FINLAND'S CLIMATE FINANCING NEEDS A CLEAR DIRECTION

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DEVELOPMENT POLICY COMMITTEE

Contents

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.

It is time for Finland to fully adopt climate finance as part of wider climate policy and the implementation of Agenda 2030.

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.

Preface

Finland must answer urgent questions of international climate finance responsibly

The consequences of climate change are already apparent. They also hit hardest the regions and people that are already the most fragile. Financing is needed to avoid a climate crisis, since achieving the ambitious goals for reducing emissions, achieving carbon neutrality and adapting to climate change require swift and adequate local, national and international action.

International climate finance refers to the obligation of industrialised states, Finland included, to channel funding to developing countries. This funding supports developing countries' efforts to mitigate climate change, and in particular to help the poorest and most vulnerable people to adapt to the effects of climate change so that they can live with dignity.

This analysis by the Development Policy Committee (DPC) aims to explain international climate finance from the development policy perspective and to contribute to the debate and decision-making related to the subject in Finland. In line with our mandate, we focus especially on those themes where Finland has international impact and responsibility, in particular our relationship with the poorest countries and most vulnerable people and groups. That is why, in this publication too, our approach is based on promoting Finland's global responsibility and climate justice as part of the implementation of the UN 2030 Agenda for Sustainable Development. Without climate action and an end to biodiversity loss, it will not be possible to achieve the SDGs.

Since the conclusion of the Paris climate agreement, the issue of finance have been an increasingly hot topic in international climate negotiations. Current climate finance is unable to meet the agreed climate targets because it is too little. Moreover, it is often diverted away from supporting those in the most vulnerable situations and there are no clear criteria for its quality.

Steps are now being taken towards setting new finance targets. It is therefore important that Finnish decision-makers, including Parliament, government officials and the members of various boards, have a clear overview of the situation and its challenges, as well as an understanding of Finland's role in international efforts. This publication is the third of a three-part series in which the DPC examines the emerging challenges of biodiversity, food security and climate change, and the interlinkages between and among these phenomena. It collates previous reviews of Finland's international climate finance in an attempt to chart the current situation internationally and concerning Finland. We also clarify the policy guidance on finance by highlighting outstanding challenges in this area. In this way, we seek to encourage Finland towards a more effective, transparent and fair implementation of climate finance, based on the best available information.

Our publication has four main chapters and a recommendations section. The first chapter provides an overview of climate finance. Chapter 2 introduces the international treaties and principles on which climate finance is based and maps out certain unresolved issues related to it. Chapter 3 presents the international climate finance architecture and the realisation of climate financing for developing countries to date. Chapter 4 switches the focus to the overall picture of Finland's climate finance and its development needs. Chapter 5 presents our recommendations to respond to these needs.

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1. Climate finance is a concrete way of implementing global justice

The latest report by the Intergovernmental Panel on Climate Change (IPCC) shows that we are no longer talking about the future impacts of climate change, but that the changes it is causing are already evident on land, in the oceans and in the atmosphere.[1] However, the measures taken to mitigate climate change and adapt to its effects have so far been insufficient, as shown by a recent report compiled by the secretariat of the United Nations Framework Convention on Climate Change. The report summarises the Nationally Determined Contribution (NDC) targets to combat climate change. This summary shows that while many countries are committed to achieving goals such as carbon neutrality, greenhouse gas emissions, instead of decreasing, appear to be 16 per cent higher in 2030 than in 2010.[2]

Climate finance is intrinsically linked to achieving targets. Countries in Africa, for example, have estimated that they will need USD 2,500 billion by 2030 to be able to meet their NDCs, in order to reach the agreed goal of limiting global warming to 1.5 degrees Celsius.[3] Under the Paris Agreement, financial flows should be consistent with a development path towards low greenhouse gas emissions and climate-resilient development (Article 2.1.c).[4] But markets and governments have been slow to respond to the target as the largest fossil energy producing countries continue to increase production.[5] While fossil fuels were subsidised by over EUR 5,000 billion in 2020 (including not only production subsidies but also climate, environmental and human health costs)[6], climate action averaged about USD 632 billion (just over EUR 557 billion), and mainly elsewhere than for poor countries.[7]

Justice is one of the principles enshrined in the *United Nations Framework Convention of Climate Change (UNFCCC)* and the Paris Agreement. In these agreements, countries commit to protecting the climate for the benefit of present and future generations. This protection is based on common but differentiated responsibilities, guaranteeing all parties the right to development. The economic development of today's developed countries and the benefits it brings have been based on fossil energy, whose cumulative emissions are the principal cause of climate change. The poorest half of the global population is responsible for just over 10 per cent of global greenhouse gas emissions.[8] And yet countries with fairly low cumulative greenhouse gas emissions, meaning those that have contributed little to climate change, suffer its worst consequences.[9] To share the financial burden, rich countries are committed to mobilising international climate finance for climate action by poor and climate vulnerable countries. The Paris Agreement set a target of USD 100 billion for 2020.[10]

Finance can thus be seen as a concrete means of realise climate justice. At its simplest, the term refers to ethical principles and efforts to redress inequalities caused by climate change. Its use in political discourse is connected to demands for preventing the climate crisis through means that increase equality and respect human rights.[11] This perspective has been reinforced in the climate negotiations on finance, because the financing target was not met by the deadline. This was recorded as a major disappointment in the minutes of the Glasgow Climate Change Conference, for example.[12] The minutes also emphasise the previously established need to increase climate finance, take into account the needs of countries that are particularly vulnerable to the effects of climate change and to ensure sufficient funding for adaptation.

In addition to quantity, the debate on justice concerns the modalities, management and effectiveness of channelling climate finance. From the perspective of poor countries in particular, the problem is that most climate finance is in the form of loans, it is managed from the industrialised north, there is a lack of compensation for losses and damage caused by climate change, and there is no overall picture available of the results of climate finance.[13]

2. Agreements and principles provide guidance, but many unanswered questions remain

2.1 Agreements and principles regulating international climate finance

This chapter briefly introduces the strong contractual basis of climate finance stemming from international climate policy. It sets out the priorities for the amount, allocation and thematic content of climate finance. But not everything is embedded in binding agreements, and financing is also guided by a number of softer instruments, the implementation of which is not uniform among countries, including among EU member states. These differing approaches and tensions are discussed toward the end of the chapter.

The UNFCCC and Paris Agreement[14]

International climate policy is guided by the UN Framework Convention on Climate Change (UNFCCC) and the Paris Agreement on Climate Change, and related multilateral negotiations. Climate finance is an integral part of these agreements, and financing issues are negotiated as part of both agreements. Indeed, one important role of these global agreements is to ensure fair access to finance, especially by developing countries.

The UNFCCC, which was signed in 1992 and entered into force in 1994, sets out international goals, principles and other general frameworks for combating climate change. The Convention contains binding obligations for all parties, along with specific obligations for developed countries and economies in transition. According to the principle of common but differentiated responsibility, developed countries have a specific obligation to take the lead in mitigating climate change. All countries should have plans in place for mitigating climate change and adapting to it.

The Paris Climate Agreement entered into force in November 2016. It is a legally binding agreement that complements the previous UNFCCC. Its main objective is to keep the global average temperature increase below two degrees Celsius above pre-industrial levels and pursue efforts to limit the temperature increase to 1.5 degrees. In addition to targets for reducing greenhouse gas emissions, the Agreement sets a long-term goal for adaptation to climate change and the alignment of financial flows towards low carbon and climate-resilient development. For these targets to be achieved, all parties to the agreement are expected to take ambitious action to reduce emissions, adapt to climate change, increase climate finance, develop and transfer technology, strengthen capacities and increase transparency.

All countries should have plans in place for mitigating climate change and adapting to it.

International climate finance before 2025

Although developed countries already committed in the UNFCCC to channel finance for combating climate change to developing countries, the first quantitative target was only set in 2009 at the Conference of the Parties in Copenhagen. It was decided then that USD 100 billion in climate finance to would be directed to developing countries by 2020.[15]

In the Paris Agreement the parties undertook to extend the annual level of USD 100 billion until 2025. It was agreed that the funding would be allocated equally to climate change mitigation and adaptation. On adaptation, it was agreed that the most vulnerable countries, such as the Least Developed Countries (LDC), Small Islands Developing States (SIDS) and African countries would take precedence. In general, the priorities and needs of developing countries should be taken into account in climate finance.[16]

The agreement also includes the possibility to mobilise climate finance through various financial instruments. However, such funding should take into account the need for public and grant-based funding.[17] States with a financing obligation are required to submit plans to the UN biannually on how they will fulfil their financing obligations.[18]

International climate finance after 2025

Negotiations on post-2025 finance targets began at the 2021 Glasgow Climate Change Conference. It had previously been agreed that the finance target should exceed the current annual target of USD 100 billion.[19] However, there was no attempt to specify the actual target in Glasgow. Instead, a process was agreed to define the target democratically as possible. The earlier, USD 100 billion target was based on Hillary Clinton's reconciliation proposal made after the developing countries threatened to walk out of the negotiations in Copenhagen in 2009[20], so the need for inclusive and transparent decision-making was great.

