

# Finland's international climate finance - Steering and effectiveness





Performance audit report

# Finland's international climate finance

Steering and effectiveness

Translation of performance audit report 6/2021

# Audit report of the National Audit Office



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The National Audit Office has completed a performance audit Finland's international climate finance – Steering and effectiveness, which was included in its audit plan. The audit was conducted in accordance with the National Audit Office's manual for compliance audit, performance audit, and fiscal policy audit.

Based on the audit, the National Audit Office has issued an audit report, which is sent to the Ministry for Foreign Affairs and cc'd to the Parliamentary Audit Committee and Foreign Affairs Committee, the Ministry of Finance, the Government Financial Controller's Function, the Ministry of the Environment, Statistics Finland, Finnfund, the Finnish Institute of International Affairs, the Finnish Meteorological Institute, Geological Survey of Finland, the Natural Resources Institute of Finland, and the Finnish Environment Institute.

Before the audit report was issued, the Ministry for Foreign Affairs was given an opportunity to ensure that the report did not contain factual errors and to express its views on the conclusions and recommendations of the National Audit Office presented therein.

In the follow-up of the audit, the National Audit Office will examine what measures have been taken on the basis of the conclusions and recommendations presented in the audit report. The follow-up will be conducted in 2023.

Helsinki 28. May 2021

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Photo  
Finfund, Lake Turkana Wind Power wind park in Kenya  
Photographer: Ali Abraham

# Conclusions and recommendations



Finland's international climate finance is part of the official development assistance administered by the Ministry for Foreign Affairs. Finland funds climate actions in developing countries as set out in global climate conventions and reports to the UNFCCC Secretariat on the share of its development cooperation funding allocated to climate projects each year. The statistics show significant year-to-year fluctuations in Finland's climate finance. In 2017–2019, its yearly amounts have varied between EUR 46.6 million and EUR 146.8 million, accounting for about 6% to 15% of Finland's total official development assistance payments.

Under the Paris Agreement, the state undertakes to provide financial resources to assist developing country Parties with respect to both mitigation and adaptation, taking into account the priorities and needs of the most vulnerable countries. It should also promote such issues as gender equality and the empowerment of women.

The purpose of the audit was to determine if the steering of Finland's climate finance has provided good preconditions for its effectiveness. Particular attention was paid to how the Ministry for Foreign Affairs has planned, monitored and evaluated as well as compiled statistics and reported on the effectiveness of climate finance. The audit additionally examined what can be concluded about the effectiveness of climate finance based on the available information. The purpose of the audit is to help the Ministry for Foreign Affairs develop the effectiveness of Finland's international climate finance.

## The Government has adopted policies on climate finance but there are no clear objectives and implementation plans

Prime Minister Marin's Government Programme of 2019 notes that Finland will scale up climate finance and direct half of it to climate change adaptation. The Ministry for Foreign Affairs has not published a clear plan for how these policies will be implemented as a whole, what kind of choices will be made when allocating the funding, and on what basis it will be allocated. The monetary level of climate finance or other strategic objectives have not been defined publicly, as a consequence of which the planning of the finance is not particularly transparent.

The objectives of climate finance have been specified to some extent in the Ministry for Foreign Affairs' steering documents that concern individual financial instruments and organisations that channel the finance. The Ministry has guided its partner organisations by influencing their strategies and steering systems. The Ministry for Foreign Affairs' practices and the ministry's possibilities of influencing the effectiveness of various climate finance instruments vary greatly. In some cases, the steering documents define objectives for climate change mitigation, and the organisations monitor their achievement using internationally approved methods. Few targets and indicators for climate change adaptation have been specified. Measuring adaptation is difficult, as it is diverse and has no single, all-inclusive indicator. Not all financial instruments have climate objectives, and

the Ministry for Foreign Affairs does not systematically monitor the climate results of all instruments. Instead, gender equality, which is closely linked to climate objectives, has been taken into account in some way in the general objectives of almost all financial instruments.

The theories of change and indicators of development policy, which have been recently updated by the Ministry for Foreign Affairs, improve the possibilities of planning, monitoring and evaluating climate finance effectiveness more systematically than before. However, the ministry has not specified any quantitative objectives for climate change mitigation and adaptation in them. The idea is that mitigation will be monitored and reported on in terms of emission reductions, and adaptation by means of case examples.

To enable appropriate monitoring of and reporting on the effectiveness of climate finance by the Ministry for Foreign Affairs, the ministry should obtain information that is as systematic and consistent as possible on the results of climate actions implemented with the help of different financial instruments and organisations. This is a major challenge for both Finland and other donor countries.

## Statistics on climate finance are susceptible to errors and information on its results is partly inconsistent

The Ministry for Foreign Affairs has a case management system for development cooperation, in which statistics can be collected on the share of development funding allocated to climate actions and its breakdown between climate change mitigation and adaptation. The system can also be used to record data on the geographical breakdown of the finance, for example. The ministry uses the OECD Development Assistance Committee's qualitative indicators to compile statistics on Finland's climate finance. The instructions issued by both the Committee and the ministry for using the indicators are to some extent open to interpretation. They have been interpreted in different ways in the ministry, which is why there is no certainty of the statistics being consistent. The finance has not always been recorded following the instructions.

The collection of statistics on the results in the system is still evolving. Expertise is needed to assess and record the shares of finance allocated to climate projects and its results. The persons using the system should be able to access the information they need as easily and coherently as possible in the documents related to the funding objects. This is not always the case at present. In addition, the support of the Ministry for Foreign Affairs' internal advisers has not always been relied on when recording the data, and the ministry's quality assurance has been inadequate in this respect.

The information on climate results produced by different financial instruments and funding organisations is partly inconsistent. However, most of them can provide at least indicative information, which means that the Ministry for Foreign Affairs has the possibility to improve the monitoring and reporting of climate finance results in this respect.

Due to the limitations of statistical data and the large annual variation in climate finance, making sweeping conclusions on the growth, allocation and effectiveness of the finance as a whole was not possible. The ministry's internal target is to increase climate finance to EUR 400 million during the current parliamentary term, which is likely to be achieved. There is still some way to go before a balanced allocation of the finance between mitigation and adaptation will be reached.

## Information on effectiveness has been used to variable degree in decision-making, reporting and other communication

Management by information and result-based decision-making rely on knowledge or predictions of the results that will be achieved. However, comparing the options of climate finance systematically based on results is difficult in practice. The Ministry for Foreign Affairs has often used information about results produced by various interim and ex-post evaluations when making these decisions, but the role of climate results in the decisions has varied. When preparing decisions on climate finance, they could also be justified better from the perspective of climate results.

Finland has reported on its climate finance in compliance with the requirements in the international context, but what little information on the results the reports contain is selective. The Development policy results report (2018) and the Ministry for Foreign Affairs' website also provide many examples of climate finance but not a great deal of information about climate results. In addition to the Ministry for Foreign Affairs, the organisations that channel the finance and individual funding users naturally also communicate about climate finance.

So far, the Ministry for Foreign Affairs has not evaluated climate finance as a whole. While some recent centralised evaluations have addressed climate change, the discussions of climate results in them have been very superficial. The Ministry for Foreign Affairs is planning to commission an extensive evaluation of climate finance in 2022–2023. This evaluation could produce significant new information on the effectiveness of climate finance.

## Reformed development cooperation practices may also improve the steering of climate finance

Rather than having a separate organisation or management system for international climate finance, the Ministry for Foreign Affairs uses decentralised steering that takes place as part of other development cooperation. Established practices set out in the ministry's Rules of Procedure are followed in this steering. The ministry has strengthened its strategic management by information and harmonised the steering processes of financial instruments in the ongoing project aiming to reform the development cooperation practices (the KeTTU project). While the aims of this project also include improving the steering of the ministry's human resources, progress has been slow in this respect.

Finland is increasingly using private sector financial instruments and investments in its climate finance, and this trend appears to be set to continue. The ministry's essential personnel resources have not been increased at the same rate in all respects. This puts the quality of the steering at risk, and a better balance between the tasks and resources should be achieved. The work of the quality group for development cooperation as well as the role of and cooperation between sectoral advisers should be strengthened to improve the quality assurance of climate finance.

The KeTTU project has also developed thematic network leadership in development policy. The Ambassador for Climate Change, who is the leader of the ministry's climate and natural resources theme, the climate team, and the climate network in which all departments and service units of the ministry are represented could also play a more significant role in strengthening the planning, coordination and monitoring of climate finance in the future.

## Recommendations of the National Audit Office

1. **The Ministry for Foreign Affairs should draw up a public plan for how it will increase and allocate Finland's international climate finance, justifying the choices, priorities and influencing objectives included in it.**
2. **The Ministry for Foreign Affairs should develop operational planning and decision-making related to climate finance**
  - a. by justifying decisions on climate finance more comprehensively and transparently also from the perspective of climate results
  - b. by updating the 'climate annex' of the handbook on bilateral development cooperation and the instructions for compiling statistics on climate finance as well as by supporting their use, for example through personnel training, induction and guidance
  - c. by ensuring as part of the quality assurance of development cooperation that climate objectives and the indicators of their achievement will in the future be included in the results frameworks of all programmes and projects relevant to climate finance.
3. **The Ministry for Foreign Affairs should improve the monitoring, evaluation and reporting related to climate finance**
  - a. by promoting exchanges of good practices and methods of assessing and monitoring climate finance effectiveness between organisations that channel Finland's climate finance
  - b. by ensuring that the relevant units in the ministry systematically gather the available information on the climate results of the finance in synthesis and results reports of different financial instruments as well as in the case management system for development cooperation
  - c. by ensuring that, in new interventions recorded as climate finance in Finland's future international reports from 2019 on, the way in which the interventions respond to climate objectives is justified, and by setting out the principles used to collect statistics on climate finance more accurately than before
  - d. by including a coherent summary of the amounts, allocation and results of climate finance in development policy results reports
  - e. by producing high-quality information on the effectiveness of climate finance through both project-specific and centralised large-scale evaluations.
4. **The Ministry for Foreign Affairs should improve the organisation of climate finance steering**
  - a. by clearly defining the roles of the actors relevant to leadership of the climate theme, including the ministry's climate theme leader, team and network, in planning climate finance, coordinating its use and developing the monitoring and reporting of its results
  - b. by clarifying and strengthening the roles and collaboration of the quality group for development cooperation and relevant sectoral advisers in the quality assurance of climate finance
  - c. by ensuring a balance between tasks and resources in its different operating units as required by the development of climate finance.

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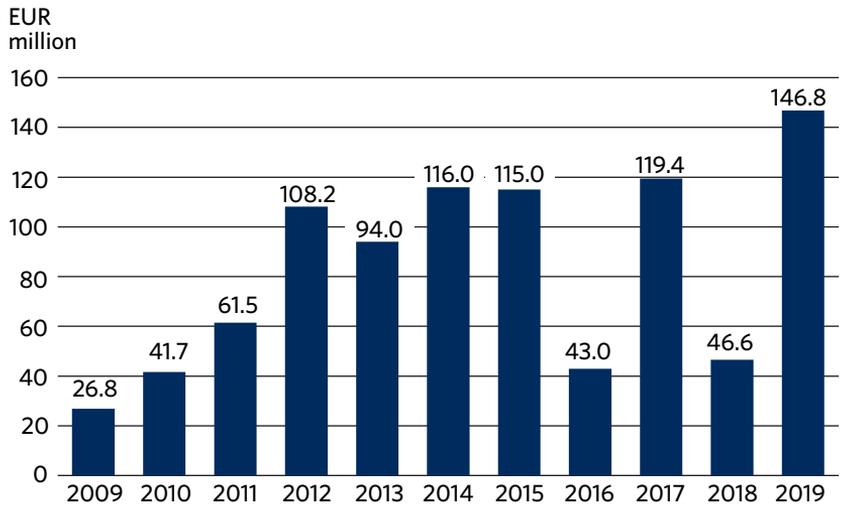


# 1 Scope of the audit



Under the United Nations Framework Convention on Climate Change (UNFCCC)<sup>1</sup>, the developed country Parties shall provide new and additional resources for developing country Parties to help them meet the costs of implementing measures required under the Convention and the costs of climate change adaptation. Under the Paris Agreement<sup>2</sup>, developed country Parties shall provide financial resources to assist developing country Parties with respect to both mitigation and adaptation. The Paris Agreement notes that the provision of financial resources to developing country Parties should aim to achieve a balance between adaptation and mitigation, taking into account the priorities and needs of the most vulnerable countries, such as the least developed countries (LDCs) and small island developing States (SIDSs). The finance should also promote such aims as gender equality and the empowerment of women.

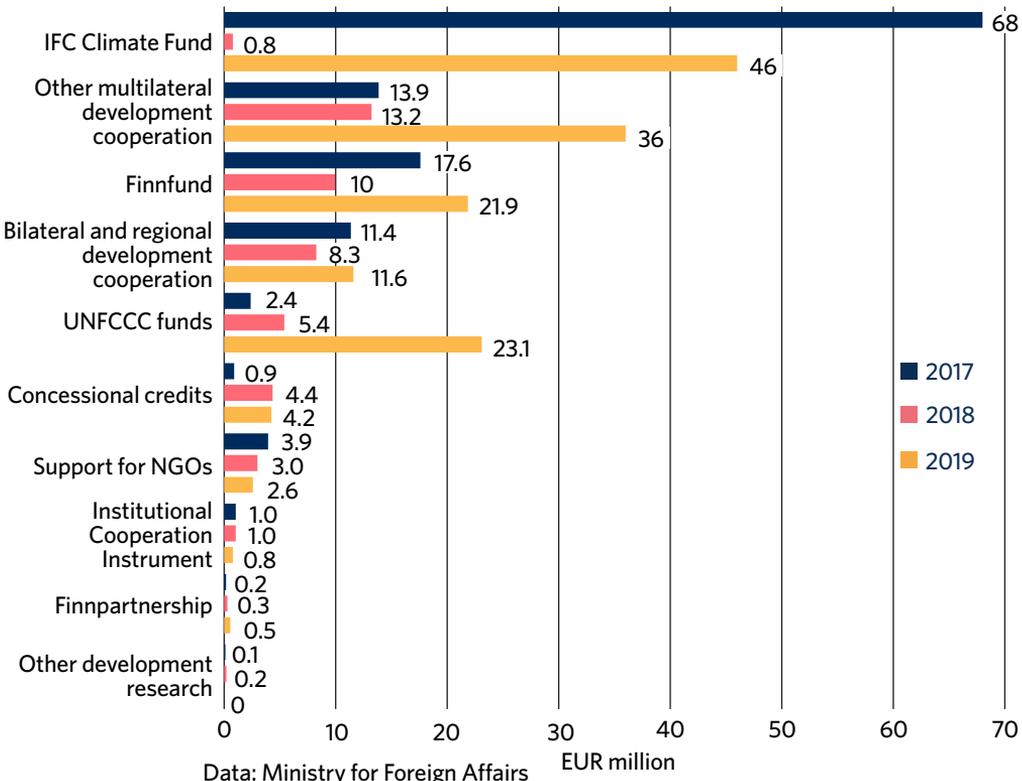
This audit focused on Finnish Government's international climate finance administrated by the Ministry for Foreign Affairs of Finland (MFA) in 2017–2019 as well as the recent development and current state of climate finance steering. In this report, Finland's climate finance refers to official development assistance (ODA) funded by the Finnish Government (main title 24, items 24.30.66, 24.30.88 and 24.30.89 of the Budget), the payments related to which have been or will be reported in full or in part as funding for developing countries referred to in the global climate conventions. The amount of Finland's climate finance has fluctuated significantly from year to year (Figure 1). Between 2017 and 2019, it has accounted for approximately 6% to 15% of Finland's total public development cooperation payments.



Data: Ministry for Foreign Affairs of Finland

Figure 1: Finland's climate finance in 2009-2019 (data for 2019 have not yet been reported to the UNFCCC Secretariat).

The Ministry for Foreign Affairs has implemented climate finance in cooperation with a number of other Finnish and international organisations and using almost all channels, forms and instruments of development cooperation (Figure 2).



