



Ministry of Foreign Affairs

IOB evaluation

Funding commitments in transition

Dutch climate finance for development

2016-2019

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Preface

Over the past decade, the issue of climate change has played a prominent role in Dutch development cooperation and foreign policy. Climate action has become an important and urgent topic on the international agenda, in a time when wildfires, floods and other disasters have shown that climate change presents a real and present danger. Climate finance is important to support climate action in developing countries: developed countries are committed to giving assistance for both climate mitigation and adaptation – in the context of the 2015 Paris Agreement, earlier climate negotiations and their ‘historical responsibility’ for climate change – and developing countries have strengthened their own commitments. This study on climate finance is the first in a set of IOB studies to review Dutch climate policy, with a focus on development cooperation. It will inform the Ministry of Foreign Affairs, in particular the minister for Foreign Trade and Development Cooperation and the Inclusive Green Growth Department, in view of future decision-making on new policies and programming.

IOB studied and analysed climate-relevant activities that were financed between 2016 and 2019, in particular by the official development assistance (ODA) budget, with a focus on large funds and programmes supported by the Inclusive Green Growth Department and the renewable energy, water and food security sectors. The study included an analysis of funds and programmes with private sector engagement, where public and private sector funding are mixed (blended finance).

IOB concludes that Dutch climate finance has reached low-income countries relatively well, while a relatively large share went to climate change adaptation, rather than just mitigation. The extent to which target groups, including women, were reached, remains moderate or uncertain. The study also shows that programmes supporting innovative projects with public-private partnerships require a different approach and assessment of ‘additionality’ than large, more commercial projects mixing public funds with private sector funding. A policy framework with principles and criteria for assessing the additionality and commercial potential of projects has been lacking. Setting this up would be worthwhile, to invest public funds wisely and address gaps. IOB also provides food for thought for future policies: what are the roles of dedicated climate finance, climate mainstreaming in development assistance and policy coherence beyond ODA?

This study was conducted by IOB researchers Marit van Zomeren, Ferko Bodnár and Pim de Beer. Stephen Spratt was consulted as an expert on blended finance. Our external reference group consisted, among others, of staff from the relevant policy departments within the Directorate-General for International Cooperation: Joëlla van Rijn, Marjolein Geusebroek and Eva Schreuder of the Inclusive Green Growth Department, and Jesse d’Anjou of the Sustainable Economic Development Department. Other members of this group were Dutch Climate Envoy Marcel Beukeboom, as well as a representative from FMO, David Kuijper, and two independent external members: Gerardo van Halsema from Wageningen University & Research and Rob van den Berg from King’s College London. Internal peer review was provided by Rob van Poelje, Otto Genee, Rafaëla Feddes and Joep Schenk. Mark Speer edited the report and Bert Ruck advised on the summary. The Inclusive Green Growth Department was consulted on various occasions. We thank all involved for their helpful suggestions and insightful comments.

Final responsibility for the report remains with IOB.

Dr Wendy Asbeek Brusse

Director, Policy and Operations Evaluation Department (IOB)

Ministry of Foreign Affairs of the Netherlands

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Acronyms and abbreviations

2SCALE	Toward Sustainable Clusters in Agribusiness through Learning in Entrepreneurship
AEF	Access to Energy Fund
ASAP	Adaptation for Smallholder Agriculture Programme
BF	Blended finance
BHOS	Foreign Trade and Development Cooperation (minister or budget)
CA	Climate change adaptation
CCF	Climate change finance
CF	Climate (change) finance
CGIAR	Consultative Group on International Agricultural Research
CIO	Climate Investor One
CIV	Collective investment vehicle
CM	Climate change mitigation
CO ₂	Carbon dioxide
COP	Conference of Parties
CSO	Civil society organisation
DAC	Development Assistance Committee
DCED	Donor Committee for Enterprise Development
DDE	Sustainable Economic Development Department (MFA)
DFCD	Dutch Fund for Climate and Development
DFI	Development Finance Institute
DGGF	Dutch Good Growth Fund
DGIS	Directorate-General for International Cooperation (MFA)
DHI	Demonstration projects, feasibility studies and investment preparation studies
DRR	Disaster Risk Reduction
EC	European Commission
EnDev	Energising Development
EIB	European Investment Bank
ESG	Economic, social and governance
ESMAP	Energy Sector Management Assistance Program
ETS	Emissions Trading System
EU	European Union
EUR	Euros
FAO	Food and Agricultural Organization
FDOV	Facility for Sustainable Entrepreneurship and Food Security
FDW	Sustainable Water Fund
FMO	Dutch Entrepreneurial Development Bank
GAFSF	Global Agriculture and Food Security Program
G4AW	Geodata for Agriculture and Water
GCF	Green Climate Fund
GEF	Global Environmental Facility
GHG	Greenhouse gas
GNI	Gross national income
GNP	Gross national product

HGIS	Homogeneous Group for International Cooperation
HIC	High-income country
HMIC	Higher middle-income country
IATI	International Aid Transparency Initiative
IDH ISLA	Sustainable Trade Initiative – Initiative for Sustainable Landscapes
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IGG	Inclusive Green Growth Department
IPCC	Intergovernmental Panel on Climate Change
LDC	Least-developed country
LIC	Low-income country
LMIC	Lower middle-income country
MFA	Ministry of Foreign Affairs
MiBZ	Management information system for Foreign Affairs
MIC	Middle-income country
MiOS	Management information system for Development Cooperation
NDC	Nationally Determined Contribution
NGO	Non-governmental organisation
ODA	Official development assistance
OECD	Organisation for Economic Co-operation and Development
ORIO	Facility for Infrastructure Development
PBL	Netherlands Environmental Assessment Agency
PIDG	Private Infrastructure Development Group
PPP	Public-private partnership
PS	Private sector
PSF	Private sector finance
PSI	Private Sector Investment Programme
PSOM	Programme for Cooperation in Emerging Markets
PSNP	Productive Safety Net Programme (Ethiopia)
RVO	Netherlands Enterprise Agency
SAP	Systems, Applications, and Products in Data Processing (company)
SDGP	Sustainable Development Goals Partnership
SFFW	Securing Water for Food
SME	Small and medium-sized enterprises
SP D&D	Strategic Partnerships for Lobby and Advocacy – Dialogue & Dissent
SPV	Special purpose vehicle
TA	Technical assistance
TOC	Theory or Theories of Change
ToR	Terms of reference
UMIC	Upper middle-income country
UN	United Nations
UNEP	United Nations Environment Programme
UNFCCC	United Nations Framework Convention on Climate Change
USD	United States dollar
WCARO	UNICEF Regional Office for West and Central Africa

WFP	World Food Programme
WSSSC	Water Supply and Sanitation Collaborative Council
WTO	World Trade Organization



Summary, conclusions and recommendations

Dutch climate finance policy

Climate action in developing countries consists of (1) climate change mitigation: reducing greenhouse gas emissions, for example by focusing on renewable energy, reducing deforestation and reducing emissions in agriculture; and (2) climate change adaptation: increasing resilience to climate change, for example by improving water management to avoid flooding, climate-smart agriculture, for instance by introducing practices that are more tolerant to drought or flooding, or livelihood diversification. The objective of the Dutch government is to achieve climate-resilient economic growth in developing countries, in line with the goals of the Paris Agreement on climate change and the Sustainable Development Goals.

During the UN climate negotiations, developed countries including the Netherlands committed to (i) supporting developing countries with USD 100 billion of climate finance each year, from 2020 onwards, and (ii) to make finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development. This implies that developed countries need to align all development cooperation with the objectives of the Paris Agreement on climate change, and that they need to align all other policies and finance flows, including private flows, with these climate objectives to the greatest extent possible.

The initial ambitions and commitments left room for interpretation. Most developed countries, including the Netherlands, opted to fund climate action from their development assistance budget, or official development assistance (ODA). This means that the support developed countries provided to developing countries was not truly 'new and additional' in the sense of extra funding on top of the usual ODA budget.

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The UNFCCC agreements allow commercial climate finance (including private sector finance) that is mobilised by public finance to be reported by donor countries as their contribution; for instance, finance that they mobilise through public-private partnerships or through concessional loans¹ (blended finance²). In fact, the Paris Agreement strongly promotes private sector finance.

On the one hand, Dutch policy encourages the leverage of commercial finance with ODA in sectors and countries where there is a business case, for instance in renewable energy in middle-income countries. On the other hand, it also provides ODA to fragile and low-income countries and vulnerable people, and for climate change adaptation, where there is less interest from commercial investors.

A major concern, raised by developing countries and NGOs in the international climate debate, is whether sufficient climate finance will be available for low-income countries and for climate adaptation. Overall global figures, as presented by the Organisation for Economic

¹ These are loans extended on terms substantially more generous than market loans.

² The OECD defines blended finance as follows: the strategic use of development finance for mobilisation of additional finance towards sustainable development in developing countries ([OECD 2016](#)).

Co-operation and Development (OECD)³, and in the Oxfam Climate Finance Shadow Report ⁴, seem to confirm that this share is modest. Especially when ODA is used to leverage private sector finance, this could end up being spent mostly on commercially interesting renewable energy projects in middle-income countries. This would not be in line with Dutch development policy objectives to reach poor and vulnerable countries and their people, and to assist them with climate change adaptation. Acknowledging this concern, Dutch policymakers do not aim to maximise the leverage of private finance but rather to optimise it for maximum development impact. Although no quantified targets were set in Dutch policy documents, given the attention devoted to low-income countries and to adaptation in Dutch policy and UNFCCC documents, we consider a 50% share of ODA climate finance spent in low-income countries, and 50% spent on adaptation, desirable.

Another major concern is to ensure the ‘additionality’ of mobilised private sector finance: the ODA contribution (development finance) in public-private partnerships and blended finance should lead to results that would not have been achieved by the private or commercial sector alone.

Main evaluation questions

This study is organised around three main evaluation questions:

- What is the reach of Dutch climate finance: in which countries and on which sectors and target groups is it spent, and how does this compare to policy objectives?
- What is the additionality⁵ of ODA in blended finance programmes and funds for climate action?
- What other considerations should future Dutch climate policy and climate finance take into account?

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Focus and limitations of the study

This study focuses on reach: in which countries and on what target groups is climate finance spent, and on what type of activities? In as far as blended finance is used, this study focuses on the additionality of ODA. Furthermore, this study identifies a number of recommendations for future policy.

³ [OECD 2020](#). Climate Finance Provided and Mobilised by Developed Countries in 2013-18.

⁴ [Oxfam 2020](#).

⁵ [Additionality in public private partnerships and blended finance is the extent to which public finance \(ODA\) and its conditions have enticed the private sector to do something different \(better, more, faster\) or something new that it would not have done without the public funds.](#)

This study has not cross-checked the climate relevance of individual activities that received a 'climate relevant' marker.⁶ Neither has this study looked at the effectiveness of the activities funded by climate finance. It has not been possible yet to validate and verify data in the field or do a contextual analysis in recipient countries.

Note that this study on climate finance is the first of a series that will contribute to the evaluation of Dutch climate policy for developing countries, as well as the policy review of Dutch development cooperation on food security, water and climate, both anticipated in 2023. We anticipate at least the following three studies will be added and included as chapters in the final evaluation report: (i) Coherence of Dutch policies and their effects on food security, water, climate, renewable energy and natural resources in developing countries; (ii) Climate change adaptation in food security and water management activities; and (iii) Climate diplomacy.

Methodology

The main sources for the evaluation on reach were the Ministry of Foreign Affairs' (MFA) internal information systems, the ministry's dashboard for IATI and a data set from FMO on its investments in renewable energy, from 2016 up and until 2019. The main information sources for the evaluation of additionality were programme and project documents, evaluations, and semi-structured interviews with staff at the ministry and implementing agencies, specifically on climate-relevant ODA activities that mobilised commercial finance. The main sources of consideration for future Dutch climate finance policies were international documents on climate finance, interviews with staff at the ministry, implementing agencies and the OECD.⁷

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Conclusions and recommendations

The conclusions and recommendations presented here are illustrated with a selection of main findings. More complete sets of main findings will be presented in text boxes at the start of Chapters 5, 6 and 7.

1. Reach of Dutch climate finance

1.1 Dutch climate finance steadily increased in 2010-2019 and is on track to achieve its objectives for 2020

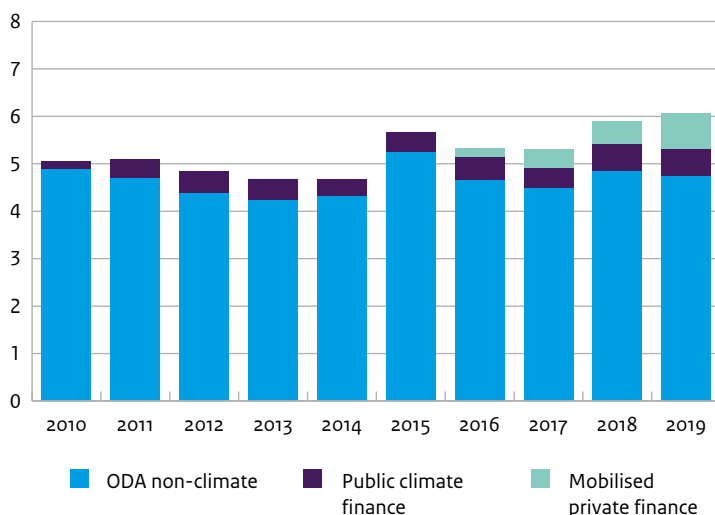
This review has considered climate relevant disbursements within ODA as reported to the United Nations Framework Convention on Climate Change by the Inclusive Green Growth (IGG) Department in the period 2016-2019. In these four years, a total of EUR 2 billion of public funding was disbursed to climate-relevant activities.

⁶ See Section 2.4 for an explanation on the Rio markers for climate change.

⁷ See Chapter 4 and Annex 1 for a detailed description of the methodology.

This is about 9%-12% of the annual ODA expenditure in this period. Over 50% went to climate change adaptation interventions, slightly less than a quarter to climate change mitigation and the remainder consisted of a mixture of both. The Netherlands estimated its own 'fair share' in the commitment to support developing countries at EUR 1.25 billion⁸ annually from 2020. This amount includes mobilised private finance, in addition to the public finance it has provided. The Dutch cabinet also expected its annual public climate finance to reach EUR 480 million by 2021. In 2019, the cabinet spent EUR 581 million on public climate finance, which mobilised another EUR 752 million⁹ from the private sector. For an overview of public and mobilised private finance in contrast to the total amount of ODA annually, see Figure 1 below. Although not all public and private climate finance can be claimed as 'new and additional', the total amount corresponds with the Netherlands' ambition to meet its 'fair share' objective of EUR 1.25 billion in 2020 (as well as the expectation to reach EUR 480 million in public climate finance in 2021).

Figure 1 Overview of non-climate targeted ODA, public climate disbursements and mobilised private climate finance per year (2010-2019) in billions* of euros. Note: climate expenditures in 2010 are in addition to ODA; for the other years, expenditures fall within ODA.



⁸ This share represents 1.5% of USD 100 billion per year, the developed countries' commitment at UNFCCC – but this fair share was not formally adopted by the government.

⁹ If we include the funds mobilised by EIB, as in the HGIS report on 2019, the amount reaches EUR 864 million.

1.2 Dutch climate finance from ODA reaches low-income countries and allocates a significant portion to adaptation

Findings:

In 2019, 60% of Dutch public climate finance was allocated to low-income countries. With a partial overlap, 25% was allocated to fragile states.

Targeting support to countries that are vulnerable in terms of climate, conflict and poverty would deliver the most benefits. Therefore, we assessed whether Dutch assistance targeted the list of countries most vulnerable to climate change, the group of poorest countries (low-income countries) and fragile states.

Having sufficient climate finance available for low-income countries (LICs) is a concern both in Dutch policy and in the international climate debate. As mentioned in the introduction, a minimum 50% share of ODA climate finance spent in low-income countries is desirable. Therefore, with about three-quarters of public disbursements being allocated to low-income countries, the objective of reaching the poorest countries has been met. Also, compared to other donors, the Netherlands allocates a relatively large share to these countries.

Another concern, both in Dutch policy and in the international climate debate, is to have sufficient climate finance available for adaptation. Therefore, we consider a minimum 50% share spent on adaptation to be desirable. With 69% allocated to adaptation, we assess this as a significant portion. The percentage spent on adaptation in LICs is even higher at approximately 77%. | x |

Recommendation:

- (1) If the (new) minister wants to increase climate resilience while alleviating poverty, the current emphasis on low-income countries and adaptation finance should be maintained. Specific attention to fragile states would also be warranted if resilience remains a major objective of development cooperation. Furthermore, Dutch international cooperation should further encourage the private sector to support climate action in low-income countries, and promote an enabling environment for private sector development and private sector engagement.

1.3 A relatively large share of publicly funded activities that mobilise private sector finance focuses on mitigation and middle-income countries

Findings:

Regarding Dutch climate finance in 2019, 23% of the disbursements went to activities that mobilised private finance; 77% went to activities that did not mobilise private finance. Activities for which private finance was mobilised focused more on mitigation and less on adaptation than activities that did not mobilise private finance (see Table 1). They also targeted lower-middle income countries and upper-middle income countries more than activities that did not mobilise private finance (see Table 2).

In addition to international criticism on the modest amount of climate finance, another concern is that mobilising private finance activities results in even less attention to low-income countries and to adaptation. The private sector is more likely to be interested in renewable energy in middle-income countries. The analysis of the results shown in Tables 1 and 2 demonstrate that this is indeed the case with a partial share of 44% on mitigation in private finance mobilising activities, as opposed to only 19% in non-mobilising activities. Fifty-three per cent of the disbursements to mobilising activities is allocated to lower middle-income countries (LMICs) and upper middle-income countries (UMICs), while this is the case for only 21% in non-mobilising activities. These findings were expected because attracting private finance is easier in middle-income countries for mitigation activities, where the business case is clearer. Nevertheless, almost half of the ODA that mobilised private finance went to LICs, and almost half went to climate adaptation, which is still in line with the policy objectives.

Disbursement shares	Adaptation	Mitigation	Undetermined	Total
Mobilising activities	41%	44%	14%	100%
Non-mobilising activities	78%	19%	3%	100%
Total	69%	25%	6%	100%

| xi |

Disbursement shares	LIC	LMIC	UMIC	Total
Mobilising activities	47%	28%	25%	100%
Non-mobilising activities	79%	19%	2%	100%

Recommendation:

- (2) If the new minister wants to optimise the amount of private sector climate finance mobilised (by public finance), she/he can continue to use blended finance. However, maximising the impact of climate action should be the key consideration, rather than maximising the amount of climate finance spent. Importantly, decision-makers and fund managers need to apply a minimum set of criteria for additionality. Where additionality of ODA in blended finance can clearly be established, Dutch development cooperation should continue to mobilise private sector funding (see recommendations 6, 7 and 11).

1.4 The Netherlands gives support to both (i) climate change adaptation, mostly from pure ODA, and (ii) climate change mitigation, mostly from ‘blended’ finance

Findings:

The 2016-2019 portfolio showed a mix of finance for adaptation, mostly in the water and agriculture sectors, and finance for mitigation, mostly in the renewable energy sector. In other words, the Netherlands supports both adaptation and mitigation, inter alia through climate mainstreaming in activities with other development objectives. It also showed that climate finance is a mix of pure ODA instruments mainly used for adaptation and instruments that mobilise private finance (blended finance) mainly used for mitigation. This is likely to be the result of a deliberate policy to contribute to both mitigation and adaptation in a balanced manner, although the share of each area becomes clear only in hindsight, at the time of reporting.

1.5 Currently, it is difficult to extract climate finance data from the ministry’s different internal and publicly available information systems

Findings:

Dutch data on climate finance in development cooperation is fragmented. There is no single database or single information source that gives a complete overview of Dutch climate finance, disaggregated by country, distinguishing adaptation and mitigation, and including the mobilised private sector finance. Different databases and information sources each have their strengths and weaknesses. For public climate finance, we mention the most important sources used:

- The annual report ‘International Cooperation’ (HGIS) provides an overview of all climate finance, including finance from the Ministry of Finance to multilateral development banks, but with less detail on climate relevance, and not disaggregated by recipient country.
- The MFA IGG annual reports to the UNFCCC provide a complete list of all climate-relevant activities, indicating adaptation and mitigation, and climate relevance (%). However, budgets of multi-country activities and contributions to multilateral funds and programmes are not disaggregated by country.
- The MFA databases – Management information system for Development Cooperation (MiOS) and Management information system for Foreign Affairs (MiBZ), based on the internal administration system (SAP) – give a complete overview of all activities, but contain less information about climate relevance, and no disaggregation for multi-country activities.
- IATI provides actual disbursements, per country, but does not include all information about climate relevance. Besides, it is not complete, because implementing organisations, and multilateral organisations that receive unearmarked contributions, do not always register activities in IATI.