The results of the climate conference were promising. The financing plan is moving forward as a dialogue between technical and political mapping. The aim is to conduct the dialogue in an "open, inclusive and transparent manner, ensuring participatory representativeness". This involved regular consultations between the Standing Committee on Finance as well as United Nations agencies, plus climate finance experts, academia, and private sector and civil society actors. The parties committed to build the post-2025 climate finance goal on the best available scientific information, particularly on the actual financing needs of developing countries.[21]

Principles and criteria of climate finance[22]

The common but differentiated responsibilities and respective capabilities agreed in the UNFCCC have been interpreted as the **polluter pays principle**. This is an important principle in the context of climate finance, where countries' contributions should be in proportion to their historical and current greenhouse gas emissions. **The respective capability of each country** means that the determination of financial contributions must take into account existing national welfare and minimum standards of decent living, but also the potential for future sustainable development.

The UNFCCC also requires that financial flows must be **adequate and**

predictable. The Bali Conference of the Parties in 2007 confirmed these principles and also stated that climate finance must be **sustainable, new and additional**. All of these principles were included in the decisions of the 2010 Conference of the Parties in Cancún. The Paris Agreement does not include sustainability, newness or additionality of climate finance, which has influenced the debate on long-term climate finance, with industrialised countries in particular emphasising the substance of the Paris Agreement.

The adequacy of funding and the closely related concept of precautionary measures mean that climate finance must be at a level sufficient to keep the increase in global average temperature as low as possible. This was further clarified in the Paris Agreement by limiting the average temperature increase to well below 2 degrees Celsius, preferably 1.5 degrees. Financing predictability means that funding should be provided in cycles of several years (for instance 3–5 years) so that developing countries can plan new or maintain existing mitigation and adaptation measures. For this predictability the Paris Agreement included a reporting obligation.

Gender equality has not been a part of the UNFCCC since its inception, but gender equality and the importance of women's participation in combating climate change were highlighted in the Cancún Agreements in 2010. Gender equality has since become an element of climate policy and the agreements defining it. The Climate Conference of 2014 adopted the Lima Work Programme on Gender, which focuses on the promotion of gender equality, followed in 2017 by the adoption of the Enhanced Lima Work Programme on Gender. The objectives of the latter are the full, equal and meaningful participation of women, as well as mainstreaming the gender equality perspective. The Paris Agreement states that countries should respect, promote and consider gender equality and the empowerment of women in their climate action. At the 2019 Climate Conference, in turn, states adopted a five-year extension of the Lima Work Programme as well as a separate action plan. This enhanced gender action plan sets out five priorities: capacity building, knowledge management and communication; gender balance, participation and women's leadership; coherence; gender-responsive implementation and means of implementation; and monitoring and reporting.[23]

The Paris Agreement states that countries should respect, promote and consider gender equality and the empowerment of women in their climate action.

There are other principles related to the mobilisation, management and payment of climate finance, such as transparency and accountability, equal representativeness and participation, local ownership and appropriateness (no additional burden on the receiving country). The 'do no harm' principle is also important. For example, investments in climate finance that may be detrimental to the SDGs or human rights should be avoided. Principles of climate finance also require that the most vulnerable countries and groups of people should have the most direct access possible to funding, technology and capacity-building.

In many countries, Finland included, support to developing countries for climate change mitigation and adaptation is channelled as a part of development cooperation funding.[24] In this case, international development cooperation principles and best practices, such as the Paris Declaration on Aid Effectiveness[25] and the Addis Ababa Action Agenda of the Third International Conference on Financing for Development[26], should be taken into account in climate finance.

The most vulnerable countries and groups of people should have the most direct access possible to funding, technology and capacity-building.

2.2 Unresolved questions concerning the guidance system for climate finance

Despite a robust treaty framework, the governance and implementation of climate finance vary from one country to another. This is largely due to the lack of a common proper definition of climate finance. So countries have opted for different approaches to calculating climate finance and reporting on it. These different approaches create controversy in international arenas about the fair implementation of climate finance and complicate assessments of compliance with financing obligations. Table 1 below highlights the issues around which the main differences of opinion have been arisen. The table is followed by a discussion on the impact and significance of these unresolved issues.[27]

Table 1. Issues related to climate finance for which countries have different approaches and practices.

ISSUE	CONTENTS
Grant-based development aid reporting and climate finance	• In many countries, climate finance is part of development cooperation, justifying the application of the OECD Development Assistance Committee recommendations for reporting. • The OECD has modernised development aid reporting to take account not only of aid in the form of grants but also of market-based instruments (loans, investments, export credits), which have increased in recent years. • Reporting calculates the grant equivalent, or percentage of grant-based funding in market-based instruments. For example, the calculated grant equivalent of a loan granted at full market rate would be zero.
Other official flows (OOF)	• This concept is part of the OECD's modernised development assistance reporting. • Government financing that does not meet the criteria of official development assistance but seeks to generate development impact. For example, OOF includes grant-based projects in developing countries that directly promote commercial interests, and measures that generate development with a calculated grant equivalent of under 25 per cent. • In Finland, this applies especially to development finance institutions and banks that channel official development assistance received from the state to development interventions, for example in the form of non-concessional loans. In other words, the funding is reported under the Other Official Flows category and not under the Development Assistance category.
Use of Rio markers in reporting	• The OECD Development Assistance Committee monitors the allocation of climate and environmental finance from statistics compiled with the help of 'Rio markers'. • 'Principal objective' means that the fundamental purpose of the project is mitigating climate change, adapting to climate change, safeguarding biodiversity or preventing desertification, and the project would not be implemented without this objective. • 'Significant objective' means that the project has another prime objective, but also one or more of the above-mentioned objectives as explicitly stated additional objectives. • Statistics compiled on the basis of Rio markers help to determine the percentage of the funding for various interventions that is counted as, for example, funding for climate change mitigation or adapting to climate change. • The use of Rio markers is not required in reporting on OOF.
New and additional nature of climate finance	• The UNFCCC states that climate finance should be new and additional with respect to development cooperation financing. • This principle was agreed already in 1992. Nevertheless, 'new and additional' financing remains undefined. The principle is not included in the Paris Agreement on Climate Change.
Leveraging	• One of the key arguments for using market-based instruments in development cooperation has been their ability to 'leverage' financing from the private sector. For example, the contribution of a development finance institution can bring other actors on board, for example to finance a project.

Differing views on the definition of climate finance

Countries have differing views on the funding sources that should be counted as climate finance to developing countries. Some consider that grant-based aid and concessional loans should be included in such financing , but not, for example, non-concessional loans and export credits. Some countries count funding from all sources (grant-based, non-concessional loans, concessional loans) as climate finance of equal value. Calculation practices vary, for example within the EU.[28] The calculation model developed by the OECD for the grant equivalent in climate finance (see the data box above) is an important innovation, and countries such as Finland calculate their climate finance in grant equivalents.[29] Similar calculation rules have not been agreed for reporting to the UN, however.[30]

At present, most climate finance for developing countries consists of loans.

At present, most climate finance for developing countries consists of loans. According to the OECD, loan finance accounted for 70 per cent in 2019 (including both non-concessional and concessional loans). Even though public sector grant-based funding to developing countries increased year on year in 2019, it accounted for only just over a quarter (26 per cent) of total funding.[31]

Unlike grant-based assistance, loans must be paid back with interest. This has led, among other things, to loans being channelled to climate mitigation projects that are expected to generate profit. This has happened even in those countries that most urgently need assistance in adapting to climate change.[32] The emphasis on loans in climate finance for developing countries is also inconsistent with the 'polluter pays' principle. We might question whether it is fair that poorer countries are forced to take loans to cope with the effects of climate change caused by the greenhouse gas emissions of richer countries. Moreover, many of the countries that suffer the most from the effects of climate change are already over-indebted. The coronavirus pandemic has also had a negative impact particularly on developing country economies. In September 2020 it was estimated that 54 per cent of low-income countries were deemed to be in debt distress or at high risk of a debt distress.[33]

On the other hand, private-sector financing in particular is required to combat climate change and must not be ignored or unreported. As agreed in the Paris Agreement on Climate Change, financial flows (financial instruments, financial policy, standards, different levels of administration and action) must be coherently aligned with low-carbon and climate-resilient development.[34]

Climate finance reporting faces a range of challenges

The OECD's climate finance calculation model aims is to make the various development cooperation instruments mutually comparable and to increase the transparency of financing.[35] The problem is that some countries use this calculation model, while others do not. A country can also report financing falling within the Other Official Flows category as climate finance.

