a broad range of climate outcomes

The vast majority of programmes funded by Finland were able to demonstrate a broad range of climate outcomes. There is evidence that a significant proportion of Finnish climate finance interventions are aiming to deliver transformative impacts beyond the timescales and funding boundaries of the interventions themselves. Finland's climate finance portfolio has a strong level of alignment with other development objectives such as gender and human rights. Results arise from across a range of sectoral interventions (energy, water, agriculture, and forestry) and deliver benefits including GHG emission reductions, resilient livelihoods, and sustainable management of land and forests. Finland mainly achieves these through multilateral funds. The Ministry has established a strong foundation in supporting meteorological interventions worldwide, especially through the institutional cooperation.

Finland's level of funding is nonetheless assessed as being below its 'fair share'.

Climate finance has steadily increased over recent years across peer group, which constituted of Canada, Ireland, Sweden and Switzerland. An international comparison of developed countries contributions to 'the USD 100 billion' goal by 2020 showed significant variation. Of the peers reviewed, only Sweden delivered its 'fair share' of climate finance. The level of climate finance reflected prevailing ODA levels and the alignment of countries with the 0.7% GDP ODA target.

Finland's climate finance is a broad set of disconnected interventions and instruments

Finland committed about EUR 664 million to climate finance from 2016-2021, divided almost equally between grants and loans/investments. More than 500 different interventions were identified, with climate finance spread across multiple channels. These channels range from large contributions through multilateral institutions like the Green Climate Fund, to domestically oriented instruments providing access to Finnish institutions. The largest portion of funding goes through multilateral entities and Finnfund.

Different policy priorities require different combinations of cooperation instruments

In addition to the variance by policy priority area, each funding instrument has their own strengths and limitations. For example, funding through multilateral platforms has the potential to bring scale, but results are sometimes slow, and there are challenges for participation by Finnish institutions. CSO instruments are more flexible, often prioritizing smaller-scale, community projects that address adaptation and vulnerable regions. Development Policy Investments target more commercial sectors (such as renewable energy) in markets with higher levels of social and economic development, and often with a focus on project pipelines and transactions.

Target setting and mainstreaming are important for driving ambition

Some instruments are fully dedicated to climate objectives (e.g. contributions to climate funds) or have clear climate funding objectives (e.g. 75% of Development Policy Investments). Other instruments, however, have a partial or more 'mainstreamed' focus which is strongly dependent on signals provided through MFA guidance. The latter approach is typical for more domestically oriented instruments (civil society organisations, institutional cooperation, and private sector) where there is a lack of clear climate targets or guidance, and where climate finance is identified through the Rio Marker screening process. The Ministry has yet to fully internalise the international shift towards Paris Alignment across development cooperation and there are opportunities to strengthen the mainstreaming approach across instruments.

Institutional cooperation and participation by civil society have been successful but engaging private sector remains a challenge

Instruments oriented towards institutional cooperation and civil society participation have been particularly successful in leveraging national expertise, building clusters of projects around early warning, disaster risk reduction, agriculture and forestry. Finnish climate finance has also resulted in support for several Finnish domiciled funding initiatives (e.g. Finnfund, Nordic Development Fund Energy and Environment Partnership). It has been more challenging to engage the private sector in climate finance interventions due to a lack of scale, interest and perceived opportunity costs. The increasing use of multilateral funding instruments has also created barriers to Finnish participation due to procurement rules even though the Ministry has made significant efforts to improve linkages and awareness.

Finland is not known for its climate funding as it is not telling the story

There is no coherent narrative or synthesis of Finlad's contributions. A high level of variation in reporting and methodologies, challenges in attributing results large multi-donor funds and long timescales for outcomes to emerge make results hard to aggregate. The lack of an overall framing strategy, portfolio fragmentation, and resource constraints further hinder the Ministry's ability to tell its story.

Portfolio has been efficiently managed…

Finland's portfolio has been well managed by the Ministry and its intermediaries and both have been able to respond to implementation challenges effectively. Despite significant delays due to COVID-19, expectations around delivery of results have remained strong due to the flexible use of no-cost extensions and adaptive management.

…but resourcing within MFA remains a constraint

Capacity issues within the Ministry nonetheless remain, particularly as the portfolio has grown in complexity without a commensurate increase in resources. This is particularly true in terms of reporting and results synthesis, mainstreaming approaches (including Paris Alignment) and multilateral influencing.

Evaluation methodology

The evaluation included a portfolio data review of more than 500 interventions, a more detailed assessment of 49 interventions representing more than 70% of the value of the portfolio. It further included a peer donor review and trend mapping, and interviews with more than 100 stakeholders. The evaluation also produced four case studies on 1) adaptation and cross cutting objectives, 2) development policy investments for the private sector, 3) opportunities and benefits for Finnish stakeholder participation and 4) the role of climate finance at the country level using Tanzania as an example.

Acknowledged limitations of the evaluation

- the scale and complexity of the overall portfolio
- some constraints in the availability of project documentation
- variability in results reporting and methodologies
- focus at portfolio level, not individual projects except for those selected in the case studies
- the turnover of MFA and project staff relevant to the overall evaluation period
- long timescales associated with climate programming results and transformational impact.

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The full evaluation report and other materials will be published in:
https://um.fi/development-cooperation-evaluation-reports-comprehensive-evaluations