Mobilised private sector finance is not included in the above databases. Therefore, every year the Directorate-General for International Cooperation (DGIS) asks the consultancy bureau Trinomics to calculate the mobilised private sector finance, including for climate action, using the most recent OECD DAC reporting rules. Trinomics publishes its findings in annual reports that are separate from the other reporting systems (to the OECD, the EU, the UNFCCC and the Dutch parliament).

The challenge is to link or merge the various data sources and to get an overview of climate finance, as complete as possible and with disaggregated data.

Recommendation:

- (3) The Ministry of Foreign Affairs (DGIS, in particular IGG and FEZ¹⁰) could set up a more transparent and more comprehensive database for Dutch climate finance; or at least identify which system can provide such transparency and paint as complete a picture as possible. The best way forward seems to be to improve the use of IATI, and ask implementing organisations and organisations receiving un-earmarked contributions to register complete climate finance data in IATI as well. For mobilised private sector finance, we would have to be less strict in completeness and transparency than for ODA. Eventually, the ministry should also make data on Dutch contributions available to recipient countries, in particular longstanding partners, who have no easy access to data on donors' support flowing to their country.

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1.6 Target groups are not necessarily being reached and gender objectives are not being met

IOB expected DGIS to promote project results for the groups outlined in the minister's policy notes and in the DGIS Theories of Change (2018): in particular women, poor and vulnerable people – including farmers – and youth. We studied a set of evaluations of climate-relevant funds and programmes to assess whether these groups were being reached.

Findings:

The target groups are not consistently included in project design, approval, monitoring and reporting. In particular, gender is identified as a priority in Dutch development policy and in programme and funding design, but these intended results are rarely confirmed in evaluations and gender is not consistently mainstreamed. If we take as our sample the twenty funds we studied, then climate-relevant activities seldom manage to focus effectively on gender. Nor is there a clear focus on the poorest and most vulnerable people, except perhaps in some programmes and Strategic Partnerships with NGOs (which are fully funded by ODA).

¹⁰ The Inclusive Green Growth Department and the Financial and Economic Affairs department of the Ministry of Foreign Affairs.

Recommendation:

- (4) Under a new minister, DGIS should formulate a clear policy position and operationalise it, with the aim of reaching the intended target groups and promoting gender equality. Policymakers should define clear objectives, as well as indicators for project design and approval. DGIS should also systematically include the required information on target groups in monitoring and evaluation. Climate adaptation, in particular, should target poor and vulnerable countries, regions and populations more clearly, assuming that poverty reduction will remain a central policy objective.

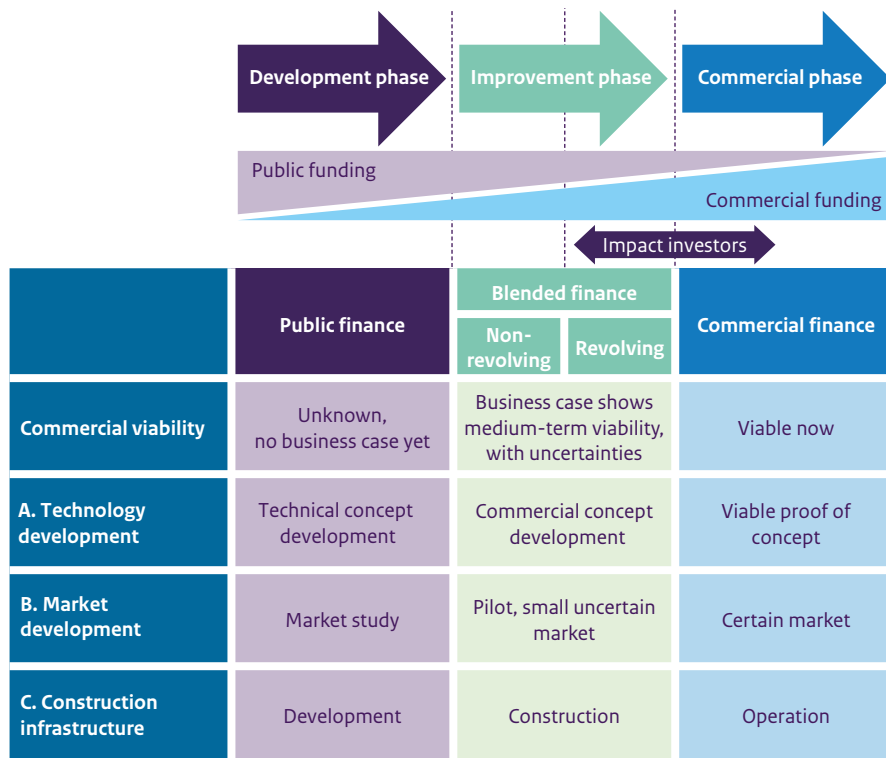
2. Additionality of ODA in blended finance for climate action

Conceptual framework

For this study, we developed a conceptual framework that distinguishes between the different private sector development phases that a successful development project may pass through: from innovative ideas (new products or new markets) with an uncertain, risky business case, to mature, less risky business cases, ready to be scaled up commercially (see Figure 2).

As illustrated in Figure 2, on the left, innovative ideas receive more public support in the form of a grant that does not have to be paid back (purely public finance, or non-revolving blended finance). On the right, nearly commercial business cases receive less public support, for example in the form of soft loans that need to be paid back (revolving blended finance), up to a level that the commercial sector can take over.

Figure 2 *Blended finance: phases in support to private sector development*



Blended finance (the green column in the middle) should only be used if it results in *additional* development that the private or commercial sector would not achieve without public support.

2.1 **Additionality of projects varies in the different phases between innovative ideas and commercial upscaling**

Findings:

When we look at our additionality assessment, comparing ‘non-revolving’ programmes for risky, innovative ideas, with ‘revolving funds’ for projects with a clear business case, we see that different additionality criteria are important in these two different phases (Table 3).

Table 3 Summarised additionality assessment for a selection of assessment criteria that distinguish 'risky, innovative projects' (non-revolving programmes) from 'projects with a clear business case' (revolving funds).

Criteria	Sub-criteria	Non-revolving	Revolving
1. Development impact	General development impact	++	+
2. Financial input	Long-term viability	0 ↔ ++	++
	<i>Short-term high-risk, innovation</i>	<i>0 ↔ ++</i>	+
	<i>No commercial finance available</i>	<i>0</i>	+
	Minimum concessionality	0	++
	Vision on transfer and exit	0	++
3. Non-financial input	Technical assistance, convener, value chain development	+	+
4. Commercial output additionality	Co-investment private sector	+	0
	Crowding in external commercial finance	0	++
5. Development outcome	Enabling environment	0,+	0,+

++ additionality convincingly demonstrated; + additionality demonstrated;

o additionality not demonstrated.

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As expected, the revolving funds are careful not to compete with the commercial sector, which is reflected in the positive scores for financial input additionality. The non-revolving funds pay less attention to possible competition with the commercial sector, which can be justified if the project is a 'first-of-a-kind' in a country, innovative and/or risky, and has no private sector involvement yet. This is reflected in the neutral scores of financial additionality, except for the positive score for 'short-term, high-risk innovation'. Based on the above, we find three categories of projects:

1. Projects with *innovative ideas with an uncertain business case* that are new in a country can make a convincing claim that there is no private sector involvement yet because of the many uncertainties. Examples are projects that develop new satellite-informed, weather-based insurance products for farm credit in countries where these do not yet exist.
2. Projects with a *nearly commercially viable business case*, in need of financial products (loans or equity), can make a convincing claim that the commercial sector does not offer this finance. Examples are projects that invest in renewable energy, requiring long-term loans and support to create an enabling environment, for example.
3. However, there is a category of project proposals in between the other two: they are not very innovative, nor is it evident that no commercial finance will be available. In these cases, the claim of additionality is not convincing. Examples are value chain development projects, where similar initiatives, with the private sector, already exist in the same country.

Recommendations:

- (5) The ministry, the implementing agencies (FMO, RVO) and fund managers should categorise project ideas into three sets: (i) innovative with an uncertain business case, (ii) nearly commercially viable, and (iii) a category in between.
- (6) For these different sets of proposals, implementing agencies and fund managers can then assess additionality based on different criteria. The first category is assessed on how new an idea really is. The second category is assessed on the non-availability of commercial finance, while the third category requires the most thorough assessment of both aspects.
- (7) The relevance of the additionality criteria also depends on the sector and the context. In some 'public sectors' such as water management, and in some contexts, such as fragile, low-income countries, there is little private and commercial activity, and thus less need to investigate the additionality of financial input.

2.2 There is a gap between programmes supporting innovations and funds supporting commercial upscaling

Findings:

As illustrated in the figure above, a successful initiative ideally moves from left to right: from an innovative idea to a commercial project ready to be scaled up. Since these different stages are usually supported by different instruments (programmes and funds), there is a need for handing over, or graduating, successful project ideas from one instrument to another. However, in practice, the different instruments funded by DGIS insufficiently support this graduation from innovation to commercial upscaling.

- Highly concessional, non-revolving programmes supporting innovative ideas (mainly in the agricultural and water sectors) do not quite manage to develop 'bankable business cases'. This is also shown in Table 3, with low scores for 'minimum concessionality' and 'vision on transfer and exit'.
- Low concessional, revolving funds that support ideas with a bankable business case (mainly in the renewable energy sector), do not take up successful projects from the non-revolving programmes.
- In addition to the mismatch due to the lack of a bankable business case, there is also a mismatch in scale: many project proposals that passed a successful innovation development phase require much smaller support (<EUR 100,000) than is offered by the revolving funds (EUR >1,000,000).
- More generally, the DGIS has no clear strategy, encompassing the different instruments, of how initiatives graduate from high levels of public support to high levels of commercial support, either between Dutch instruments, or between Dutch instruments and international finance providers. There are a few exceptions, where different 'windows' are hosted by the same programme, e.g. Climate Investor One and the Dutch Fund for Climate and Development.

Recommendations:

- (8) DGIS should develop an overarching private sector development strategy, for climate action and other goals, following the theory that projects need to evolve from (i) innovations supported by highly concessional funds to (ii) commercial upscaling supported by less concessional funds to (iii) an exit with fully commercial investment and continuation.
- (9) DGIS and the main agencies working with public-private partnerships and blended finance (at least RVO and FMO) should discuss how the current gap between non-revolving programmes supporting innovations, on the one hand, and revolving funds, on the other hand, can be bridged. Options to consider are (i) offering technical assistance to develop bankable business cases, and (ii) either directly linking different programmes and funds or forwarding initiatives between different programmes and funds.
- (10) DGIS, in discussion with the main agencies working with public-private partnerships and blended finance (at least RVO and FMO), could decide that existing financial vehicles need to be adapted, or additional vehicles need to be set up, to bridge the gap between proposals with a smaller budget (100,000 EUR), and most development finance institutes that are only interested in proposals with a larger budgets (>1 million).

2.3 Blended finance instruments are an appropriate choice for some but not for all climate action

Findings:

Not all climate action can be supported by blended finance. Blended finance fills a niche of temporary support between what can be funded commercially and what requires continued public support.

- On the one hand, there are investments, e.g. in on-grid solar energy in middle-income countries, that do not need ODA support anymore. On the other hand, in sectors such as drinking water in rural areas and subsistence agriculture, where there is less scope for profit, especially in low-income countries, there may be a need for continued public support.
- General Dutch private sector development policy follows a dual approach: (i) supporting the enabling environment (e.g. policy reform) for a sub-sector in a country, and (ii) direct support to companies. However, our observations in climate action programmes involving the private sector is that most efforts directly support companies, and that the enabling environment receives little attention by comparison.

Recommendations:

- (11) DGIS and the implementing agencies (at least FMO and RVO) should develop an assessment framework that helps them decide what type of finance is most appropriate for climate action, varying from ODA, long-term subsidies to the private sector for public goods without a profitable business case, temporary highly concessional blended finance from non-revolving programmes, low concessional blended finance from revolving funds, to commercial funding. DGIS should lead the assessments when deciding on new programmes; implementing agencies should assess the individual project proposals.

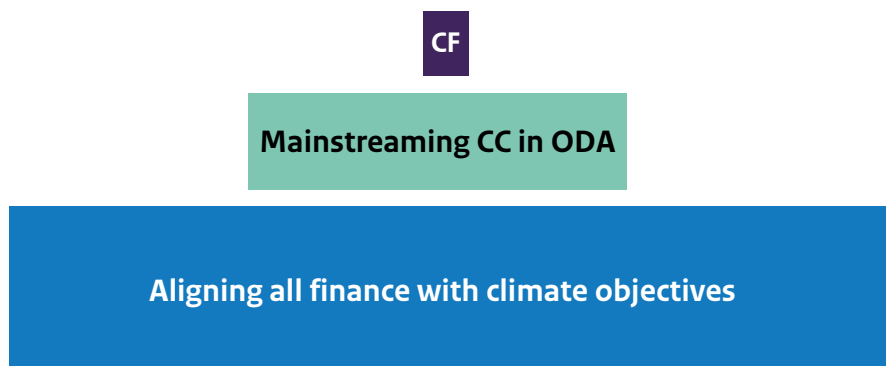
- Main determinants that the ministry and agencies should consider are: sub-sector, country context, the phase of technical innovation and market development, and the expected long-term commercial viability.
- (12) DGIS should pay more attention and give priority to supporting the enabling environment (addressing policies and market failures) for investments in climate action. This should be done in addition to, or even before, providing direct support to individual companies, because it will have (i) more sector-wide impact and (ii) fewer market-distorting effects. Influencing the enabling environment has more chance of succeeding if accompanied by direct support to companies, if this direct support is appreciated by the recipient government. Where the Netherlands cannot effectively influence the enabling environment in developing countries, it should encourage the multilateral development banks and the World Bank to do so.

3. The future of climate finance

Following international and Dutch commitments to the Paris Agreement and earlier climate agreements, work to increase support for climate action in developing countries is needed at three levels simultaneously, which we present here in three pathways: (i) dedicating climate finance for development, (ii) mainstreaming climate into development assistance, and (iii) aligning all policies and finance flows to climate objectives (see Figure 3). Our recommendations for future climate finance policy distinguish between two possible levels of ambition for a new cabinet: a modest level of ambition, which focuses on existing obligations, and a higher level of ambition, which focuses on the spirit of the Paris Agreement. These recommendations are based on international literature, as well as interviews and discussions with experts and policymakers.

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Figure 3 *Three pathways to support climate action in developing countries: (i) dedicated climate finance, (ii) climate mainstreaming of ODA, and (iii) alignment of all policies and finance flows with climate objectives.*



3.1 Using the needs of developing countries as a basis for future climate finance

Finding:

Climate change increases the costs of development in the short term. For instance, more frequent floods and droughts require additional investments in disaster risk reduction and infrastructure. In the long term, however, these investments avoid the much higher costs of adaptation, recovery and reconstruction in the future. Prioritising renewable energy in developing countries now prevents loss of investment in fossil energy (stranded assets) and the need to pay for a more expensive transition later (carbon lock-in). The *additional* development costs caused by climate change are an argument for *new and additional* climate finance. There is international agreement about the fact that current climate finance is insufficient to meet the needs for climate action in developing countries.

In 2010, after the international community agreed to commit USD 100 billion climate finance to developing countries per year, starting in 2020, several new assessments of these countries' needs suggested that the numbers needed to be revised upwards. However, an internationally agreed, overall needs assessment, based on country plans, has been lacking. The UNFCCC is currently drafting a Needs Determination Report, to improve methodologies for needs assessments. If climate action were based on the needs indicated in country plans, it would be focusing more on results, rather than financial input targets. Basing action on country plans (such as nationally determined contributions) would also increase southern ownership of climate action.

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Recommendations:

Modestly ambitious:

- (13) In support of developing countries' ownership, a new cabinet could continue to support partner countries to develop country plans with a budget for climate action. The UNFCCC Needs Determination Report could provide guidance for the methodologies to be used. A new cabinet could then use country plans as a starting point for further decisions on its budget and allocation.
- (14) In light of the enormous need for climate action and the limited budget, a new cabinet needs to make smart choices, to maximise development impact and climate impact. Country plans (NDCs) can help to manage for results rather than on the basis of financial inputs.

More ambitious:

- (15) The MFA can actively contribute to international discussions, setting new and ambitious goals and targets for international climate finance.
- (16) The MFA could proactively support governments in developing countries (and their NDCs), with technical assistance and analysis, in formulating country strategies in which the three pathways are considered (dedicated climate finance, climate mainstreaming of ODA, and policy coherence – see below).

3.2 Deciding on dedicated climate finance (pathway 1).

Finding:

One of the three pathways to follow is to allocate dedicated climate finance to support developing countries. The UNFCCC agreements in 2009 and 2010 mentioned a collective aim of ‘new and additional’ climate finance for developing countries worth USD 100 billion per year, from 2020 onwards. Unfortunately, there are different interpretations of what can be counted as dedicated climate finance. Current public climate finance (globally) is not ‘new and additional’ to previous development assistance budgets, as was promised – or at least suggested – in the UNFCCC. This has led to criticism from developing countries and civil society organisations. Parties to the UNFCCC are planning to decide on a new target amount of climate finance in the coming years, from 2025 onwards.

Recommendations:

Modestly ambitious:

- (17) If the new cabinet agrees with the new target amount for donors to be set by UNFCCC, it could continue to dedicate development assistance to climate action with an amount commensurate to its commitments and ambitions and what can be considered a ‘fair share’, within the existing ODA budget.

More ambitious:

- (18) The new cabinet could substantially increase its climate finance for developing countries, working towards a fair share of the new international funding target for the period after 2025.
- (19) In advance of an international agreement, the new cabinet could start dedicating ‘new and additional’ climate funding to developing countries. This can be done by allocating climate funds on top of the regular ODA budget – or by increasing the current ODA budget.

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3.3 Mainstreaming climate considerations in all development assistance (pathway 2)

Finding:

The second of the three pathways is to align all development assistance with the climate objectives in the Paris Agreement. ODA-funded activities can be climate-relevant, i.e. when they address climate objectives; they can be climate-sensitive, when they at least acknowledge their effects on climate change and avoid harming the climate; and they can be climate-blind, unaware of their potential negative effects on the climate. Currently, a substantial part of Dutch development assistance is climate-relevant, but we have not assessed whether there are other ODA activities that have negative effects on climate change.

Recommendations:

Modestly ambitious:

- (20) The ministry could make even more of an effort to align all of the ODA budget and portfolio (or even all of the government's budget for international cooperation) to climate change objectives and international commitments. At the very least, all Dutch development assistance should avoid exacerbating the negative effects of climate change: be climate-sensitive and do no harm.

More ambitious:

- (21) Stepping up current efforts, a substantial part of assistance could do good, either by mitigating climate change, or by helping vulnerable groups adapt to climate change (being climate-relevant).
- (22) Assuming that poverty reduction remains a central objective of development cooperation, mainstreaming climate adaptation into development programmes, for instance in agriculture, will need to remain a key objective.
- (23) In any case, it is important to enhance the 'climate-smartness' and climate impact of activities, in particular for climate change adaptation. Besides using climate markers, policy officers should use climate-relevant indicators, baselines and targets to measure and achieve climate impact.

3.4 Aligning all Dutch policies with the Paris Agreement (pathway 3)

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Finding:

An important ambition of the Paris Agreement is the alignment of all policies and all financial flows to the climate objectives, beyond climate finance and development cooperation. Governments can promote private sector engagement and help create an enabling environment for the private sector to make climate-relevant investments in developing countries. The OECD, civil society and others call upon governments to abandon incoherent domestic policies that exacerbate climate change, such as policies favouring fossil fuel use, and harmful trade and agriculture policies. Aligning ('greening') all policies will affect all financial flows, including private flows – and they are substantially bigger than development assistance.

Recommendations:

Modestly ambitious:

- (24) A new cabinet could continue to align the Dutch international policies that directly affect developing countries, such as instruments for foreign trade and economic development, with its climate objectives. These include the export credit facility and other forms of support to Dutch companies. Phasing out direct support to the fossil fuel industry (as is planned) represents a baseline in this context.

- (25) In addition, a new cabinet can continue to support innovation in climate-relevant technologies and support an enabling environment for private sector development in developing countries, for instance in the agriculture, water, energy and transport sectors.

More ambitious:

- (26) A new cabinet can go further in this alignment by identifying policy incoherencies in Dutch and EU domestic policies indirectly affecting developing countries, in particular in trade and agriculture. A new cabinet can address these issues and rectify inconsistencies, partly through the EU, to prevent harm to developing countries, the climate and other global public goods.
- (27) To maximise impact, the focus should shift from mobilising private finance from selected companies to nudging private finance in whole sectors to align with climate objectives. This would also reduce the potential perverse incentive of reporting as much mobilised private climate finance as possible. This implies introducing new or adjusted policies and regulations, including greener fiscal policies.
- (28) A new cabinet could consider enhancing carbon credit systems and carbon taxing, so that non-ODA revenue (or an equivalent amount of the government budget) can be used, for instance, to invest in renewable energy and climate adaptation around the world. The government could also introduce new climate-friendly taxes and tariffs, and introduce laws and regulations that discourage climate-unfriendly practices (within the limits posed by the World Trade Organization and the EU). At any rate, this is probably best done through the EU, especially in the context of the Green Deal proposal.