There are also problems with the Rio markers developed by the OECD Development Assistance Committee and their use in reporting. Reporting countries have different methodologies and approaches to how they categorise projects. Many countries, as well as the EU, use a methodology that always assigns 100 per cent to the principle objective and 40 per cent to the significant objective. This can lead to double counting if, for example, the principle objective of a project is mitigating climate change, and adapting to climate change and safeguarding biodiversity are significant objectives. Finland's practices could serve as an example to others in this respect, as it aims to calculate and report to the OECD the actual share of climate finance in the project budget.[36]

Another problem with the Rio markers and reporting based on them is that they do not show all significant activities included in a project and the funding allocated to them. For example, the Green Climate Fund has agreed percentages of funding that will be allocated to climate change mitigation and adaptation, but reporting other significant benefits generated by a project, such as safeguarding biodiversity, may not be possible with Rio markers.

The use of the Rio markers have also turned out to be unreliable for categorising adaptation projects. Research shows that a clear majority of projects categorised by states as adaptation projects were not categorised as such based on the publicly available data. Many of these projects could be categorised as environmental projects, but without the adaptation component.[37]

There are also problems with leveraging financing and its reporting. In general, leveraged financing is difficult to verify, because it can largely only be measured in retrospect. Even then, it is not clear that other actors got involved because of the initial investment. The problem with reporting is that the same financing can be reported more than once, when several actors report that they have leveraged the others to join the project. Different calculation methods are also used for reporting. For example, the OECD only accepts private sector leveraged financing, whereas the multilateral development banks include public sector leveraged finance.[38]

The 'new and additional' nature of climate finance

In the absence of a definition of 'new and additional' finance, countries have used quite different definitions and interpretations in this regard. This contributes to the difficulty of monitoring and evaluating the realisation of climate finance. Some countries, such as Germany, interpret 'new and additional' to mean everything not reported in the previous report.[39] Others, such as Finland, took the 2009 funding level as a baseline and consider the share above it as new and additional. New and additional financing was obtained from the proceeds of auctioning emission allowances, but this system has not been used in Finland since the development cooperation cuts of 2016.[40] Only three countries (Sweden, Norway and Luxembourg) have taken the share of climate finance that exceeds the UN commitment for development cooperation financing of 0.7 per cent of GNI as the baseline for new and additional climate finance.[41]

The lack of common definitions for climate finance raises concerns

The lack of clear definitions and quality problems in climate finance reporting are troublesome in terms of the monitoring and evaluating of the realisation of financing, which requires, for example, transparent and comparable data. They also foster distrust between countries, which in turn creates disputes between governments and stakeholders in climate negotiations, making it harder to achieve climate goals.[42]

The above-mentioned inconsistencies in climate finance reporting can easily lead to different views on the amount of climate finance delivered. For example, Oxfam has estimated that in 2017–2018, the amount of public climate finance was between USD 19 billion and USD 22.5 billion, which is only a third of the amount reported by the OECD for those years.[43] In addition to the inconsistencies in reporting, Oxfam's calculations also took into account the impact of loan financing, meaning they calculated the net assistance to developing countries.

The lack of a definition for 'new and additional' is a matter of concern because it raises the possibility that channelling funding to climate action can lead to a reduction in public development cooperation funding earmarked for other development needs, such as health and education. The climate crisis has not diminished the other development challenges faced by developing countries. On the contrary, it has made them even more urgent. It is thus essential that all development assistance also supports climate-resilience, but that funding allocated to climate projects is additional and not deducted from other development funding.[44] The OECD found no such transfers from other sectors of development cooperation to climate finance in funding allocated for 2014–2017. On the other hand, the synthesis of the 2020 Biennial Reports points out that donors appear to be channelling more climate finance to specifically to climate-related initiatives at the expense of other broader wider environment and development funds.[45]

3. Many global actors in climate finance

This chapter examines the implementation of climate finance based on official reports, such as OECD statistics. We first give a general description of the channels, or 'architecture', of climate finance and the bodies that compile the reports. In terms of actual climate finance, this chapter focuses on climate finance for adapting to climate change, the inevitable damage and losses caused by climate change, and the allocation of climate finance, especially for the poorest and most vulnerable countries.

The architecture of international climate finance

The overall architecture of international climate finance is quite complex, and so we describe it in terms of various sets of actors (see Figure 1) rather than individual actors. Public climate finance for developing countries is channelled through bilateral or multilateral actors. Since climate finance in many countries is interconnected with development cooperation, it flows through national programmes, funds, ministries or other actors committed to bilateral development cooperation. In these countries, climate projects are implemented by a variety of actors, including accredited national or international actors, various funds or others, such as civil society organisations. The group of multilateral actors includes various funds, agencies and programmes under the UN, as well as non-UN development funds and banks. Multilateral actors also channel funding to each other's projects, which are implemented by accredited actors in the recipient countries. Climate finance is also channelled through the private sector.[46]

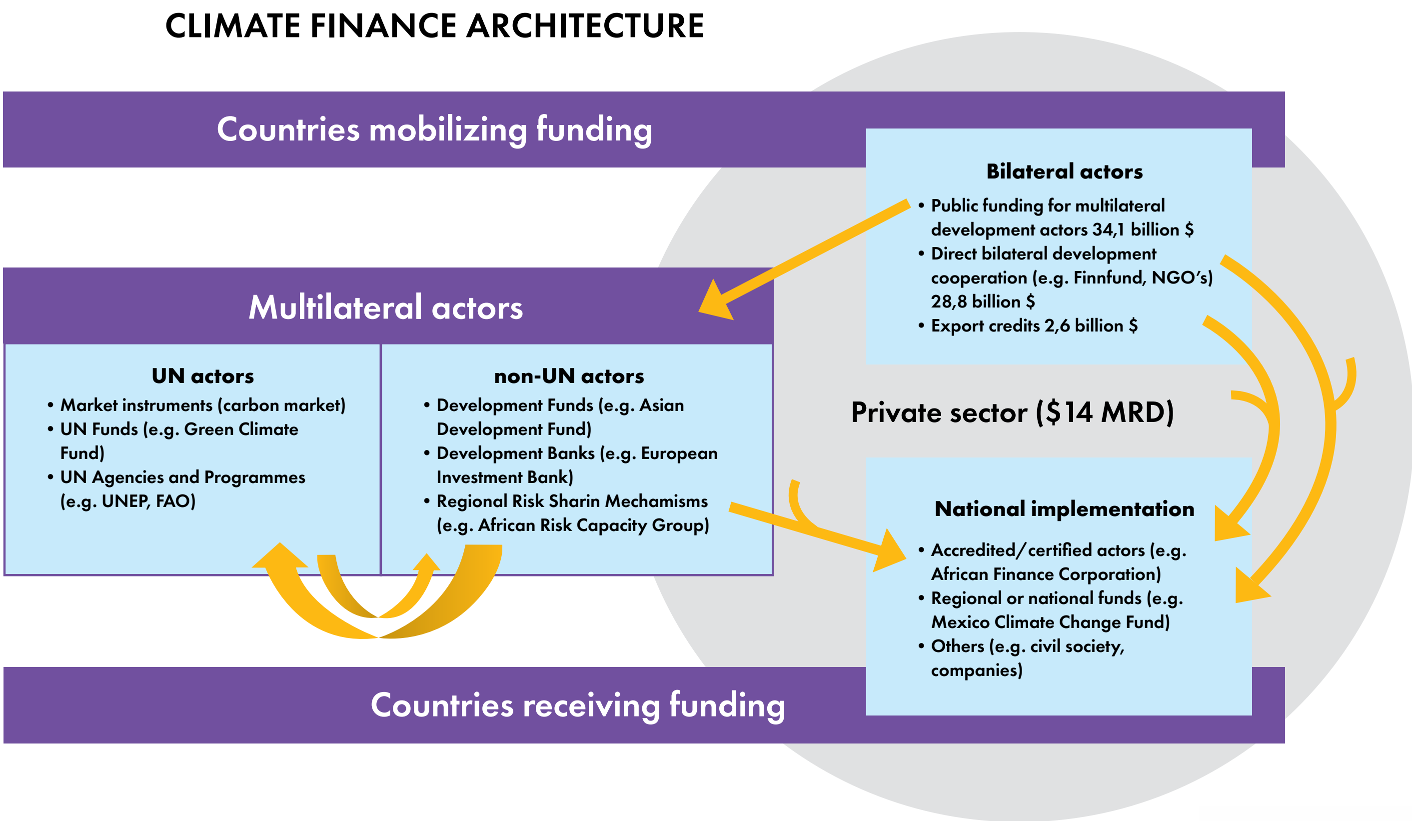

Figure 1. The architecture of international climate finance. Source: after Humalisto 2019.[47]

UN and OECD collect information on finance

The UNFCC Standing Committee on Finance (SCF)compiles climate finance data from national biennial assessments and publishes a biennial overview of climate finance.[48] The SCF also uses reports compiled by the OECD for its overview. These reports are in turn based on the climate measures annually reported by OECD member states as party of climate-related development assistance reporting. The overview published by the SCF includes information compiled by international development banks and, in particular, climate finance providers, such as the Green Climate Fund and multilateral climate funds, on the funding channelled through them. There is a delay in this official reporting, as the reports are only submitted biennially. For example, the report on realised climate finance in 2019 and 2020 will be completed in 2022.[49]