Data: Ministry for Foreign Affairs EUR million

Figure 2: Distribution of climate finance reported by Finland between different forms and instruments of development cooperation in 2017-2019.

The audit examined how the Ministry for Foreign Affairs has ensured the effectiveness of Finland's international climate finance by its strategic and operative steering. Particular attention was paid to

- how the Ministry for Foreign Affairs has organised the steering of climate finance
- how the Ministry for Foreign Affairs has planned, compiled statistics on, monitored, evaluated and reported on the effectiveness of climate finance
- what type of information the ministry has received from different funding instruments and organisations on the effectiveness of climate finance
- what conclusions can be made on the effectiveness of climate finance based on the available information
- how the Ministry for Foreign Affairs has used the information related to effectiveness in its decisionmaking, reporting and other communication concerning climate finance.

The objective of the audit is to support efforts to develop the effectiveness and transparency of Finland's international climate finance further. The National Audit Office may also use the audit findings in the activities of the Working Group on Environmental Auditing (WGEA) of the International Organization for Supreme Audit Institutions (INTOSAI).

The audit was based on a sample of different forms of finance and instruments and the interventions carried out with their support. 'Intervention' refers to various types of actions, including projects or programmes, treated as separate entities in the Ministry for Foreign Affairs' financial control and international statistics collected on development cooperation. The sample included the entities listed in the following text box.

## Sample of climate finance selected for the audit

1. Bilateral and regional climate finance
  - a. Country strategies for Ethiopia, Tanzania and Nepal
    - Two examples of projects supported with intergovernmental grants in Ethiopia and Tanzania
  - b. The Energy and Environment Partnership Trust Fund (later referred to as the 'EEP Africa')
    - Three sample projects
2. Climate finance provided as concessional credits
  - Three sample projects
3. Climate finance provided by the Public Sector Investment Facility (PIF)
  - Projects could not be examined as no projects had been approved for funding.
4. Climate finance provided as development policy investments
  - a. the joint climate fund of Finland and the International Finance Corporation IFC ('Blended Finance for Climate Program', later referred to as the 'IFC Fund')
    - Three sample projects
  - b. Convertible bonds of Finnfund (Finnish Fund for Industrial Co-operation Ltd)
5. Finnfund's other climate finance
  - Three sample projects
6. UNFCCC multilateral funds
  - a. Global Environment Facility (GEF)
  - b. Green Climate Fund (GCF)

## 2 Has the Ministry for Foreign Affairs' steering of climate finance been effective overall?

The policy of Prime Minister Marin's Government is to scale up climate finance and direct half of it to climate change adaptation. No more detailed targets, either quantitative or qualitative ones, have been set for climate finance. Neither the Government nor the Ministry for Foreign Affairs has a clear public plan for how the implementation of the policies will be ensured and how the increased climate finance should be used.

The Ministry for Foreign Affairs' results-based management system of development cooperation with its theories of change and indicators as well as the case management system for development cooperation provide a good basis for monitoring the effectiveness of climate finance. While statistics on the finance have become more reliable in recent years, they are still susceptible to errors, and the collection of statistics on climate results is only taking its first steps.

There are major variations in the amounts of climate finance from year to year, and the statistical data are partly incomplete and inconsistent. Consequently, no sweeping conclusions on the increase, allocation and impacts of climate finance as a whole could be made. The climate finance amounts Finland reports to the UNFCCC Secretariat as well as their allocation to climate change mitigation and adaptation are indicative estimates and not fully comparable between the years.

It is quite likely that the internal objective set by the Ministry for Foreign Affairs of increasing climate finance to EUR 400 million during the parliamentary term will be realised, but its balanced allocation to climate change mitigation and adaptation still appears to be some way off.

### 2.1 No implementation plan has been drawn up for Government policies

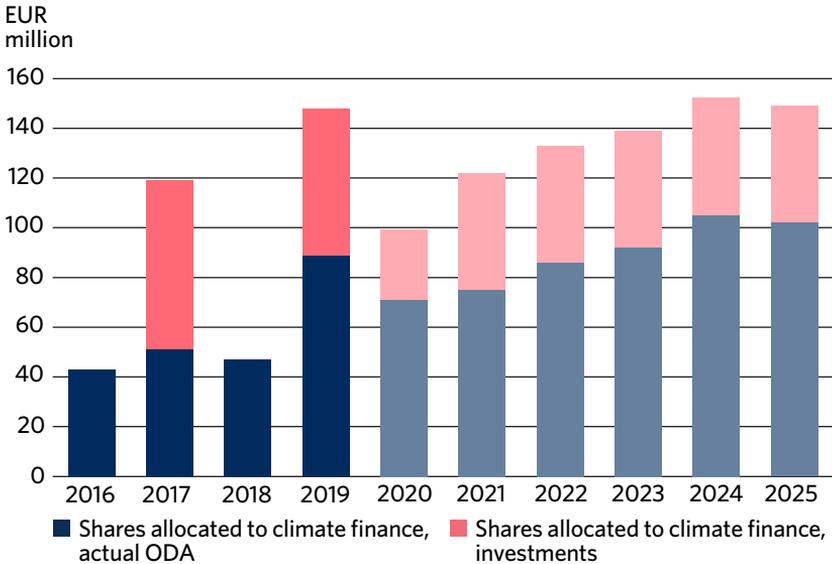
The Strategic Programme of Prime Minister Sipilä's Government (2015)<sup>3</sup> did not address Finland's climate finance for developing countries. In line with its programme, Prime Minister Sipilä's Government decided to cut development cooperation appropriations by EUR 200 million, replace EUR 100 million of grants by loans

and a capital injection to Finnfund, and stop directing emissions trading revenues to development cooperation. In addition, the Ministry for Foreign Affairs' development cooperation personnel was reduced during Prime Minister Sipilä's government term. These decisions have affected the annual amounts, allocation and steering of climate finance as part of Finland's international development cooperation.

Prime Minister Marin's Government Programme (2019)<sup>4</sup> sets the goal of scaling up climate finance and directing half of it to climate change adaptation. This is in keeping with the principles of climate finance set out in global climate conventions. However, neither the Government nor the Ministry for Foreign Affairs have published a plan detailing what this means in monetary terms and how the achievement of these objectives will be ensured.

In the Ministry for Foreign Affairs' operating and financial planning process, the ministry's internal indicative climate finance target was determined in late 2019: EUR 100 million per year, totalling EUR 400 million during the parliamentary term. The justification for this target was that it exceeds the climate finance reported for the previous parliamentary term (EUR 324 million). The Ministry for Foreign Affairs plans and monitors the achievement of the target as it prepares its budget proposals. If necessary, unused development cooperation appropriations can be reallocated to such purposes as climate finance. The ministry's internal plans for increasing climate finance are illustrated in Figure 3.

Climate finance will be increased but no overall plan for spending it has been published.



Source: Ministry for Foreign Affairs

Figure 3: Climate finance in 2016–2019 and plan for 2020–2025.

## Finland has no overall strategic objectives for its climate finance

So far, no overall strategic objectives have been defined for Finland's climate finance concerning its impacts or allocation by geographic area, instrument, organisation or sector. As climate finance is part of development cooperation, the general principles, objectives and priorities of the Government report on development policy (2016)<sup>5</sup> and the Government Programme apply to it where applicable. They include, for example, human rights based approach, reducing poverty and inequality, promoting gender equality and strengthening the rights and status of girls and women. Prime Minister Marin's Government Programme notes that the geographical focus of Finland's development cooperation activities will be on Africa. The programme does not indicate, however, if this principle should also apply to climate finance. The Government Programme refers to sustainable agriculture and forestry as well as water and energy as key sectors that are also essential for responding to climate change.

In line with the Government Programme, a Government Africa Strategy (2021)<sup>6</sup> has been drawn up for Finland. It is based on the 2030 Agenda and applies to central government at large. The strategy focuses particular attention on strengthening political and economic relations and expanding relations previously mainly based on development cooperation to other types of collaboration. Development cooperation will continue to be part of the overall scheme of cooperation with Africa. While climate issues are included in the strategy document's chapters on political and economic or trade relations at a general level, it contains no policies on increasing or targeting climate finance.

The Ministry for Foreign Affairs' Action Plan for Climate Smart Foreign Policy (2019)<sup>7</sup> notes that the Government's efforts to achieve a balanced breakdown of funds between climate change mitigation and adaptation will require increased support for adaptation. It also states that targeting adaptation support especially at the least developed countries and small island developing states is important, which is in line with the principles of global climate conventions. Meteorology and early warning systems, agriculture and food security, forestry, renewable energy and water are mentioned as key sectors of climate finance. The Action Plan notes that addressing gender equality enhances the effectiveness of climate actions, which is also a key view expressed in the Paris Agreement. However, the Ministry's Action Plan does not include a plan for measures or monitoring that could help ensure that these principles are followed in climate finance.

## 2.2 Objectives, monitoring and reporting are guided by theories of change

As from 2020, the implementation and monitoring of Finland's development policy as well as reporting on it are to be underpinned by the theories of change and aggregate indicators<sup>8</sup> updated by the Ministry for Foreign Affairs in 2019–2020, with climate and natural resources as one of the four priority areas. General targets have been defined for it in five outcome areas: 1) forests and biodiversity, 2) energy, 3) meteorology and disaster risk reduction, 4) food and nutrition security, and 5) water, sanitation and hygiene. The outcomes describe desirable trends; there are no quantitative objectives with a timeline. The document indicates that all the outcomes are in some way associated with the climate goals of the UN's Agenda 2030 for Sustainable Development (Targets 13.1–13.3). The theories of change show that development cooperation should produce climate benefits, in particular by supporting renewable energy production and energy efficiency, climate resilient water supply and early warning systems for weather-related disasters. The climate objectives of cooperation related to forests and agriculture are not described in detail.

The Ministry for Foreign Affairs intends to use the indicators to steer and monitor the implementation of Finland's development policy and to collect information for the next Development Policy Results Report (2022) and communication purposes. To monitor the climate impacts of the priority area, one aggregate indicator has been defined for measuring impacts on climate change mitigation: greenhouse gas (GHG) emissions avoided (tonnes CO<sub>2</sub>e) with Finland's support. Impacts on climate change adaptation are primarily to be monitored through sample cases, where possible in quantitative terms. The rationale is that as adaptation is context-specific and multidimensional, there is no universal indicator for it. This claim is supported by research literature on adaptation and the practices of several other donors.

Indicators for the outputs specify that, for example, weather and climate information needs to be transformed into action in order to protect lives and livelihoods. The indicators relevant to forests measure 'sustainably managed' and conserved forest areas. The outcome indicators do not include carbon sequestration in forests, emission reductions achieved by energy and agricultural sector actions or climate resilient agriculture. The indicators also do not describe the climate resilience of water services. The objective of promoting gender equality is clearly set out in the indicators for the forestry, agriculture and water sectors but not in the energy and meteorology sector indicators.



The monitoring of climate results is based on emission reductions and case studies.

## 2.3 Collection of statistics on climate finance is challenging

The monitoring and reporting of climate finance need to be supported by reasonably reliable statistical data and an appropriate data management system. The Ministry for Foreign Affairs uses a case management system for development cooperation (AHAKYT), which makes it possible to compile statistics on payment shares allocated to climate issues and to keep track of their targeting at mitigation and adaptation, geographically and by sector. The system also has a tab for recording climate results.

Finland mainly uses the so-called Rio Markers of the OECD Development Assistance Committee (DAC) to compile statistics on payments reported as climate finance. Overall statistics on the shares of multilateral organisations' core funding allocated to climate issues and their targeting at mitigation and adaptation are compiled on the basis of estimates reported by the organisations themselves.

### 'Rio Markers' support the collection of statistics on climate finance

According to the OECD DAC Rio Markers for Climate handbook<sup>9</sup>, the documents of projects categorised as climate relevant in statistics should clearly specify that climate change mitigation or adaptation is either the project's 'principal objective' or 'significant objective'. An objective is a principal objective if the project would not have been implemented without it, and a significant objective if the project also has other prime objectives. According to the Ministry for Foreign Affairs' internal instructions, 50% to 100% of funding can be recorded as climate finance if the climate objective is the principal objective, and 10% to 50% if it is a significant objective. This share of climate finance can be divided between mitigation and adaptation.

The Ministry for Foreign Affairs has not complied with the Rio Marker Handbook in all respects when collecting statistics and reporting on climate finance. The documents of interventions in which payments have been recorded as climate finance do not always make any reference to climate change objectives. The ministry's assessment criteria for climate-specific shares of payments as well as the shares of mitigation and adaptation are not clear at all times. Statistical data are not always updated even if the objectives or climate shares of interventions change.



The Ministry for Foreign Affairs has not always followed the guidelines when collecting climate finance statistics.

The Ministry for Foreign Affairs does not currently have instructions for correcting statistical data as interventions change, or quality assurance for such situations. Based on short project descriptions saved to the information system, it is difficult to check the justifications for recording climate-specific amounts, especially if the descriptions make no mention of objectives. Some climate relevant interventions have also been excluded from the statistics for no apparent reason. The Ministry for Foreign Affairs modified the practice of compiling statistics on NGO support in 2018, as a result of which climate finance was reported in five times as many NGOs projects as in the previous year. While the collection of statistics and reporting on Finland's climate finance have generally become more reliable in recent years, the reported climate finance amounts and their allocation to mitigation and adaptation remain indicative estimates, and the data are not fully comparable between the years.

### Compiling statistics on climate finance requires expertise

Collecting statistics on the allocation of climate finance to geographic areas and different sectors is also problematic. For example, the allocation of multilateral organisations' core funding cannot be itemised exhaustively. The Ministry for Foreign Affairs' statistics also contain some errors and inconsistencies. For example, some significant payments clearly allocated to Africa have not been recorded as such in the statistics. The OECD/DAC sectoral classification does not have a category for all major sectors (for example, meteorology or disaster risk reduction), and the consistency of using these categories in the ministry's statistics varies. The classification contains relatively clear categories for statistics on interventions in the forestry, agriculture, water and energy sectors.

Compiling statistics on the climate results of interventions is particularly demanding. The indicator for climate change mitigation, emission reductions in tonnes of carbon dioxide equivalent (tCO<sub>2</sub>e), is straightforward in principle. However, the organisations that channel the funding do not use uniform methods to assess the emission reductions achieved by their interventions, which means that the data may not be comparable. In addition, the indicator for emission reductions only describes direct impacts on emissions; and adaptation, in particular, can be monitored using a number of different indicators. The funded activities may create preconditions for producing climate benefits over the longer term after the actual project has ended, indirectly, and as a result of the activities of third parties, which makes them difficult to assess and verify when planning or monitoring projects. The results tab in the AHA-KYT case management system was only introduced in spring 2020, and based on audit observations, it has not yet been used extensively and systematically.



Compiling statistics on climate results is a new task.

Expertise is needed to compile statistics on both the shares of funding allocated to climate and the climate results. The responsible desk officers using the system should have access to the necessary data easily and in the most uniform format possible in the intervention documents and be able to interpret them correctly. The contents of the documents, use of the Ministry for Foreign Affairs' internal advisory services, and the quality assurance system for development cooperation have not always been adequate in this respect. The collection of statistics should consequently be developed further, for example by improving the instructions and their availability and resorting to the Ministry for Foreign Affairs' internal advisory services more often. Due to job rotation in the ministry, the need for advice, induction and training is particularly great.

#### The Climate Annex in the Manual for Bilateral Programmes would be useful if it were updated and used systematically

The climate form<sup>10</sup> annexed to the ministry's Manual for Bilateral Programmes had been used in one bilateral Project Document. The form helps to analyse the climate resilience, climate relevance and disaster risks of the project and to determine the shares of project funding allocated to climate change mitigation and adaptation using the Rio Markers. The audit found no other sample projects that would have made use of this Annex.

In discussions with representatives of certain Ministry for Foreign Affairs units, it emerged that the Annex in question no longer fully corresponds to the current concepts and needs of development cooperation and has not been used systematically. If the Annex were updated and used systematically in project planning, it could significantly support the desk officers not only with compiling statistics on the shares of climate finance in projects but also with ensuring more systematic monitoring of the climate results.