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3.5 Improving the transparency of climate finance

Findings:

The international reporting system is imperfect. Currently not all climate finance data are disaggregated by project and by recipient country. Mobilised private sector climate finance is reported in an even more aggregated manner.

The Dutch MFA plays an active role in the UNFCCC Standing Committee on Finance to identify the needs of developing countries. It also participates in the OECD and other working groups to improve the reporting on the public climate finance that has been provided and the private sector finance that has been mobilised.

Developing countries currently – understandably – complain about the lack of transparency of support for their climate action. They have no overview of what climate finance is spent on what climate action in their countries. Developing countries' climate action ambitions are reflected in their national plans, in particular the nationally determined contributions (NDCs).

Recommendations:

Modestly ambitious:

- (29) The Dutch MFA can improve its own reporting, explaining and dissemination of reported data, so that developing countries know what climate action is taking place in their country. This requires access to disaggregated data, by project and country, about both public and mobilised private sector climate finance.
- (30) Once developing countries have elaborated national plans, such as the NDCs, the Netherlands can determine how its contributions fit in these country plans, in dialogue with southern governments, thus increasing the ownership of developing countries.

More ambitious:

- (31) At a higher level of ambition, the MFA could work actively to achieve greater transparency of climate finance reporting, in the context of the UN and the OECD, both for public climate finance, and for mobilised private sector climate finance.
- (32) Similarly, the MFA could promote greater southern ownership, after first providing a good example, encouraging other donors to base their climate action on the national climate plans of developing countries.



1

Introduction

Over the past ten years, climate change has become an urgent reality and a policy priority. It is seen as one of the key challenges of our times. In Dutch development cooperation, climate change has been integrated in many funds and programmes and has become the focus of targeted advocacy and diplomacy. IOB wanted to assess the relevance, effectiveness and coherence of climate policies and programmes in development cooperation, focusing on the years 2016-2019. This plan was welcomed by the relevant policy department at the Ministry of Foreign Affairs, Directorate-General for International Cooperation (DGIS), Inclusive Green Growth (IGG), in particular because such an evaluation had not been done before.¹¹ IOB conducts regular policy reviews of the budget articles for Development Cooperation. This study is part of the policy review of Foreign Trade and Development Cooperation budget article 2: food security, water, and climate. This study on climate finance¹², as well as upcoming studies on climate adaptation and policy coherence, will provide recommendations for climate action in developing countries that can be taken into account by a new cabinet, to be formed in 2021. This study also includes findings and recommendations on working with the private sector and therefore can also inspire policy around innovative finance for development.

1.1 Background: importance

Dutch coalition governments have increasingly highlighted climate change and energy policy as important areas for national and international policy. In development cooperation, climate change has come to the fore as a priority topic since the United Nations' climate conferences of the 2000s, including in Paris in 2015. The objective of the DGIS¹³ is to achieve climate-resilient economic growth in developing countries, in line with the goals of the Paris Agreement and the Sustainable Development Goals.

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In the climate negotiations, developed countries promised to support developing countries collectively with at least USD 100 billion a year from 2020, with public funding and private sector funding. The expenditures that the Netherlands reported¹⁴ as climate-relevant have grown significantly, to just over EUR 1.4 billion in total in 2019, including over EUR 581 million in public funds and EUR 752 million that was mobilised through private sector funding.

¹¹ IOB did issue a report an evaluation on mainstreamed climate change adaptation by WRI: 'Monitoring and Evaluating Mainstreamed Adaptation to Climate Change – a synthesis study on climate change in development cooperation' (IOB, 2018).

¹² 'Climate finance' refers to the financial resources dedicated to adapting to and mitigating climate change globally, including in the context of financial flows to developing countries (UNFCCC, 2018).

¹³ DGIS, Directorate-General for International Cooperation, in particular the Inclusive Green Growth Department, IGG. DGIS is part of the Ministry of Foreign Affairs, and accountable to the Minister for Foreign Trade and Development. She is responsible for the ODA – official development assistance – budget.

¹⁴ These are the total sums for 2019, as reported to the European Union and the United Nations Framework Convention on Climate Change (UNFCCC) in 2020. For more information, see unfccc.int.

This amount represents a significant part of the total sum of the official development assistance (ODA)¹⁵ reported, which was EUR 4.7 billion in 2019.¹⁶

This report can be used to inform policy and funding decisions. In particular, when the DGIS prepares policy briefs and proposals for a new Minister for Trade and Development, they can use findings and recommendations from this study.

A note on the scope of this study. The climate finance discussed in this report consists of all activities reported to the UN Framework Convention on Climate Change (UNFCCC). This study focuses on public expenditures, in particular ODA. But there is no such thing as a budget envelope for climate change. The amount of climate finance¹⁷ is determined by identifying – partly in hindsight – which international cooperation activities contribute to climate change mitigation and adaptation,¹⁸ and to what extent. In the budget of the Minister for Foreign Trade and Development Cooperation, there is a sub-article for climate, energy and natural resources, but that contains only a minor part of the total climate expenditures: EUR 196 million in 2019 (of the EUR 581 million in public funds).

1.2 Central question

This study aims first and foremost to inform policymakers. Have the instruments been chosen well, do they match the ambitions and has public money been wisely spent? Note that the ODA budget is quite limited, while international and national ambitions in the field of climate change and sustainable development are enormous. In that context, policymakers need to know whether the Dutch funds and activities add value, and whether they are ‘additional’.

¹⁵ Reporting on official development assistance follows the rules of the Development Assistance Committee of the Organisation for Economic Co-operation and Development (OECD), of which the Netherlands is a member.

¹⁶ Net amount of ODA in 2019, as reported in the HGIS report to parliament; more precisely, it was EUR 4.727 billion (Ministry of Foreign Affairs, 2020a). This represents 0.59% of gross national income.

¹⁷ A commonly used definition of climate finance is given in the UNFCCC Standing Committee on Finance’s Biennial Assessment and Overview of Climate Finance Flows: Technical Report (UNFCCC, 2018): ‘climate finance’ refers to the financial resources dedicated to adapting to and mitigating climate change globally, including in the context of financial flows to developing countries.

¹⁸ Climate change mitigation consists of efforts to reduce carbon emissions (for instance by introducing renewable energy) and to enhance greenhouse gas sinks and reservoirs, including through the sustainable management of forests. Climate change adaptation means adjusting ecological, social or economic systems in response to actual or expected climatic stimuli and their effects; these can be changes in processes, practices and structures. Adaptation action includes enhancing the capacity to adapt, strengthening resilience and reducing vulnerability to climate change. See unfccc.int/topics for more information. A pro-poor focus can be achieved by focusing on sectors with a high impact on the poor, including in middle-income countries – and this applies not only to adaptation. For example, some mitigation projects to promote clean cooking and access to energy also help lift people out of poverty and could target women.

The term additionality is used mostly in the context of blended finance, where public and private funds are mixed, to indicate whether projects are distorting the market and adding developmental value. This is a relevant term, because the Netherlands aims to mobilise private finance for climate action. We will explain these terms in more detail in Chapter 6.

In this study on climate finance, we started with an analysis of the climate-relevant activities – funds, programmes and projects – of the portfolio of Development Cooperation that were reported as ODA in the period 2016 to 2019. We identified the amounts of public climate finance, as well as the amounts of private sector finance mobilised by public expenditure.

IOB decided to focus on:

- 1) The scope and reach of activities: Where is the money spent? Is climate finance reaching the countries, sectors and groups that are identified in the relevant policy notes and Theories of Change?
- 2) The additionality of the funding: does Dutch climate finance, using ODA, add value to other existing funding? What is the added value of involving the private sector in climate action? Are the funds and programmes financially additional and/or non-financially additional, especially in terms of development impact? This question was examined in particular in partnerships where public and private funds are mixed, so-called blended finance.

The first question addresses the evaluation criterion of relevance and to a certain extent effectiveness and coherence. The second question adds to our understanding of the effectiveness and efficiency. Other upcoming studies will continue to look at the relevance, effectiveness and coherence of the activities in budget article 2, in the energy, water and food security sectors.

1.3 Structure of this report

This report is structured as follows. Chapter 2 will introduce international and national policies on climate action in developing countries, and describe issues around assessing needs, climate finance reporting and policy coherence. Chapters 3 and 4 describe the evaluation questions and methodology of this study. Chapter 5 describes and analyses the reach of climate-related finance, in terms of countries, sectors and target groups. Chapter 6 contains findings on the additionality of Dutch climate finance, with a focus on bigger funds and programmes with an element of private sector finance. Chapter 7 presents a broader discussion and considerations for future Dutch climate policy and finance.

Nations Unies

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2

**International and Dutch
policy for climate action in
developing countries**

In this chapter, we will describe the international and national policy objectives that the Netherlands committed to in the field of climate change and development (Section 2.1), before we focus on climate finance policy (2.2). This will include reflections on the needs of developing countries and on the use of private sector finance. We will use the relevant Theory of Change to highlight policy priorities. We will also address the issue of policy coherence (2.3). We will finish by explaining the focus of this study (2.4).

2.1 Climate policy

2.1.1 International climate policy

We chose to study Dutch climate finance in the period 2016 to 2019, partly because the international community reached two important agreements in 2015,¹⁹ which form the backdrop of Dutch development cooperation in the area of climate change. The Paris Agreement was adopted in December, while the Sustainable Development Goals were adopted slightly earlier that same year.

The Conference of Parties under the United Nations Framework Convention on Climate Change (COP UNFCCC) had already adopted an objective on climate finance in Copenhagen in 2009, followed by Cancun in 2010, to support developing countries collectively with USD 100 billion a year, starting from 2020. This commitment by developed countries was reaffirmed at the climate summit in Paris. Also, the Paris Agreement sets the target of strengthening climate mitigation efforts – keeping the increase in global temperature well below 2 degrees Celsius – and increasing the ability to adapt to climate change. On finance, a particular new aim was introduced in article 2.1.c: to make finance flows consistent with a pathway towards low greenhouse gas (GHG) emissions and climate-resilient development.

The Paris Agreement recognises the importance of support for developing countries, especially those particularly vulnerable to climate change.²⁰ It highlights the needs of those with significant capacity constraints, such as least-developed countries and small island developing states. The agreement encourages support from both public and private sources. Furthermore, the parties acknowledge that adaptation action should follow ‘a country-driven, gender-responsive and fully transparent approach’.

In the context of the UNFCCC, some concepts remain unclear or disputed. One is the notion that climate finance for support to developing countries should be ‘new and additional’. This issue will be discussed in the next section, zooming in on finance.

¹⁹ A third relevant agreement in 2015 was the [Addis Ababa Action Agenda on Financing for Development](#), which references climate change, the need for climate finance and the primacy of UNFCCC in this context.

²⁰ Finance is not the only thing that developed countries promised to give in the UNFCCC context. The Paris Agreement also highlights the need for transfer of technology and capacity building, and developed countries must ‘enhance the provision of urgent and adequate finance, technology and capacity-building support’ (UNFCCC, 2015).

Furthermore, the Paris Agreement does not prescribe precisely what part of the efforts – what share of climate action and finance – should be devoted to mitigation and what part to adaptation. However, it does state that ‘[...] financial resources should aim to achieve a balance between adaptation and mitigation’, which is seen as an improvement on previous agreements, and interpreted by some as meaning targeting 50% of finance for climate adaptation action.²¹ In climate negotiations, the emphasis has traditionally been on reducing GHG emissions (mitigation), but in the texts of the Paris Agreement, the need for adaptation and increasing climate resilience²² is equally prominent.

The Netherlands has ratified the Paris Agreement and the government has fully committed itself to implementing it, as confirmed by the current Minister for Trade and Development, Sigrid Kaag, in various policy documents since 2018.

Besides the Paris Agreement, the Sustainable Development Goals also provide international policy objectives. In September 2015, a UN Summit adopted the [2030 Agenda](#) for Sustainable Development. The Sustainable Development Goals ([SDGs](#)) – which are the best known part of the 2030 Agenda – form the international framework for international cooperation. Through the minister’s policies in the fields of foreign trade and development cooperation (BHOS²³), ‘we are working to achieve the Sustainable Development Goals’, according to the [Investing in Global Prospects](#) note of spring 2018.²⁴ The SDGs consist of goals and targets on poverty eradication, energy and climate change, as well as on food security, water, gender equality, social development, oceans, biodiversity and partnerships. SDG 13²⁵ on climate change

²¹ For instance, in the Oxfam Climate Finance Shadow Report 2018 and its latest report of 2020 (Oxfam [2018, 2020](#)). The text of the Paris Agreement explicitly mentions ‘significantly increasing adaptation finance from current levels’ (UNFCCC, 2015). The Netherlands did not formally and explicitly embrace a 50% financing target for adaptation in 2016-2019, but at the Climate Adaptation Summit on 25 January 2021, Prime Minister Rutte – for the first time – did advocate a 50% target (Climate Adaptation Summit, 2021).

²² Climate-resilient economic growth is a process of economic development that takes into account, adjusts and responds to the effects of climate change, with reduced vulnerability to shocks, possibly also implying low carbon emission pathways.

²³ The Minister for Foreign Trade and Development sits in the Ministry of Foreign Affairs. Her portfolio and the relevant budget are often referred to as BHOS, which stands for foreign trade and development cooperation in Dutch.

²⁴ Investing in Global Prospects (Ministry of Foreign Affairs, 2018a).

²⁵ SDG13 targets are as follows:

13.1 Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries

13.2 Integrate climate change measures into national policies, strategies and planning

13.3 Improve education, awareness-raising and human and institutional capacity on climate change mitigation, adaptation, impact reduction and early warning

13.A Implement the commitment undertaken by developed-country parties to the United Nations Framework Convention on Climate Change to a goal of mobilising collectively USD 100 billion annually by 2020 from all sources to address the needs of developing countries in the context of meaningful mitigation actions and transparency on implementation and fully operationalise the Green Climate Fund through its capitalisation as soon as possible

13.B Promote mechanisms for raising capacity for effective climate change-related planning and management in least-developed countries and small island developing states, including focusing on women, youth and local and marginalised communities

contains targets on adaptive capacity, integration of climate change goals into policies, education and awareness raising, climate finance and least-developed countries and small island developing states. SDG 7²⁶ on energy consists of five targets, promoting access to affordable, reliable and modern energy, as well as doubling the share of renewable energy in the mix and promoting energy efficiency. The 2030 Agenda promotes a holistic approach and policy coherence for sustainable development.

2.1.2 Dutch climate policy (for development cooperation), including Theory of Change

Within the Ministry of Foreign Affairs, the Minister for Foreign Trade and Development is responsible for the budget for development cooperation, as well as for international climate finance, which is funded by the same budget.

After the adoption of the Paris Agreement in February 2016, the previous government explained in a Letter to Parliament that Dutch climate finance focused on projects at the nexus of poverty reduction and climate change, in particular the water, energy and agriculture sectors.²⁷ An annex stipulated that the Netherlands would keep supporting least-developed countries and vulnerable groups, in particular by strengthening resilience and capacity for the implementation of the nationally determined contributions.²⁸ The letter also mentions gender equality as a consideration in climate policy.

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The Minister for Trade and Development, Sigrid Kaag, who took office in March 2018, has to some extent continued the major priorities of her predecessor, including promoting action on climate change as a cross-cutting priority. She set out her policies and priorities in the [Investing in Global Prospects](#) note, which was issued in May 2018. The note identified climate change as one of the overarching goals: 'promoting sustainable and inclusive growth and climate action²⁹ worldwide'. Other priorities are preventing conflict and instability; reducing

²⁶ SDG7 on energy contains the following targets:

7.1 By 2030, ensure universal access to affordable, reliable and modern energy services

7.2 By 2030, increase substantially the share of renewable energy in the global energy mix

7.3 By 2030, double the global rate of improvement in energy efficiency

7.A By 2030, enhance international cooperation to facilitate access to clean energy research and technology, including renewable energy, energy efficiency and advanced and cleaner fossil-fuel technology, and promote investment in energy infrastructure and clean energy technology

7.B By 2030, expand infrastructure and upgrade technology for supplying modern and sustainable energy services for all in developing countries, in particular least-developed countries, small island developing states, and landlocked developing countries, in accordance with their respective programmes of support

²⁷ Letter of 19 February 2016 ([Ministry of Foreign Affairs, 2016a](#))

²⁸ Nationally determined contributions are communications about plans and commitments by parties to the UNFCCC for post-2020 climate actions, with a focus on domestic mitigation measures. Website UNFCCC: unfccc.int/process-and-meetings.

²⁹ Climate action means efforts to reduce greenhouse gas emissions and strengthen resilience and adaptive capacity to climate-induced impacts (source: sdfinance.UNDP.org).

poverty and social inequality;³⁰ and enhancing the Netherlands' international earning capacity. A cross-cutting goal is to advance gender equality and improve the position of women and girls. In this policy note, other target groups are less explicit, although farmers are highlighted in the sections on food security and are part of a results indicator.³¹

The [Theory of Change](#) (TOC) on climate of October 2018, drafted by the Inclusive Green Growth Department as part of a wider series of TOCs in the DGIS, reflects one overall objective and several subsidiary objectives. Paraphrasing the text from IGG's TOC: 'the overarching goal of the ministry is climate-resilient economic growth. In developing countries, the efforts aim to 1) mitigate: reduce climate change, and 2) allow people to adapt to a changing climate.³² Special attention will be paid to the most vulnerable countries and groups, including women and girls.'

Figure 2.1 below represents the Theory of Change on climate schematically, as reconstructed by IOB,³³ including elements from the Theories of Change on water and food security. It illustrates that climate finance, climate diplomacy and knowledge are a means to achieve mitigation and adaptation.

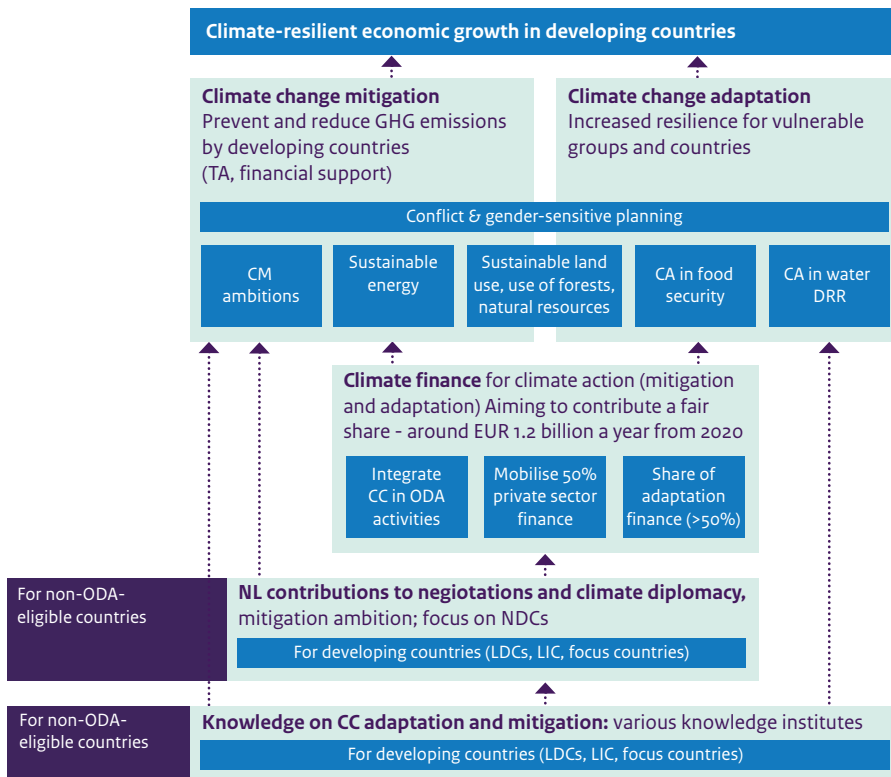
³⁰ There is a tension between climate objectives and poverty reduction objectives, which is not made explicit in Dutch development cooperation's climate actions and policies, as follows: mitigation action – notably renewable energy projects – is easiest and most efficient in middle-income countries and middle-income groups. However, the groups most vulnerable to climate change are the poorest people, who require assistance for adaptation action to become resilient. However, targeting them will have little effect on greenhouse gas emissions (mitigation) in the short term.

³¹ Number of farmers with improved productivity and income, target value 2020 EUR 5.5 million. Youth are mentioned only twice in the policy note. Chapter 5 includes a section on target groups.

³² For longer definitions of adaptation and mitigation, see the summary and Chapter 1 of this report, as well as [unfccc.int](#).

³³ This figure is based on the Theories of Change (TOCs) that IGG drafted in 2018 for climate change, food security and water management (Ministry of Foreign Affairs, [2018b](#), [2018c](#), [2018d](#)). The underlying TOCs by IGG do not contain an analysis of stakeholders, sphere of control and underlying assumptions. IOB has not included those in our reconstructed TOC either.