Financing directed at developing countries fell short of the target

According to the OECD report, climate finance amounted to about USD 80 billion in 2019 (Figure 2). This was a slight increase from the previous year (about 78 billion in 2018), but the increase in funding has not been large enough in recent years to reach the target of USD 100 billion by 2020.[50] For example, a report by the international development banks estimated that climate finance channelled through them to low-income countries decreased in 2020.[51]

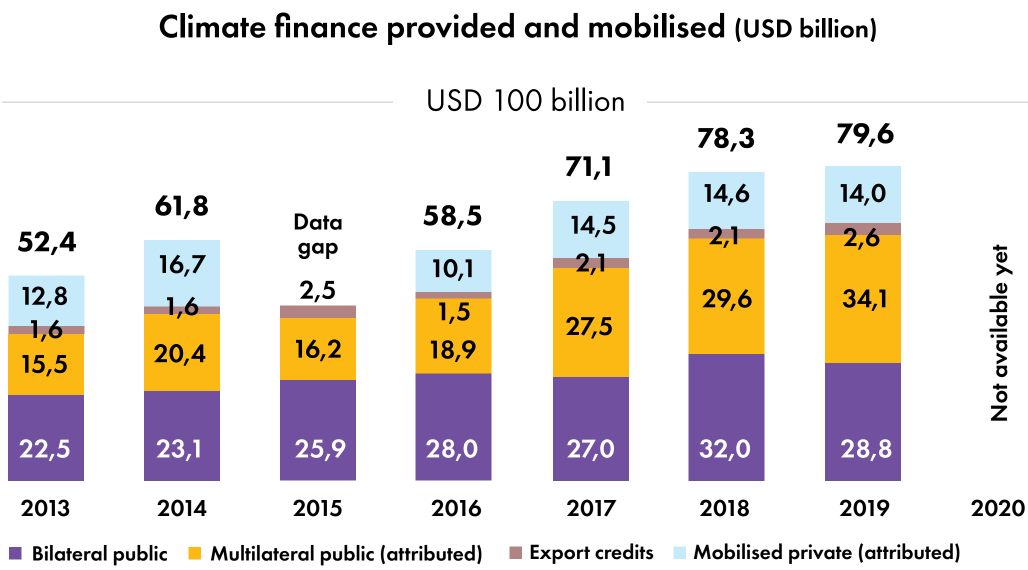

Figure 2. Climate finance (USD billion) channelled to developing countries in 2013–2019. The amount for 2020 is not yet known. Source: OECD.[52]

The majority of climate finance was either public bilateral or multilateral funding, and the financing instruments included grant-based funding, loans and equity investments (including guarantees in the case of US bilateral financing). Export subsidy credits (loans, guarantees and insurance) were mostly used to finance renewable energy. In the diagram, private finance (grants, loans, mezzanine/hybrid finance, equity guarantees and insurance) refers to climate finance for developing countries mobilised through bilateral or multilateral channels.[53]

According to the OECD, in 2019, 30 per cent of climate finance was allocated to the energy sector, 14 per cent to the transport and storage sector, 8 per cent to the water and sanitation sector, 8 per cent to the agriculture, forestry and fishing sector, and 7 per cent to the banking and business services sector. In the OECD statistics on sector finance, 30 per cent is also allocated to the 'other sectors' category, which includes an extremely wide range of sectors (including education, health care, administration, communications, industrial, mining and construction, environmental and tourism).[54]

The scope of climate finance was a political compromise

The USD 100 billion level of funding by 2020 agreed at the Conference of the Parties in Copenhagen was more of a political compromise than an actual information and needs-based target.[55] The target was also quite low compared to needs since, according to the UN Environment Programme's Adaptation Gap Report, the annual amount required for adaptation in developed countries alone is currently estimated at USD 70 billion. This need is expected to increase to USD 140–300 billion by 2030 and to between USD 280 and USD 500 billion by 2050.[56]

The Glasgow Climate Change Conference agreed that industrial nations should reach the USD 100 billion target as soon as possible. A process was also agreed for a new and higher climate finance target to enter into force after 2025 (the actual target will probably be set in 2024). Developed countries also agreed to at least double their financing for adaptation by 2025, which would mean at least USD 40 billion. It was agreed that five per cent of traded emission allowances would be directed into a fund to support the adaptation measures of developing countries.[57]

Too little financing allocated to adaptation to climate change

The Paris Agreement decided that climate finance will be allocated equally to mitigation and adaptation. However, there is no clear common understanding of what the appropriate balance between mitigation and adaptation finance should be, or how that balance might vary, for example regionally or at country level.[58] According to the OECD, in 2019 funding for adaptation amounted to USD 20 billion, which represents an increase of 20 per cent over the previous year. Nevertheless, the share of adaptation finance remained considerably lower than that of mitigation, which continued to account for two thirds of total climate finance (USD 51 billion).[59]

The USD 20 billion allocated to adaptation was considerably less than the need of developing countries estimated by UNEP. This is particularly unfair for the poorest countries, which are, at the same time the most vulnerable to the impacts of climate change but have low adaptive capacity. The need for support and financing for adaptation is greatest in these countries.[60]

Africa is particularly vulnerable to the impacts of climate change. A recent study on the allocation of bilateral and multilateral climate finance to adaptation in Africa in 2014–2018 found that far too little funding was directed to African countries for adaptation in relation to their needs. While USD 16.5 billion was channelled to adaptation, almost double that amount was channelled to mitigation. In proportion to the population of the region, the financing for adaptation in 2014–2018 comes to roughly USD 5 per capita per year. This falls glaringly short of the estimated need of USD 17–26 per capita by 2050. Of the adaptation finance, 57 per cent consisted of loans and 42 per cent of grant-based assistance. Half of the financing granted for adaptation was allocated to two sectors: agriculture and water and sanitation.[61]

The imbalance in funding between climate change mitigation and adaptation is due to a number of factors, one being that financiers favour mitigation projects because their results are easier to measure and track (for instance in terms of emission reductions) than those of adaptation projects. This imbalance is compounded by the fact that more climate finance is granted as loans than as grant-based assistance, and private-sector donors direct this loan financing mainly to mitigation projects. Mitigation projects are more attractive than adaptation ones because of their potential returns (such as investments in solar panels and e-vehicles). Another reason frequently cited for the funding imbalance between mitigation and adaptation projects is that political decision-makers feel that they receive more acknowledgment and support from other countries and from their voters when measures are specifically targeted at reducing emissions. Support for adaptation is seen as only benefitting a limited number of specific recipient countries.[62]

A recent study on the allocation of bilateral and multilateral climate finance to adaptation in Africa found that far too little funding was directed to African countries for adaptation in relation to their needs.

Inevitable losses and damage must also be addressed in finance

Despite emission reduction and adaptation measures, we are in a situation where the impacts and costs of climate change cannot be completely avoided. Climate change is already causing loss of life, land and livelihoods. This so-called inevitable loss and damage is not only financial, but also includes losses related to human health and mobility, cultural heritage, biodiversity and ecosystem services. The available information on these costs is still fairly limited, but studies estimate that the annual financial losses of developing countries will range between USD 300 billion and USD 4 trillion by 2030.[63]

Addressing inevitable loss and damage has been discussed at various Conferences of the Parties (COP)under the UNFCCC (with the Warsaw Mechanism created to

The Paris Agreement on Climate Change agreed to take the priorities and needs of developing countries into account in the allocation of climate finance.

address loss and damage and the Santiago Network to expedite technical assistance), but progress has been slow. The latest COP, held in Glasgow, decided to start a new dialogue on financing losses and damage. Although loss and damage are identified in the Paris Agreement as a 'third pillar' alongside climate change mitigation and adaptation, no clear decisions on how to channel funding are still lacking. The Glasgow conference only agreed to launch and fund the Santiago Network, and to accelerate technical assistance to developing countries. Some countries also committed to provide financial support for this purpose for the first time.[64] But the need for a finance mechanism and the implementation of finance for costs incurred from loss and damage is great and acute in countries like Nepal, where it is clear that costs have already been incurred from climate change.[65]

Climate finance is not being sufficiently allocated to the most vulnerable

The Paris Agreement on Climate Change agreed to take the priorities and needs of developing countries into account in the allocation of climate finance. In particular, the priorities and needs of countries that are most vulnerable to the negative impacts of climate change and have significant capacity gaps will be taken into account. This group includes the Least Developed Countries (LDC)s and Small Island Developing States (SIDS). The Paris Agreement also recognised that there is a particular need for adaptation measures. These should be transparent and inclusive, and take account of gender equality, vulnerable groups and ecosystems. The poorest countries, and vulnerable groups in particular, bear the brunt of the human, environmental and financial costs of climate change.