## 2.4 Forming an overall picture of effectiveness is difficult

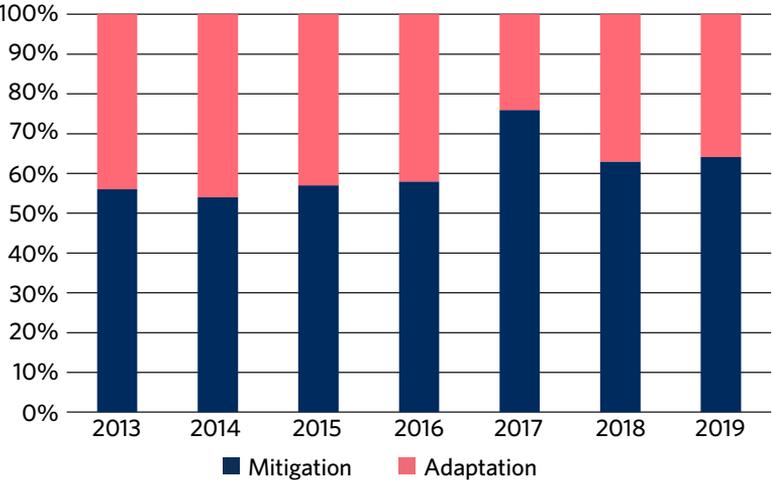
As we can see in Figure 1, Chapter 1, the amount of Finland's climate finance has fluctuated significantly from year to year. In particular, this fluctuation has resulted from cuts in development cooperation appropriations in 2016 and the timing of some larger payments and replenishment rounds. As the amount of funding varies greatly from one year to the next and there are little statistical data concerning the current government term, verifying if the objectives related to increasing and targeting climate finance have



The attainment of the current Government's objectives can only be assessed later.

been attained is not yet possible. According to the Ministry for Foreign Affairs' estimate, it is likely that the internal target of EUR 400 million during the parliamentary term will be reached. There are no grounds for doubting this.

For the allocation of climate finance to climate change mitigation and adaptation as a whole in 2013–2019, see Figure 4. While the data are only indicative, they show roughly that in general, there still is some way to go before the balanced division set as the goal is reached.

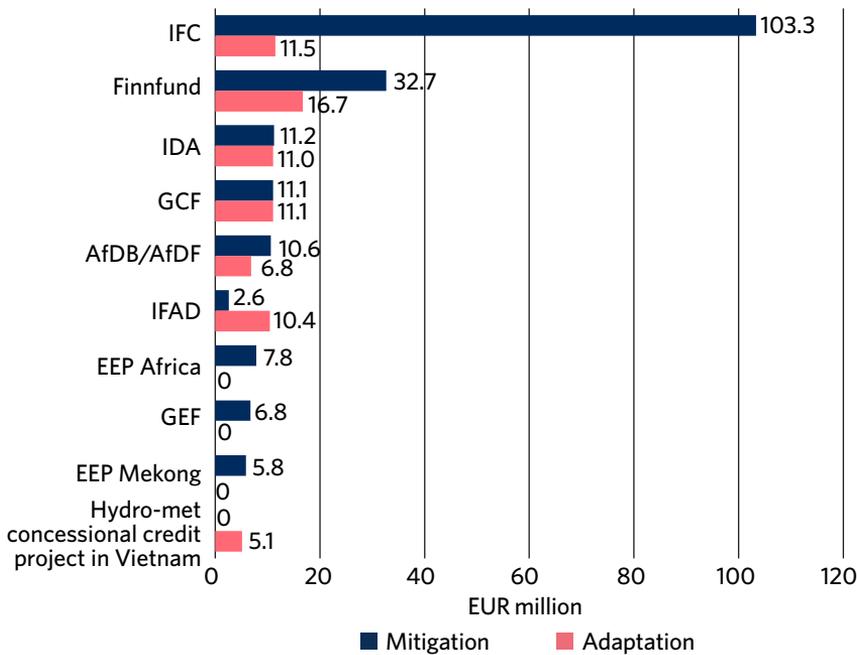


Data: Ministry for Foreign Affairs

Figure 4: Allocation of recorded climate finance to climate change mitigation and adaptation in 2013–2019.

The most significant channels for supporting climate change adaptation have been the Least Developed Countries Fund, to which Finland most recently contributed EUR 2 million in 2018, and the Special Climate Change Fund and Adaptation Fund, which Finland has no longer financed in recent years. These Funds are administrated under the global climate conventions. The overwhelmingly largest number of interventions in which at least 60% of the payments have been recorded as adaptation finance have been funded through the Institutional Cooperation Instrument (approx. 66% of the total payments allocated to adaptation) and NGO support (total share allocated to adaptation approx. 63%).

Figure 5 shows the ten largest channels of Finland's climate finance in 2017–2019. They accounted for around 87.6% of Finland's total climate finance.

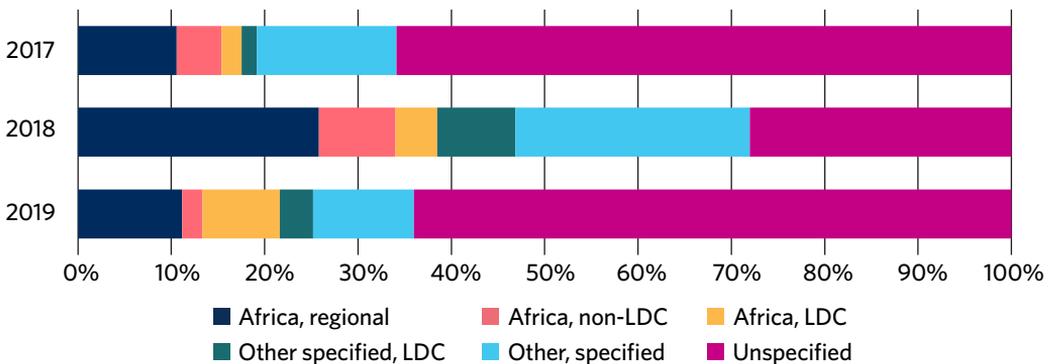


Data: Ministry for Foreign Affairs

Figure 5: Ten largest users of climate finance in statistics for 2017-2019.

Figure 6 illustrates how, in 2017-2019, between 18% and 38% of funding itemised by geographic area was allocated to Africa and between 4% and 12% to the least developed countries (LDCs). However, the allocation of climate finance by country and geographic area cannot be monitored accurately as the share of finance not itemised by geographic area is significant, among other reasons because it is channelled through multilateral organisations. Consequently, some of the finance not itemised geographically has actually been allocated to Africa and the least developed countries.

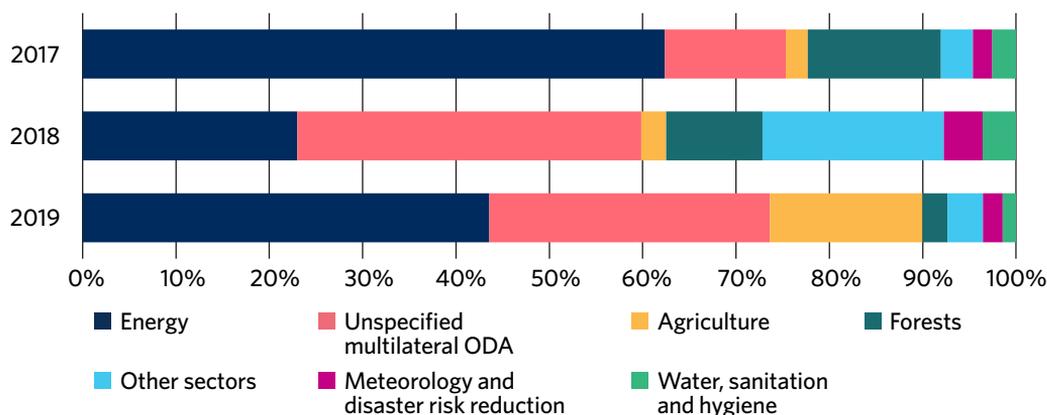
“The allocation of climate finance by country or region cannot be monitored accurately.”



Data: Ministry for Foreign Affairs

Figure 6: Geographic breakdown of climate finance in statistics for 2017-2019.

Statistical data indicate that of all sectors, the energy sector has been the greatest beneficiary of Finland's climate finance (Figure 7). The next largest amounts of finance itemised by sector have been allocated to forestry, agriculture, meteorology, disaster risk reduction and the water, sanitation and hygiene sectors. These are key sectors for climate change response in Finland's development policy, the Government Programme and the Action Plan for Climate Smart Foreign Policy. A large part of the finance is not itemised by sector in the statistics, however, among other reasons because it is channelled through multilateral organisations, or it has been recorded as being allocated to others sectors, which means it has been divided between several small sectors.



Data: Ministry for Foreign Affairs

Figure 7: Breakdown of climate finance by sector in statistics for 2017-2019.

For the most significant 'other sectors' in Figure 7, see Table 1. Very small amounts of climate finance have been recorded for the 'remaining' individual sectors.

Rather than being fully based on the original statistics provided by the Ministry for Foreign Affairs, obvious inaccuracies were corrected for the Figures in this section.

Due to the limitations of the statistical data, extensive conclusions on the effectiveness of climate finance as a whole could not be made in practice.

Table 1: The shares of 'other sectors' in climate finance.

Sector	2017	2018	2019
Mining	0.2%	0.4%	0.1%
Waste management	0.1%	0.3%	0.1%
Health	0.0%	0.7%	0.4%
Education and training	0.3%	1.0%	0.5%
Remaining sectors	2.8%	17.1%	2.8%

### **3 Has the Ministry for Foreign Affairs' steering of climate finance through the different instruments been effective?**



The Ministry for Foreign Affairs has not defined clear overarching objectives for climate finance. Somewhat more specific objectives have been defined in the Ministry for Foreign Affairs' policies, influencing plans and ownership steering concerning certain individual funding instruments and organisations that channel funding, as well as in the organisations' strategies. The Ministry for Foreign Affairs' practices and the ministry's possibilities of influencing the effectiveness of various climate finance instruments vary greatly.

Some of the organisations that channel the finance monitor the climate results of their projects following principles jointly approved by international development funding institutions and produce information on them for the Ministry for Foreign Affairs by portfolio. However, not all instruments have clear climate objectives or report systematically on their climate results, which makes assessing their effectiveness difficult.

There are also major variations between the instruments regarding how systematically and by which methods their climate results are assessed and monitored. Sharing good practices between instruments and organisations could improve the quality and consistency of the information available to the Ministry for Foreign Affairs.

#### **3.1 The climate results of intergovernmental projects have not always been verified**

The Ministry for Foreign Affairs has compiled statistics on international climate finance provided in grant form as part of intergovernmental development cooperation in 2017–2019 as set out in Table 2.

Table 2: Intergovernmental development cooperation recorded as climate finance in 2017–2019.

Year	Climate finance amount (EUR 1,000)	Share in climate finance (%)
2017	5,175	4.1
2018	3,329	6.8
2019	2,894	1.9
<b>2017–2019</b>	<b>11,398</b>	<b>3.5</b>

Climate finance statistics have been collected on 18 interventions in 10 partner countries (Table 3). Approximately one half of the finance has been allocated to forestry projects in Tanzania. Six of the partner countries are classified as least developed countries (LDCs).

Table 3: Intergovernmental development cooperation recorded as climate finance, allocation by country and sector in 2017–2019.

Country	Sectors (interventions, number)	Climate finance (EUR 1,000)	Total (EUR 1,000)
Tanzania	Forestry (4)	5,729	6,522
	Management training (2)	782	
	Business, entrepreneurship (1)	9	
Ethiopia	Water supply (2)		1,456
Nepal	Water resources management (1)	767	1,454
	Water supply (1)	686	
Vietnam	Forestry, information systems (1)		669
Kyrgyzstan and Tajikistan	Water resources management (1)		393
Mozambique	Agriculture (1)		368
Laos	Forestry (1)		307
Zambia	Forestry (1)		212
Kenya	Rural development (1)	10	18
	Forestry (1)	8	
<b>Total</b>	<b>18</b>		<b>11,399</b>

While no actual energy sector projects have been recorded as intergovernmental climate finance, renewable energy has been promoted to some extent with Finnish funding, at least in a water resources management project in Nepal.

The Ministry for Foreign Affairs prepares country strategies and programmes for bilateral development cooperation with Finland’s long-term partner countries. The country programmes have their own result indicators used to monitor partner countries’ progress and to assess programme effectiveness as a whole. See Table 4 for the extent to which aspects of effectiveness relevant to climate finance have been addressed in the objectives, monitoring and reporting of sample strategies, programmes (2016–2019) and projects as well as what conclusions can be made based on the information contained in the reports or statistics.

Table 4: Objectives and results of intergovernmental climate finance as well as the monitoring and reporting of results.

Result criteria	Specification of objectives and indicators	Monitoring and reporting	Results in 2017-2019
<b>Climate change mitigation</b>	No programme-level objectives, no objectives in the projects' results frameworks	No systematic monitoring and reporting of impacts	Carbon sequestration and fire-fighting in forest projects, emission reductions through renewable energy
<b>Climate change adaptation</b>	At programme level, climate resilient water supply and agriculture, number of water safety plans in project plans	No systematic monitoring and reporting of impacts	Water safety plans prepared, soil protected, wildfires reduced
<b>Shares of mitigation/adaptation in climate finance</b>	No objective	Evident from the statistical data	59%/41%
<b>LDCs' share in climate finance</b>	No objective	Evident from the statistical data	91%
<b>Share of Africa in climate finance</b>	No objective	Evident from the statistical data	75%
<b>Gender equality</b>	Women's status in water and forestry organisations	Based on results frameworks	Women's status has improved but more slowly than intended
<b>Sustainable Development Goals (SDG)</b>	Many of the Goals are relevant but no objectives set based on the 2030 Agenda		

The country strategies prepared for 2016–2019 do not always address climate objectives, even if climate finance has been reported for projects implemented in these countries. On the other hand, the results reports of the country strategies have not always described climate benefits, and climate finance has not always been reported for the projects even if the relevant country strategy had associated climate objectives with them.

The results frameworks of country programmes do not always specify indicators that would directly describe the achievement of the programme's climate objectives. One country strategy results report includes an estimate of the emission reductions achieved through a project. The report also shows that the climate objectives of the project had undergone a significant change. However, it did not affect the estimated amount of climate finance in the statistics.

In all country strategy results reports examined, the Ministry for Foreign Affairs has reported on the promotion of women's status based on the results framework indicators. In the reports for 2018 and 2019, equality or other results were not yet linked to the UN Sustainable Development Goals.

## Equality impacts have been monitored more systematically than climate impacts

The climate objectives of intergovernmental projects are not consistently specified in project plans, which has at times hampered the monitoring and reporting of their results. Climate objectives have not always been defined at all, and rarely in quantitative terms. The indicators defined in the results frameworks do not always describe the achievement of climate objectives or the impacts of climate actions, and they have not been used systematically in monitoring. Reporting on climate impacts has been minimal. The calculation methods used to assess climate change mitigation (in carbon sequestration projects) and the assumptions contained in them have not been described.

In water sector projects, water safety plans aiming to promote the climate resilience of water services have been drawn up. The project reports provide very little information on the implementation and impacts of these plans. It is likely that forestry projects have had impacts that support both mitigation (carbon sequestration, use of waste wood for energy) and adaptation (soil conservation, prevention of wildfires), but they have not been verified or reported credibly.

The gender equality impacts of the sample projects have been reported both in qualitative and quantitative terms, using the indicators for women's status specified in the results frameworks. They indicate that women's status has improved as a rule, however more slowly than intended at times.



There are no climate objectives in the projects' results frameworks.