Figure 2.1 Theory of change of the climate development cooperation policy for developing countries.



- The five policy objectives mentioned under the Theory of Change for climate are as follows:
- A. Enhanced access to renewable energy and reduced GHG emissions. Cooperation with the private sector is one of the interventions identified here, along with promoting large-scale investments.
 - B. Reduced deforestation and increased sustainable use of land.
 - C. Water and food security. Two separate Theories of Change on these topics exist, which refer to climate change as a cross-cutting consideration.
 - D. Stronger international climate action by a constructive contribution to multilateral climate change negotiations. Supporting nationally determined contributions (NDCs)³⁴ is mentioned as an intervention here.

³⁴ See footnote 49 about NDCs. The subsidiary goal in this TOC mentions supporting the integration of these NDCs into the national development plans of developing countries.

- E. A reasonable Dutch contribution – often called fair share³⁵ – to the achievement of the global collective commitment of USD 100 billion per year for climate action in developing countries. An important point under this objective is the promotion of the climate relevance of all activities under the development cooperation budget. The Netherlands strives to mobilise private sector funding amounting to 50% of this contribution³⁶. It also aims to benefit the people who are most vulnerable, including women.

2.2 Climate finance

2.2.1 General international provisions on finance and reporting

As outlined above, the Paris Agreement reaffirms previous commitments of developed countries to support developing countries. It encourages support from both public and private sources and it adds that a variety of sources, instruments and channels can be used.³⁷ The text also calls for ‘a balance’ between financial resources for adaptation and mitigation. In contrast to previous UNFCCC agreements, the text contains no clear dichotomy between donor countries (which were called ‘non-Annex 1 Parties’) and developing countries. ‘Other countries’ than developed countries are also ‘invited... to provide... support voluntarily’. Developed countries are required to provide ‘transparent and consistent information on support for developing country Parties provided and mobilised through public interventions biennially’.

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Support need not be only financial; technology transfer and capacity building are also included as forms of assistance in the Paris Agreement.

³⁵ The reasonable amount that the Netherlands should contribute is referred to as ‘fair share’. This concept and the amounts concerned are further explained in Section 2.2.4 below. It was calculated by the Court of Audit, which was in close contact with the IGG Department. A Letter to Parliament dating 26 November 2015 (in reply to questions by parliament) explained that the calculation was based on the idea that Japan, the US and Europe would each pay one-third of the USD 100 billion and that the Netherlands, in line with its contribution to the EU budget, would pay a 4.8% share (Ministry of Foreign Affairs, 2015b; p20). In 2014, Oxfam calculated higher shares and higher amounts, including for European Member States such as the Netherlands. Besides the fair share, an expected amount was communicated when the 2018-2021 Rutte III cabinet said to expect 480 million euros of public climate expenditure annually by 2020 (Investing in Global Prospects, Ministry of Foreign Affairs, 2018a)

³⁶ This aim, which is reflected in the DGIS Theory of Change on climate (2018), was discussed for instance in a debate in parliament on 20 June 2013 (Tweede Kamer der Staten-Generaal, 2013a, 2013b).

³⁷ Private sector finance is often used interchangeably with commercial finance, but technically it is more correct to use the term commercial finance. Because when private climate finance is mobilised by the public sector, this so-called private finance can also come from development finance institutions (such as FMO) or public entities providing finance under conditions that are in conformity with the market, if we use the definitions used by OECD DAC, which sets the rules for reporting on ODA and the most commonly used rules on reporting climate finance.

2.2.2 Overview of international climate finance 2016-2018

The OECD keeps track of climate finance provided and mobilised by developed countries.³⁸ Their collective commitment is to reach USD 100 billion a year in 2020. The amounts have been rising steadily since 2016, when the total was USD 58.6 billion. In 2018, the total amount mobilised and provided was USD 78.9 billion. Bilateral public climate finance reached USD 32.7 billion in 2018, and multilateral public climate finance was USD 29.6 billion. Mitigation spending made up 70% of the total amounts in 2018, adaptation 21% and the rest went to a mixture of both. The share allocated to adaptation has grown over the years. Energy represents the largest sector to receive climate finance, benefitting mitigation: 34% in 2016-2018. Transport and storage received 14%, agriculture, forestry and fishing 9%, and water and sanitation 7%.

From 2016-2018, Asia received the largest share of climate finance (43%), followed by Africa (25%) and the Americas (17%). Financing for least-developed countries and small island developing states represented 14% and 2% of the total. The middle-income countries received 69% of funding and low-income countries 8%.³⁹

Private climate finance mobilised and attributed to developed countries was USD 14.6 billion in 2018, similar to 2017. The mobilised private climate finance focused on mitigation (93%), while it targeted mainly the energy sector (60%) and middle-income countries.

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Looking at the instruments used in 2016-2018, a share of 60% of bilateral public climate finance was provided through loans and 34% through grants. In multilateral public finance, 88% was provided through loans and 9% through grants.⁴⁰

Critics have noted that first, financing for adaptation, and second, financing for least-developed countries and small island developing states, are lagging behind. They advocate dedicating at least 50% of climate-related ODA to adaptation and better targeting the most vulnerable countries. Some critics also consider loans an inferior form of climate finance (see e.g. Section 2.4).

³⁸ The latest report by the OECD on this, 'Climate Finance Provided and Mobilised by Developed Countries in 2013-2018', was published in November 2020 and is quoted in this section ([OECD 2020a](#)).

³⁹ Not all amounts were allocable by country, that is, some finance is global or regional.

⁴⁰ See OECD report on climate finance provided and mobilised by developed countries in 2013-2018 ([OECD 2020a](#)). Under the OECD DAC reporting rules on ODA, concessional loans can be reported as ODA. Concessional loans are loans extended on terms substantially more generous than market loans. The concessionality is achieved either through interest rates below those available on the market or by grace periods, or a combination of these. Concessional loans typically have long grace periods ([OECD Glossary of Statistical Terms](#)). The reporting system was adapted in 2018-2019 and concessional loans are now reported on a grant equivalent basis. Loans committed or disbursed in 2018 and 2019 are reported as ODA on a cash-flow basis. See OECD.org website for more information: [What is ODA?](#)

2.2.3 International needs and commitments

COP UNFCCC adopted an objective on climate finance to support developing countries collectively with USD 100 billion annually, starting from 2020.

This amount of USD 100 billion a year was largely determined by political negotiations. There is no international agreed calculation on the costs of supporting developing countries' needs for climate mitigation and adaptation. The needs are neither clearly defined nor transparently calculated.

Parties to the Paris Agreement are asked to submit and update adaptation communications including implementation and support needs, plans and actions, and/or a national adaptation plan, a nationally determined contribution (NDC) and/or a national communication. There is no uniform way of calculating the costs of these plans. The problem is that many of the plans lack clear budgets, and they also contain duplications and omissions.

Furthermore, there is no agreed baseline on the amounts of funding needed for mitigation and adaptation, nor are there internationally agreed global and uniform ways to register needs and report on donor support.

In the field of **adaptation**, part of the difficulty is establishing what the boundary between adaptation and development is, and to what extent investments in adaptation and resilience bring additional costs, or, instead, are a means of achieving smart and sustainable development with economic and social benefits, which outweigh the costs. Furthermore, disaster risk reduction, risk prevention and early warning are said to be worth two to ten times the investments made, avoiding enormous potential costs. In adaptation, there is no clear overall estimate of the needs, and available estimates are often specific to one sector, for instance coastal protection or agriculture.⁴¹

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With **mitigation**, estimated costs also differ according to the level of ambition and scope of the measures and actions. If all costs of all countries are included to ensure a global rise in temperature of less than 1.5 degree Celsius, the amount is sure to be much higher than when we only calculate the needs of developing countries as set out in their nationally determined contributions, for example. One consideration to keep in mind is that a climate-neutral (zero carbon) energy system does not need to be more expensive than an energy system based on fossil fuels.

⁴¹ See, for instance, the 'Adaptation Finance Gap Report' (UNEP, 2016). The International Fund for Agriculture and Development stated that the costs for rural development would rise by 10%-15% due to climate change in its 2018 Climate Action Report (IFAD, 2018).

Estimates on the needs, both for climate change mitigation and adaptation, in developing countries thus vary widely. Recent estimates that we found are as follows:

- For mitigation: USD 1,200 billion per year, between 2016 and 2050.⁴²
- For adaptation, a gradual increase:⁴³
 - USD 70 billion a year in 2020
 - USD 140-300 billion a year in 2030
 - USD 280-500 billion a year in 2050

The Standing Committee on Finance of the UNFCCC is trying to determine the needs of developing countries in an organised manner. It is working on a report titled 'Determination of the needs of developing country Parties' to be issued in early 2021 and has launched a 'call for evidence' for this purpose.⁴⁴ Besides, big actors such as the Green Climate Fund (GCF) have – to some extent – already identified the needs of GCF-eligible countries, using calculations based on the nationally determined contributions.⁴⁵ The NDCs, however, are highly diverse and, as mentioned above, not particularly precise in identifying the costs of their needs. Furthermore, adding up the plans as outlined in the NDCs will not be sufficient to reach the goals of the Paris Agreement.

'New and additional'

The UN Framework Convention on Climate Change states in article 4: 'The developed country Parties and other developed Parties included in Annex II shall provide new and additional financial resources to meet the agreed full costs incurred by developing country Parties [...]'. But this concept of 'new and additional' has never been defined by consensus.⁴⁶ The Paris Agreement only states that support to developing countries should be 'beyond previous efforts'. Developing countries and civil society organisations tend to say that climate finance should be given on top of development aid and additional to existing donor commitments, whereas donor countries tend to interpret the terms much more loosely. Experts at the OECD informed IOB that currently only one DAC donor country provides climate finance on top of its ODA commitment.⁴⁷

⁴² The GCF's Independent Evaluation Unit (GCF IEU, 2019), in its 'Forward-Looking Performance Review', estimated the needs for developing countries using the IPCC estimates of the worldwide needs of USD 1.38 to USD 3.25 trillion per year.

⁴³ Adaptation Finance Gap Report (UNEP, 2021).

⁴⁴ See UNFCCC website: [Determination of the needs of developing country Parties](#).

⁴⁵ GCF's Forward-Looking Performance Review shows that the needs of least-developed countries, small island states and African countries were met to a larger extent than for other countries, in line with the mandate of the GCF (GCF IEU, 2019).

⁴⁶ Other discussions on finance in the context of UNFCCC are, first, what the incremental (extra) costs of climate change are on top of the costs for development as usual; and second, what costs should be covered by developed countries to make up for damage caused by disasters and extreme weather events due to climate change - the Loss & Damage debate?

⁴⁷ On top of its commitment to spend a certain percentage of its GNP on ODA. That would be Luxembourg; but Norway also provides ODA up to 1.0% of its GNI, including climate finance. Before 2011, the Netherlands was one of the countries that committed to 0.7%, and it provided funding for international climate and environment goals on top of that budget.

2.2.4 Dutch policy on climate finance

There is no dedicated budget envelope for international climate action in the Netherlands, except for a relatively small budget line on climate, energy and natural resources, sub-article 2.3 of the budget for Foreign Trade and Development Cooperation. This budget line reached EUR 196 million in 2019. Climate change considerations and objectives are integrated, i.e. mainstreamed, into other articles of the development budget such as food security (budget sub-article 2.1) and water management (sub-article 2.2), which are then also reported as climate finance. The total amount of climate finance is determined by identifying – partly in hindsight – which activities of Dutch international cooperation contributed to climate change mitigation and adaptation, and to what extent, as will be explained in the section on reporting below.

The Netherlands has not set itself a formal target for climate finance. Internally, the ministry set the ambition to contribute a certain ‘fair share’⁴⁸ to the international commitment of USD 100 billion climate finance for developing countries annually, from 2020 onwards. This fair share was estimated at EUR 1.25 billion. In 2012, the Dutch General Audit Office and the Inclusive Green Growth Department estimated the amounts that could be provided from public finance and mobilised from private finance; however, these amounts were said to be subject to change due to the international climate negotiations. In the policy note ‘Investing in Perspectives’ in 2018, the Dutch cabinet expressed the expectation of reaching EUR 480 million in public climate finance annually by the end of their tenure, in 2021⁴⁹. Although the Minister for Foreign Trade and Development Cooperation reports to parliament on the amounts spent on climate each year, these figures cannot be used for strict accountability purposes.

⁴⁸ The reasonable amount that the Netherlands should contribute is most often referred to as ‘fair share’. Calculations by the General Audit Office and the Inclusive Green Growth Department determined in 2012 that the Dutch fair share should be approximately EUR 1.25 billion a year from 2020, based on the idea that Japan, the US and Europe would each pay one-third of the USD 100 billion and that the Netherlands, in line with their contribution to the EU budget, would pay a 4.8% share. The General Audit Office drafted an estimate for scaling up climate finance between 2013 and 2017 and in less detail until 2020, as set out in a Letter to Parliament dated 11 December 2012 ([Netherlands Court of Audit, 2012](#)). These estimates were not adopted as formal targets for expenditure. However, this amount was never formally adopted by the government. In 2019, the actual amount resulted in a total sum of EUR 1.4 billion, exceeding the projected fair share contribution. The public funding amounted to EUR 570 million, while the rest was mobilised through private funding.

⁴⁹ The ambition to reach 480 million public finance was repeated in a letter to Parliament of 17 February 2021: [Beantwoording vragen van het lid Van den Nieuwenhuijzen \(Groenlinks\) over klimaatfinanciering voor ontwikkelingslanden](#). In this letter, minister Kaag refers the question of a new target for climate finance to a new cabinet.

In the reporting period, the Netherlands did not formally set a target for the proportion of climate finance to be spent on mitigation and adaptation, although in January 2021, at the Climate Adaptation Summit, Prime Minister Rutte advocated an equal balance, suggesting an allocation of 50% to adaptation within public climate finance.⁵⁰

An estimated 80% of global climate finance in 2018 was provided through loans. The Netherlands is exceptional in that it does not (yet) report in detail on its non-grant contributions to climate finance, which the rules would allow;⁵¹ the Netherlands only reports on grants, the grant equivalent of its loans and contributions to revolving funds. Before 2011,⁵² Dutch funding for international climate and environment policy was paid from a separate envelope, on top of the ODA budget. That budget was, at the time, set at 0.7% of gross national income (GNI), based on the commitment of members of the Development Assistance Committee to devote 0.7% of GNI to ODA.⁵³ Subsequent Dutch cabinets have not reaffirmed the ambition to reach 0.7%, although the current government does link the ODA budget to GNI (using a complex calculation). Since 2011, international climate finance has been paid from the development cooperation budget.

⁵⁰ There was no formal target for the proportion of climate finance to be spent on adaptation action and mitigation action until very recently. At the Climate Adaptation Summit in January 2021, Prime Minister Rutte stated that the Netherlands would ensure an equal balance between its adaptation and mitigation finance. 'Rutte reiterated that all Dutch public finance continues to be equally focused – 50/50 – on mitigation and adaptation.' Source: [PRESS RELEASE World leaders embrace climate adaptation action at Climate Adaptation Summit 2021, 25 January 2021](#) (Climate Adaptation Summit, 2021); as well as Letter to Parliament ([Ministry of Foreign Affairs, 2021](#))

⁵¹ Sources: OECD DAC and [donor.tracker.org](#), 'Global Landscape of Climate Finance' report by Climate Policy Initiative ([Buchner et al., 2019](#)), plus the update report ([Macquarie et al., 2020](#)), as well as Oxfam Climate Finance Shadow Reports ([Oxfam 2018, 2020](#)). The Netherlands maintains a dialogue with the OECD on its way of reporting on grants and loans, ODA and other official flows. FMO expenditures are not reported as ODA or other official flows.

⁵² In a Letter to Parliament on the budget for development cooperation (see basisbrief ontwikkelingsamenwerking, [Ministry of Foreign Affairs, 2010](#)) of 26 November 2010, the government announced that, as part of a series of budget cuts, the ODA budget would be reduced from 0.8% in 2010 to 0.7% of GNI in 2012 and that expenditure for international climate policy in 2011 and 2012 would come from within this budget of development cooperation. Note that in-donor costs for asylum seekers have increased considerably since 2014. In 2018, they accounted for 10% of total net Dutch ODA; source: [OECD.org](#) donor profile for the Netherlands.

⁵³ Sweden was the first country to meet the 0.7% target in 1974, followed shortly by the Netherlands, Norway and Denmark. In 2018, the 0.7% of GNI target was met only by the UK, Germany, Denmark, Norway, Luxembourg and Sweden, as well as by three non-OECD countries ([Glennie et al. 2019](#)). In 1969, the Development Assistance Committee (DAC) of the OECD – then a forum for the most advanced economies, though now it includes a number of emerging economies as participants, rather than formal members – adopted the concept of 'official development assistance' (ODA), defined as those transactions designed to promote the economic and social development of developing countries, and which were concessional in character. In the same year, the DAC Chair published for the first time figures showing ODA as a percentage of GNI.

Most countries do the same: only a few countries have ever committed to both the goal of 0.7% GNI for ODA and the intention of adding climate finance on top of that, and at the moment only Luxembourg seems to have an explicit commitment to do so. In the context of the UNFCCC provision that climate finance should be new and additional, critics point out that funding for international climate action is not truly additional if it deflects money from other development objectives such as social development.^{54,55}

2.3 Mobilisation of private sector funding for climate action

The UNFCCC accepts and encourages that support for developing countries be either provided by donor countries or mobilised by them, i.e. provided by the private sector or others. Similarly, in international discussions on financing for development, it is recognised that funding may come from a wide variety of sources, including private business and finance.⁵⁶

2.3.1 International discussion on private sector funding

When the collective objective of USD 100 billion annual support for developing countries was set, it was recognised that private sector finance mobilised by public funds – by official development finance interventions – could be counted towards this goal.⁵⁷ At the time, it was largely unclear, or not clearly defined, what was meant by mobilisation – and it still is not exactly defined. We will revisit this term in the chapter on additionality. However, over the past few years, the OECD DAC has developed methodologies for seven different financial instruments which are used to mobilise private finance (not only climate finance). These methodologies were only finalised in 2019 and reporting instructions were still being finalised in 2020. The OECD has asked donor countries to report on the private finance mobilised since 2017, and the Netherlands was one of the first countries to do so.

⁵⁴ Staff at IGG points out that mainstreaming climate considerations has added value – and is additional in that sense – by making development projects more sustainable, so that ‘deflects’ may be too negative a term.

⁵⁵ Another issue in this context (the promise of new and additional funding) is the fact that since 2015 a significant portion of ODA in most European donor countries was spent on in-donor costs, i.e. asylum seekers in the host countries. In 2018, the Netherlands spent 10% of its total net ODA on in-donor costs. Source: ODA DAC iLibrary: development cooperation profiles 2020 – ‘Donor profile of the Netherlands’.

⁵⁶ See, for instance, the 2015 [Addis Ababa Action Agenda](#) on Financing for Development (UN website), which contains a section on private business and finance.

⁵⁷ In its reports on progress towards the goal, the OECD DAC distinguish four sources of climate finance: (1) developed countries’ bilateral public climate finance, (2) multilateral public climate finance attributed to developed countries, (3) climate-related officially-supported export credits extended by developed countries, and (4) private climate finance mobilised by and attributed to developed countries’ public finance interventions.

The contribution by the private sector has been a point of controversy. Developing countries and non-governmental organisations stress that private sector finance could or should not replace public support by developed donor countries for climate action in developing countries. They are afraid the mobilisation of private sector finance would be used as an excuse for developed countries not to provide the contributions they committed to in the context of the UNFCCC, which – according to the Climate Convention of 1992 – should be new and additional. They are also afraid that donors will neglect their commitments in the context of the OECD DAC to strive towards allocating 0.7% of the GNI to ODA,⁵⁸ i.e. their public development aid.

2.3.2 Dutch policy on private sector finance

Since 2016, the Netherlands has reported climate finance for development including the private sector finance that has been mobilised. It aims to contribute to the joint goal of mobilising, with other donors, USD 100 billion a year by 2020 from a variety of sources, in line with the goal set by COP UNFCCC. More generally, the Dutch government is committed to promoting the use of ODA for leveraging private investments in developing countries. The Netherlands aims to mobilise a share of approximately 50% private finance of its international climate finance and around 50% public finance.⁵⁹ In practice, it has managed to achieve a higher share of private finance in recent years.

The Dutch General Audit Office recommended in April 2019, and again in April 2020, that the Minister for Foreign Trade and Development Cooperation should calculate the leverage rate of the climate finance instruments; in other words, the factor of mobilisation of private finance. In 2019, Minister Kaag responded that maximum mobilisation of private sector funding was not her priority, because development objectives are more important: focusing on vulnerable countries and groups, as well as adaptation and resilience. However, when the recommendation was repeated in 2020, she responded that an indicator for measuring mobilisation had been developed and could be used to inform decision making.