According to the OECD, in 2019, climate finance amounting to USD 15.4 billion was directed to the LDCs and USD 1.5 billion to SIDS. While funding for LDCs increased from the previous year (USD 12.1 billion), SIDS received less funding (USD 2.1 billion in 2019). The balance between mitigation and adaptation funding was slightly better in the LDCs and SIDS, with an average of just over 40 per cent of finance was directed to adaptation in 2016–2019 (the share of finance allocated to adaptation was 21 per cent in other developing countries).[66]

On the other hand, the comparison of adaptation finance between African countries showed very little difference between the funding allocated to LDCs (which are also the most vulnerable) and that allocated to countries not belonging to this category. Vulnerability has therefore not been a strong determinant in the allocation of adaptation finance.[67]

Previous reviews have arrived at similar conclusions. In 2018, none of the world's 20 most vulnerable countries were among the top 20 countries in terms of adaptation funding received on a per capita basis. Somalia, the most vulnerable country, ranked only 71st in per capita funding.[68] On the other hand, climate finance faces the same problem as development cooperation more generally: how to balance financial and other support to prevent the financing from becoming an impossible administrative burden to the modest resources of the recipient country, but is directed to the right targets. Capacity building in alongside monetary support is important.

Allocation is also affected by the policies and definitions of the various financing channels. For example, the Green Climate Fund allocates half of its resources to LDCs and SIDS, while the Adaptation Fund does not have a similar allocation policy.[69]

While climate finance for LDCs and SIDS has increased, it is still significantly below what is needed. Moreover, the fact that many developing countries and their actors face various obstacles to obtaining climate finance poses its own challenges. For example, unclear and complex application requirements, slowness of obtaining and delivering the funding, reporting requirements, and the institutional capacity of the applicants can all present obstacles to accessing climate finance. The risks related to the receiving countries' low financial administration capacity have been discussed in particular. On the other hand, the experiences of global health funds have shown that these risks can be effectively reduced through risk management and by support for institutional capacity building.[70]

Thus, too little climate finance is directed to the most vulnerable countries, but even less of it reaches local communities. For example, the International Institute for Environment and Development (IIED) reports that less than 10 per cent of climate finance was directed to local measures in 2016.[71] A 2020 report estimates that only 1.7 per cent of climate finance reaches small producers in developing countries.[72] The criteria for financing often mean that the poorest people, women, young people and indigenous people have difficulty accessing climate finance.[73] This is a major problem in terms of justice, as assistance should reach the most vulnerable. The availability of climate finance should thus be increased by eliminating known obstacles. Countries providing finance should review their policies and processes to ensure that finance reaches the least developed and most vulnerable countries. For their part, recipient countries should also improve their capacities in climate matters, improve the openness of public administration and enable the participation of local communities in decision-making processes and the implementation of climate measures.[74]

Thus, too little climate finance is directed to the most vulnerable countries, but even less of it reaches local communities.

4. Current state and guidance of Finland's international climate finance

This chapter examines the amount and allocation of climate finance channelled by Finland, Finland's policies for its climate finance, the development needs of the climate finance guidance system, and issues to address in the planning of Finland's international climate finance.

4.1 Climate finance channelled by Finland to developing countries

Amounts have varied annually, but the trend is rising

Finland's climate finance to developing countries has varied quite widely over the last 10 years, as can be seen in Figure 3. The development cooperation budget cuts decided in 2015 also decreased climate finance. Payments made to actors such as international funds vary from year to year too, which in part explains the variation. The largest amount of money was channelled in 2019, amounting to EUR 147 million. Of the total climate finance disbursed in 2016–2020, the larger portion consisted of grant-based finance (Figure 4), with the exception of 2019, when the share of financial investments was larger in financing directed to developing countries. The percentage of grant-based support is still greater than that of development policy investments in the appropriations budgeted for 2022–2026 (with the exception of 2022). Overall, climate finance would increase by between EUR 189 and 225 million.

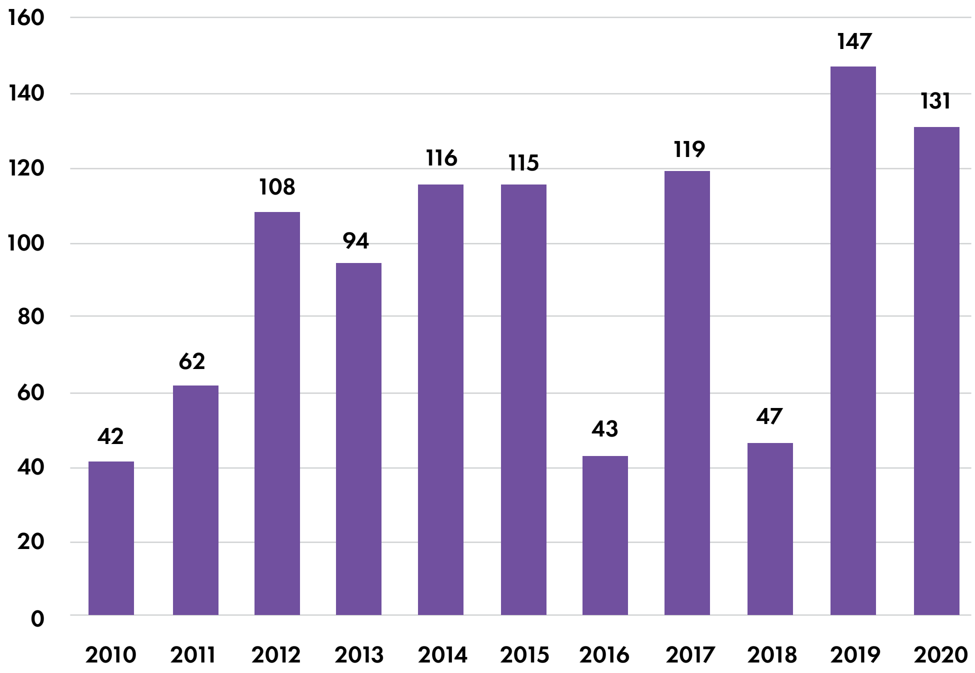

Figure 3. Finnish climate finance directed to developing countries in 2010–2020. Amounts in EUR million. Source: Ministry for Foreign Affairs[75]

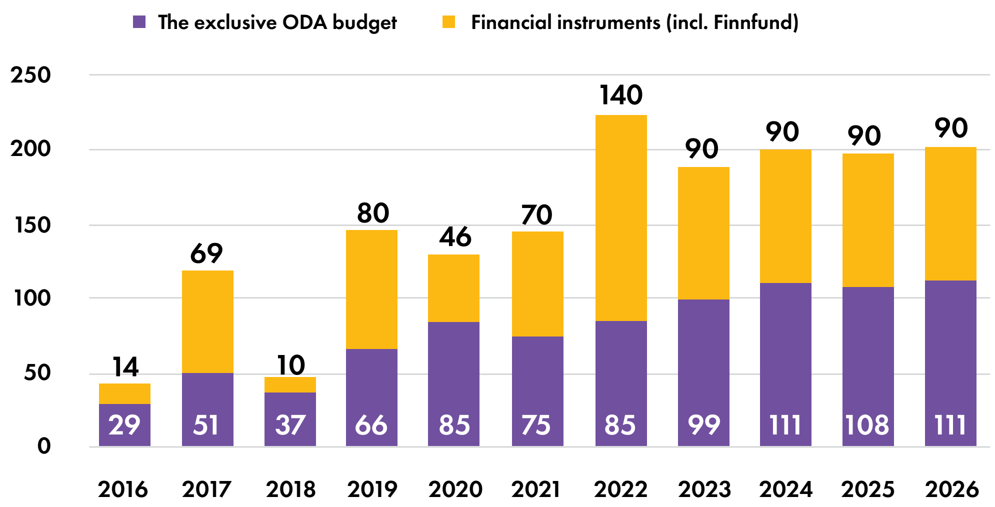

Figure 4. Climate finance directed by Finland to developing countries, divided into grant-based assistance and financial investments. The figures for 2016–2021 represent realised climate finance (the figure for 2021 is preliminary) and those for 2022–2026 represent planned financing. Amounts expressed in EUR million. Source: Ministry for Foreign Affairs[76]

Finance is directed to a wide variety of channels, forms and instruments

Finland's climate finance has been channelled through a fairly wide range of avenues, forms and instruments. These have included financial investment funds, multilateral organisations, climate agreement, bilateral and regional development work, subsidised credit, support for civil society organisations, institutional development cooperation, Finnpartnership and development research. Most climate finance is nevertheless channelled through development policy investments and multilateral organisations and funds.[77] As shown in Table 2, the largest channels of climate finance in 2015–2020 were financial investments made through the International Finance Corporation (IFC) and Finnfund. These were followed by the Green Climate Fund (GCF), the International Development Association operating under the World Bank, and the African Development Fund.