### 3.2 The quantitative objectives of EEP Africa have been monitored annually

Finland's share in the funding of the The Energy and Environment Partnership Trust Fund (EEP Africa) will be EUR 16.9 million in total in 2018–2022. This funding is managed by the Nordic Development Fund (NDF). The Ministry for Foreign Affairs has clearly stated in its funding proposals that this Fund is part of Finland's international climate finance. As any loan repayments and returns will revert back to the programme for use on future financing rounds rather than to the donors, they will not reduce the amount of Finland's international climate finance (Table 5).

Table 5: Statistics on EEP Africa's climate finance payments.

Year	Climate finance amount (EUR 1,000)	Share in climate finance (%)
2018	2,000	4.3
2019	4,900	3.3
<b>2018–2019</b>	<b>6,900</b>	<b>3.6</b>

The purpose of EEP Africa is to provide early stage risk financing for projects that promote renewable energy and energy efficiency, thus improving the actors' possibilities of obtaining further financing from other funding providers. The general objectives of EEP Africa are to promote the attainment of the UN Sustainable Development Goals, in particular poverty reduction (Goal 1), gender equality (Goal 5), sustainable energy (Goal 7), decent work and sustainable economic growth (Goal 8) and climate action (Goal 13). The operating instructions attached to EEP Africa's financing agreement specify its theory of change and the results framework based on it, which are updated when necessary. The results framework defines eight key objectives and indicators for the programme, for which quantitative target levels (anticipated results) have also been set, on the assumption that EEP Africa's financing will amount to a total of EUR 43 million. See Table 6 for some of these objectives and indicators.

Table 6: EEP Africa's key objectives and predicted results as well as the monitoring and reporting of results.

Result criterion	Specification of objectives and indicators	Monitoring and reporting	Anticipated results
<b>Mobilised climate finance (total investment commitments)</b>	EUR 143 million	Annually	2019: EUR 195 million
<b>Anticipated emission reductions (total active portfolio)</b>	910,000 tCO <sub>2</sub> e	Annually	2019: 427,000 tCO <sub>2</sub> e
<b>Climate change adaptation</b>			
<b>LDCs' share in the active portfolio</b>	No objective	No reporting	2019: 60% of the number of projects
<b>Africa's share in climate finance</b>			100%
<b>Proportion of women in target organisations' management</b>	40%	Annually	2019: 47%
<b>Proportion of women in target companies' jobs</b>	50%		46%
<b>Sustainable development goals</b>	Linked to Goals 1, 5, 7, 8 and 13 at a general level	At a general level	Promotes Goals

The Ministry for Foreign Affairs steers not only the objectives of the fund but also its activities through special themes and goals selected for its calls for proposals. For example, the 2019 call for proposals targeted specifically projects that promote gender equality.

”  
The Ministry for Foreign Affairs also steers EEP Africa through the themes of calls for proposals.

According to the financing agreement, the fund has 15 target countries. Eight of them belong to the least developed countries (LDCs), one to low-income countries (LICs), two to lower middle income countries (LMICs) and three to upper-middle income countries (UMICs). Of the target countries, Seychelles is a small island developing state (SIDS) but ceased to qualify as a target country for official development assistance in 2018 (the fund has one project in this country launched in 2019). EEP Africa has not reported on the targeting of its projects and funding especially at LDC countries but is in possession of this information.

The Ministry for Foreign Affairs monitors the results based on the fund's annual reports. As the fund started operating in 2018, it has so far only been able to report on its projected rather than achieved results and impacts. It reported on the anticipated emission reductions generated by selected projects in 2018 but no longer in 2019, whereas a report presenting the 18 projects selected for funding in the 2019 call for proposals itemises the anticipated emission reductions of the projects where applicable. In addition to the reports, EEP Africa has produced plenty of other communication material about the projects, including videos.

The projected (anticipated) reductions in greenhouse gas emissions and the share of women as partner companies' managers have been defined in the plans of EEP Africa's sample projects. The results and impacts of the projects are to be assessed and verified using the methods specified in EEP Africa's monitoring and evaluation guidelines and reported in accordance with the Administrative Manual. Project owners report on the results of their projects by entering monitoring data directly in a form available in the fund's reporting portal.

The fund does not assess or report on the cost-effectiveness of direct emission reductions. In the view of the Ministry for Foreign Affairs and representatives of the Nordic Development Fund (NDF), this would not be necessary or meaningful as the finance has other important objectives.

Finnish actors' potential share in the Fund's projects is not itemised in its reports.

In 2020, the NDF commissioned an external evaluation<sup>11</sup> of the Fund, which focused on EEP Africa's operation since 2010. Among other things, the evaluation found that the fund has promoted the achievement of the UN's Sustainable Development Goals (SDGs 1, 3, 4, 7, 8 and 13). The evaluation did not assess or verify the projects' impacts on climate change mitigation or adaptation, employment and gender equality.



EEP Africa has provided good guidelines for assessing and verifying climate results.

### 3.3 Very little information is available on climate benefits of concessional credits

According to the Ministry for Foreign Affairs' concessional credit policy of 2008 and Guidelines for the Preparation of Feasibility Studies updated in 2010, concessional credits were to be targeted at supporting environmental and infrastructure investments and, in particular, climate and energy sector projects<sup>12</sup>. According to the ministry's representatives, the concessional credit instrument has no climate finance objectives as a default, even if individual projects may have some. For the amounts of climate finance in concessional credit projects in 2017–2019, see Table 7.

Table 7: Climate finance in concessional credit projects in 2017–2019.

Year	Climate finance amount (EUR million)	Share in climate climate finance (%)	Proportion of concessional credit payments <sup>13</sup> (%)
2017	3.9	3.3	45
2018	3	6.4	39
2019	2.6	1.8	38
<b>2017–2019</b>	<b>9.5</b>	<b>3</b>	<b>40.7</b>

In 2017–2019, climate finance has been recorded in 15 concessional credit projects implemented in seven partner countries (Table 8). The vast majority (70%) of the finance has been allocated to Vietnam. The target countries are lower middle income countries (LMICs), apart from China, which is an upper-middle income country.

Table 8: Allocation of climate finance in form of concessional credits by country and sector in 2017–2019.

Country	Sectors (interventions, number)	Climate finance (EUR 1,000)	Total (EUR 1,000)
Vietnam	Hydro-meteorology (1)	5,091	6,649
	Waste management (2)	938	
	Electricity transmission (2)	575	
	Sewers and waste water (1)	45	
Honduras	Rural electrification (1)		1,342
Kenya	Electricity substation (1)		674
Sri Lanka	Solar energy (1)		366
Ghana	Rural electrification (1)		290
China	Waste water sludge treatment (1)	173	177
	District heating (3)	4	
Egypt	Dredging of waterways (1)		22
<b>Total</b>	<b>15</b>		<b>9,520</b>

The Ministry for Foreign Affairs' annual report on private sector financing instruments in 2016–2018 does not deal with concessional credits<sup>14</sup>. Consequently, no synthesis on the effectiveness of concessional credits is available.

An external evaluation<sup>15</sup> commissioned by the Ministry for Foreign Affairs (2012) found that development objectives have often received little attention in concessional credit schemes as they have not always been clearly defined in project plans, and there are no indicators and monitoring procedures for their achievement. According to the evaluation, the monitoring and evaluation system for the concessional credit instrument and projects did not meet the general requirements for monitoring and evaluating development cooperation. While the Ministry for Foreign Affairs had improved the administrative procedures for concessional credits in terms of monitoring and evaluating the results, it had not always ensured compliance with these procedures. The ministry had often also failed to ensure appropriate monitoring and ex-post evaluation of environmental impacts.

Based on three sample projects, the situation appears to leave a great deal to be desired, at least when it comes to defining climate and gender equality objectives and monitoring and reporting impacts (Table 9).

Table 9: Key objectives and results of climate finance granted as concessional credits and the monitoring and reporting of results.

Result criterion	Specification of objectives and indicators	Monitoring and reporting	Results in 2017–2019
<b>Climate change mitigation</b>	No instrument-specific objectives, no objectives in the projects' results frameworks	No instrument-specific reporting, no systematic reporting on individual projects	It is likely that energy and waste management projects have reduced emissions
<b>Climate change adaptation</b>	No instrument-specific objectives, no objectives in the projects' results frameworks	No instrument-specific reporting, no systematic reporting on individual projects	It is likely that meteorological and sewer projects have promoted capabilities for adaptation
<b>Shares of mitigation/adaptation in climate finance</b>	No objective	Evident from the statistical data	25 %/75 %
<b>LDC countries' share in climate finance</b>	No objective	Evident from the statistical data	0
<b>Africa's share in climate finance</b>	No objective	Evident from the statistical data	10 %
<b>Gender equality</b>	No instrument-specific objectives, no objectives in the projects' results frameworks	No instrument-specific reporting, no systematic reporting on individual projects	What little information is available is vague
<b>Sustainable Development Goals</b>	Many of the Goals are relevant but no objectives set based on 2030 Agenda		

Climate objectives or indicators have not always been specified for projects in which climate finance has been reported in the payments, and the project implementers have not always discussed climate results in their progress, final and ex-post evaluation reports. The final report of a waste management project assessed the climate benefits of landfill gas incineration but not the emissions or circular economy impacts of the waste incineration plant included in the project. The project documents either do not assess impacts on gender equality at all, or very generalised conclusions have been made on them without clear evidence or justification.

The large share of adaptation in climate finance provided as concessional credits is mainly explained by the hydro-meteorology project launched in Vietnam in 2017.

### PIF guidelines emphasise the monitoring and evaluation of impacts

In 2016, a 'Public Sector Investment Facility' instrument (PIF) was established to replace concessional credits. Its aim is to support developing countries' public sector investments which are in line with Finland's development policy and the UN's Sustainable Development Goals and in which Finnish expertise and technology are used. The aims also include mobilising commercial funding for investments in developing countries. Similarly to the concessional credits, the PIF instrument is also designed for financing investments in least-developed (LDC), low income (LIC) or lower middle income (LMIC) countries. The PIF has no special emphasis on Africa. According to the Ministry for Foreign Affairs' internal PIF guidelines, the number of project proposals that meet the quality criteria will not be large enough to allow the ministry to prioritise them strictly by region or sector.

No PIF projects had yet been approved for funding at the time the audit was conducted. By November 2020, the Ministry for Foreign Affairs had received a total of 99 project proposals, of which 17 were approved for further processing (proportion of interest support totals EUR 144.3 million). Four of the projects were to be implemented in Africa.

According to the PIF guidelines, the projects must be climate resilient, but no more specific climate finance or impact objectives have been set for this instrument as a whole. According to the ministry's representatives, while individual PIF projects may have climate objectives, the PIF is by no means specifically intended as a climate finance instrument. As the PIF relies on applications submitted by external actors, the ministry finds it difficult to set quantitative climate finance objectives for it in advance. On the other hand, the ministry intends to pay attention to gender equality and realisation of human rights when assessing PIF project proposals and plans.

According to the PIF guidelines<sup>16</sup>, the targeted development impacts of the projects and the way their implementation should be monitored will be specified following the general principles of the ministry's results management, and development impacts are to be emphasised more than in the previous concessional credit instrument. The PIF guidelines do not contain more detailed instructions for assessing and monitoring the projects' climate resilience and impacts. Project implementers must submit to the Ministry for Foreign Affairs progress reports in a specific format every six months, as well as final reports. On the basis of these documents, the ministry annually compiles information on private sector instruments in synthesis reports. In long-term partner countries, the aim is to include the PIF projects in the results reporting of the country programmes. Separately from these reports, the ministry may carry out or commission external ex-post evaluations of the projects' development impacts and sustainability. According to the Ministry for Foreign Affairs, its resources are sufficient for one to two evaluations each year.

The ministry's internal PIF guidelines state that the effectiveness and development impacts of the instrument will be monitored based on the disbursement ratio and the share of projects completed with excellent results and impacts. In addition, results are also to be monitored and reported in compliance with the Theories of Change for Finland's Development Policy in the future.

### **3.4 The Ministry for Foreign Affairs has yet to produce a synthesis report on the results of financial investments**

In 2019, the Ministry for Foreign Affairs prepared a Development policy investment plan 2020–2023<sup>17</sup> as set out in Prime Minister Marin's Government Programme. Its purpose is to guide the allocation of the Budget appropriation for financial investments (Budget item 24.30.89). The purpose of the investments is to provide more capitals for enterprises that create jobs and other activities seeking to promote sustainable development, including especially investments and programmes that strengthen the private sector in developing countries. The aims of the investment appropriation also include improving the operating conditions of SMEs, in particular. According to Finland's Development Policy (2016), the investments should increase direct capital investments and loans to developing countries, particularly in the fields of clean technology, sustainable water management, energy and food production, and combating climate change.



More attention will be paid to development impacts in PIF projects.

The investment plan sets the objective of directing at least 75% of the investments to climate finance, whereas 85% should be allocated to projects that promote gender equality and 60% to Africa. The Ministry for Foreign Affairs also aims to allocate financial investments especially to the least developed, fragile and lower middle income countries. According to the plan, the possibility of using the investment appropriation not only for climate change mitigation but also adaptation will be examined. The ministry does not consider it appropriate to set a more specific objective related to adaptation for the investments.

In 2017–2019, a total of EUR 127.3 million of climate finance provided as, or in association with, investments was reported, accounting for around 41% of the total climate finance in these years. The finance was allocated to the IFC Fund (EUR 114.8 million) and IFAD (EUR 12.5 million). It is also possible that part of Finnfund's convertible bond in 2016 was reported as climate finance. Separating it from other Finnfund climate finance based on the Ministry for Foreign Affairs' statistics is not possible, however.

In certain cases, investment repayments and returns reduce the amount of funding recorded as development cooperation and climate finance in the statistics, and this should be taken into account in any quantitative planning of climate finance.<sup>18</sup>

The partner organisations through which the investments are channelled report to the Ministry for Foreign Affairs on the results and impacts of funding as required by their results management systems, in different ways. According to the investment plan, the Ministry for Foreign Affairs (KEO-50) produces an annual synthesis report on the development impacts of development policy investments. The purpose of the annual reports is to describe the results of the investment programme at portfolio level on the basis of the available information, including the projected and actual reductions in greenhouse gas emissions. At the time of the audit, the ministry had not yet prepared a single annual investment plan synthesis report. The ministry's 'investment working group' has discussed the challenges and opportunities of consistent reporting of financial investment results and also intends to plan the reporting.



Financial investment repayments and returns may reduce climate finance.

### IFC Fund objectives are not fully in line with those of the later Development policy investment plan

The specified objective of the joint climate fund established by Finland and the International Finance Corporation (IFC) in 2017 is to create markets, catalyse innovative investments and increase private capitals for private sector climate projects in developing countries. By doing this, the purpose of the Fund is to support climate change mitigation and adaptation alike. As mitigation methods, the programme document refers to promoting low-carbon

development trajectories and technologies, increasing the amount of carbon sequestered in soil and vegetation through sustainable agriculture and forestry, and reducing greenhouse gas emissions, for example through renewable energy and climate-friendly waste management, construction and transport. Climate-smart agriculture is referred to as an example of adaptation.

The aims of the Fund also include stepping up cooperation between the IFC and the private sector in Finland. The programme document did not yet include the objective of strengthening the national private sector in developing countries and especially improving SMEs’ operating conditions, which was later set down in the Development policy investment plan (2019). The target countries of the Fund are, as a rule, the least developed countries (LDCs), other low-income countries (LIC) and lower middle income countries (LMICs). In exceptional cases, the Ministry for Foreign Affairs may also approve investments in upper-middle income countries (UMICs). The Fund has no special emphasis on Africa. In 2018, Finland agreed with the IFC on providing EUR 1.54 million as finance for technical assistance that complements its investment with the aim of supporting the development of climate projects, especially in the poorest countries.

The Ministry for Foreign Affairs (KEO-50) does not consider it necessary or possible to update the IFC Fund’s objectives to achieve a better match with the policies of the Development policy investment plan. It examines the Fund as part of the overall monitoring of and reporting on investments. Any new investment in the Fund would be made in accordance with the current Government Programme and investment plan.