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2.4 Reporting on climate finance

As said earlier, there is no separate budget envelope for all climate finance within the Ministry for Foreign Trade and Development Cooperation.⁶⁰ The Netherlands – through the Minister for Foreign Trade and Development Cooperation and the Directorate-General for

⁵⁸ This commitment was first agreed in 1970 and it was endorsed by several international aid conferences, including by the European Union. Individual governments of DAC member states have not, however, consistently endorsed and implemented this commitment.

⁵⁹ IGG's Theory of Change notes that due to the limited amount of ODA, the Netherlands aims for a 50/50 balance between public and private climate finance, with reference to a 2013 proposal by parliament (Tweede Kamer de Staten-Generaal, [2013a](#), [2013b](#)). Following this proposal to get 50% public climate finance and 50% public, Minister Ploumen did indeed say that she concurred with the idea of a balance and would see this as a light on the horizon.

⁶⁰ However, in the annual HGIS notes to parliament, the MFA presents projections of expected climate-relevant disbursements for the upcoming year, based on indications by budget holders, i.e. directorates and embassies.

International Cooperation – reports on climate finance, calculating the amounts of climate finance of each activity in hindsight.⁶¹

Climate finance reporting is tracked by an OECD marker for climate change – often called the Rio marker. All relevant activities receive such as marker, as is the standard among the donor countries that are members to the OECD’s Development Assistance Committee (DAC). Activities with a ‘principal’ marker have climate change action as their main objective; and expenditures count for 100% climate finance, specifying whether they benefit mitigation or adaptation. Activities with a ‘significant’ marker have climate action as a secondary objective; and the Netherlands counts 40% of its amount as climate finance. Most donors do so, although some count activities with a significant marker for 30%, 50% or even 100%, and one or two donors assign an individual percentage per project.⁶² The system of the Rio markers is explained in Box 2.1 below.

Box 2.1 *The Rio markers for climate relevant development aid*

The Netherlands uses the procedures described in the ‘[OECD DAC Rio Markers for Climate – Handbook](#)’ (OECD DAC 2016b).

The main distinction between climate (mitigation or adaptation) as ‘**principal objective**’ and ‘**significant objective**’ is:

- **Principal:** The activity would not have been funded (or designed that way) but for the explicitly mentioned climate objective; 100% of the support is reported as climate finance.
- **Significant:** The climate objective is explicit, but not the main driver of the activity; 40% of the support is reported as climate finance. Just like other donors, the Netherlands considers this percentage to be a reasonable estimate of the average climate contribution of projects that have climate change adaptation or mitigation as a significant objective.

To be classified as ‘**climate change mitigation-relevant**’, an activity will need to contribute to:

- the mitigation of climate change by limiting anthropogenic emissions of GHGs, including gases regulated by the Montreal Protocol; or

⁶¹ The calculations are mostly done in hindsight, for instance in the report on 2019 in 2020. There are projections about expected climate finance each year, but the IGG Department, which is responsible for the reporting, is not the budget holder for all climate-relevant activities and does not have the full picture in advance. Also, the calculations of the OECD DAC on the climate relevance of multilateral organisations vary significantly over the years.

⁶² Source: OECD DAC, results of survey, April 2019 and interview with staff from the OECD Development Co-operation Directorate ([OECD DAC 2020b](#)); as well as the Oxfam Climate Finance Shadow Report ([Oxfam 2020](#)).

- the protection and/or enhancement of GHG sinks and reservoirs; or
- the integration of climate change concerns with the recipient countries' development objectives through institution building, capacity development, strengthening the regulatory and policy framework, or research; or
- developing countries' efforts to meet their obligations under the UNFCCC.

To be classified as '**climate adaptation-relevant**', it is required that:

- the climate change adaptation objective is explicitly indicated in the activity documentation; and
- the activity contains specific measures targeting the definition above.

To guide scoring, a three-step approach is recommended as a 'best practice', in particular to justify a principal score:

1. Outlining the context of risks, vulnerabilities and impacts related to climate variability and climate change.
2. Stating the intent to address the identified risks, vulnerabilities and impacts in project documentation.
3. Demonstrating a clear and direct link between the identified risks, vulnerabilities and impacts and the specific project activities.

It is possible that an activity has both an adaptation and a mitigation marker. Also, a combination is possible with a significant and a principal marker. In those cases, the contribution to adaptation and mitigation is shared.

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For the Dutch contribution to multilateral organisations, including the multilateral development banks, a different method is used, as follows. The OECD DAC Secretariat determines a percentage of climate relevance for most of these multilateral organisations each year. For the rest of the multilaterals, the Multilateral Organisations and Human Rights Department (DMM) at the Ministry of Foreign Affairs, identifies such a percentage itself, in consultation with the organisations concerned.

Issues with reporting on climate finance

A problem with the Rio marker methodology is that there are big differences among donors: each donor registers and reports its climate finance differently. First, twenty donor countries used different percentages to report on their activities for 2017-2018 with a 'significant' marker (30%, 40%, 50% or 100%).⁶³ Three donors determine a different climate relevance percentage for each activity. Second, the methodologies for reporting on contributions to multilateral organisations may also differ, because some of the percentages of climate relevance attributed to these organisations differ per donor.

⁶³ Results of the first survey on coefficients that members apply to the Rio marker data when reporting to the UN Conventions on Climate Change and Biodiversity (OECD, 2019a).

Finally, eleven donors reported on actual disbursement while eight reported on commitments, including the Netherlands, for 2017-2018 figures.⁶⁴

A second problem is the complexity of reporting on private sector finance that is mobilised by public funding. The OECD is trying to harmonise reporting on these flows, but there is no methodology yet that is accepted by all parties to the UNFCCC, including developing countries. It is work in progress, though: several working groups and initiatives try and harmonise the methodologies, including at the OECD, and the Netherlands plays an active part in these discussions. Over the past few years, starting in 2018 with the report concerning finance in 2017, the Netherlands hired a consultancy firm, Trinomics, to carefully calculate the private sector climate finance mobilised by public (ODA) funding, using the current OECD guidelines on such reporting. It is a frontrunner among donors in this regard.

There is a lot of criticism on donor reporting of climate finance, from developing countries and civil organisations, who believe that the figures are inflated. Oxfam⁶⁵ and other critics maintain that 'donor reports continue to overstate climate finance by a huge margin' – up to one-third'. They also note that the majority of global climate finance consists of loans and other non-grant instruments. These contributions are reported to a large extent as ODA,⁶⁶ even though loans can generate unsustainable debts for developing countries.

Summing up, there is a lack of transparency and uniformity in donor reporting on climate finance. These observations beg the conclusion that the amounts reported should not be the basis for firm statements on Dutch performance. As regards the quality of reporting standards, IOB has the impression that DGIS is meeting the existing OECD DAC standards, doing regular and thorough checks of the climate markers applied.⁶⁷ However, this does not take away from the fact that the international system of reporting climate finance is flawed and that differences among the ways donors report essentially make it impossible to compare the amounts of climate finance they report. Experts in the field of climate reporting told us that the Rio marker system was never meant to calculate amounts; it was initially created to signal climate relevance only.

⁶⁴ Results of the survey on the coefficients applied to Rio marker data when reporting to the UN conventions on climate change and biodiversity (OECD DAC, 2020b).

⁶⁵ Oxfam Shadow Reports on Climate Finance, (Oxfam, 2018; Oxfam 2020). We will revisit the criticism on donor reporting by civil society organisations in Chapter 7.

⁶⁶ OECD DAC prescribes the rules for ODA reporting. In 2018, reporting based on a grant equivalent method was introduced, which presumably reflects a more realistic picture than the previous way of reporting loans

⁶⁷ There were a few suggestions in interviews that there was a risk of 'greenwashing' projects by assigning them an OECD climate marker where climate change was not a true objective, but we found no real evidence of that. IGG checks all assigned markers before reports are sent to parliament, OECD, EU and UNFCCC. At least one interviewee told IOB that climate markers to calculate climate finance was an adequate, practical solution.

It should be added, however, that bringing private sector flows in line with the objectives of the Paris Agreement will achieve much more than public funding alone. The global reporting on such financial flows will undoubtedly be sparse and incomplete, but in the end, climate impact is what matters here. We will revisit these topics in Chapter 7.

2.5 Policy coherence for sustainable development

2.5.1 International policy

Policy coherence for sustainable development implies that policies need to be coherent and integrated: 'fostering synergies across economic, social and environmental policy areas; identifying trade-offs and reconcile domestic and international objectives; and addressing the spill-overs of domestic policies on other countries and on future generations', as the OECD describes it. Before 2015, the concept of policy coherence for development was mostly used to address unintended negative effects of developed countries' policies on developing countries.

These concepts first came to the fore in the 1990s, when, for instance, the European Union's trade and agricultural policies were felt to negate the positive impact of development aid. The term used was 'policy coherence for development' and the concern was mostly with the negative effects of domestic policies on developing countries.

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After the Paris Agreement and the 2030 Agenda, which introduced the SDGs, were adopted, the focus shifted somewhat to the element of environmental sustainability and preventing the negative impact of policies on future generations. Since then, the OECD has developed guidance on how to set up a system for policy coherence for sustainable development.

The Paris Agreement's first and most important sub-article on finance states that the agreement aims to strengthen the global response to climate change including by 'making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development' (in article 2.1.c). Integrating climate change considerations into all policies is also a matter of policy coherence, preventing trade-offs and promoting synergies. The EU has integrated policy coherence into policy proposals such as the Green Deal (2020), which focuses on climate action.

A related concept is the OECD DAC evaluation criterion⁶⁸ on coherence. This criterion, which was added to this set of criteria in 2019, looks at the compatibility of the intervention with other interventions in a country, sector or institution. Internal coherence addresses synergies and interlinkages, as well as the consistency with the relevant international norms and standards to which an institution or government adheres. External coherence considers the consistency with other actors' interventions, including complementarity, harmonisation and coordination with other actors.

⁶⁸ See the OECD/DAC evaluation criteria. Coherence was added as a new criterion in 2019 ([OECD DAC, 2019b](#)).

2.5.2 Dutch policy and practice

Coherence among Dutch programmes and policies is an important factor – or even a precondition – for ensuring that development activities are relevant, effective, efficient and sustainable. The Netherlands is committed to achieving policy coherence for sustainable development.

Within the Dutch government, the Minister for Foreign Trade and Development Cooperation is accountable for the topic, and there is a coordinator within DGIS responsible for reporting, including through annual Letters to Parliament.⁶⁹ The government monitors its own progress in five areas, of which combating climate change is one, based on an action plan from 2018.

The Dutch government is committed to greening all instruments for foreign trade and development cooperation, with a view to promoting sustainable energy and phasing out the use of fossil fuels.⁷⁰ Fossil fuel subsidies are the subject of a discussion about the extent to which the Netherlands should green its financial instruments.⁷¹ In a Letter to Parliament in February 2019, for instance, the government explained its intention to make the instruments for foreign trade and development cooperation greener, in line with the Paris Agreement and the SDGs. The Netherlands would strengthen the competitive positioning of Dutch companies in the sustainable energy sector; it would encourage multilateral development banks to be as ambitious as possible in their climate targets and to phase out financing of fossil fuel projects. Furthermore, the Netherlands would mobilise green investments and phase out public financial support for coal projects and the exploration of new oil and gas reserves. Export credit support was not to be 'restricted' in the same way, but it would be made greener 'with a view to supporting Dutch companies'.

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Discussions about export credit in particular remain ongoing, even within the Ministry of Foreign Affairs. Broadly speaking, officers at the Directorate-General for Foreign Economic Relations (DGBEB) see merit in supporting all Dutch companies,⁷² whereas the climate and energy experts of the Directorate-General for International Cooperation are concerned that it is incoherent with Dutch international commitments to support the fossil fuel industry. The latter group point out that all policies, including foreign trade and foreign policy, should be aligned with the Paris Agreement.

For climate action to be coherent, it is important that other policies do no harm, i.e. do not exacerbate climate change; or that they even do good by supporting climate action and mitigating the negative effects of climate change, as well as increasing resilience.

⁶⁹ For instance, a letter on policy coherence was sent on 6 May 2020 ([Ministry of Foreign Affairs, 2020b](#)).

⁷⁰ This is explained in a Letter to Parliament of 14 February 2019, 'International financing in perspective'.

⁷¹ Letter to Parliament of 14 February 2019 on 'International financing in perspective' ([Ministry of Foreign Affairs, 2019a](#)).

⁷² An interesting approach is used by [RVO: their support](#) to Dutch companies is supposed to take into account responsible business conduct in a proportionate manner, and these companies should address social rights, human rights and environmental risks ([webpage RVO, accessed July 2020](#)).

Civil society organisations such as Both ENDS⁷³ have pointed out issues in the Dutch context, stressing that any support to the Dutch fossil fuel industry is inconsistent with the goals of the Paris Agreement.

2.6 Focus of this study

This study concerns climate-relevant public finance for development. Policymakers expressed an interest in learning whether Dutch climate finance was relevant and coherent. One concern was whether countries and groups that are vulnerable to climate change would be reached and, a related concern, whether a big enough proportion of expenditure served the purpose of climate resilience, or climate change adaptation. Another concern was whether the funds and programmes with investments that mix public and private sector funds were (1) additional to the market and (2) had a development impact to warrant the use of public funds, in particular ODA.

As a consequence, in this study IOB first focuses on the reach of climate-related ODA activities: did they reach the intended countries, sectors and target groups? The results are presented in Chapter 5. Second, IOB focuses on the additionality of funds and programmes that combine public and private funding: what was their added value? Specifically, what was the financial additionality and the (intended) development impact of investments made by some of the biggest activities in the ODA portfolio? Our answers are presented in Chapter 6.

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Besides these two main evaluation questions, we explore broader considerations for future Dutch climate policy and climate finance in Chapter 7.

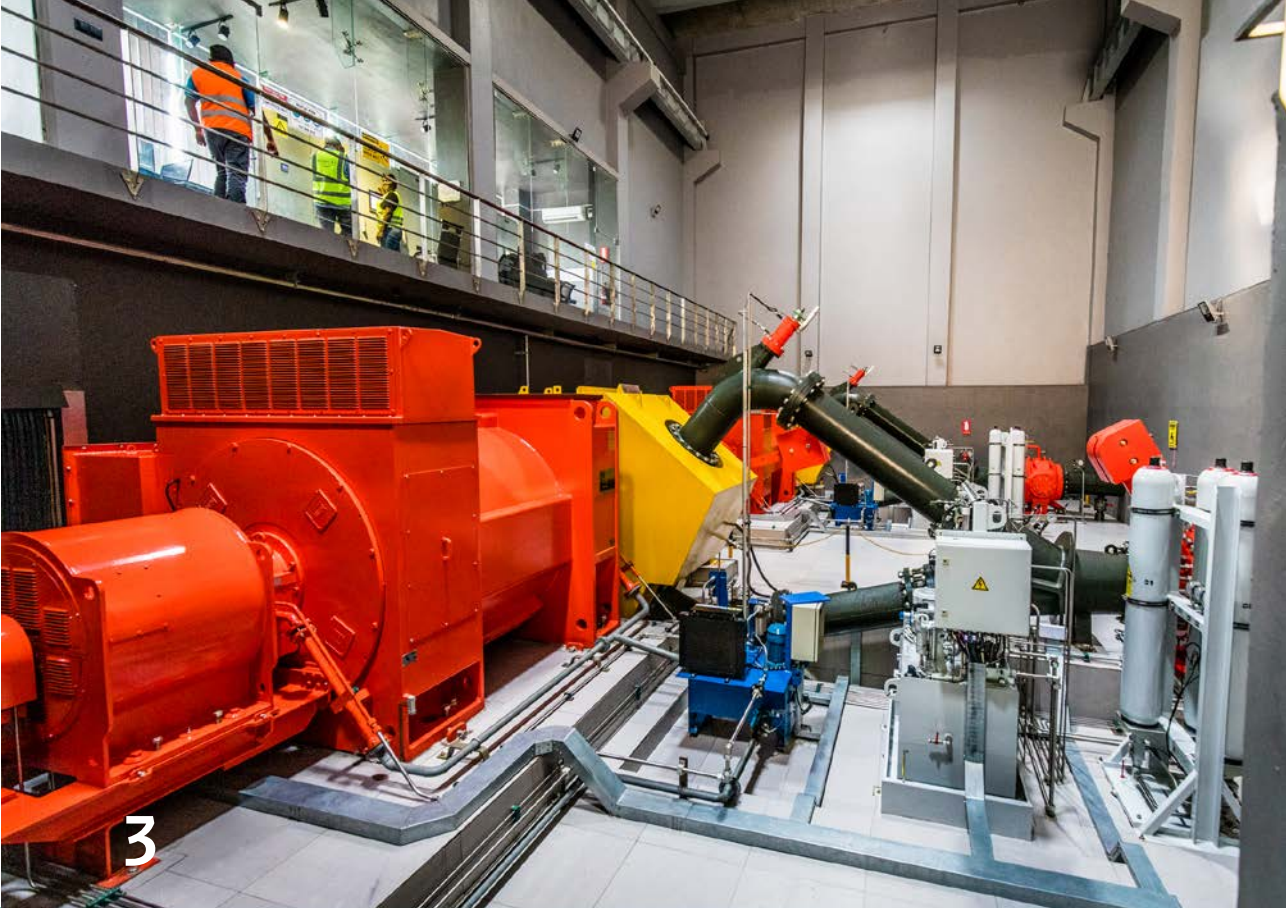
This focus means we have not yet looked in detail at the effectiveness, efficiency and impact of Dutch climate activities. Upcoming studies in the context of the wider policy assessment of budget article 2 will address elements of effectiveness, efficiency and impact. These studies will focus on climate change adaptation and climate diplomacy, and one will examine policy coherence.

⁷³ A report by Both ENDS states that Dutch government spent on average EUR 1.5 billion on insurance and guarantees to fossil-related industries, including through export credits, 'undermining its own foreign climate policy' ('The fossil elephant in the room', [Both ENDS, 2019](#)).

Policy coherence for sustainable development in BHOS budget article 2

In a future study on policy coherence, IOB intends to investigate the synergies and trade-offs between Dutch development cooperation policies and other Dutch policies, and their effects on food security, water, climate and energy in developing countries. The effectiveness and efficiency of development programmes could benefit greatly from a coherent approach, for instance by ensuring that priorities, development plans and donor efforts in developing countries are harmonised and aligned with national priorities and plans, and that efforts do not overlap or harm sustainable development. Climate-smart agriculture, sustainable water management and the promotion of renewable energy could go a long way to achieving climate targets. Chapter 7 takes a closer look at these issues and policy options beyond ODA, in particular Section 7.5.

The next chapter describes in more detail the objective and evaluation questions of this study, while Chapter 4 and Annex 1 explain the methodology used.



Objective and evaluation questions

3.1 Objective

Policymakers expressed a broad interest in learning about climate finance with a view to improving their policies and programmes: in simple terms, they wanted to know what the best instruments are for combatting climate change and supporting developing countries. The objective of learning was said to be more important than accountability at this stage.

The relevant budget holder, the Inclusive Green Growth Department (IGG), was interested in questions of relevance and coherence. Most importantly, in the field of climate change, they wanted to know whether their instruments and initiatives are fit for purpose; specifically whether Dutch public finance for climate action in developing countries adds value. Two main issues were mentioned: (i) is there a trade-off between mobilising private sector finance and reaching poor and vulnerable groups; and (ii) is the ODA spent on public-private partnerships and blended finance additional to what the private sector would achieve on its own?

The assumptions that IOB has tested are as follows:

- The mix of Dutch climate finance activities and instruments serves the various policy objectives of the IGG Department well. It can help strengthen the climate resilience of poor countries and vulnerable people (adaptation) and help reduce greenhouse gas emissions (mitigation).
- The mix of Dutch public funding and private sector investments that the Netherlands mobilises adds value to existing funds, is additional to the local commercial market and does not crowd out commercial finance.

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3.2 Main evaluation questions

This study is organised around three main evaluation questions:

1. What is the reach of Dutch climate finance: on which countries, sectors and target groups is it spent?
 - This question addresses relevance:
 - Was sufficient finance made available for climate action?
 - Is climate finance being spent on those countries and target groups that need it most?
 - To what extent are both climate mitigation and climate adaptation covered?
 - This question also addresses policy coherence: to what extent can the policy to mobilise private sector finance for climate action be combined with the policy to reach poorer and fragile countries⁷⁴ and more vulnerable people?

⁷⁴ The groups of low-income countries and fragile states overlap. For the former we used the OECD categorisation for 2018-2019 (OECD website), while the latter is a World Bank Classification of Fragile and conflict affected Situations (World Bank website). The list of countries vulnerable to climate change is found in the Climate Vulnerability Index (Notre Dame website) (see Annex 1 Detailed methodology).