Table 2. Main finance avenues for international climate finance reported by Finland, channelling of finance in 2015–2020.[78]

FINANCE CHANNEL	YEAR AND AMOUNT (EUR thousand)						
	2015	2016	2017	2018	2019	2020	TOTAL
International Finance Corporation, IFC			68 000	800	46 000	740	**115 540**
Finnfund	14 270	7165	17 595	9793,5	21 870	29 904	**100 598**
Green Climate Fund, GCF	34 700				22 150	26 960	**83 810**
International Development Association, IDA	10 384	6224	6494	6228	9530	8957	**47 818**
African Development Fund, ADF	5168	3368	4739	3813	9167	8298	**34 553**
Asian Development Bank, ADB	1507		400	400	1750	17 750	**21 807**
Nordic Development Fund, NDF	3483			2000	4900	8380	**18 763**
Global Environment Facility, GEF	4011	2229	2380	3413	957	1638	**14 628**
International Fund for Agricultural Development, IFAD					13 000	875	**13 875**

Allocation of climate finance

Climate change mitigation has accounted for the greater part of climate finance channelled by Finland to developing countries in 2013 –2020. In 2020, mitigation accounted for 58 per cent (64 per cent in 2019) and adaptation for 42 per cent (36 per cent in 2019). In the Ministry for Foreign Affairs' plans, slightly over half of grant-based assistance (51 –54 per cent) would be directed to adaptation measures from 2022 onward.[79]

According to the National Audit Office of Finland (NAOF), between 4 and 12 per cent of climate finance paid through the ten largest channels (about 88 per cent of the total sum) was allocated to the LDCs in 2017–2019. Monitoring the country and regional allocation is complicated by the fact that geographical statistics are not kept of a major part of the climate finance channelled by Finland, among other things because the finance is channelled through multilateral organisations. Some of the funding has actually been directed to the LDCs, but the percentage is difficult to estimate.[80]

The energy sector was the most financed sector in 2017–2019 (about 22–62 per cent). Finance has also been allocated to the forestry, agriculture, meteorology, and disaster risk management, water, sanitation and hygiene sectors. But the challenge of monitoring of sectoral financing is nevertheless subject to the same as the above-mentioned geographical allocation: no sectoral statistics are kept on a large part of funding. This is partly because the funds have been channelled through multilateral organisations or is recorded for many small sectors in the statistics.[81]

Finland’s 2019 Government Programme states that the country will increase international climate finance as a part of its development finance, taking into account its contribution based on the Paris climate finance commitments.

4.2 The policies and goals of Finland's international development finance

Guidance instruments

Finland’s 2019 **Government Programme** states that the country will increase international climate finance as a part of its development finance, taking into account its contribution based on the Paris climate finance commitments, will aim to allocate climate finance equally to climate change mitigation and adaptation. International funds and civil society organisations are mentioned as examples of climate finance channels, and the continuation of investment and loan finance is highlighted as a particular way of boosting climate finance.[82]

The **Government Report on the Implementation of the 2030 Agenda**, published in 2020, highlights international climate finance as part of implementing global responsibility. The report states that the government will ensure information on the amount and allocation of Finland's international climate finance is transparent and as up to date as possible. The effectiveness of climate finance will also be reported. It is also states that Finland will take into account the needs and context of target countries in its climate finance.[83]

In Finland, as in many other countries, international climate finance is part of official development assistance and managed by the Ministry for Foreign Affairs. In line with the Government Programme, the **Report on Development Policy Extending Across Parliamentary Terms** published in the spring of 2021 states that Finland will continue to provide climate finance in line with Finland's international obligations and that resources will be directed in a coherent manner to both climate change mitigation of and adaptation. The report additionally states that *"grants will remain Finland's primary form of financing for development cooperation. Development cooperation funding in the form of loans and investments, provided in addition to grants, does not increase the government deficit in national accounts; this form of financing involves return and return expectations. This form of funding will be used in particular as part of climate funding and in supporting climate change mitigation and adaptation."*[84]

The government's 2021 **Africa Strategy** mentions climate issues in general terms in the chapter on political, commercial and economic relations. The strategy does not feature climate finance.[85]

Since 2019, Finland has also had an Action Plan for Climate Smart Foreign Policy. This aims to mainstream climate change into all levels of foreign policy and to promote a global transition towards low-emission and climate-resilient societies. In addition to financing channelled through development cooperation mentioned above, Finland will promote climate objectives through active advocacy for climate issues in EU trade policy, during free trade agreement negotiations and in the World Trade Organisation (WTO). Climate change and its linkages will also be taken into account in security policy.[86] The action plan will be updated in early 2022 to address the linkages of climate change to environmental issues, such as biodiversity and water.[87]

International climate finance is not mentioned in the government proposal for a new Climate Change Act currently under preparation. Nor has it been addressed in the other key plans or documents of national climate policy. Denmark and Spain, for example, have provided for international climate finance in their national climate legislations.[88]

4.3 Recognised development needs in the climate finance guidance system

According to an audit conducted by the NAOF, the Ministry for Foreign Affairs has not published a clear plan on how to implement the government's policies. There are also no publicly defined quantitative targets or other strategic goals for climate finance regarding, for example, the effectiveness of finance or its allocation, either geographically or by instrument, organisation or sector. Some targets are set out in the guidance documents of individual financial instruments and organisations that channel finance. For example, at least 75 per cent of the financial investment appropriations will be allocated to climate in 2020–2023, and half of the loan granted to Finnfund in 2019 (EUR 210 million) should be used for climate projects.[89]

The present Government Programme states that climate finance will be increased, and the budget appropriations for 2022–2026 suggest that this will also become a reality. But no actual quantitative targets for the short or long term have been set. Quantitative target-setting involves issues such as the implementation of the 'polluter pays' principle, meaning the calculation of Finland's 'fair share' of the EU's climate finance obligations. It is also important to specify how the financing targets will be achieved and maintained across parliamentary terms. Current finance contributions have been low compared to the needs of developing countries. Funding needs for adaptation measures, for example, will increase. The underfunding of climate change mitigation and adaptation will also be reflected in an increased need for humanitarian aid. The failure to meet these needs is already a major challenge.

The statement issued by Parliament's Environmental Committee on the Report on Development Policy Extending Across Parliamentary Terms refers to the audit performed by NAOF. The committee notes that NAOF's observations on drawing up a public plan for the increase and allocation of Finland's international climate finance are justified. The committee also points out that "international climate agreements require climate finance to be new and additional in relation to the development cooperation funds intended for eliminating poverty".[90]

The underfunding of climate change mitigation and adaptation will also be reflected in an increased need for humanitarian aid.

Instruments play a key role in the guidance of climate finance

In addition to the level of funding, one of the challenges faced by Finnish climate finance is that its purposes are easily overshadowed by the finance channels and instruments in decision-making. In the current situation, the instruments used for channelling climate finance govern and determine the use of the funds, instead of the overall objectives determining the choice of the most suitable instrument. According to the NAOF, this is possible because no clear, strategic common goals have been defined for climate finance. The NAOF's audit report notes that different development cooperation instruments produce different effects and this should be taken into account more carefully in decision-making. Also, some instruments operate transparently and report on their results, while others do not.[91]

Many instruments are used to channel climate finance, but each one is usually directed at certain types of actor (such as the private sector or civil society organisations). Such a strong actor-based approach to channelling finance does little to enable cooperation between actors, for example around a single theme or goal. A potential change from an instrument-based approach to, say, a goal-based one will not happen quickly, but it would enable more effective cooperation and synergies between actors, while improving the coherence and consistency of the goals of climate finance. At present, every instrument has its own goals, which obscures the bigger picture.

There are also differences between the various actors in terms of the impact they seek and the structure of their accountability. Although common methodologies are used to monitor and assess the impact of climate finance, the accountability of development banks and other development finance institutions is essentially based on their own aims and approaches.[92] Different actors and channels also entail different social and environmental risks. These risks also affect different groups in different ways.

Difficult to assess performance without common goals

The lack of overall climate finance goals and the challenges of producing comparable data make the it hard to assess the performance of climate finance. To some extent, the Ministry for Foreign Affairs' policies and guidance, as well as the organisations' own strategies, have clarified the goals of individual financial instruments and organisations that channel finance. But not all instruments have clear climate goals nor do they report systematically on their climate outcomes.[93]

The NAOF audit report highlighted the fact that despite the inconsistent information produced by different financial instruments and finance organisations, most of them to support the Ministry for Foreign Affairs in the development of climate finance effectiveness monitoring and reporting. Public communication on the effects of climate finance has been fairly meagre and selective, and the Ministry for Foreign Affairs has yet to evaluate climate finance as a whole.[94]

The climate finance evaluation planned by the Ministry for Foreign Affairs[95] is important in this respect, because it could provide a synthesis of the existing data on climate outcomes from different financial instruments and organisations and thereby complete the picture of the effectiveness of Finnish climate finance.