**No monitoring indicators have been used in the IFC Fund’s reporting, and the mid-term review was postponed**

The Ministry for Foreign Affairs has remitted three payments to the IFC Fund, the middle one of which was allocated to the technical assistance component (Table 10). The ministry has compiled the climate finance statistics based on its own payments, not those made by the IFC. The results and impacts will be generated over a longer term.

Table 10: Climate finance recorded in IFC Fund payments in 2017-2019.

Year	Climate finance amount (EUR million)	Share in climate climate finance (%)
2017	68	57
2018	0.8	1.7
2019	46	31
<b>2017-2019</b>	<b>114.8</b>	<b>29.9</b>

The IFC submits a financial and operational report on the Fund to the Ministry for Foreign Affairs on a quarterly basis and reports on the progress and development impacts of the investments annually. It produces two versions of its annual report: a public version intended for general release and a confidential version for the Ministry for Foreign Affairs. The IFC monitors the results of the Fund using its results monitoring system and a software tool for impact assessment, measurement and monitoring, which produces information on both project level results and systemic changes affecting the market.

So far, the IFC has submitted to the Ministry for Foreign Affairs two annual reports on the Fund (in 2018<sup>19</sup> and 2019). Only the latter report is publicly available<sup>20</sup>. Quantitative or otherwise specific estimates of project impacts as measured by the indicators defined in the Program Document have not been reported to date. The means for producing the information needed for results reporting will be agreed at follow-up meetings between the ministry and the IFC.

By November 2020, the Fund had consequently approved five investments (Table 11). By September 2020, it had made payments totalling USD 25 million<sup>21</sup>.

Table 11: Allocation of the IFC Fund's active portfolio by geographic area and sector (amounts based on IFC's investment proposal documents).

Country or region	Sectors (interventions, number)	Investment (MUSD)
Africa, regional	Wind power development (1)	6.0
Nepal	Hydropower (1)	13.1
Senegal	Solar Power (1)	6.5
West Bank and Gaza	Solar Power (1)	9.5
Armenia	Solar Power (1)	11.0
<b>Total</b>	<b>5</b>	<b>46.1</b>

In addition to the listed sectors, project proposals that had not yet been approved included energy production from waste and projects aiming for climate change adaptation. Geographically, project proposals have concerned Africa, South Asia, Eastern and Central Asia, the Middle East and Europe. They have also included global projects.

For the Fund's key objectives, indicators and monitoring status, relevant to climate finance, see Table 12.

Cost-effectiveness is not included in the indicators monitored by the Fund. The Ministry for Foreign Affairs does not consider it necessary to monitor the cost-effectiveness of emission reductions, as investments are mainly guided by other development policy objectives.

For example, the IFC has estimated that the three sample projects (the first three investments in Table 11) will reduce CO2 emissions from energy production and create jobs. The plans for hydro and solar power projects include estimates of their potential to reduce emissions. The hydropower project also aims to ensure the plant’s climate resilience.

The project documents do not assess the projects’ impacts on gender equality; for example, the estimated employment impacts have not been disaggregated by gender. Gender equality has been addressed to some extent only in the plan for the hydropower project, which includes equality training for construction workers and awareness raising aiming to prevent violence against women.

The impacts on SMEs in the target countries are not assessed in the project documents. Two out of the three sample projects have supported large international companies and one a large North African company. The cooperation between Finnish companies and the Fund has so far been minimal: the Fund has a memorandum of cooperation with one Finnish company and a possible cooperation project with Finnfund. Few Finnish companies are able to participate in IFC projects due to their large scale and other requirements<sup>22</sup>.

 The IFC has assessed impacts on climate but not on gender equality.

Table 12: The IFC Fund’s main objectives, their monitoring and reporting so far, and anticipated results.

Result criterion	Specification of objectives and indicators	Monitoring and reporting	Anticipated results
<b>Climate change mitigation and anticipated emission reductions</b>	No objective	No reported results as yet	Estimated emission reductions per project (tCO2e)
<b>Climate change adaptation</b>	No objective	No reported results as yet	Climate resilience of the hydropower project
<b>‘Sustainably’ managed land areas</b>	No objective	No reported results as yet	Impacts have not been assessed
<b>Shares of mitigation/adaptation in climate finance</b>	90%/10%	Evident from the statistics on three payments	90%/10%
<b>LDCs’ share in the active portfolio</b>	No objective	Partly evident from the Fund’s portfolio	2020: 49%
<b>Africa’s share in the active portfolio</b>	No objective	Evident from the Fund’s portfolio	2020: 31%
<b>Gender equality</b>	No objective/employment impacts by gender	No reported results as yet	Impacts have not been assessed
<b>Sustainable development goals</b>	Linked to Goals 2, 5, 6 and 7 at a general level	No reported results as yet	The projects’ energy production has been assessed

According to IFC's assessments, the Fund's investments face environmental and societal risks, which are to be managed in compliance with the IFC's quality standards. Environmental and social action plans have been drawn up to minimise the risks. The final social and environmental impacts of the investments will depend on how well these action plans are implemented.

According to the Program Document, the IFC and the Ministry for Foreign Affairs have intended to commission a mid-term review of the Fund either two years after the signing of the agreement (in October 2019) or once 50% of the Fund's assets have been invested. This evaluation was postponed till 2021, however.

### **Finnfund's financial investment loan of 2019 has a climate finance objective but the results are not yet known**

In 2016, Finnfund was granted a convertible bond of EUR 130 million from appropriations for development policy investments, for which no specific climate objectives were specified. However, one half of the EUR 210 million loan granted in 2019 is to be allocated to projects that mitigate climate change and the other half is to improve the status of women and girls in 2020–2021. According to the Ministry for Foreign Affairs, the loan was prepared during Prime Minister Sipilä's government term before the Development policy investment plan was produced, which is why it cannot be expected to implement all the impact objectives of the investment plan. As the investment objects of the loan were defined renewable energy, energy efficiency, sustainable forestry and investments promoting adaptation to climate change by developing countries and their poor populations. The goals of adaptation include supporting agriculture and its production chains as well as the creation of new economic opportunities. No quantitative objectives were set for the climate impacts of the loan. Neither was the way in which the loan should be allocated to mitigation and adaptation, or between geographic areas, defined.

By the end of 2020, approx. EUR 68.1 million of the convertible bond granted in 2019 had been allocated to climate projects as shown in Table 13<sup>23</sup>.

Table 13: Investments made with Finnfund's 2019 climate loan by the end of 2020.

Country or region	Sectors (interventions, number)	Investments (EUR 1,000)	Total investments (EUR 1,000)
Multinational	Financial services, energy (1)	15,000	24,184
	Solar energy (1)	9,184	
Africa, regional	Agriculture (1)	13,889	19,910
	Electricity production (1)	5,836	
	Forestry (2)	186	
Nicaragua	Agriculture and forestry (1)		9,014
Pakistan	Micro finance (1)		8,246
India	Energy (1)		4,000
Thailand	Solar energy (1)		2,756
<b>Total</b>	<b>10</b>		<b>68,110</b>

The plans for the supported projects were not reviewed in this audit, and no information has as yet been published on the anticipated climate results of the projects or their allocation to mitigation and adaptation. Around 29% of the bond has been invested in Africa. The potential shares of LDCs and SIDSs could not be fully established based on the available data.

In the first supplementary budget proposal of 2021, it was proposed that the government undertake to grant Finnfund an investment loan of EUR 129.7 million in 2022. No information is currently available on whether it will be partially or fully allocated to climate finance.

### 3.5 Finnfund's climate monitoring is developed in international cooperation

A total of around EUR 49.4 million in international climate finance has been reported for investments made by Finnfund in 2017–2019 (Table 14). During this period, Finnfund has been one of the largest channels of Finland's climate finance, and it continues to grow strongly. In 2020, Finnfund's share capital was increased twice, by EUR 60 million in total.

Table 14: Climate finance recorded in Finnfund's investments in 2017–2019

Year	Climate finance amount (EUR 1,000)	Share in climate finance (%)	Share in Finnfund's activities <sup>24</sup> (%)
2017	17,594	14.7	63.5
2018	9,961	21.5	22.9
2019	21,871	14.9	41.5
<b>2017–2019</b>	<b>49,426</b>	<b>15.8</b>	<b>39.9</b>

Finnfund annually submits statistics on each investment to the Ministry for Foreign Affairs as an Excel file, which includes an assessment of the share of climate finance in the investments as well as the shares of mitigation and adaptation in payments. No investment-specific impact data have so far been provided, but obtaining them would be possible if needed.

The allocation of Finnfund's climate finance by country, region and sector cannot be verified comprehensively based on the Ministry for Foreign Affairs' statistics (Table 15). The data are contained in Finnfund's information system, however. In recent years, the ownership steering objective has been to allocate over 75% of the value of all new investment decisions made by Finnfund to low-income and lower middle income countries. Finnfund has reached this objective. In 2020, the objective of allocating more than one half of the value of all new investment decisions to Africa was set for the first time. This objective also reached by Finnfund in 2020.

Table 15: Finnfund's recorded climate finance, allocation by country and sector in 2017-2019.

Country or region	Sectors (interventions, number)	Climate finance (EUR 1,000)	Total (EUR 1,000)
Africa, regional	Forestry (5)	5,564	10,900
	Others and non-specified (4)	5,337	
Sierra Leone	Agriculture (1)		9,890
Colombia	Forestry (1)		7,984
Serbia	Wind power (1)		7,904
Asia, regional	Forestry (1)	2,086	3,786
	Micro finance (1)	1,700	
Nepal	Hydropower (1)		3,376
Indonesia	Bioenergy (1)		3,228
Kenya	Wind power (1)		1,595
Non-specified	Fund investment (1)	397	566
	Finnfund evaluation (1)	169	
America, regional	Hydropower (1)		198
<b>Total</b>	<b>20</b>		<b>49,427</b>

Until 2018, the Ministry for Foreign Affairs had 14 objectives complete with indicators for Finnfund's ownership steering. One of these indicators was avoided greenhouse gas emissions during the investment period (tCO<sub>2</sub>e), for which no quantitative target had been set. In 2018, the Ministry commissioned an evaluation of Finnfund and dropped some of the steering objectives following recommendations issued by the evaluation. Since 2019, the most direct indicator listed in the ownership steering memorandum that describes climate objectives has been the share of climate projects in the value of new investments. In 2021, the share of climate change adaptation in new investments in climate projects was also specified as an indicator to be monitored. According to the 2021 memorandum, this share was estimated to be 23% in 2020.



The Ministry for Foreign Affairs removed emission reductions from Finnfund's ownership steering objectives.

The Ministry for Foreign Affairs monitors Finnfund's effectiveness not only through the ministry's ownership steering reports but also based on Finnfund's annual reports and impact reports. Finnfund and the ministry have discussed the possibility of submitting Finnfund's impact data to the ministry for statistical purposes and performance reporting. The challenge lies in obtaining the necessary data from Finnfund's information system cost-effectively.

For Finnfund's key objectives regarding Finland's climate finance, monitoring and reporting related to these objectives, and performance data for the last few years, see Table 16. Finnfund has reported on its results to variable degrees.

Table 16: Finnfund's key objectives as well as monitoring and reporting related to the objectives.

Result criterion	Specification of objectives and indicators	Monitoring and reporting	Results
<b>Share of climate projects in the value of new investments</b>	>50%	Annually	2017: 65% 2019: 49% 2020: 51%
<b>Annual emission reductions (entire portfolio)</b>	No objective	Annually	2016: 64,000 tCO <sub>2</sub> e 2017: 38,000 tCO <sub>2</sub> e 2018: 43,000 tCO <sub>2</sub> e
<b>Emission reductions in annual investments over the entire investment period</b>	No objective	Annually	2016: 4.30 MtCO <sub>2</sub> e 2017: 30.8 MtCO <sub>2</sub> e 2018: 29.0 MtCO <sub>2</sub> e
<b>Carbon sequestration (portfolio total)</b>	No objective	Annually	2016: 530,000 tCO <sub>2</sub> e 2017: 571,000 tCO <sub>2</sub> e
<b>Share of adaptation in new climate investments</b>	No objective	Annually (from 2020)	2020: 23%
<b>Shares of mitigation/adaptation in climate finance</b>	No objective	Evident from the statistical data	2017-2019: 66%/34%
<b>Investment costs of emission reductions</b>	No objective	Annually	2016: 911 tCO <sub>2</sub> e/EUR 1 million 2017: 772 tCO <sub>2</sub> e/EUR 1 million 2018: 662 tCO <sub>2</sub> e/EUR 1 million
<b>Investment costs of carbon sequestration</b>	No objective	Annually	2016: 8,463 tCO <sub>2</sub> e/EUR 1 million 2017: 6,756 tCO <sub>2</sub> e/EUR 1 million
<b>Share of LDCs in the value of annual investments</b>	No objective		2019: 35%
<b>Africa's share in climate finance</b>	No objective	Evident from the statistical data	2017-2019: 45%
<b>Gender equality (portfolio total)</b>	No objective/Share of women in target companies' employees (%) and owners (%)	Annually	2017-2018: 32% 2019: 1%
<b>Sustainable Development Goals</b>	Goals 5, 7, 8 and 13 linked to general objectives	At a general level	Promoted Goals

Finnfund follows the guidelines issued by the International Financial Institutions Technical Working Group on Greenhouse Gas Accounting in its calculations of emission reductions. The calculation of carbon sink impacts is based on Intergovernmental Panel on Climate Change (IPCC) guidelines on carbon calculation in land use. It takes into account carbon sequestered in trees planted on disused and agricultural land, soil and wood products, natural removal and different types of damages. Emission reductions and carbon sequestration are allocated to the sponsors in proportion to their financial contributions. Finnfund is actively developing its assessment methods in international cooperation and will strive to produce impact assessments that are more firmly based on project-specific information and thus more reliable. Finnfund also reports on estimated emission reductions and carbon sequestration per EUR 1 million invested. The costs of avoided emissions comprise investments in renewable energy and, regarding carbon sinks, in forestry companies.

The target companies report to Finnfund annually on the results of their projects using the ‘HIPSO indicators’ compatible with the Global Impact Investing Network’s (GIIN) IRIS indicators. These indicators do not measure climate change mitigation or adaptation. While some of the target companies report on their climate impacts, Finnfund uses its own methods to calculate emission reductions and carbon sequestration achieved by the projects to ensure that the data are as comparable as possible. Finnfund has commissioned some ex-post evaluations of a few individual projects and intends to commission more. So far, the ex-post evaluations have focused on economic and socio-economic rather than climate impacts.

### Finnfund's investments have produced climate benefits

According to a rough estimate, the forestry project in Colombia used as an example achieved carbon sequestration amounting to approx. 1 million tonnes of CO<sub>2</sub> in 2017–2019 in total and reduced flood risks by improving soil quality. Estimates of the emission reductions generated by Finnfund’s investment in a fund that develops hydropower in Nepal can be found on the project website<sup>25</sup>. It was also estimated that the third sample investment in a company that produces pellets from wood industry waste as raw material for renewable energy has had positive environmental impacts. Assessing its climate impacts more accurately is difficult, however.

In some cases, quantifying each investment’s climate benefits is difficult if not impossible. For example, the climate benefits of investments in companies that manufacture renewable fuels or solar panels may only be realised in the activities of third parties over the long term. Climate-specific shares of investments made in new



Finnfund assesses climate impacts using internationally approved methods.



Assessing the climate benefits of investments can be difficult.

funds are also difficult to estimate, as accurate information on the contents of the fund portfolios may not be available in the investment stage. In many cases, Finnfund makes ‘risk investments’ in companies in the early stages before the most significant production impacts have been generated and relinquishes its shares once the company gets its operations up and running. In forestry projects, it usually maintains a presence for long enough to verify the carbon sequestration impacts.

Finnfund does not report on other funding mobilised or catalysed through its investments in its annual reports. Finnfund and the Ministry for Foreign Affairs have, however, estimated that public money allocated to climate projects through Finnfund leverages up to two or three times its amount in private funding<sup>26</sup>.

