

SUMMARY

# FINLAND'S CLIMATE FINANCING NEEDS A CLEAR DIRECTION

Analysis by the Finnish Development  
Policy Committee, January 2022



DEVELOPMENT  
POLICY COMMITTEE

## Summary

International climate finance refers to the obligation of industrial nations to channel funding to developing countries to support their actions to mitigate climate change and to help them adapt to the effects of climate change. Climate finance can reduce inequality and address the needs of the poorest and most vulnerable groups in particular.

This analysis by the Development Policy Committee (DPC) examines international climate finance from the perspective of development policy and aims to encourage discussion and decision-making related to the subject in Finland. Our approach is based on promoting Finland's global responsibility and climate justice as part of the implementation of the UN Agenda2030 for Sustainable Development.

The need to increase climate finance is enshrined both in the UN Framework Convention on Climate Change and the Paris Agreement, since the current sums are insufficient to meet the international targets. In addition, funding is often channelled to purposes other than providing support for the most vulnerable.

The United Nations Climate Change Conference in Glasgow agreed that industrial nations should deliver on the previously set annual climate finance pledge of USD 100 billion as soon as possible. The level of funding post 2025 will be negotiated in the coming years, and there is significant pressure for increasing the funding for developing countries. In addition, it is important to allocate climate finance equally between mitigating climate change and adapting to its effects.

The climate finance guidance on implementation and reporting vary across countries. States have different views on which funding sources should be considered as part of climate finance for developing countries. Some consider that grant-based aid and loans granted on favourable terms should be included while, for example, market-based loans and export credit should not. Some countries include funding from all sources as climate finance. A lack of clear definitions and quality issues in reporting are problematic for monitoring and evaluating the implementation of climate finance.

In Finland, climate finance has mainly been included in development cooperation. Finland's public climate finance has been channelled to developing countries through

various channels, forms and instruments. The majority of funding has been channelled through development policy investments and multilateral organisations and funds. The amount of funding has fluctuated considerably from year to year. In 2016–2020, the largest share of climate finance consisted of grant-based funding, with the exception of 2019, when the share of financial investments was higher. In the 2022-2026 budget, the share of grant-based support is still greater than that of financial investments. Overall, climate finance would grow by EUR 189–225 million annually.

It is time for Finland to fully adopt climate finance as part of wider climate policy and the implementation of Agenda 2030. This is a concrete way to achieve climate justice, i.e., it can address inequalities caused by climate change and pay attention particularly to the most vulnerable groups. The recommendations presented in this analysis guide Finland's action towards more responsible, just and effective climate finance. Those deciding on climate finance face choices that must be made soon and be justified well.

To meet these growing demands, Finland needs a transparent long-term operating model, as well as a plan to increase and target its international climate finance. In order to guarantee adequate funding, a clear, parliamentary plan extending over several government terms must be drawn up. It should include an increase in development cooperation appropriations to the 0.7 per cent of GNP in accordance with Finland's commitments by 2030 at the latest to guarantee sufficient funding. At the same time, climate finance must be increased so that it is new and additional to development funding.

Climate finance should be viewed as a whole as its implementation requires broad-based cooperation between different sectors and actors. The guidance system of climate finance and division of responsibilities requires clarification. Parliamentary decision-makers are needed to draw up a strategic, long-term climate finance policy and to monitor its implementation. In turn different ministries and their experts are needed to draw up more detailed plans and guide their implementation.

By increasing climate finance, we can take concrete steps to promote both mitigation and adaptation measures and the role of Finnish actors in international climate work. It is essential to dismantle the silos that have formed around climate finance actors and to promote Finnish climate action that generates added value throughout the value chain.

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