Human rights and gender equality must also be included in goals and implementation

Even before the NAOF report, Parliament's Network on Human Rights drew attention to the fact that clear criteria and targets should be established for Finnish climate finance. They should systematically guide the selection of financing targets and take into account human rights and the promotion of gender equality.[96] The issues of human rights and gender equality raised by the Network on Human Rights are intrinsically linked to climate justice. They are ethical principles and efforts to combat the inequality caused by climate change. Climate finance, with its objectives and implementation instruments, put climate justice into practice.[97]

As part of its climate finance audit, the NAOF also conducted a separate review of how Finnish climate finance is promoting gender equality and improving the position of women and girls. Gender equality has become a vital aspect of climate policy and the agreements defining it. It is also one of the four cross-cutting objectives of Finnish development cooperation, and improving the position of women and girls is one of the four focus areas of development cooperation.[98]

According to the NAOF review, climate finance projects generally have a positive impact on the status of women and girls in target countries, but there is great variation in their impacts and the information available on them. The review highlights the need for systematic monitoring and evaluation of gender equality impacts at different stages. While Finland has actively promoted and monitored gender equality goals in UNFCCC funds, gender equality issues have received scant attention in the joint climate fund of Finland and the IFC. The guidelines of the Public Sector Investment Facility (PIF) established to replace subsidised loans require gender equality impact assessments to be included in project plans.[99]

Gender equality has become a vital aspect of climate policy and the agreements defining it.

A recent study by Nordic church aid organisations finds that the climate finance from Nordic countries to developing countries does not sufficiently address gender equality. Gender equality goals are included especially at the planning stage, but this seldom leads to indicators or effects that address gender equality. Gender equality is also more often included in adaptation funding than in mitigation funding. Sweden is clearly ahead of the other Nordic countries in this regard since gender equality is included as an objective in 81 per cent of its climate finance. According to the study, civil society organisations are more likely to incorporate gender equality objectives in their climate finance projects, while private sector projects are the least likely to do so. The development of the guidance system should therefore take into account the fact that actors differ in the implementation of cross-cutting objectives, such as the promotion of gender equality.[100]

Climate finance can prevent both climate change and biodiversity loss

Biodiversity loss has emerged as a global crisis alongside, and closely linked to, climate change in recent years. The linkages have also been highlighted in the latest Conferences of Parties under both the UNFCCC and Convention on Biological Diversity and in their final documents.[101] It would be important to also allocate climate finance to measures that simultaneously prevent biodiversity loss. Nature-based solutions, for example, can contribute to climate change mitigation and adaptation, and safeguard biodiversity. It is also important to take into account the ‘do no harm’ principle when allocating climate finance, which in this context means preventing adverse impacts on biodiversity.[102]

4.4 Finland needs a clear plan for future climate finance

At the autumn 2021 budget workshop, the government decided that a plan for Finland’s international climate finance would be drawn up by the end of 2021.[103] The Ministry for Foreign Affairs is currently preparing it. The preparation of a plan provides a good opportunity to set other goals, for example concerning allocation and impact, besides quantitative targets. The goals should address both climate change mitigation and adaptation. It would also be necessary to express Finland's views on the costs of the inevitable losses and damage caused by climate change. The plan should also include a definition of climate finance and clarify the normative principles of climate finance and the guiding principles of development policy priorities.

Clarifying the objectives and definitions will ensure that the funding recipients have a coherent understanding of what Finland is aiming for with climate finance in the short and long term. Goals and definitions also help with developing the monitoring and evaluation system. Planning also supports allocation: the poorest countries and most vulnerable groups suffer the most from climate change impacts and have the weakest capacity to respond to them. So it is important to ensure that Finnish climate finance, and adaptation funding in particular, is also directed to the least developed countries. In addition to directing finance to the least developed countries, it would be important to ensure that the finance reaches the most vulnerable people and also supports locally-led climate action.

Most of Finland's public climate finance to developing countries has been grant-based assistance.

For climate finance to reach those in the most vulnerable position and boost the capacity of local actors, more of it should also be channelled through actors that are able to reach them, such as civil society organisations. A review of the coherent complementary between instruments could improve target-setting and monitoring.

Most of Finland's public climate finance to developing countries has been grant-based assistance. The aim is to maintain grant-based finance as the primary form of financing. This is important because the 'polluter pays' principle and climate justice require that the poorest countries should not have to finance their climate actions with borrowed money. The coronavirus pandemic has exacerbated the already difficult debt situation of developing countries.[104]

Meeting all needs requires loan and investment finance for mitigation and adaptation measures. Loan and investment finance involves a number of challenges. One is that such financing tends to focus on mitigation measures because they have better and more measurable expectations of revenue and returns compared to adaptation measures.[105] A strong focus on loan and investment finance will make it harder to achieve the agreed balance of financing for mitigation and adaptation. The returns on loan and investment financing will also be deducted from the following year's financing, affecting the total volumes of Finland's climate finance. The amounts or timing of expected returns or their schedules are currently not publicly available. It would be important to consider what kinds of loans will be granted. According to the OECD's new reporting practices, non-concessional loans are no longer included in the industrialised countries' financing obligation to developing countries.

Planning and reporting go hand in hand

The Ministry for Foreign Affairs reports annually to the OECD and EU on its climate finance. Biennial reports are submitted to the UN on the implementation of the UNFCCC, including climate finance. The Ministry reports on the implementation of the climate finance plan annually to Parliament in connection with the annual climate report. The Ministry for Foreign Affairs also compiles reports on the effectiveness of development policy, which also include the results of climate finance. The last of these was published in 2018[106] and the next will be given in 2022. The Ministry for Foreign Affairs has been commended on its international reports since, unlike many other countries, Finland bases its reporting on actual percentages of climate finance for interventions.

In its audit report, the NAOF pointed out that although the reliability of Finnish statistics and reporting on climate finance has improved in recent years, "*the reported amounts of climate finance and their allocation to mitigation and adaptation are still indicative estimates, and the figures of different years are not fully comparable*".[107] The Ministry for Foreign Affairs has just updated its guidelines on the use of Rio markers in climate and environmental finance reporting, which should contribute to improving the consistency of future reporting.[108] Consistency in reporting is important, because gaps in comparable data hinders the monitoring and guidance of climate finance.

These gaps concern Finland's public climate finance. In private finance, the situation is even more difficult. The amount of 'leveraged' finance from public funding is not included in publicly reported data. Information on private and leveraged funding would be important for gaining an understanding of the bigger picture of Finnish climate finance, its amounts and allocation.

The Ministry for Foreign Affairs has been commended on its international reports since, unlike many other countries, Finland bases its reporting on actual percentages of climate finance for interventions.

Concern over the sufficiency of human resources

The implementation and monitoring of climate finance goals, reporting to various parties on the financing and its results, as well as advocacy related to climate finance all require sufficient human resources. Reporting to the UNFCCC alone is a considerable investment, since Statistics Finland has estimated that the Ministry for Foreign Affairs will require two person months of human resources in 2022. The NAOF audit report[109] states that the cuts made to the Ministry for Foreign Affairs' development cooperation personnel by the Sipilä government have affected the annual amounts, allocation and steering of climate finance. The report highlights the fact that current resources are reasonably sufficient for the work of funds' boards but not for working groups between meetings. In its report, the NAOF also draws attention to the limited human resources available in the Ministry for Foreign Affairs for financial investment, which plays a growing role in climate finance. In its statement on the development policy report, the Environmental Committee of Parliament also expressed concerns about the sufficiency of resources for the implementation and monitoring of environmental and climate goals.[110] The need for human resources is already apparent and will only grow as climate finance increases in the coming years.

5. Recommendations

Climate finance is a concrete way to achieve climate justice, meaning that it can mitigate inequality caused by climate change and address the situation of the countries and groups most vulnerable to the effects of climate change in particular. It is time for Finland to fully use climate finance as part of wider climate policy and the implementation of the UN 2030 Agenda for Sustainable Development.

The need to increase climate finance is enshrined in both the UNFCCC and the Paris Agreement, and questions of finance have become a key theme in international climate negotiations in recent years. The negotiations for the amount of climate funding post-2025 will be held in the coming years, and the pressure to increasing the climate finance allocated to developing countries is intense.

If no solution is found now, climate change mitigation and adaptation will be even more difficult and costly in the future. Finland's climate finance decision-makers thus face choices that must be made soon and justified well. The recommendations we make in this publication provide guidance for Finland's work towards more responsible, just and effective climate finance.

Our premise is that, to meet these growing demands, Finland needs a transparent long-term approach, as well as a plan for increasing and targeting its climate finance. The impact and cost-effectiveness of climate finance can also be increased by promoting coordination and cooperation.

Finland's international climate finance should be considered as a whole, and a broad range of actors is required to implement it. The climate finance guidance system and division of responsibilities between actors are currently unclear and require clarification. Strategic, long-term climate finance policy and decisions must be prepared and their implementation monitored by parliamentary decision-makers. The various ministries and their experts are needed to draw up more detailed plans and to guide their implementation (including ensuring the coherence of measures).

Increasing climate finance will concretely advance mitigation and adaptation measures and projects.It will also strengthen the role of Finnish actors in international climate work. The activities and projects can make use of Finnish expertise on such things as climate-resilient solutions and their implementation can be expanded through international cooperation and with the support of Finnish and other climate finance. It is important to dismantle the organisational silos that have formed around climate finance actors and promote Finnish, multi-actor climate action that generates added value throughout the value chain. At their best, such projects and programmes can also serve as pilots for broader and scalable work, as has been done in the development of weather and climate services, early warning systems and preparedness.