In Finnfund’s ownership steering, the goal of involving Finnish companies in the activities in developing countries has been set (however, it is not an actual ownership steering objective). An internal audit (2019)<sup>27</sup> commissioned by the Ministry for Foreign Affairs found that around 40% of the investments had some links to Finnish companies. According to the audit report, the challenge lies in the fact that few Finnish companies invest in developing countries, and the sectors that are strong in Finland are not particularly relevant for the poorest countries.

### **3.6 The Ministry for Foreign Affairs has furthered evaluation of UNFCCC funds**

The objective set in the overall influencing plan for multilateral cooperation<sup>28</sup> produced by the Ministry for Foreign Affairs in 2019 is that the objectives promoted together with multilateral partners include, where applicable, gender equality, the rights of persons with disabilities, corporate social responsibility as well as low-emission and climate resilient development. The general policy of the plan is that Finland’s multilateral climate finance should be increased and have a stronger focus on the least developed and fragile countries.

In 2017–2019, Finland has financed three funds operating under the global climate conventions: the Green Climate Fund (GCF), the Global Environment Facility (GEF) and the Least Developed Countries Fund (LDCF) administrated by the GEF. The GEF also administrates the Special Climate Change Fund (SCCF). This section focuses on the Ministry for Foreign Affairs’ steering of the GEF and the GCF.

For climate finance remitted by Finland to the GEF and the GFC in 2017–2019, see Table 17. For basic information on the Seventh Replenishment of the GEF, see Table 18 and Table 19 for the GCF.

Table 17: Finland's climate finance payments to the GEF and the GCF in 2017-2019.

Year	GEF funding (EUR million)	GCF funding (EUR million)
2017	2.4	
2018	3.4	
2019	1	22.2
<b>2017-2019</b>	<b>6.8</b>	<b>22.2</b>

## The Global Environment Facility (GEF) reports extensively on its effectiveness

The Global Environment Facility (GEF) only funds projects aimed at mitigating climate change. One of the core indicators informing the GEF's activities is reductions in greenhouse gas emissions, for which quantitative targets have been set for each replenishment period. According to the GEF's estimates, the Facility will achieve its funding target for mitigation. The GEF uses four indicators to monitor the results of adaptation for the part of the LDCF and SC-CF facilities administrated by it: 1) number of direct beneficiaries, 2) land area under climate-resilient management, 3) number of policies, plans or development frameworks that mainstream climate resilience, and 4) number of people with enhanced capacity. It also collects statistics on the beneficiaries of its projects by gender (male/female). The GEF's indicators are used to report on both the funding it grants and ongoing and completed projects. In addition, the GEF reports on the impacts and efficiency of the organisations that implement its projects. The reports are presented to the GEF Council meetings, which the Ministry for Foreign Affairs attends.

While projects are being implemented, anticipated rather than actual results are reported on such aspects as emission reductions. The evaluations carried out by the GEF's Independent Evaluation Office (IEO) have criticised the fact that the GEF has neither recorded nor reported the achieved emission reductions at the conclusion of the projects.

In 2014, the GEF launched a process aimed at producing more accurate statistics, especially on the results of projects aiming to mitigate climate change. The GEF has also participated in initiatives striving to harmonise the calculation methods of reductions in greenhouse gas emissions. Under the current GEF guidelines, emission reductions are verified at the end of the project. The expected reductions after the project's completion are also included in the calculations. An evaluation (OPS6<sup>29</sup>) conducted towards the end of the Sixth Replenishment period noted, however, that assessing the extent to which the calculation guidelines are followed based on the monitoring tools and final evaluations is difficult. Additionally, inadequate and inconsistent reporting hampers



The GEF reports anticipated rather than actual results.

assessment of the GEF’s impacts. As an example, the evaluation refers to the fact that projects aiming for emission reductions have generally been considered successful in the reports even if approx. one third of them did not achieve any reductions, and a quarter did not achieve their emissions targets.

Table 18: Basic information on the Seventh Replenishment period of the GEF.

Results criteria (2018–2022)	Specification of objectives and indicators	Monitoring and reporting	Predicted results
<b>Climate change mitigation and anticipated emission reductions</b>	1,500,000 tCO2e	Annually and by Replenishment period	The anticipated result for December 2020 (mid-period) is 83.4% of the target
<b>Climate change adaptation</b>	The GEF has no adaptation objectives, the LDCF and the SCCF have four indicators		
<b>Shares of mitigation/adaptation in climate finance</b>	All GEF climate finance is targeted at mitigation		
<b>LDCs' share in the active portfolio</b>	The GEF has no systematic measurement or reporting practices, the LDCF and the SCCF produce reports (%)		
<b>Gender equality</b>	Core indicator: beneficiaries disaggregated by gender, no target level	Of climate projects towards the end of the Replenishment period, of all projects annually.	Beneficiaries in all projects 51% men, 49% women (forecast, December 2020)
<b>Sustainable Development Goals</b>	Many of the Goals are relevant but no objectives set based on the 2030 Agenda		

**The Green Climate Fund (GCF) has achieved few results so far**

The main objectives of the Green Climate Fund (GCF) are climate change mitigation and adaptation. The GCF monitors the achievement of its objectives using so-called core indicators and provides information on their expected achievement in each project on its website. Unlike the GEF, the GCF has not set quantitative target levels applicable to the entire Fund for its core indicators. Instead, it compares the achievement of the objectives set for its projects with the combined mitigation and adaptation potential of the ongoing projects, which can thus be considered an overall objective that is constantly updated.

As the GCF is a young fund, it has produced fewer performance reports than the GEF, and little information is available on the results of its projects. The GCF’s Independent Evaluation Unit produced its first evaluation<sup>30</sup> of the GCF in 2019. It did not assess the effectiveness of the projects, as the activities had only been launched recently. The basic information and anticipated climate change mitigation and adaptation impacts at GCF portfolio level and for the funded projects are available on the GCF’s website, unlike for the GEF. The GCF publishes an annual evaluation report on the effectiveness of ongoing projects. Regarding mitigation and adaptation, it reports the numbers of beneficiaries and, for the part of mitigation, also emission reductions (tCO<sub>2</sub>e). The reporting is based on the implementing organisations’ estimates of the actual results, which are compared to the projected impacts of the entire project portfolio. In addition, the GCF’s reports indicate the number of projects that have completed the required assessments and action programmes for addressing gender equality.

The GCF reports the anticipated emission reductions of each mitigation project and the total costs of the project, which is why simple analyses of cost-effectiveness in GCF projects can be produced. While cost-effectiveness is no longer included as an indicator in the new results framework, the CGF will continue to measure it at the portfolio level<sup>31</sup>.



The Green Climate Fund (GCF) has monitored its cost-effectiveness.

Table 19: GCF’s objectives and results in 2019 as well as their monitoring and reporting.

Results criteria GCF 2019	Specification of objectives and indicators	Monitoring and reporting	Estimated results
<b>Climate change mitigation and anticipated emission reductions</b>	Emission reductions (tCO <sub>2</sub> e)	Monitoring at project and portfolio level, annual reporting	48 million tCO <sub>2</sub> e
	Cost/avoided tCO <sub>2</sub> e		No results as yet
<b>Climate change adaptation</b>	Number of direct and indirect beneficiaries and share in total population	Monitoring at project and portfolio level, annual reporting	10 million, 4% of the target
<b>Shares of mitigation/adaptation in climate finance</b>	Finland’s goal is to report 50%/50%	Annually based on the number of projects	49% to adaptation, 23% to mitigation, 28% to both simultaneously
<b>LDCs’ share in the active portfolio</b>	No objective	Reported annually together with the SIDSs and African countries (all vulnerable countries together)	67% of total funding (vulnerable countries)
<b>Africa’s share in the active portfolio</b>	No objective	Annually	24% of the portfolio
<b>Gender equality</b>	All projects must produce gender equality assessments and implementation plans	Annually	All projects have produced at least an assessment
<b>Sustainable development goals</b>	Many of the Goals are relevant but no objectives set based on the 2030 Agenda	No monitoring	

The Multilateral Organisation Performance Assessment Network (MOPAN) has not yet evaluated the overall effectiveness of the GCF. MOPAN is a network set up by development cooperation donor countries to assess the effectiveness of multilateral development financing institutions. Finland is a member of the network. The GCF was initially included in MOPAN's evaluation plan for 2020, but the network did not conduct an evaluation of it in 2020. Cooperation with MOPAN has led to a disagreement between the GCF's Council and Secretariat<sup>32</sup>, and the Council has not made a decision on the evaluation as yet. From the perspective of assessing the transparency, effectiveness and impacts of Finland's finance, cooperation between the GCF and MOPAN is of primary importance, and its absence results in uncertainty about the Fund's transparency and effectiveness. According to the Ministry for Foreign Affairs, Finland is in favour of conducting a MOPAN evaluation.

### Ministry for Foreign Affairs' steering has focused on promoting gender equality and efficiency in the funds' activities

The Ministry for Foreign Affairs' influencing plans concerning the GEF and the GCF have not focused on climate objectives as they are the funds' core objectives anyway. The key objective of the influencing plans is gender equality. In addition, the aims have included increasing these funds' overall efficiency and, for example, safeguarding their independent and autonomous evaluation functions.

As Finland is not one of major GEF donors, its possibilities for exerting influence are limited. Together with its constituency, however, Finland has made active efforts to influence the prerequisites for the GEF's effectiveness. Finland's constituency has in general been satisfied with the GEF's monitoring, reporting and evaluation activities. The group has also welcomed the fact that the GEF's work programme has focused on vulnerable countries, Africa, cooperation with the private sector and gender equality. The group has sought to promote actions aiming to reduce poverty by emphasising the poorest regions, countries and groups of people as beneficiaries.

The constituency has requested that the GEF Secretariat provide further information on how the private sector participates in the funded projects in practice. The group has additionally drawn attention to the long-term sustainability of project outcomes, justifications for administrative costs, coordination with other donors and projects operating in the same areas, the handling of and communication about suspected abuses that have come to light, and

the fight against money laundering and terrorist financing. In particular, the constituency has stressed the GEF's responsibility for preventing abuses in relation to the implementing organisations, informing the Council about suspected cases in a timely fashion and open responses to public debates. The independence of the GEF's Independent Evaluation Office has also been considered highly important.

In the GCF, influencing is only taking its first steps. Together with the other constituency members, Finland has focused on the effectiveness of the Fund's management system. The constituency has striven to ensure that the GCF has a clear role in relation to the other climate funds. Efforts have additionally been made to promote gender equality policies, results management, transparency of governance and the development of the Independent Evaluation Unit. Consequently, the GCF has introduced indicators to facilitate quality assessment and adopted an updated gender equality plan as well as a policy and action plan to combat sexual harassment.

The annual report on influencing in multilateral development policy produced by the Ministry for Foreign Affairs in 2020, which concerned the GCF, did not report on the achievement of the thematic influencing objectives or climate results defined in the overall plan for multilateral development cooperation. Instead, the report shows how the objective set for the GCF's ownership steering, the promotion of gender equality, has been achieved. The Ministry for Foreign Affairs has been satisfied with the development achieved in the GCF's gender equality policy.

The GCF Board's work has had a heavy political bias, which has come up clearly in the Ministry for Foreign Affairs' influencing plans and reports as well as in the Board's meeting memoranda, consistently with information in the public sphere.

## 4 Has the Ministry for Foreign Affairs used the information on results appropriately?

The Ministry for Foreign Affairs' finance decisions are influenced by a number of factors, and comparing the different options' performance systematically is difficult in practice. Nevertheless, the ministry could justify its decisions more comprehensively and openly, also from the perspective of climate results.

Finland has reported on its climate finance to the UNFCCC Secretariat in compliance with the reporting guideline requirements. Improvements in the monitoring of results based on updated theories of change and indicators should gradually improve the ministry's possibilities for more extensive and detailed reporting on and communication about climate finance effectiveness, both at the national and international level.

While little attention has so far been paid to climate results in the development cooperation evaluations commissioned by the Ministry for Foreign Affairs, the planned climate finance evaluation and other relevant evaluations could produce significant new information on these results.

### 4.1 Comparing the effectiveness of different forms of finance is challenging

One of the principles of Finland's Development Policy (2016) is that the financial resources of development cooperation are used efficiently and effectively:

- Finland's financial inputs are focused on actors that most effectively promote Finland's development policy priorities.
- The efficiency of the activities will be improved, and the resources will be targeted more accurately in support of the set goals, through strict prioritisation of the programmes and projects.
- Decisions will be based on increasingly reliable information on the achieved results and potential problems.

Following these principles generally in development cooperation and applying them specifically to climate finance is not easy. In several discussions during the audit, the challenges of systematically comparing the financial alternatives were highlighted: development cooperation and climate finance can have many performance targets simultaneously. In addition to the published performance targets, there may be other objectives, including those related to foreign or trade policy, which also affect funding decisions. Work to achieve climate objectives can take many forms and have different time spans, which is why choosing comparison criteria is difficult. Finding commensurate indicators for measuring climate change adaptation in all of its diversity is particularly challenging. In addition, organisations that channel climate finance use different methods for assessing such results as reductions in greenhouse gas emissions or volume of carbon sequestration, which means that the available information is not necessarily comparable.



Climate finance has multiple objectives.

### Climate results have played a minor role in the justifications for funding decisions

When making decisions concerning bilateral and regional cooperation, the Ministry for Foreign Affairs has typically relied on information about effectiveness produced by various interim and ex-post evaluations, for example when moving to the next stage of a project or programme. The audit found examples in which evaluation results have had a positive impact on funding allocation from the perspective of climate benefits. On the other hand, some project proposals make no reference to the climate results of the previous phases, or the challenges associated with them.

The annual results reports on country strategies for development cooperation pay scant attention to climate results. In the report on Tanzania drawn up in 2018, the country team proposed that in the future, it could analyse how Finland's role in promoting gender equality and responding to climate change could be strengthened, on the basis of which strategic choices could be made in early 2020. The audit was unable to establish whether or not this proposal has been implemented.

In the overall steering of the concessional credit instrument, the significance of climate benefits appears to have been negligible in practice, even if expected climate benefits have probably been significant when making decisions to fund some individual projects.

The Development policy investment plan states that the factors examined when selecting funding objects and partners include the operative efficiency of the financier administering the investment. In the Ministry for Foreign Affairs' internal version of the plan<sup>33</sup>, in the assessment of alternatives, attention is mainly focused on potential partner organisations' administrative capacity, risk management ability and capacity for supporting the private sector. The ministry's decision documents concerning the IFC and Finnfund, for example, do not address their strengths or experiences from the perspective of climate results. It appears that decisions related to the IFC were, however, also influenced by the experiences of a similar fund of Canada and IFC.

In the Ministry for Foreign Affairs' view, there are relatively few investment options that match the objectives and requirements of development policy investments, and assessing new partners based on previous performance is difficult. Sometimes it has been necessary to make decisions on a short notice, and conducting a thorough assessment has not been possible. In this case, the role of the ministry's 'tacit knowledge' has been significant. More attention could nevertheless be paid to justifying decisions as they are being prepared.

To certain extent, the Ministry for Foreign Affairs has relied on information about the GEF's effectiveness to justify the finance granted to it. However, the funding has mostly been justified by other considerations, including the synergies created by the special status of the GEF in financing the implementation of several international environmental conventions. The ministry has additionally been satisfied with the GEF's role in promoting gender equality and other Sustainable Development Goals. The ministry has also drawn on the findings of the comprehensive performance evaluations carried out by the GEF's Independent Evaluation Office (IEO) when planning influencing objectives for the Replenishment negotiations and exerting influence in the GEF Council. Finland cut its funding for the Seventh Replenishment period to less than a half of the previous level. Based on the audit materials, this decision was not based on the GEF's performance, but the cuts were as large as those made in the ministry's other multilateral funding.

According to the negotiation mandate of the first Replenishment (GCF-1) of the Green Climate Fund (GCF), funding the GCF is important because of the obligations under the UNFCCC and climate policy. The finance was not justified by effectiveness or impacts. The decision to finance the GCF was partly also made under political pressure. In the final stages of the negotiations, some major donors persuaded other countries to provide as much funding as possible.



Climate investments are not justified by climate results.