2. What is the additionality of ODA in blended finance programmes and funds for climate action?
 - The main question is whether ODA in public-private partnerships and in blended finance is expected to lead, or has led, to additional results, compared to what the private sector alone would have achieved.
 - This question also addresses policy coherence: do the different financing instruments, ranging from pure ODA, high concessional grants through non-revolving programmes, and low concessional investments through revolving programmes, form a coherent set of instruments that facilitate private sector development⁷⁵ for climate action?
3. What other considerations should future Dutch climate policy and climate finance take into account?
 - This question addresses relevance and coherence from a broader point of view: what are the roles of dedicated climate finance, mainstreaming climate in development assistance, and alignment of all policies and all financial flows to the climate objectives of the Paris Agreement?

3.3 Deviations from the Terms of Reference

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The focus and evaluation questions have changed slightly since the Terms of Reference were finalised in June 2020.⁷⁶ First of all, we do not consider 'effectiveness' in this study. The evaluated reach of climate finance does not cover what one would expect under the effectiveness of the funded activities. Effectiveness will be evaluated in a follow-up literature study and syntheses of evaluations on climate adaptation in food security and water management.

Second, our assessment of policy coherence is limited to internal coherence within the different climate finance instruments, in particular the coherence between the objective to mobilise private sector finance and the objective to reach poor and vulnerable people. Internal policy coherence between Dutch policy for climate action in developing countries and other Dutch policies, and external policy coherence between Dutch policies and policies of governments and other donors in partner countries will be evaluated in another follow-on evaluation on 'policy coherence and its effects on food security, water and climate in developing countries'. For effectiveness and external coherence, IOB is considering the option of conducting country case studies, possibly in 2022.

⁷⁵ There is an overlap between (i) 'private sector development': promotion of an enabling environment, addressing market imperfections, e.g. value chain development and firm-level support, for the private sector in partner countries; and (ii) 'private sector engagement': an activity that aims to engage the private sector for development results ([OECD 2016a](#)). When we speak of private sector development in this report, we mean to include private sector engagement.

⁷⁶ The ToR for this evaluation on climate finance, in Dutch, is published on IOB's website ([IOB, 2020](#)).

Finally, the reference group requested IOB to put the evaluation questions on reach and additionality in a broader perspective for considerations in future climate policy and climate finance.



Methodology

This chapter gives a brief description of the methodology. It explains how IOB set out to answer the three main evaluation questions:

- (i) What is the reach of climate finance? (Section 4.1)
- (II) What is the additionality of ODA in blended finance? (4.2)
- (iii) What are broader considerations for future climate policy and climate finance? (4.3)

Each main question is first broken down into sub-questions. For each main question, the most important information sources are mentioned. Section 4.4 explains the quality control of this evaluation. Finally the limitations of this evaluation are discussed in Section 4.5.

A detailed and complete methodology is presented in Annex 1. This annex presents an evaluation matrix for each main question, and provides the indicators, analyses and judgement criteria, and information sources used for each sub-question.

4.1 What is the reach of climate finance?

There is a concern that climate finance is not being sufficiently spent in poorer countries, on climate adaptation, and on poor and vulnerable groups. Especially when ODA is used to mobilise private sector or commercial finance, the hypothesis is that a larger share will be spent on renewable energy in middle-income countries. These hypotheses led to the following sub-questions, 1.1-1.5. Results are presented in Chapter 5.

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- 1.1 What was the total Dutch climate expenditure in 2016-2019?
(for the results, see Section 5.2)
- 1.2 What share of climate finance was spent on adaptation and what share on mitigation?
(5.3)
- 1.3 What share of climate finance was spent in low-income countries? (5.4)
- 1.4 When ODA was used to mobilise private finance, how did this affect:
 - 1.4.1 The share going to adaptation? (5.5)
 - 1.4.2 The share going to low-income countries? (5.5)
 - 1.4.3 The share going to fragile states, countries vulnerable to climate change and countries with an unfavourable business climate? (5.5)
 - 1.4.4 What sectors (energy, agriculture, water) and sub-sectors were reached? (5.6)
- 1.5 Did Dutch climate finance reach specific target groups, such as women, smallholder farmers, poor or vulnerable people, or small and medium-sized enterprises? (5.7)

The main information sources for sub-questions 1.1-1.4 were the ministry's internal administration systems, the ministry's reports to the UNFCCC and the International Aid Transparency Initiative (IATI). For sub-question 1.5, the main information sources were policy and project documents and evaluations, as well as interviews. For more information, see Annex 1, part 1.

4.2 What is the additionality of ODA in blended finance?

There are a few assumed advantages in the use of a temporary ODA contribution in blended finance: (i) in total, more finance would be available for climate action, and (ii) temporary ODA support would result in lasting private investment and involvement in climate action. An implicit assumption is that an initiative would 'graduate' from high concessional support in the innovative, uncertain, risky development phase, to a low-concessional commercial upscaling phase, when the business case is clear and profitable. However, there is also a risk of 'non-additionality', where the private sector alone could have achieved the same results without the ODA contribution. The latter is to be avoided as much as possible. These hypotheses led to the following sub-questions, 2.1-2.3. Results are presented in Chapter 6.

- 2.1 How can we assess additionality? (for the results, see Section 6.3)
- 2.2 How additional is ODA in different forms of blended finance? (6.4)
- 2.2 How do initiatives graduate from ODA to commercial funding? (6.5)
- 2.3 What type of funding is being used for what climate action? (6.6)

The main information sources were OECD and DCED documents on blended finance and additionality, ex-ante assessments and ex-post evaluations of additionality of a sample of projects, interviews with staff of the ministry and implementing agencies, and an external expert on blended finance. For more information, see Annex 1, part 2.

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4.3 What are broader considerations for future climate policy and climate finance?

Besides the more focused evaluation questions on reach and additionality, this evaluation also wanted to broaden the discussion and come up with considerations for future climate policy and climate finance. It is not so much an evaluation and judgement of Dutch climate policy as an inventory of topics in the international debate, which we think deserve attention in new Dutch policy and budget planning. During the interviews and literature search, we identified a number of topics, presented as sub-questions. Results are presented in Chapter 7.

- 3.1. What are the needs for climate finance? (for the results, see Section 7.2)
- 3.2. What is the role for dedicated climate finance? (7.3)
- 3.3. What is the role of climate mainstreaming in development assistance? (7.4)
- 3.4. What is the role of alignment of all financial flows and policies with climate objectives? (7.5)
- 3.5. Can we avoid that reporting on private sector finance has perverse effects on climate finance? (7.6)
- 3.6. Is international climate finance transparent enough? (7.7)

The main information sources were various international documents and reports on climate finance (including the Paris Agreement and information from the Intergovernmental Panel on Climate Change, the UNFCCC, the OECD and NGOs), IATI, and interviews with staff at the ministry and OECD. For more information, see Annex 1, part 3.

4.4 Quality control in the evaluation process

This evaluation, as all IOB evaluations, was steered by two groups of reviewers:

- Internal peer review by four IOB colleagues: Joep Schenk, Rafaëla Feddes, Otto Genee and Rob van Poelje. They commented on different versions of the evaluation plan (Terms of Reference) and draft reports.
- An external reference group consisting of, first, staff from relevant policy departments within the Directorate-General for International Cooperation: Joëlla van Rijn, Marjolein Geusebroek and Eva Schreuder of the Inclusive Green Growth Department, Jesse d'Anjou of the Sustainable Economic Development Department. Second, other members of this group were Dutch Climate Envoy Marcel Beukeboom, as well as a representative from FMO, David Kuijper, and two independent external members: Gerardo van Halsema from Wageningen University & Research and Rob van den Berg from King's College London. The external reference group commented and discussed the ToR and the draft report. The external reference group played an important role in the quality and relevance of the evaluation, and in assuring a sufficient independent and critical view of the evaluation.

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4.5 Limitations of the evaluation methodology

There are a number of limitations in the methodology that affect the validity of our evaluation findings:

1. The reach of climate finance in terms of countries was only analysed with 2019 data, because it was difficult and time consuming to link the IATI data, which has sufficient information on countries, with the MFA data on the climate relevance of programmes. A substantial part of the funding (> 30%) could not be traced to the country level.
2. We cannot conclude whether Dutch climate finance was sufficient, for several reasons:
 - a. There is an apparent disagreement, or vagueness, as to whether the internationally committed climate finance should be additional to the ODA ambition of 0.7% of GNI (which the two Dutch cabinets had not fully committed to anyway during the reporting period, 2016-2019).
 - b. There is still a lack of information about the actual need for climate action, although most sources indicate that the needs far outweigh the finance that is being provided.
 - c. We did not judge the climate relevance of activities that received a climate marker. The Netherlands follows the OECD DAC guidelines for the Rio climate markers, but according to international criticism, the current system results in over-reporting, and the climate relevance (climate-smartness) of development activities could be improved (see for a discussion Section 2.4 and Section 7.4).

- d. We did not assess the effectiveness of the funded activities. This study restricted itself to information on whether and where the money was spent.
3. For the assessment of reach of specific target groups, we did not do primary research and depended on available evaluations and perceptions of staff in the Netherlands. Eleven evaluations provided useful information about the reach of target groups; other evaluations hardly touched this subject.
4. For the assessment of additionality of ODA in public-private partnerships and blended finance, we did not do primary research. We depended on ex-ante assessments, which we have critically reviewed, and on the availability of a limited number of ex-post evaluations. Of the four evaluations that were available and useful, two evaluations did a more thorough job, while the other two were more descriptive. Ideally, IOB's own fieldwork would evaluate (for a selection of countries and sectors) how the sector is developed, interview others operating in the sector, and then conclude whether the Dutch-funded intervention was additional in that context. But this was impossible, due to time constraints but also due to COVID-19 travel restrictions.
5. For all subjects: the opinions of southern stakeholders regarding reach, additionality and broader considerations for climate policy and climate finance are absent. Although some NGO reports and recent international webinars made an effort to capture these views, we have not attempted to talk to southern representatives of government, NGOs or CSOs ourselves, nor to final beneficiaries.

Nevertheless, we are confident that this study, considering its limitations, will contribute to the debate for future Dutch policy. Follow-up studies by IOB, which will include country case studies, will fill some of the most important gaps, by taking into account the southern perspective on climate relevance, effectiveness and policy coherence.



5

The reach of climate finance: countries, adaptation and mitigation, and target groups

5.1 Introduction, policy ambition and hypotheses

This chapter will zoom in on the reach of climate finance disbursements and its allocations: in what countries is it spent; is it spent on adaptation or mitigation; and what target groups are reached?

Our analysis concerns the reach of Dutch climate finance between 2016 and 2019. Providing an overview of the reach of climate finance is not straightforward, as there is no such thing as a separate budget envelope for climate change. Climate change is a cross-cutting theme in Dutch ODA. The ministry's goal is climate-resilient economic growth in developing countries. Climate change considerations and objectives are integrated, mainstreamed into other articles of the development budget, which are then reported as climate finance. The amount of climate finance is determined by identifying – partly in hindsight – which activities of Dutch international cooperation contribute to climate change mitigation and adaptation, and to what extent. It gets even more complicated, since international climate finance reporting also considers publicly funded⁷⁷ activities paid by the Ministry of Finance.

Even though climate finance is mainstreamed into activities paid from a budget with other policy objectives, such as water and food security, a closer look at specific climate disbursements in development assistance is necessary to see whether it sufficiently reaches vulnerable countries and people. As seen in Chapter 2, the Paris Agreement recognises the importance of support for developing countries, especially those particularly vulnerable to climate change. However, the agreement does not prescribe what share of climate finance should be devoted to mitigation and what share to adaptation. It simply states that financial resources should aim to achieve a balance between adaptation and mitigation, which is often interpreted as targeting 50% of finance to climate adaptation action (see also footnote 75).

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In addition to SDG 2 (food security) and SDG 6 (water), two other SDGs (7 and 13) are climate related. SDG 13, 'climate action', contains targets on adaptive capacity, integration of climate change goals into policies, education and awareness raising, and climate finance. This goal has a special orientation towards least-developed countries (LDCs) and small island developing states. SDG 7 focuses on access to affordable, reliable and modern energy, as well as doubling the share of renewable energy in the mix and promoting energy efficiency. Some international NGO reports on climate finance recommend that at least 50% be spent in LDCs (Oxfam, 2020).

There is no formal target for a certain amount of climate finance, but informally the Dutch government aimed for a 'fair share' contribution of EUR 1.25 billion, of which 50% would be mobilised private finance for climate action.

⁷⁷ As reported in HGIS annual reports. In fact, climate disbursements not paid for by the Ministry of Foreign Affairs mainly concern the International Development Association (IDA – World Bank – 100% ODA) and the Asian Infrastructure Investment Bank (AIIB – 83% ODA) funded by the Ministry of Finance.

An overview of the total climate expenditures is provided in Section 5.2. We analysed the portfolio of all climate-relevant activities supported by the Ministry of Foreign Affairs. Our hypothesis was that over time climate disbursements would have increased as a result of the international attention through the SDGs and the Paris Agreements, among other things. The internal MFA ambition was to reach EUR 600 million of ODA climate finance annually from 2020 onwards.

Section 5.3 shows the total climate disbursements for climate adaptation and mitigation separately. As explained in Section 2.2.4, the Netherlands aims to strike an equal balance between mitigation and adaptation, which we take as a ratio of around 50%-50%. A general concern, given earlier reports by the OECD and some NGOs, is that an insufficient amount of international climate finance would be spent on adaptation. However, since Dutch climate finance has been integrated into mainly sustainable development goals related to water and food (production), our hypothesis was that the bulk of the expenditures would benefit climate adaptation.

A further breakdown of the expenditures can be found in Section 5.4, which zooms in on the country allocations. Following the Dutch aid and trade policy, one would expect a focus on climate disbursements in the ministry's focus countries, which have included more fragile states since 2018. Another expectation is that the focus in low-income countries and fragile countries would be on climate adaptation. Due to their commercial potential, mitigation activities would be expected in countries with a relative higher income. We will compare the Dutch allocations to those of other donors.

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The next section (5.5) steps away from the public side, and takes a closer look at mobilised commercial climate finance. The money mobilised from the private sector is important as a consequence of the ambitious (internally formulated) fair share of EUR 1.25 billion a year, contributing to the internationally committed EUR 100 billion from 2020 onwards. The intention is to mobilise half of the Dutch contribution from the private sector. Our hypothesis was that activities that mobilise private finance would focus more on mitigation (renewable energy) and less on adaptation, and would be spent more in middle-income countries (MICs) and less in low-income countries (LICs) and fragile states.

Section 5.6 questions the appropriateness of blended finance for different sectors. For sectors with more commercial potential, for example on-grid renewable energy or internationally traded commodities, it will be easier to attract private finance, especially in stable, middle-income countries. By contrast, mobilising private finance will be more difficult for sectors with fewer commercial prospects, for example drinking water in rural areas or communal forest protection, especially in fragile and low-income countries.

Furthermore, Section 5.7 presents the target groups that were reached. IOB expected climate finance, especially for adaptation, to reach poor and vulnerable groups, women, smallholder farmers, and small and medium-sized enterprises (SMEs). We compared policy and programme objectives with achievements in evaluations and the views of interviewees.

Finally, Section 5.8 elaborates on issues with the Dutch information system, which is composed of different databases and information sources, each with their advantages and disadvantages, that need to be linked to get a complete overview of Dutch climate finance.

Box 5.1 *Main questions and findings of this chapter*

How much was spent on Dutch climate finance? (Section 5.2)

- In 2016-2019, EUR 2 billion of ODA was disbursed to climate-relevant activities. This was 9%-12% of annual ODA expenditures.
- EUR 900 million was spent on fully climate-relevant activities.
- In 2019, EUR 581 million of public climate finance was spent, and an additional EUR 752 million was mobilised from the private sector.
- Currently, it is difficult to extract climate finance data from the ministry's internal information systems. (Section 5.8)

What was the balance between adaptation and mitigation? (Section 5.3)

- Over 50% went to climate change adaptation interventions, slightly less than a quarter to climate change mitigation and the remainder consisted of undetermined climate contributions (could be adaptation and/or mitigation) to multilateral channels.

To which countries has climate finance been allocated? (Section 5.4)

- Compared to other donors, the Netherlands allocated a relatively large share of its public climate finance to low-income countries (60%) as well as to fragile states (25%).
- A relatively large share of climate finance spent in low-income countries went to activities supporting adaptation (77%).

How does the mobilisation of commercial or private climate finance impact reach? (Sections 5.5 and 5.6)

- A relatively large share of funding mobilised from the private sector was allocated to mitigation and middle-income countries.
- The international concern is that private sector finance activities will focus disproportionately on energy in middle-income countries, leaving an insufficient amount of climate finance for adaptation and for low-income countries.
- Considering the Dutch activities in 2019, this concern is not fully justified. Almost half (47%) of the funds that mobilise private or commercial finance go to low-income countries, and at least 41% has an adaptation focus.
- Certain sectors in certain contexts are less attractive for the private or commercial sector if only temporary concessional blended finance is offered.

Were target groups actually reached? (Section 5.7)

- Target groups such as women, vulnerable groups and farmers were not consistently included in project design, approval, monitoring and reporting in the programmes studied.

- Gender equality is identified as a priority objective, but according to the evaluations studied, results are often not confirmed.

Do the Dutch information systems provide the right kind of information? (Section 5.8)

- The various information systems each have their advantages and disadvantages. It is difficult to link these and get a complete and disaggregated overview of climate finance.

5.2 Overview of Dutch climate finance 2016-2019

This section analyses the portfolio of all climate-relevant activities supported by the Ministry of Foreign Affairs for the period 2016-2019. As mentioned in Section 5.1, our expectation was that climate disbursements would have increased over time. First, we present an overview of total ODA and climate finance for the period 2010-2019. Then we zoom in specifically on the years 2016-2019, the focus period of our study. To identify climate-relevant activities, we used the OECD's Rio climate markers (see explanations in Section 2.4, and Annex 1: Detailed methodology).

Column 2 in Table 5.1 gives an overview of all ODA in 2010-2019. Column 3 presents total climate finance by the Ministry of Foreign Affairs (MFA) and the Ministry of Finance (MF), which included contributions to the World Bank's International Development Association and the Asian Infrastructure Investment Bank (AIIB), most of which was ODA (see footnotes below the table for details). Column 4 presents climate finance from MFA only. The trend shows a steady increase in climate finance between 2010 and 2019.

To put climate finance in perspective, it is also presented as a share of ODA. ODA, in turn, is linked to the Dutch GNI (see also Section 2.2.4). The Climate finance share column shows that this fluctuated and slightly increased from about 9% in 2011 to 12% in 2019.

Table 5.1 Overview of climate disbursements according to different sources in billions* of euros and shares of climate finance

Year	ODA HGIS ⁷⁸	Climate disbursements MFA and MF ⁷⁹	Climate disbursements MFA only ⁸⁰	Climate finance share (%)	Mobilised commercial finance ⁸¹
2010 ⁸²	4.872	0.182		3.7%	
2011	4.693	0.407		8.7%	
2012	4.371	0.466		10.7%	
2013	4.220	0.460		10.9%	
2014	4.311	0.366		8.5%	
2015	5.241	0.420	0.356	8.0%	
2016	4.657	0.472	0.379	10.1%	0.209
2017	4.487	0.418	0.403	9.3%	0.405
2018	4.831	0.576	0.481	11.9%	0.498
2019	4.736	0.581	0.485	12.3%	0.752

* 1 billion = 1000 million.

Zooming in on the period 2016-2019, the total amount of Dutch public development finance spent on climate-related activities, as reported to the UNFCCC, was around EUR 2 billion.⁸³ In 2019,⁸⁴ the Netherlands spent around EUR 581 million on public climate finance from the ODA budget, which is managed by the Minister for Foreign Trade and Development Cooperation. This amount was spent through almost 400 different activities.

⁷⁸ Source: Annual reports, Finance for International Cooperation, *Homogene Groep Internationale Samenwerking* (HGIS). (Ministry of Foreign Affairs, 2011, 2012, 2013, 2014, 2015a, 2016b, 2017, 2018e, 2019b, 2020a)

⁷⁹ Source: Policy markers MiOS Dashboard (Klimaatstaat) (2010-2014) and (non-public) MFA reports to UNFCCC (2015-2019). This includes climate finance from the Ministry of Finance to the World Bank-IDA and the Asian Infrastructure Investment Bank (AIIB). 2015: EUR 64 million IDA; 2016: EUR 93 million IDA 2017: EUR 17 million IDA and AIIB; 2018: EUR 95 million IDA and AIIB; 2019: EUR 85 million IDA and AIIB.

⁸⁰ Source: (non-public) MFA reports to UNFCCC, but limited to climate finance from MFA, without climate finance from the Ministry of Finance.

⁸¹ Trinomics, 2018, 2019, 2020. Mobilised private (climate) finance in 2017, 2018 and 2019.

⁸² In 2010, climate finance was given on top of ODA. After that, climate finance was part of ODA, see Section 2.2.3.

⁸³ This figure represents the provided public climate finance, excluding amounts mobilised through the private sector. It is based on DGIS databases for provided ODA finance, which contain activities and amounts very similar to those reported to Dutch parliament, EU, OECD DAC and UNFCCC. The finance mobilised through the private sector was calculated every year (starting from 2017) by consultancy firm Trinomics on the basis of OECD DAC rules and is also reported to the same institutes.