Parliament

- Legislation is needed to guide international climate finance, ensuring long-term and consistent criteria, goals and levels of finance. It would be natural to integrate this legislation into Finland's national climate policy and associated legislation.
- At present, international climate finance is a part of development cooperation funding. The most credible way of guaranteeing sufficient climate finance would be to draw up a clear, parliamentary plan extending over several budgetary frameworks and government terms and including an increase in development cooperation appropriations to the 0.7 per cent of GNP required by Finland's commitments to guarantee sufficient funding by 2030. Climate finance also needs to be increased with appropriations that are new and additional to development cooperation funds, as in Sweden and Luxembourg. This will enable comprehensive and effective development cooperation, Finland's continuation as a major player in international organisations, and the implementation of an ambitious international climate policy.

Finnish administrations across parliamentary terms

- Finland's international climate finance requires a public and long-term plan based on the best information on financing needs, which sets more detailed targets for funding on the basis of policies drafted through parliamentary consensus. The climate finance plan must address international climate finance as a whole, including financing leveraged from the private sector.
- Finnish governments must ensure that climate finance plans are drawn up and/or updated on a regular basis. A report on their implementation must be submitted annually to Parliament in connection with the annual climate report. The purpose of the plans and reporting on them is also to reinforce the climate finance guidance system and increase debate on climate finance as part of Finland's implementation of the 2030 Agenda.
- In increasing climate finance, Finland will undertake to actively develop different financing models and flows, such as emissions trading revenue.
- The longer-term climate finance plan must stipulate that at least half of climate finance must be directed to adaptation. It must also provide for a sufficient amount of grant-based financing, which will be directed to those countries most vulnerable to the effects of climate change. This must be taken into consideration when choosing finance channels. Loan and investment finance can easily emphasise climate change mitigation and is often directed to countries with better investment conditions instead of the most vulnerable countries.
- The design, implementation, monitoring, reporting and development of climate finance and climate finance advocacy require expertise and human resources. Sufficient human resources must be allocated to the effective, transparent and coherent implementation of climate finance, especially in the Ministry for Foreign Affairs where the staff shortage is most evident.

In increasing climate finance, Finland will undertake to actively develop different financing models and flows.

Ministry for Foreign Affairs in cooperation with other ministries

- At present, Finland's international climate finance is part of the official development cooperation managed by the Ministry for Foreign Affairs. It would be natural for the Ministry for Foreign Affairs to prepare the climate finance plan in line with the decisions made by Parliament and the government. The involvement of other ministries, such as the Ministry of Finance, in the preparation of the plan is important for ensuring the mainstreaming and consistency of climate finance.

Considerations for drawing up the climate finance plan:

- A definition is needed of what Finland's international climate finance includes. This definition must also clarify issues and concepts that are currently vague, especially in terms of climate justice, and their role in Finnish climate finance. They include other official funding (OOF), as well as leveraged funding and its quantitative targets.
- A clear policy for and description of how development cooperation principles and the principles enshrined in the climate agreements guide climate finance are also needed for the development of the climate finance guidance system.
- It is important to agree on regular procedures and processes for working on and updating the plan These procedures and processes must ensure that planning is guided by the needs of developing countries and the most vulnerable groups and is based on the best information available. The planning process must also be inclusive and strengthen local ownership.
- The gender equality perspective must be reinforced so that 85 per cent of new climate projects promote gender equality.
- Adaptation financing in particular must be allocated to the LDCs and SIDS, which are particularly vulnerable to the negative effects of climate change. It would also be important to define the concept of 'the most vulnerable countries' in this context. Inclusive instruments should be developed to ensure that adaptation financing is directed to the poorest and most vulnerable groups as grant-based funding, and that local actors have genuine access to the funding.
- With regard to the inevitable losses and damage caused by climate change, a clear goal must be set for taking these costs into account in Finnish climate finance.
- Climate finance must also be allocated to activities that simultaneously prevent biodiversity loss and restore biodiversity. Nature-based solutions can help to mitigate and adapt to climate change and safeguard biodiversity. The 'do no harm' principle must also feature when allocating climate finance, which in this context means preventing harmful effects on biodiversity in particular.

Considerations for channelling climate finance:

- Finland's international climate finance is channelled through a variety of instruments, most of which are actor-specific. The financial instruments used by the Ministry for Foreign Affairs must be developed from actor-oriented instruments to goal-oriented ones that enable results-oriented innovative action. There is a particular need for financial instruments that enable and support cooperation projects between different actors and sectors, regional projects, and projects that combine mitigation and adaptation. Special weight must be given to land use and food sector measures vital to developing countries, which for instance enable the maintenance and strengthening of carbon sinks. Actors are currently operating inside their own silos, even though joint action by the public sector, private sector and civil society, based on information produced by the scientific community, is needed to achieve development effects.
- There is currently very little information available on how efficiently, effectively and sustainably the various instruments channel climate finance. For this reason, an overall assessment must be made of climate finance channelled through different instruments to ensure the efficiency and effectiveness of financing, justice, and an appropriate balance between adaptation and mitigation. Special weight must be given to ensuring that financing reaches the grass-roots level and vulnerable groups. Likewise, it must be ensured that there is sufficient availability of grant-based assistance alongside loan and investment financing.
- Civil society organisations have much to contribute , especially in the cost-effective allocation of adaptation and preparedness

financing to the most vulnerable countries and other countries in which they have long-term operations. Opportunities for new types of financing that would let organisations take part in multilateral cooperation and various pilot projects must be promoted alongside current forms of civil society organisation funding.
- Multilateral cooperation is currently dispersed between several ministries. The use of multilateral channels must ensure coordination between actors, coherence and synergies in the use of multi-lateral channels. Sufficient resources must also be secured for coordination.

International advocacy

- There are plans to update Finland's Action Plan for Climate Smart Foreign Policy in early 2022. Advocacy goals related to climate finance must be included in the Action Plan. These advocacy targets should be taken into account when setting them:
- Finland should actively promote access to climate finance by the poorest and most vulnerable receiving countries, their institutions and local organisations. This requires reducing the obstacles to finance, both in cooperation with the EU and with other finance partners. The aim is to achieve genuine and effective cooperation in climate finance, and partnerships with developing countries / countries vulnerable to climate change.
- As recorded in the Government Programme, Finland must assume an active pioneering role when the EU negotiates on common positions for climate and biodiversity negotiations. Finland can achieve concrete results by focusing on a few well-defined themes – such as gender equality, health, nature-based solutions, sustainable use of natural resources, weather and meteorological services and early warning systems – that are promoted over the long term. We can similarly focus on a few themes and the related political advocacy goals and pursue them consistently on the boards of various funds and development banks.

Finland should actively promote access to climate finance by the poorest and most vulnerable receiving countries, their institutions and local organisations.

Climate finance monitoring, assessment and reporting

- Influencing international climate finance instruments to secure reliable monitoring information and combine existing information systems is important for the reliable implementation, monitoring and assessment of climate finance goals. Where necessary, we must also create clear indicators linked to the climate finance goals or provide support for processes in which others create such indicators for everyone's use.
- It is important to identify the climate-finance-related social (including human rights) and environmental risks from different financial instruments and financing organisations, and to determine who these risks concern. It is important that monitoring takes risks into account and the 'do no harm' principle is observed as a minimum requirement.
- Different climate finance instruments measure gender impact in different ways – some not at all. It is important to achieve consistent and comparable monitoring and assessment of gender impact in terms of different climate finance instruments.
- Finland needs to advocate actively in the OECD's Development Assistance Committee (DAC) and other relevant international forums (the EU included) for the improvement and harmonisation of the common reporting practices for international climate finance. Finland's advocacy goals should include the disaggregation of gender equality and biodiversity components of climate finance, as well as consistent reporting on multilateral channels by the various finance providers.
- Concerning climate change adaptation, it is important that the quality and effectiveness of adaptation interventions across all financial instruments are included by mapping climate risks at local level. Measures must be targeted according to this work. To this end, it may be necessary to develop criteria (or verify the quality of existing criteria) for different forms of climate finance (for instance investments or their monitoring with regard to multilateral finance). The monitoring mechanism should be improved also in this regard, especially since more climate finance will be directed to adaptation in future.
- Evaluations related to the climate results of development cooperation should examine the effectiveness

It is important to achieve consistent and comparable monitoring and assessment of gender impact in terms of different climate finance instruments.

of the various financial instruments and financing organisations, the sustainability of the results and, where possible, aspects such as:
   - the relevance of the financing to the needs of the partners / partner countries (especially the most vulnerable ones);
   - partner ownership;
   - the participation of local actors (civil society, decision-makers and vulnerable groups) in targeting and implementing financing;
   - the predictability and sustainability of the financing;
   - the potential additional resources brought in / additional funding leveraged by the financing channelled;
   - the added value generated by Finnish climate finance and advocacy; and
   - how the monitoring and evaluation system can be further developed.
- It is important that Finland should promote the best international reporting practices, involving quantitative reporting including grant-based financing, all financing including OOF, and the percentage of leveraged financing. Improving the various actors' ability to apply the reporting tools is also important.

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