## 4.2 Finland's international reporting on climate finance has met the requirements

Finland reports on its climate finance in the Biennial Reports and four-yearly National Communications to the UNFCCC Secretariat and annual reports to the EU. The reporting is guided by requirements under the agreements and the reporting guidelines that complement them, which are undergoing further development. The reports are subjected to an International Assessment and Review process, which includes a so-called Technical Review and a Multilateral Assessment. The international expert review teams of the last two reports found the information on Finland's support to developing countries fully comprehensive and transparent. The audit of the latest Biennial Report (2017–2018) brought up multilateral finance granted to Ukraine which, in the auditors' opinion, had not been sufficiently transparent regarding its targeting at a country included in Annex I to the UNFCCC<sup>34</sup>.

The preparation of international climate reports and their reviews in Finland are coordinated by Statistics Finland. According to the representative of Statistics Finland responsible for the reporting, cooperation with the Ministry for Foreign Affairs has been smooth, and the ministry's experts are knowledgeable about the reporting requirements. The Ministry of the Environment representative responsible for climate convention matters also found that the Ministry for Foreign Affairs has prepared the sections on climate finance in the reports carefully.

As international reporting requirements become more demanding both technically and in terms of content, this also places greater demands on reporting software. The Government's information management systems should be able to respond to this challenge.

### The results of climate finance are described relatively little in international reporting

In its Biennial Reports, Finland has followed the guidelines and reported in a table format the annual payments recorded as climate finance and their allocation to 1) climate change mitigation, adaptation and both simultaneously, 2) multilateral and bilateral contributions, 3) different instruments and types of finance, 4) different multilateral organisations, and 5) for the part of selected bilateral interventions, their breakdown by country, region and sector. These reports note that monitoring and reporting on funding mobilised from the private sector have not been possible due to such reasons as business secrets, and support directed at the private sector has been reported instead. The reports provide general information on a varying number of selected interventions. Apart from some exceptions, little or no information is provided on their results or impacts.



Information management of the Government should meet the reporting requirements.

## Requirements and principles of climate finance reporting

Under the United Nations Framework Convention on Climate Change (Article 12.3), each developed country Party shall report on details of measures taken to finance developing countries' actions on climate change mitigation and adaptation and transfer technologies and know-how to them.

Under the Paris Agreement (Article 9.7), developed country Parties shall provide transparent and consistent information on support for developing country Parties provided and mobilized through public interventions biennially. The reporting requirements under the Paris Agreement have been supplemented by subsequent Conferences of the Parties, the most important one of which was the Katowice Conference in December 2018.

The reporting obligations and guidelines of the climate conventions require countries to monitor in different ways not only the total amount of climate finance but also its allocation. While there would be many justifications for monitoring the impacts of climate finance, it has so far not been directly included in the reporting obligations of the climate conventions.

Monitoring the impacts of climate actions is clearly a part of the convention principles, and monitoring the impacts of climate finance has been called for in several decisions made at Conferences of the Parties. The Durban Conference of the Parties in 2011 (2/CP.17) decided that each industrialised country shall describe, to the extent possible, how it seeks to ensure that the resources it provides effectively address the needs of developing countries with regard to climate change adaptation and mitigation.

In Paris in 2015, Finland was one of the signatories of a joint statement on reporting by 18 states and the EU<sup>35</sup>, which stressed reporting as a way of promoting the most effective use of climate finance. According to the Government Report on the Implementation of the 2030 Agenda (2020)<sup>36</sup>, reporting on performance is to be improved: “The Government will ensure that communication about the quantity and targeting of Finland’s international climate finance is open and as up to date as possible. Reports will be provided on the effectiveness of climate finance.”



The Government intends to step up reporting on the effectiveness of climate finance.

### 4.3 National reports give examples of climate finance

The Ministry for Foreign Affairs submitted the first Development Policy Results Report<sup>37</sup> to Parliament in November 2018. The report discusses the results of Finland's development cooperation in 2015–2018 using 11 indicators. The report notes that not all results can be measured in numbers or added together, and for this reason, the report also contains case examples and results achieved by individual partners.

The Results report details the amounts of climate finance in 2015 and investments made in the joint climate fund established by Finland and the IFC in 2017. As the results of climate finance have been reported the total number of GEF and GCF beneficiaries as well as the expected numbers of beneficiaries of GCF adaptation projects over an unspecified period. The report also cites the projected emission reductions generated by projects selected for funding by Finnfund in 2016 and 2017 and the size of areas planted in forest projects. The Results report also contains general information on certain projects or programmes that support climate change mitigation or adaptation.

Based on the 'theories of change' of that period, the report also examines how certain climate actions have promoted gender equality. It additionally reports on land areas brought under 'sustainable use' by means of development cooperation instruments. The report does not provide an overall picture of Finland's climate finance, including the funding channels, instruments and organisations used in it or their effectiveness.

The Government Report on the Implementation of the 2030 Agenda (2020)<sup>38</sup> also contains examples of climate finance. It describes results achieved in the Energy and Environment Partnership programme of Southern and Eastern Africa (EEP Africa) since 2010.

### 4.4 The Ministry for Foreign Affairs could communicate more about climate results

The Ministry for Foreign Affairs developed its climate finance website<sup>39</sup> in 2020. Its infographics were improved, and it now contains links to an introductory video about climate cooperation and an EEP Africa's video, which describes a cooker project in Kenya and its outcomes. The ministry's web pages on individual countries<sup>40</sup> contain examples of the typical results of the cooperation and beneficiary numbers but not achieved climate results.



Reports have contained little information on climate results.



The Development policy results report does not provide an overall picture of climate finance.

Some information on events related to climate finance has also been provided on a website that contains the Ministry for Foreign Affairs' news, funding decisions and funding objects. News items about funding decisions concerning EEP Africa, the Least Developed Countries Fund (LDCF) and the Green Climate Fund (GCF) also provide information on the results of the finance, including estimated reductions in greenhouse gas emissions, however in most cases only on the objectives of the finance.

In addition to the ministry's website, information on climate finance is available on the websites of the organisations through which the funding is channelled and individual projects. For example, the websites of Finnfund, EEP Africa and the IFC Fund describe the climate benefits and other estimated impacts of the projects to some extent<sup>41</sup>. Some bilateral projects also have dedicated websites<sup>42</sup>. Basic information about GCF-funded projects at project and fund level as well as the climate change mitigation and adaptation impacts estimated in project applications can be found on the GCF website<sup>43</sup>. The GEF project pages<sup>44</sup> also contain project plans and the results of completed projects, to the extent that their final reports have been published.



Funding partners also communicate about their results.

## 4.5 Evaluations of climate finance results have been superficial

An external study commissioned by the Ministry for Foreign Affairs' Development Evaluation unit (EVA-11), which assessed the possibilities of evaluating Finland's climate finance, was completed in late 2015. The report<sup>45</sup> drew attention to the fact that Finland had no clear strategy or action plan for climate finance. The report consequently proposed that, rather than an evaluation focusing on results, a 'formative process-oriented' evaluation should be carried out. It could have produced information that would have helped allocate funds more effectively to different funding channels and improved steering, mainstreaming and the reporting of results. The report noted that an evaluation of this type would also have contributed to the preparation of a climate finance strategy. At the time, EVA-11 believed that conducting an evaluation of climate finance would not be worthwhile unless the evaluability of the finance were first improved by developing a climate finance strategy or a climate finance monitoring and evaluation system. The evaluation of climate finance did not go ahead, no strategy was prepared, and no development of the monitoring and evaluation system took place. The study report was also not published.

In recent years, some evaluations relevant to climate finance have been conducted in project and programme specific and large-scale evaluations of strategic relevance commissioned by the Ministry for Foreign Affairs. An evaluation of the country strategies and programmes of certain partner countries essential in terms of climate finance (2016)<sup>46</sup> examined climate change mitigation and adaptation in country strategy objectives but paid little attention to results.

An evaluation that looked at eight development projects in the agricultural, rural development and forest sectors in five African countries (2019)<sup>47</sup> questioned the impacts of the projects regarding climate benefits in general, however without evaluating them thoroughly.

An evaluation of mapping and forest projects in Laos (2019)<sup>48</sup> assessed carbon sequestration and attention to gender in the projects.

An evaluation concerning development policy influencing in multilateral development cooperation (2020)<sup>49</sup> did not assess the effectiveness of multilateral climate finance.

An evaluation of natural resources projects supported by Finland in Zambia<sup>50</sup>, which was commissioned by the Ministry for Foreign Affairs, was also published in 2020. This evaluation found it likely that improved forest management had increased the climate resilience of forests and improved flood protection and the protection of water resources, but no convincing information was provided to justify this conclusion. An evaluation of aid provided by Finland to promote economic development, job creation and livelihoods in partner countries<sup>51</sup> published in January 2021 also contained a brief assessment of the climate impacts of cooperation with Kenya and Tanzania.

The Ministry for Foreign Affairs' annually updated evaluation plan provides for an evaluation of climate finance in 2022–2023. The idea is that the findings of this audit will be taken into account in the timing and planning of the evaluation.<sup>52</sup>



While climate issues have been addressed, results have not been verified.

## 5 Has the Ministry for Foreign Affairs organised the steering of climate finance appropriately?

Finland's international climate finance is managed as part of the Ministry for Foreign Affairs' steering system for development co-operation, which is decentralised to several operative units. The organisation of the steering is mainly clear cut and effective. The 'quality group' for development cooperation, which is also supported by sectoral advisers on request, performs a key task in the quality assurance. Their roles in quality assurance related to such areas as the collection of climate finance statistics should be strengthened.

In particular, climate finance and other development funding implemented as development policy investments and through Finnfund have increased significantly in recent years, and the ministry's human resources have not developed at the same rate in all respects. This is a risk from the perspective of high-quality steering, and there should be a better balance between the tasks and resources.

The 'KeTTU project' working to reform the operating practices of development cooperation has come up with a model of thematic network leadership, which has been developed and implemented simultaneously. The Ambassador for Climate Change, who serves as the thematic leader of the ministry's priority area of climate and natural resources, the climate team, and the climate network in which all departments and service units of the ministry are represented could also play a more significant part in strengthening the planning, coordination and monitoring of climate finance in the future.

## 5.1 The steering of climate finance is decentralised

The Ministry for Foreign Affairs does not have a separate organisation or management system for international climate finance, unless its steering through the Green Climate Fund (GCF) and partly the Global Environment Facility (GEF) and the coordination of international reporting on climate finance are regarded as such. These tasks have been assigned to the Unit for Sustainable Development and Climate Policy (KEO-90) in the ministry's Development Policy Department (KEO). However, this unit also has several other tasks.

The ministry's Unit for General Development Policy (KEO-10) is, among other things, responsible for developing the development policy guidelines, effectiveness, results-based management and monitoring of development policy as well as the coordination of the reporting of results. Other central actors in the steering and implementation of climate finance are the Unit for Civil Society (KEO-30), the Unit for Development Finance and Private Sector Cooperation (KEO-50), and the units and teams responsible for development cooperation in the regional departments as set out in the ministry's Rules of Procedure. On request, they are supported in climate matters by advisers specialising in different sectors and cross-cutting objectives of the Development Policy Department's Unit for Sectoral Policy (KEO-20), in particular the environmental and climate adviser. The Unit for Administrative and Legal Development Cooperation Matters (KEO-80) plans and monitors climate finance as part of its operating and financial planning. In some respects, the compilation of climate finance statistics and reporting are also supported by the unit's statistics team consisting of two persons.

The Finnish missions also play an important role in the steering of country-specific and, to some extent, multilateral climate finance. However, Finland does not have such 'on-site missions' for climate convention funds, including the GEF and the GCF.

The Unit for Communications on Sustainable Development and Trade (VIE-30) in the Ministry for Foreign Affairs' Department for Communications is responsible for the strategic planning, development and coordination of communications in cooperation with the various departments and missions. In addition, the ministry's Unit for Development Evaluation (EVA-11) and the Unit for Internal Audit (STY) could play a role in developing the effectiveness of climate finance, but the evaluations and audits commissioned by them have so far paid little attention to this issue.



There is no coordinated steering of climate finance in the ministry.

## The quality group for development cooperation could have a stronger grip on quality assurance related to climate finance

The Ministry for Foreign Affairs' Rules of Procedure state that the 'quality group for development cooperation' performs a key task in the quality assurance of development cooperation: to a certain extent, it discusses plans for development cooperation finance before the financial decisions are made. At minimum, one sectoral adviser from KEO-20 must issue a statement on the funding proposals discussed at its meetings. The ministry intends to develop the quality group's work, enabling it to participate in the quality assurance related to preparing decisions at an earlier stage.

A project proposal template attached to the ministry's instructions for the quality group's work directs responsible desk officers to analyse the project's impacts on such issues as gender equality and climate change mitigation and adaptation as well as to justify any statistics based on OECD/DAC Rio markers, including the climate shares of funding. The factors that determine the successful completion of such analyses and justifications include at least the desk officer's expertise, the available project preparation materials and support provided by advisers. KEO-20 can only provide advice if it is requested to do so by the desk officer. Information on pending matters does not always flow between advisers. The instructions concerning the quality group do not directly assign the task of verifying the statistical data needed for climate finance reporting to the group. However, both the quality group and the advisers have an opportunity to do so during the consultation procedure. Based on the problems identified in climate finance statistics (section 2.3), this possibility has not been sufficiently exploited.



Advisers can only participate in the preparation of decisions when requested to do so.

## 5.2 The organisation and processes are straightforward but the resources are meagre

The Ministry for Foreign Affairs has a well-established and clear organisation for the strategic and operative planning, monitoring and evaluation of bilateral development cooperation, and thorough guidelines and processes for performance management<sup>53</sup>. Due to some recent reforms and new instruments, the steering of multilateral cooperation and development policy investments, in particular, is still in some respects taking shape.

In 2018, the Energy and Environment Partnership Programme of Southern and Eastern Africa (EEP Africa) was reorganised into a joint EEP Africa Trust Fund, which has several donors and is administrated by the Nordic Development Fund (NDF). The Ministry for Foreign Affairs steers the Fund both directly in the steering

committee and the investment committee (ALI-30) and indirectly through the work of the NDF Board of Directors (KEO-50). The Ministry for Foreign Affairs has justified this change by the ministry's significantly reduced administrative burden. In addition, the change achieved a more permanent administrative arrangement, access to the NDF's funding instruments, and experience in financing climate projects. The NDF is responsible for the management, administration and internal control of the Fund following its usual governance practices and the Fund's policies.

While this arrangement can be considered effective, there is a price to be paid: 5% of the funding has been earmarked for the NDF's administrative costs. In addition, 25% of the funding has been reserved for 'implementation costs' incurred by a support consultant selected by the NDF in a competitive tendering process. The current consultant (KPMG) is considered to have strong process and project management competence. However, it does not have the necessary expertise related to renewable energy, and the procurement of this know-how entails costs. The NDF is in the process of conducting an internal examination of the implementation model's cost-effectiveness. This report is due for completion in the first quarter of 2021, and it is likely that the decisions made on its basis can improve the efficiency of the Fund's administration.



The cost-effectiveness of EEP's administration is being examined.

### The Ministry for Foreign Affairs' influencing in UNFCCC funds has been organised effectively

The organisation of the Ministry for Foreign Affairs' multilateral development cooperation and new influencing practices provide good preconditions for the effective steering of multilateral climate finance. In recent years, the strategic steering of multilateral development cooperation and, as a part of it, multilateral climate finance has struggled to get its bearings while the ministry has carried out multi-stage changes, most recently in spring 2020. The use of the new influencing documents is still partly taking shape, which is why there is little evidence as yet of how effective the strategic steering is. The administration of multilateral cooperation is decentralised to several units in the ministry. In connection with the ongoing reform of development cooperation practices, joint administrative processes ('KeTTU project') have been defined for multilateral development cooperation, however.