⁸⁴ See 2019 HGIS annual report (Ministry of Foreign Affairs, 2020a). The report to UNFCCC, which was issued a bit later and updated vis-à-vis the HGIS report reports EUR 581 million in public climate finance as having been provided in 2019 and EUR 752 million mobilised through the private sector.

Dutch climate finance increased between 2015 and 2019,⁸⁵ partly due to better reporting, partly due to the mainstreaming of climate change, but also due to an increase of dedicated climate finance under the relevant budget article 2.3.⁸⁶ In 2019, reported climate-relevant activities represented approximately one-third of the overall ODA budget, which reached EUR 4.7 billion, amounting to 0.59% of GNI.

In 2018, the Netherlands ranked eighth out of thirty DAC donor countries in terms of absolute climate finance reported as ODA. In 2019, with a reported contribution of EUR 581 million, the Netherlands also ranked eighth within the European Union in terms of public climate finance, behind Germany (EUR 6.8 billion), France, the European Investment Bank, the European Union, the United Kingdom, Spain and Sweden.

Since 2015, all climate expenditures are reported to the UNFCCC. This external monitoring incentive has increased the quality and reliability of the financial data allocated to climate-relevant activities. Policymakers check, ex-post, all publically supported interventions on the share of climate contributions. That means that the assignation of a Rio marker or a different climate share could be corrected retrospectively.

For 2016 and the ensuing three years, we also have information about mobilised private sector finance, presented in the last column of Table 5.1. The Netherlands managed to reach or exceed approximately the 50% mark from private sector sources in 2017, 2018 and 2019. This included private sector and commercial finance mobilised by development banks and climate-relevant funds and programmes: EIB, FMO, GEF, IDH, CIO and GCF. In 2019, the Netherlands easily surpassed the 50% mark: the amounts reported to the UNFCCC were EUR 581 million public sector finance and almost EUR 752 million private sector finance.

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A point of discussion is to what extent the ministry actively directed funds towards climate finance targets. Some believe that the financial allocation to climate-related activities has been inflated in order to meet the Dutch fair share of EUR 1.25 billion annually. However, the fact that the climate relevance of activities is often assessed in retrospect for reporting to the UNFCCC suggests that the figures have perhaps not been inflated to a significant degree in advance. In addition, commitments are made for activities paid from the ODA budget (article 2) with a focus on sustainable development, which serves various objectives, not only climate objectives. So we conclude that Dutch ODA is not clearly inflated in order to meet a climate finance target.

⁸⁵ As the website [Donor Tracker](#) describes it, ODA spent on climate-relevant activities 'saw a dramatic increase in 2015 from US\$401 million (15% of bilateral allocable ODA) to US\$1.1 billion in 2015 (30%), following the government's commitment to the Paris Agreement'. 'The Netherlands spent 32% of its bilateral allocable ODA on climate finance in 2018. This is well above the DAC average of 22% and places the Netherlands 8th again out of 29 DAC members'. These figures may differ slightly from the (euro) figures that IOB has used. For a more general donor profile of the Netherlands including some data on 2019, see the OECD DAC website and the Dutch [donor profile](#) there.

⁸⁶ Budget article 2 contains food security (2.1), water (2.2) and climate (2.3). Sub-article 2.3 includes renewable energy, forest conservation, and a few other climate-specific activities.

In short, between 2010 and 2019, public climate finance increased in absolute amounts, and also increased slightly as a share of ODA. The most spectacular growth in climate finance comes from the finance mobilised through the private sector. Following these trends, the objective of meeting the Dutch ‘fair share’ of EUR 1.25 billion in 2020, 50% of which should be mobilised through the private sector, is well within reach.⁸⁷ In addition, the cabinet’s expectation to reach EUR 480 million in public climate finance in 2020 has also been met.

5.3 The balance between climate change adaptation and mitigation

This section analyses the total set of disbursements in 2016-2019 and provides an overview of the different climate actions: climate adaptation and mitigation. There is no formal target regarding the proportion of each, since the share of adaptation versus mitigation becomes clear only in hindsight. However, in Chapter 2 we explained that policymakers expressed a desire to achieve a 50/50 share. The needs in developing countries are estimated to be much higher for mitigation (USD 1.2 billion a year) than for adaptation (USD 70 billion a year), according to the GCF and UNEP (see Section 2.2.3), but there is a lack of exact estimates. Because one would expect mobilised commercial finance to be more easily available for renewable energy, contributing to mitigation, one would expect ODA to focus more on adaptation. This hypothesis is strengthened because climate disbursements occur mainly in food security and water management activities, where adaptation plays a larger role than mitigation.

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Our analysis found 494 activities with a climate marker (for an explanation of climate markers, see Section 2.4). Of these activities, 406 had an adaptation marker, while 168 activities had a mitigation marker; so several activities had both an adaptation and a mitigation marker. Only 94 activities had a ‘principal’ climate marker, meaning that 100% of the disbursements counted as climate finance (for details, see Annex 1: Detailed methodology).

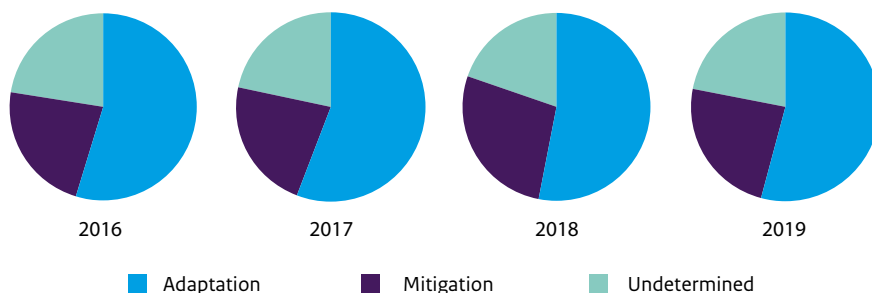
Figure 5.1 differentiates the total annual climate disbursements of these activities into adaptation and mitigation, and an ‘undetermined’ category.⁸⁸ Given the number of adaptation activities, which easily exceeds the number of mitigation activities, it is not surprising that most of the budget was allocated to adaptation activities. The shares remained roughly the same between 2016 and 2019, with 53%-56% to adaptation, 23%-24% to mitigation and 20%-22% undetermined, spent mainly through multilateral organisations. These shares for adaptation and mitigation are similar to the shares found for other EU donor countries, with the Netherlands having a slightly higher allocation than other countries for adaptation. This above-average share for adaptation can partly be explained by the fact that the Netherlands spends a relatively large share of its public climate finance in the agricultural sector, followed by the water sector.

⁸⁷ At the time of writing, in early 2021, final climate expenditure for 2020 had not been confirmed.

⁸⁸ Undetermined climate finance does not distinguish between mitigation and adaptation. This is used for unmarked contributions to some of the multilateral organisations, see Section 2.4. The UNFCCC reports refer to this category as imputed climate shares.

Of the EUR 2 billion spent on climate finance in 2016-2019, nearly EUR 900 million was spent on activities that were 100% climate-relevant (principal marker or imputed shares of 100%⁸⁹). Half of this amount (EUR 444 million) could be categorised as adaptation and mitigation. Of this sum, 53% (EUR 233 million) was spent on mitigation, and 47% (EUR 211 million) on adaptation.

Figure 5.1 The annual shares of disbursements to climate change adaptation, mitigation and the undetermined part



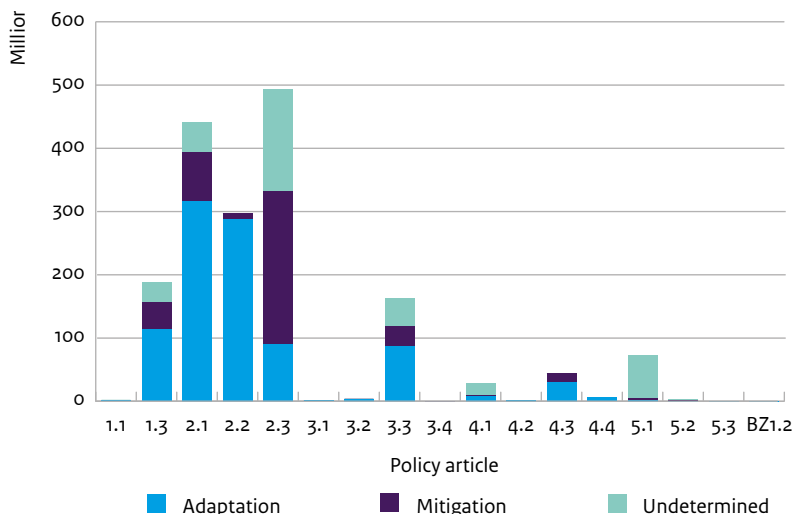
Our expectation was that most climate disbursements would occur in water management, food security, renewable energy and natural resources management. Figure 5.2 shows that over 70% of the climate finance is actually channelled through budget article 2, Sustainable Development, which consists of three sub-articles: 2.1: Food security, 2.2: Water management, and 2.3: Climate, energy and natural resources. The relative shares of these three budget articles in total climate finance is presented in Table 5.2.

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A closer look at Figure 5.2 shows that activities from the sub-articles food security (2.1) and water management (2.2) focus mainly on adaptation, while the sub-article climate, energy and natural resources (2.3) focuses mainly on mitigation, as expected.

⁸⁹ 100% imputed shares for the following multilateral organisations: LDCF, GCF and the Dutch contribution to the Montreal Protocol.

Figure 5.2 Total disbursements (2016-2019) per sub-article to adaptation, mitigation and undetermined climate activities⁹⁰



Although the total budget for food security (2.1) is higher than the budget for climate, energy and natural resource management (2.3), sub-article 2.3 has the highest total climate disbursements because of its higher share of climate-relevant activities (see Table 5.2).

Budget article	Total disbursement	Climate relevance	Climate disbursement	% of total climate finance
2.1 Food security	337	33%	110	25%
2.2 Water management	189	40%	76	17%
2.3 Climate, energy, natural resources	198	84%	166	28%

Table 5.3 below provides an overview of the activities with the ten largest climate relevant activities in the adaptation, mitigation and ‘undetermined’ categories (2016-2019). Among the adaptation activities, we find relatively more agricultural projects. Among the mitigation activities, we find relatively more funds for renewable energy.

⁹⁰ Policy Articles Foreign Trade and Development Cooperation: 1.1 Sustainable trade and investment system, including responsible business conduct; 1.3 Private sector development and enabling business climate; 2.1 Food security; 2.2 Water management and WASH; 2.3 Natural resources, energy and climate; 3.1 Sexual and reproductive health and rights; 3.2 Equal rights for women; 3.3 Support to civil society; 3.4 Education; 4.1 Humanitarian aid; 4.2 Reception and protection in the region and migration development; 4.3 International security, rehabilitation, rule of law, institutions; 4.4 Emergency relief fund; 5.1 Multilateral cooperation; 5.2 Other poverty policies; 5.3 Migration and development.

Among the activities with an undetermined climate marker, we find several multilateral organisations that work on both adaptation and mitigation, and to which the Netherlands makes an unearmarked contribution. It is worth noting that the volume of expenditures on adaptation and mitigation programmes is more or less comparable in these largest programmes. However, most adaptation activities (7 out of 10) only have a ‘significant’ climate marker, while 7 out of 10 mitigation activities have a ‘principal’ climate marker. That means the adaptation programmes have a much larger total (climate and non-climate) budget reported as climate-relevant.

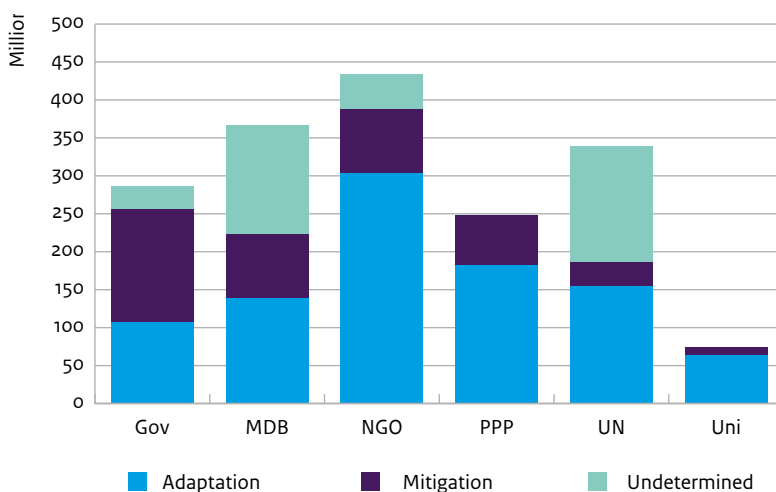
Activity	Climate adaptation disbursements	Proportion adaptation
SP S&T Rode Kruis	€ 41,563,000	100%
IDH 2016-2020	€ 25,736,000	40%
UNICEF WCARO	€ 21,387,676	40%
DDE ASAP	€ 20,000,000	100%
Dutch Fund for Climate & Development	€ 20,000,000	50%
PSNP Phase 3	€ 19,396,374	40%
IGG WSSCC, Phase III	€ 19,160,000	40%
Agriterra 2016-2020	€ 19,042,580	40%
BENEFIT	€ 13,608,571	40%
DRIVE	€ 12,975,542	40%
	Climate mitigation disbursements	Proportion mitigation
Access to Energy Fund	€ 40,000,000	100%
Climate Investor One	€ 29,221,594	100%
DMW BMZ partnership	€ 28,574,839	100%
Dutch Fund for Climate & Development	€ 20,000,000	50%
ESMAP FY2017-2020	€ 18,864,131	60%
DMW Access to energy fund	€ 16,680,016	100%
The Netherlands – CGIAR partnership ENV 1	€ 12,624,000	20%
DDE PIDG-EAIF (APIFF)	€ 10,607,679	20%
DME/KE-AFRICA BIOGAS PP-II	€ 10,322,767	60%
SP-S&T/IUCN	€ 9,883,668	20%

	Climate disbursements	Proportion climate finance
GEF	€ 66,786,100	66-70%
African Development Bank	€ 60,139,396	12-22%
Green Climate Fund	€ 59,800,000	100%
IFAD	€ 47,499,584	46-70%
DDE ORIO	€ 30,499,745	23%
WFP	€ 18,125,000	12.5%
SP S&T HIVOS	€ 17,875,385	38%
SP S&T Oxfam	€ 17,757,250	25%
LDCF	€ 14,808,000	100%
Montreal Protocol	€ 13,201,931	100%

Channels

Table 5.3 above shows that a few contributions to multilateral organisations account for a relatively large portion of the total climate disbursements. This picture becomes even clearer when we categorise disbursements into channels, as is done in Figure 5.3. These six channels represent different groups of recipients/organisations that are a direct partner of MFA for executing climate-relevant activities.

Figure 5.3 Total disbursements (2016-2019) in EUR millions, subdivided by the following channels: government-to-government (Gov), multilateral development banks (MDB), non-governmental organisations (NGOs), public-private partnerships (PPP), United Nations (UN) organisations and knowledge institutes and networks (Uni).



These channels merit a closer look, to identify whether they focus more on mitigation or on adaptation.

- The multilateral organisations consist of multilateral development banks (MDB) and the United Nations (UN) channel, and contain most of the undetermined climate disbursements. As far as we know, the recipient organisations in the UN category focus more on adaptation, while the MDBs focus on both adaptation and mitigation.
- The government-to-government channel includes one large programme, under budget article 1.3 with undetermined climate expenditures: ORIO, the Dutch Facility for Infrastructure Development. Although its climate marker is undetermined, IOB estimates that ORIO focuses mainly on climate adaptation. In general, activities in the government channel are either programmes that work with a Dutch government agency (RVO or FMO) or with the recipient government. Their focus on mitigation is expected to be relatively large, due to the renewable energy investment funds Climate Investor One (CIO) and the Access to Energy Fund (AEF).
- The NGOs focuses mainly on adaptation, due to their commitment to vulnerable groups.
- The most important public-private partnership programmes are the Private Infrastructure Development Group (PIDG), which focuses more on adaptation; the Sustainable Trade Initiative (IDH), which focuses more on adaptation; and the Dutch Fund for Climate and Development (DFCD), which focuses more on adaptation (minimum 50%, aim 65%) and less on mitigation.
- The BENEFIT programme in Ethiopia, implemented by Wageningen University & Research, is by far the largest programme in the knowledge institute channel. It focuses on adaptation in agricultural and value chain development.

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In addition to the MFA categorisation of channels, it is important to mention that the climate reports to the UNFCCC only distinguish between two channels: (1) the multilateral channel, comprising the climate-relevant core contributions to multilateral organisations (funds), and (2) the 'other channel' which comprises bilateral, regional and other channels, including programmes and partnerships with multilateral organisations. Taking into account all climate disbursements between 2016 and 2019, 38% of total disbursements was spent through the multilateral channel, according to the UNFCCC definition.

In short, this section shows that over half of climate finance was spent on adaptation, mainly because of the Dutch development cooperation objectives in food security and water management. The concern in the international climate finance debate that too small a share of climate finance is available for adaptation is not justified for Dutch climate finance in the period 2016-2019.

5.4 Country allocations

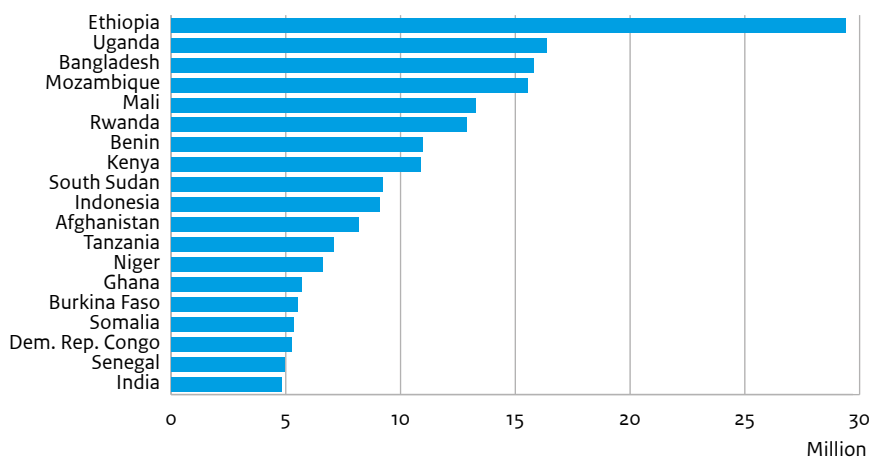
This section identifies in which countries Dutch climate finance is spent. One of the concerns in the international climate finance debate is that too small a share is being spent in least-developed countries or low-income countries.⁹¹ For climate finance from ODA,

⁹¹ In the categorisation used in this report, the LICs include all LDCs plus North Korea and Zimbabwe (website: [OECD DAC income categories 2018-2019](https://www.oecd.org/dac/income-categories-2018-2019/)).

considering the Dutch focus regions that include fragile states (which has been policy since 2018), and the focus on assisting countries vulnerable to climate change, one would expect a relatively larger share to be spent on adaptation in low-income-countries and in fragile states. On the other hand, the commercial potential for renewable energy is higher in middle-income countries, so one could expect relatively more climate mitigation expenditure in that group of countries.

A first overview of the 19 countries that received most Dutch climate finance in 2019 is presented in Figure 5.4.

Figure 5.4 Dutch climate finance by country in 2019, for the 19 largest receivers.



We used the OECD income categories of countries,⁹² based on per capita GNI, for our analysis. Because it was difficult to trace all climate finance up to the country level, only 60% of all climate disbursements in 2019 could be used for this analysis (see Annex 1: Detailed methodology).

Country category	% population of developing countries	Total climate	Climate change adaptation	Climate change mitigation	Undetermined
Low-income	11%	60%	46%	12%	2%
Lower middle-income	49%	33%	20%	9%	3%
Upper middle-income	40%	7%	3%	4%	1%
Total	100%	100%	70%	25%	6%

⁹² (website: [OECD DAC income categories 2018-2019](https://www.oecd.org/dac/inequality/income-categories-2018-2019/)).

The overview in Table 5.4 shows that a large share (60%) of total climate finance is spent in low-income countries (LICs), where only 11% of the total population of developing countries live. Upper middle-income countries receive very little climate finance from the Netherlands. It also shows that Dutch finance for climate adaptation is spent more in LICs than in middle-income countries (MICs), while finance for climate mitigation is equally divided between LICs and MICs. Considering the larger population of MICs, Dutch climate finance ‘per capita’ for adaptation and mitigation is highest in LICs.

If we look at fragile states,⁹³ we see that 25% of climate finance went to these states, mainly to Mali, South Sudan, Afghanistan, Burundi and Somalia. This constitutes a relatively large share of climate finance, considering that only 8% of the total the population of developing countries live in fragile states.