The ministry's internal management system for the UNFCCC funds, or the GEF and the GCF, is effective and appropriately organised. Finland participates in the work of the GEF Council and GCF Board through its constituencies, and partnerships with other Council and Board members are used to optimise the allocation of resources. When Finland leads the constituency, the Ministry

for Foreign Affairs drafts the group's opinions for the meetings. When another country is holding the reins, Finland participates by commenting on the drafts and, in the interest of efficient time use, refrains from drawing up its own positions separately. The ministry has desk officers for both the GEF and the GCF whose work includes monitoring the funds, participating in the Council/Board work and other communication. Official representatives have also been appointed to the Council/Board.

### The Unit for Development Finance and Private Sector Cooperation is responsible for a large part of the increasing climate finance

The Unit for Development Finance and Private Sector Cooperation (KEO-50) is responsible for the overall coordination of concessional credit and PIF funding in the Ministry for Foreign Affairs, using consultants engaged under framework contracts as administrative support. The framework agreement arrangements are to be developed further to improve the efficiency of administration. Many other actors are involved in administering these instruments, both within the Ministry and outside. Although the organisation is complicated, the cooperation arrangements appear to work well.

KEO-50 also carries the main responsibility for steering development policy investments. The investments were assigned to the unit on a short notice, the financial planning process had major delays at the beginning, and some responsibilities were unclear. There were also shortcomings in the instructions<sup>54</sup>. Since then, the organisation and processes have been clarified. The 'working group on investments' set up in the ministry participates to some extent in the selection of funding objects and the preparation and monitoring of investments.

The steering of the IFC Fund takes place through the IFC Board on the one hand, and through monitoring the Fund's progress reports, biannual discussions and informal consultations on the other. So far, there has been little or no documentation of the Fund's direct steering, which makes it difficult to monitor. The Fund operates within the normal organisation and governance practices of the IFC, which were described and evaluated in the Ministry for Foreign Affairs' internal audit in 2019<sup>55</sup>. The internal audit found that the IFC has a clear organisational structure, strong governance model and capacity, adequate project management guidelines and information systems as well as appropriate risk management procedures. The Fund has its separate financial monitoring and information management arrangements. The IFC's administrative costs decided in the fund agreement total 8.5% of the fund value.

For the steering of climate finance through Finnfund, the Ministry for Foreign Affairs has well-established arrangements based on Finnfund's AGMs, Board of Governors and Supervisory Board. These steering functions have been clearly separated in the ministry's organisation.

### The tasks and resources are not balanced in all respects

Challenges and development needs related to the sufficiency and qualifications of the ministry's development cooperation personnel and collaboration between the operative units emerged in several discussions with ministry representatives during the audit, as well as in some evaluations, audits and country strategy results reports commissioned by the ministry in recent years. Even if they have been strengthened and optimised to some extent recently, the personnel resources on which the steering of climate finance depends are partly very limited. For example, KEO-90's climate team has been understaffed at times. The situation is currently better as climate matters in the unit are managed by the Ambassador for Climate Change and four other persons, including a development policy adviser who started in autumn 2020. The resources are more or less sufficient for participating in the funds' (GEF, GCF) Board/Council work but not for the working group efforts between the meetings.

While private sector instruments and investment appropriations have increased, in particular, KEO-50's staff has not been expanded at the same rate. The risk is that the increased responsibility for monitoring the finance will mean that less resources may be left over for managing the unit's other tasks. The internal audit (2019)<sup>56</sup> of the ministry also found that the unit has been operating on relatively meagre resources, which will not be sufficient when new PIF projects are launched. The internal auditors recommended that the ministry specify the requisite measures and objectives, assess resource needs realistically and, on this basis, ensure that they are adequately met. The planned development of the framework agreement arrangements is an essential but hardly sufficient way of ensuring high-quality steering.

An evaluation of multilateral development cooperation (2020)<sup>57</sup> noted that the personnel responsible for administrating this cooperation had a rather heavy workload. The report recommended making additional resources available in key operating areas and prioritising the multilateral development cooperation objectives further.

Some of the ministry's operating units have reported a need to clarify the competence criteria of development cooperation personnel and to step up cooperation between regional departments and sectoral advisers<sup>58</sup>.



The scarcity of resources is a quality risk.

### 5.3 Reformed development cooperation practices will also support climate finance steering

In December 2016, the Ministry for Foreign Affairs launched a reform project of the development cooperation practices (KeTTU) as a response to the problems related to quality and administration in Finland's development cooperation that had been highlighted in evaluations and audits. This project was initiated in February 2017 with a preliminary study. On its basis, three development areas were identified: 1) leadership, 2) structure, processes and systems, and 3) personnel. Examples of the improvements in development policy results management include the theories of change and indicators of development policy cited above, linking the results management of different development cooperation instruments to them, new country strategy and programme guidelines, new multilateral cooperation influencing plans, and uniform definition of different development cooperation processes. The project will also reform the quality assurance and risk management, guidelines and training related to development cooperation. Thematic network leadership in the implementation of development policy will also be strengthened. The steering of human resources in development cooperation is also to be updated, but in this area the reform has progressed more slowly than in others.

#### Climate finance could play a larger part in thematic leadership in climate issues

The KeTTU project will draw up, deploy and provide resources for a model of thematic leadership. The idea is that the thematic leadership will be supported by thematic networks and digital systems. One of the leadership themes is climate and natural resources.

In spring 2019, an informal climate network was established within the Ministry for Foreign Affairs, in which all departments and service units of the ministry are represented. It started its work by preparing Finland's first Action Plan for Climate Smart Foreign Policy (2019). The objectives of the Action Plan include ensuring that climate finance is on a steady growth trajectory and that a more strategic overall approach is taken to the finance. The network monitors the implementation of the Action Plan and will update it as necessary. The purpose of the Action Plan and the network is to systematically mainstream climate change in all activities of the ministry.

As part of the operating practice reform, a thematic leader has been appointed for each of the four development policy priority areas with the aim of strengthening thematic steering and stepping

up cooperation across organisational boundaries. This concept has been developed and implemented simultaneously since autumn 2018. The thematic leaders are responsible for the strategic steering of the theme as a whole. Their more detailed tasks include:

- overall coordination and integration of the theme for which they are responsible, for example by contributing their views to the departments’ planning objectives as well as the strategic priorities of development cooperation funding and performance targets set in the operating and financial planning process
- supporting the departments’ work to improve the monitoring and performance reporting of the overall objectives of the theme.

The role of the Climate Theme Leader went unfilled from summer 2019 till May 2020, before the new leader (Ambassador for Climate Change) took on this task. Among other things, the Ambassador’s tasks include participating in the management of international climate finance as well as development policy that addresses climate change, including the work of the GCF Board.

In May–June 2020, the Ministry for Foreign Affairs commissioned a review of the thematic leader concept. The results indicated that the concept was considered important both within and outside the Ministry. The evaluation found that the concept had been successful in promoting networking and the visibility of themes, however not yet in making a significant impact on the strategic steering of themes, monitoring, performance reporting and competence. Thematic leadership had not appreciably strengthened results management and the coordination of funding. The challenges identified included ambiguities in the strategic objectives of the themes and in the thematic leaders’ job descriptions and powers.

The ministry will develop thematic leadership based on the review. As proposed by the management of the Development Policy Department, the thematic leader’s tasks will continue to be part of certain thematic ambassadors’ duties, including those of the Ambassador for Climate Change. The Ambassador will continue in his role as the thematic leader of the climate and natural resources priority area in development policy. The thematic leaders’ core tasks will continue to include the coordination of management by information, an example of which is analysing the inputs and results of the priority area in operating and financial planning. Thematic network leadership would appear to also provide opportunities for strengthening the planning, coordination and results monitoring of climate finance more effectively.



Thematic leadership is also an opportunity for climate finance.

# Appendix: Audit methods



This appendix describes how the findings presented in the audit were reached and what limitations relate to the findings.

## Purpose and objective of the audit

The purpose of the audit was to examine whether the steering of the Finnish Government's international climate finance provides good preconditions for ensuring the effectiveness of these activities. The audit aims to support the further development of climate finance steering and thus the effectiveness and transparency of climate finance. The National Audit Office may also use the audit findings in the activities of the Working Group on Environmental Auditing (WGEA) of the International Organization of Supreme Audit Institutions (INTOSAI).

## Audited entity

The audit focused on the Finnish Government's international climate finance administered by the Ministry for Foreign Affairs in 2017–2019 as well as the recent development and current state in the steering of climate finance. In this context, Finland's climate finance refers to official development assistance funded by the Finnish Government (section 24, items 24.30.66, 24.30.88 and 24.30.89 of the Budget), the payments related to which have been or will be reported in full or in part as provision of financial resources to assist developing countries referred to in the UN Framework Convention on Climate Change and the Paris Agreement.

The Ministry for Foreign Affairs has provided climate finance in cooperation with several other Finnish and international organisations through nearly all development funding channels, modalities and instruments. The audit was based on a sample selected among them. In particular, the audit focused on the following funding modalities and instruments: 1) bilateral and regional development cooperation, 2) concessional credits, 3) Public Sector Investment Facility (PIF), 4) development policy investments, 5) other climate finance administered by Finnfund, and 6) multilateral funds under the climate conventions. The audit did not cover climate finance provided through the Local Cooperation Fund (LCF), the Institutional Cooperation Instrument (ICI), Finnpartnership, NGO support, multilateral development banks, the Nordic Environmental Finance Corporation (NEFCO) and UN organisations.

An opinion on the draft audit report was requested from and provided by the Ministry for Foreign Affairs. The feedback contained in the opinion was taken into account in the preparation of the final audit report. The full opinion and its summary in Finnish can be viewed on the website of the National Audit Office of Finland.

## Audit questions and criteria

The audit was a system-oriented performance audit. A result-oriented audit was considered neither appropriate nor possible, as the ‘performance chain’<sup>59</sup> of climate finance extends to thousands of individual projects managed by organisations that channel and implement the finance, as well as their results and impacts. The basic premise of the audit was that a well-functioning steering system is a key precondition for effective climate finance.

The Common Assessment Framework (CAF) for public sector organisations’ quality assessment was used to assist in the planning of the audit<sup>60</sup>. To structure the analysis, CAF evaluation areas that concern practices which enable the organisation to achieve the desired results were used indicatively as guidance: 1) strategic and operational planning, 2) organisation and leadership, 3) human resources (people) and 4) monitoring, evaluation, reporting and communication. Attention was additionally paid to the key performance results as set out in CAF, or the impacts the organisation achieves through its work. In this respect, the focus was on the climate and gender equality results of climate finance.

The knowledge formation in the audit was mainly guided by six audit questions:

**Audit question 1:** Has the planning of climate finance in the Ministry for Foreign Affairs been goal-oriented and transparent?

**Criterion:** The steering of climate finance is based on open and transparent strategic and operational planning, which has been goal-oriented, justified and aimed at effective operation.

**Audit question 2:** Has the Ministry for Foreign Affairs collected appropriate and reliable statistics on climate finance?

**Criterion:** The essential (statistical) data needed for monitoring, evaluating and reporting on climate finance have been stored with a reasonable level of reliability and are accessible to users in the ministry’s information systems.

**Audit question 3:** Does the Ministry for Foreign Affairs have access to information on the effectiveness of climate finance?

**Criterion:** The content and quality of effectiveness data produced by organisations that make decisions on allocating climate finance and channel funding are adequate to enable the monitoring, evaluation and reporting of climate finance effectiveness and comparisons of funding options.

**Audit question 4:** Based on the available information, has climate finance been effective?

**Criterion:** Based on the available information, climate finance has achieved the relevant objectives of climate conventions and UN’s Sustainable Development Goals as well as complied with the conventions’ principles and Government and Ministry for Foreign Affairs policies.

Audit question 5: Has the Ministry for Foreign Affairs used the results information appropriately in the steering of climate finance?

Criterion: The Ministry for Foreign Affairs has applied effectiveness as one of the key criteria when planning and making decisions of climate finance, when monitoring and evaluating it, as well as in reporting and communications.

Audit question 6: Has the Ministry for Foreign Affairs organised the steering of climate finance appropriately?

Criterion: The Ministry for Foreign Affairs' organisation, resources, management arrangements and coordination are conducive to efficient climate finance steering and the effectiveness of operations.

The Deputy Director General of the Ministry for Foreign Affairs' Department for Development Policy (KEO-01), the Unit for Sustainable Development and Climate Policy (KEO-90) and the Unit for Development Evaluation (EVA-11) as well as representatives of the Ministry of the Environment (Environmental Protection Department/Climate) were given an opportunity to comment on the draft audit plan. KEO-90 commented on the draft in writing, and the comments were taken into account when finalising the audit plan.

## Audit materials and methods

The audit document materials mainly consisted of planning, decision-making, monitoring, evaluation, statistical, reporting and communication documents related to climate finance produced by the Ministry for Foreign Affairs and other organisations that channel and use climate finance. For the purposes of the analysis, the statistical data obtained from the ministry was corrected to eliminate some obvious inaccuracies. The auditors familiarised with the ministry's case management system for development cooperation (AHA-KYT) through a presentation organised by the ministry using remote connections.

For the part of strategic and operational planning, the audit paid particular attention to the following plans and planning processes relevant to climate finance: 1) the Government Programme, 2) the Government Report on Development Policy (2016), 3) the Action Plan for Climate Smart Foreign Policy (2019), 4) Finland's Africa Strategy (2021), 5) country strategies and programmes (2016–2019) and their results reports, 6) policies on concessional credits, 7) guidelines on the PIF instrument (Public Sector Investment Facility), 8) the Development policy investment plan (2016–2019), 9) influencing plans, negotiation mandates and funding proposals for the UNFCCC funds, 10) agreements concluded by the Ministry for Foreign Affairs with certain funding partners and their reports, 11) Ministry for Foreign Affairs' ownership steering documents concerning Finnfund, and 12) plans for the audited sample projects.

The audit examined individual climate finance interventions based on project plans and monitoring and evaluation reports for the part of two intergovernmental grant projects, three concessional credit projects and three IFC Fund projects selected as samples. Observations on the objectives and results of the sample projects of Finnfund and the EEP Africa Trust Fund were based on less extensive website information. The objectives and results of individual projects of the UNFCCC funds were not audited. No field research was conducted to verify the results or impacts of any projects.

In addition, the audit data included the comments received from the Ministry for Foreign Affairs' units responsible for the examined funding instruments on the draft audit memoranda and the outcomes of discussions based on them conducted via remote connections. Further information was additionally received from the Ministry for Foreign Affairs, Finnfund and the Nordic Development Fund (NDF) via e-mail and at remote meetings.

To analyse the data, a qualitative content analysis of the documents and discussions was produced. Both deductive analysis (based on looking for certain themes and entities in the documents) and inductive analysis (based on examining the documents without predetermined categories) were used to carry out the content analysis.

Based on the preliminary draft audit report, a virtual seminar was organised with the Ministry for Foreign Affairs on 23 March 2021, at which the preliminary audit results were presented and discussed. The participants at this seminar included 48 representatives of the ministry and four from the National Audit Office of Finland.

## Audit process

The full audit was carried out between 6 April 2020 and 28 May 2021. Essential changes in the audited entity and materials until 1 April 2021 were taken into account in the audit report.

## Auditors

The audit was conducted by Pekka Salminen, Principal Performance Auditor, and Karoliina Pilli-Sihvola, Senior Auditor. Kimmo Metsä, Senior Auditor, and Kira Heikelä, a trainee from the University of Turku, assisted in the audit. Heli Mikkilä was the Director responsible for the audit, and Pekka Salminen was the project manager and rapporteur.

## Limitations and reservations concerning the audit findings

The operating environment and steering system of Finland's international climate finance are in constant flux, which is why the materials used in the audit were not necessarily in all parts up to date for the entire duration of the audit. Due to the time limits of the examined finance (2017–2019) and the limitations of the statistical data, analysing more extensive trends or looking at climate finance decisions made after this period were not possible in this audit. The audit did not cover all instruments used in climate finance and all organisations that channel funding, and the sample interventions were only examined briefly. It is consequently possible that the conclusions do not apply in all respects to all financial instruments and organisations. The observations and conclusions related to individual interventions should only be treated as illustrative examples which do not allow sweeping generalisations.

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