In short, the concern in the international climate finance debate that too small a share of climate finance is going to low-income countries does not apply to Dutch climate finance for the period 2016-2019. This is largely attributable to the choice of focus regions and partner countries of Dutch development cooperation, which includes LICs and fragile states, especially since 2018.

5.5 Mobilised commercial climate finance

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5.5.1 Modalities to mobilise private sector and commercial finance

To achieve the internally formulated objective of a Dutch ‘fair share’ of EUR 1.25 billion⁹⁴ climate finance by 2020, part of the Dutch-funded ODA activities would need to be used to mobilise private or commercial climate finance.⁹⁵ If mobilised, private sector finance would contribute 50% of this EUR 1.25 billion, and therefore only EUR 600 million ODA would be needed.

The mobilisation of private sector finance can happen in different ways. Some public-private partnerships (PPP) contain a 50% ODA subsidy and a 50% private sector contribution, for example. Some revolving funds provide concessional loans on terms that are more favourable than the terms of a (non-concessional) commercial bank. In this report, we use the term ‘blended finance’ for these various forms of ODA and private or commercial finance. The main modalities to mobilise finance were direct investment in companies or project finance special purpose vehicles, guarantees and syndicated loans. See box 5.2 ‘Mechanisms to mobilise private finance’.

A major concern in the international climate finance debate is that activities that mobilise

⁹³ We used the World Bank Classification of Fragile and Conflict-Affected Situations (list of 33 fragile states in FY 2017; website [World Bank](#)).

⁹⁴ By billion we mean 1,000 million.

⁹⁵ We use the terms private and commercial funding to indicate ‘non-concessional funding’, as opposed to public, concessional funding.

private sector and commercial finance would focus more on renewable energy and on middle-income countries, diverting funds from adaptation and low-income countries. According to the OECD,⁹⁶ 93% of the privately mobilised climate finance focused on climate mitigation. Of this amount, 60% targeted the energy sector and more than two-thirds (69%) benefitted middle-income countries.

In this section, we make two comparisons. Our main comparison is between activities that mobilised private sector finance and activities that did not mobilise private sector finance (Section 5.5.2). A second, more detailed comparison is between a concessional fund (AEF), supported by ODA, and a non-concessional fund (FMO-A), working on commercial terms, both investing in renewable energy (5.5.3).

5.5.2 Comparing activities that mobilised private finance with activities that did not

In 2019, 23% of Dutch public climate finance went to activities for which private or commercial finance was mobilised for climate purposes. Of the ODA spent on activities that mobilised commercial finance, relatively more (44%) was spent on mitigation. Of the ODA spent on activities that did not mobilise commercial finance, more (78%) was spent on adaptation (see Table 5.5). Furthermore, the private finance mobilising activities occurred relatively more in lower middle-income countries (28%) and upper middle-income countries (25%), compared to activities that did not mobilise private finance (see Table 5.6).

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Table 5.5 The disbursement shares in % for mobilising and non-mobilising public climate finance activities focusing on either climate change adaptation, mitigation or undetermined climate finance.

Disbursement shares	Adaptation	Mitigation	Undetermined	Total
Mobilising activities	41%	44%	14%	100%
Non-mobilising activities	78%	19%	3%	100%
Total	69%	25%	6%	100%

Table 5.6 The disbursement shares in % for mobilising and non-mobilising public climate finance activities in low-income countries, lower middle-income countries and upper middle-income countries (LIC, LMIC, UMIC).

Disbursement shares	LIC	LMIC	UMIC	Total
Mobilising activities	47%	28%	25%	100%
Non-mobilising activities	79%	19%	2%	100%

⁹⁶ OECD (2020a), *Climate Finance Provided and Mobilised by Developed Countries in 2013-18*

Box 5.2 *Mechanisms to mobilise private climate finance*

The ministry finances various interventions to mobilise private climate finance through bilateral programmes, through multi-donor funds (e.g. the Green Climate Fund), through FMO and through multilateral development banks. The OECD DAC has developed methodologies* to estimate private climate finance mobilisation for the following modalities:

1. *Guarantees (for instance GAFSP, DGGF – 1, FMO-A, PIDG)*
 Legally binding agreements in which the guarantor agrees to pay (a part of) the amount due on a loan, equity or other instrument in the event of non-payment by the obligor or loss of value in case of investment. Value of the private loan which is (partially) covered by the guarantee. Note that the entire loan provided by the lender (which is covered by the guarantee) counts as mobilised private finance.
2. *Syndicated loans (for instance FMO-A)*
 Loans provided by a group of lenders (called a syndicate) who work together to provide funds for a single borrower. In the case of a private arranger, 100% of the mobilised amount is attributed to the official participants.
3. *Direct investments in companies (for instance FMO-A, DGGF-1, PIDG)*
 On-balance sheet investments in corporate entities, which are conducted without any intermediary and which typically consist of or can combine the following instruments/mechanisms: equity, mezzanine finance and senior loans.
4. *Shares in collective investment vehicles (CIVs) (for instance DGGF-2, FMO-A, IDH, CIO)*
 CIVs allow investors to pool their money and jointly invest in a portfolio of companies. A CIV can either have a flat structure – in which investments by all participants have the same profile with respect to risk, profit and loss – or have its capital divided in tranches with different risk and return profiles, e.g. by different order of repayment entitlements (seniority), different maturities (locked-up capital versus redeemable shares) or other structuring criteria.
5. *Credit lines (for instance FMO-A)*
 Refers to a standing credit amount which can be drawn upon at any time, up to a specific amount and within a given period. Borrowers decide how much of the agreed funding they wish to draw down and interest is paid only on the amount which is borrowed and not on the amount made available.
6. *Simple co-financing arrangements (grants and loans) (for instance A4A, G4AW, SDGP, GEF, IDH, GCF)*
 These include various business partnerships, B2B programmes, business surveys, matching programmes, as well as results-based approaches. A causal link between a standard grant or loan and private co-investment can only be established when it can be demonstrated (e.g. through contractual agreements or project documentation) that the provision of public funds is conditioned to private sector co-financing or specific outcomes of private sector investments.

7. *Project finance special purpose vehicles (SPVs) (not applied by Trinomics in 2019)*
 OECD DAC has developed instructions on how to avoid duplication in projects in which different financial instruments are used – such as SPVs. Project finance SPVs may be combined with the financial instrument guarantees, syndicated loans and direct investments in companies.

**Methodologies also used – and explained – by Trinomics (Trinomics, 2020).*

When we look at the group of activities that mobilised private sector finance, the following pattern emerges. Adaptation activities took place mostly in LICs, while mitigation activities took place mostly in MICs (Table 5.7). In the group of activities that did not mobilise private sector finance, this pattern is not as pronounced. Both adaptation and mitigation activities took place mainly in LICs (Table 5.8).

Table 5.7 Activities that mobilised private sector finance: the shares of adaptation and mitigation activities over different categories of countries.

Country cat. (% ODA expenditure)	Climate targeted	Adaptation	Mitigation	Undetermined
LIC (low-income countries)	47%	65%	32%	41%
LMIC (lower middle-income countries)	28%	19%	33%	43%
UMIC (upper middle-income countries)	25%	16%	35%	16%
Total	100%	100%	100%	100%

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Table 5.8 Activities that mobilised private sector finance: the shares of adaptation and mitigation activities over different categories of countries.

Country cat. (% ODA expenditure)	Climate targeted	Adaptation	Mitigation	Undetermined
LIC	79%	81%	72%	80%
LMIC	19%	17%	25%	17%
UMIC	2%	2%	2%	3%
Total	100%	100%	100%	100%

Considering the Dutch activities in 2019, the international concern that activities mobilising commercial finance would focus more on renewable energy and on middle-income countries is not fully confirmed. Although they do focus more on renewable energy and middle-income countries, a substantial share is still spent on climate adaptation (41%) and spent in LICs (47%).

5.5.3 Reach of concessional funds and non-concessional funds

The previous section compared activities that mobilised private sector finance with activities that did not. A second interesting comparison is between (i) activities that mobilised private sector finance with (ii) activities funded by the commercial sector without public (ODA) support. In the case of investments in renewable energy, we were able to compare the reach of the (concessional) Access to Energy Fund (AEF), managed by FMO, which gets ODA support, with the reach of investments made by (non-concessional) FMO-A, without ODA support. The first hypothesis is that AEF reaches countries that FMO-A does not reach: poorer countries, fragile states, countries that are more vulnerable to climate change and countries with a less favourable business climate. A second hypothesis is that AEF invests more in types of renewable energy that are accessible for poorer people.

For evaluating the reach of different countries, the following indicators were used: income category, GNI, fragile states, vulnerability index and the score of doing business (See Annex 1: Detailed methodology). Note that the indicators are strongly correlated.⁹⁷ Most fragile countries are poor (LICs) and poor countries have a relatively poor business climate. At the same time, those countries are on average more vulnerable to climate change. To interpret the relative share of investments to different country categories, the share of investments was compared with the share of the total population of developing countries living in these countries (See Annex 1: Detailed methodology).

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Reach of different countries

The relative investment of FMO-A and of AEF, as a share of the total investments, is compared to the relative population of each country income category (see Table 5.9).

	2016 FMO investment		2016 AEF investment		2019 FMO investment		2019 AEF investment		
	EUR (million)	share	EUR (million)	share	EUR (million)	share	EUR (million)	share	
Total population									
LIC	11%	300	18%	24	40%	388	18%	53	50%
LMIC	49%	879	53%	30	49%	1,109	52%	52	50%
UMIC	40%	492	29%	7	11%	618	29%	0	0%
	100%	1,671	100%	61	100%	2,116	100%	105	100%

Apparently, FMO-A is willing to invest in LICs. Eighteen per cent of FMO-A investments goes to LIC countries, which host 17% of the population of developing countries. Compared to the population in these countries, FMO-A invests relatively more in LMICs and less in UMICs. AEF has a stronger focus on LICs than FMO-A.

⁹⁷ Correlations GNI-vulnerability, vulnerability-doing business, doing business-GNI: $p < 0.000$, very significant.

Fifty per cent of its investments in 2016 and 60% of its investments in 2019 went to LICs. So, the ODA support to AEF has indeed resulted in a stronger focus on LICs.

The investments of both FMO-A and AEF were low in fragile states in 2016. Five per cent of the investments was allocated to these countries, where 8% of the total population of developing countries live. In 2016-2019 this changed. Although FMO-A still had minor investments in fragile states in 2019 (4%), AEF increased its investments to 24%. An explanation for this is the expansion of the fund's focus from 7 to 15 countries, which were mostly poor, more fragile and vulnerable countries. This corresponds with the ministry's increased focus on fragile countries in the new focus regions since 2018.⁹⁸

FMO-A works in countries that are on average slightly poorer compared to the average income of all developing countries. However, FMO-A does focus on countries with a better business climate and on countries less vulnerable to climate change. On the contrary, AEF clearly has its focus on poorer countries, and countries that are more vulnerable to climate change. This focus was stronger in 2019 than in 2016, partly in response to a request from the ministry (DGIS/IGG).

While in 2016 AEF worked more in countries with a better business climate, in 2019 AEF expanded to poorer and more fragile countries and worked also in countries with a less favourable the business climate. See also Table 5.10.

Country averages 2016*	All countries (127)	FMO countries (33)	AEF countries (7)
GNI 2018 (USD per person)	4031	3842	1975
Business climate 2019**	56	61	61
Vulnerability***	0.485	0.467	0.503
Country averages 2019	All countries (127)	FMO countries (41)	AEF countries (15)
GNI 2018 (USD pp)	4031	3898	1289
Business climate 2019**	56.1	61.5	54.8
Vulnerability***	0.485	0.472	0.530

* Unweighted country averages, not corrected for population size

** Business climate ranges from 20 for Somalia to 87 for New Zealand

*** Vulnerability ranges from 0.267 for Norway to 0.675 for Somalia

⁹⁸ The policy note 'Investing in Global Prospects' mentions focus regions for development cooperation: Middle East and North Africa, Sahel, Horn of Africa, Great Lakes Region, Afghanistan and Bangladesh (Ministry of Foreign Affairs, 2018a).

Reach of different energy sub-sectors

FMO distinguishes between five different energy sub-sectors. FMO-A has relatively more investments in hydropower and wind energy, both sectors being suitable for large-scale on-grid projects (Table 5.11). This benefits urban households and other households connected to the grid more than remote, rural households. AEF has more investments in solar energy and other/mixed renewable energy, which is better suited for off-grid energy, and therefore benefits also poorer rural households in remote areas.

An interesting trend between 2016 and 2019 is AEF's decreasing investment in non-renewable energy. Initially non-renewable energy was still considered important for development and as a complement (backup) for renewable energy, e.g. in clinics and schools. However, in response to a demand by the MFA, AEF's emphasis shifted away from non-renewable energy.

Sub-sector	AEF-I 2016	2019	FMO-A 2016	2019
Hydro energy	6%	7%	26%	18%
Non-renewable energy	30%	12%	18%	11%
Other/Mixed renewable	32%	25%	23%	25%
Solar energy	29%	35%	9%	26%
Wind energy	3%	21%	24%	20%
Grand Total	100%	100%	100%	100%

Source: FMO database on investments in energy

5.6 Appropriateness of blended finance for different sectors

The previous section showed that activities that mobilise private sector and commercial funds are spent more on renewable energy and more in middle-income countries than activities that are 100% funded by ODA. The hypothesis is that it is easier to develop a commercially viable business case that is interesting for the private sector in renewable energy or in commercial agriculture, for example sustainable production of internationally traded commodities. By contrast, it may be difficult to attract private sector finance for climate adaptation in subsistence agriculture, communal forest management or in the water sector. The private sector's appetite will also depend on the context. In middle-income countries with a favourable business climate, where a sector is already developed, there is much more scope for private and commercial involvement in climate action.

Other studies confirm this. A PBL⁹⁹ study in 2015 of two public-private partnership (PPP) instruments in the agricultural sector (FDOV) and in the water sector (FDW), found that private sector involvement and commercial investment in the agricultural sector were more common than in the water sector. This is explained by the fact that there are agricultural commodity value chains led by the private sector, whereas drinking water and integrated water management are public services in many developing countries, with little room for profit-making by the private sector.

Looking at worldwide investments in climate action, we see the same pattern: most blended finance investments are in renewable energy and infrastructure, and only few investments are made in the agriculture, forestry or water sector.

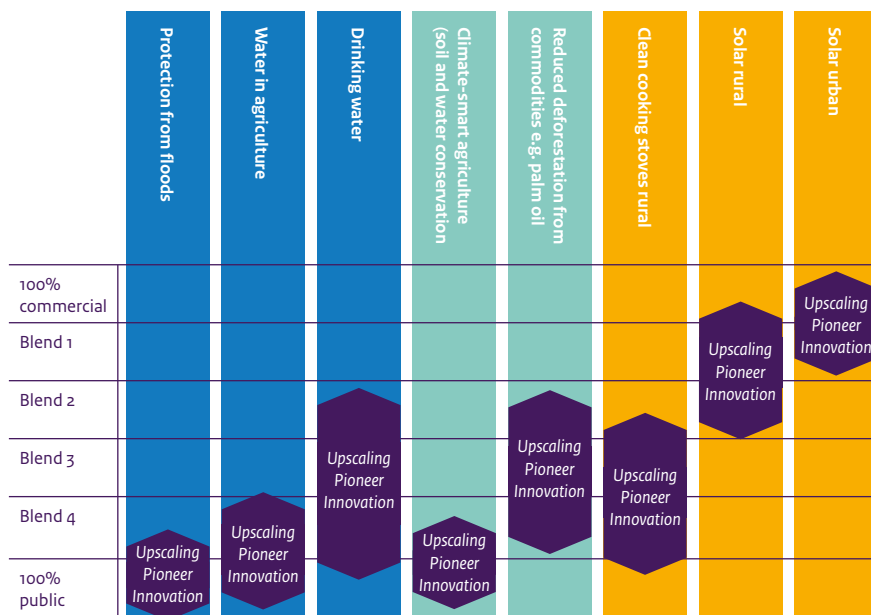
The 2020 OECD DAC report on climate finance¹⁰⁰ found similar characteristics of private climate finance mobilised for climate action in developing countries. In 2016-2018, 93% went to climate mitigation, mainly to the energy sector (60%) and mainly benefiting MICs (69%). By contrast, adaptation, the agricultural sector and LICs accounted for much lower shares.

If we combine (i) the differences in expected profitability of the different sectors with (ii) the blend, ranging from mainly ODA to mainly commercial funding, we can illustrate in a theoretical model which blend is expected to work in which sector (see Figure 5.5). We indicate the phase of sector development: innovation, pioneering and upscaling, as part of the country context (blue arrows in Fig 5.5). If the sector is still in the phase of innovation, more public finance can be used than if the sector is already in the commercial upscaling phase. Note that this model is not validated, but serves as an illustration, or assessment framework, that can help to ask the right questions before deciding on blending finance.

⁹⁹ PBL study 'Public-Private Partnerships in Development Cooperation. Potential and Pitfalls for Inclusive Green Growth'. (PBL: Netherlands Environmental Assessment Agency) ([Bouma and Berkhout, 2015](#)).

¹⁰⁰ Climate finance provided and mobilised by developed countries 2013-2018 ([OECD 2020a](#)).

Figure 5.5 The appropriate finance blend for different sub-sectors in different stages of sector development.



This illustrates that blended finance will not be the solution for climate finance in each sub-sector in each context. Whether blended finance is an option to consider depends on the phase in technology development and the place in market development. Over time, the appropriate type of financial support will move upwards, from a more concessional blend (more ODA) to a less concessional blend (more commercial finance). The following information can help decide on the appropriate funding modality:

- **Commercial funding:** There are sectors where the private sector does not need ODA support to invest. For example, if the technology is a proven concept, the market demand is certain, and the product is affordable. This is the case, for example, with on-grid solar in urban areas in MICs. This may also be the case with agricultural products for the European market that already have sustainability certification.
- **Blended finance:** There are sectors where there is scope for blended finance, either because the technology requires further development or the market requires further development. This could be the case, for example, in renewable energy in rural areas or LICs where markets are less developed or in agricultural value chains that apply innovations or serve unknown markets.
- **ODA finance:** There are also sectors where there is too little scope for a commercial business case, even in the long-term, especially in countries where these sectors are considered a public service. This can be the case in support to subsistence farming where little profit is made, in drinking water and sanitation in remote and poor areas, and in the protection of coastal areas against flooding.

So, we conclude that if a viable business case in the longer term is unlikely, then we should not apply the temporary concessional blended finance and PPP instruments for private sector development, but rather consider other types of support.

The private sector should be motivated to invest more in low-income countries or in countries with an unfavourable business climate, in less profitable sectors, or in more uncertain and risky innovations. The public sector could motivate the private sector by adjusting the blend to more concessional funds or by improving the enabling environment (infrastructure, regulations), which reduces uncertainties and improves the profitability for the private sector. This will be further discussed in Section 6.6.

5.7 Target groups reached, qualitative findings

5.7.1 Introduction and policy ambitions

In this section, we look at the extent to which climate relevant funds and programmes have included certain target groups in their design and whether evidence was available showing they were actually being reached. Why did we look at specific target groups? Because they are vulnerable to climate change and they are mentioned as intended target groups in the Theories of Change of DGIS, as well as in policy documents, interviews, project proposals and assessment memoranda. Poor people and groups who depend on ecosystems for their livelihoods (such as farmers, shepherds and fishermen) are especially vulnerable to climate change, as well as women and other groups who are, or tend to be, marginalised. As climate change and extreme weather events worsen, these groups need to increase their climate resilience and adaptive capacity.

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The target groups that were explicitly identified in the Theories of Change developed by the Inclusive Green Growth Department at DGIS for climate, water and food security, as well as other DGIS departments' climate-relevant activities, were women and girls, farmers, youth, poor and vulnerable people more generally, and small and medium-sized enterprises. These intended target groups largely follow from the objectives set by Dutch development cooperation policy, and they are not unique to climate-relevant activities, so our findings might also apply to non-climate relevant activities.¹⁰¹

Earlier, in Section 2.1 on Dutch policy, we described the objectives of the policy note on Foreign Trade and Development Cooperation of April 2018, '[Investing in Global Prospects](#)'. This note embraced the 2030 Agenda for Sustainable Development and the SDGs, which contain the important notion of 'Leaving no one behind'. Indeed, inclusion and reaching and protecting marginalised groups have been important principles of Dutch development cooperation for at least the past two decades.

¹⁰¹ Upcoming IOB studies on gender mainstreaming and the policy assessment of BHOS budget article 1 are in fact expected to present similar findings on gender results, based on other evaluations (expected in 2021).

Gender equality is a prominent and cross-cutting goal of current policy for development cooperation, including the empowerment of women and girls. Other target groups are less explicit, although (smallholder) farmers are highlighted in the sections on food security and are part of a results indicator. The policy note mentions youth notably in the context of youth employment and promoting stability.

In discussions with MFA staff about the ‘additionality’ of Dutch ODA in programmes mobilising a private sector contribution (see Chapter 6), interviewees often broadened this concept of additionality and pointed to the added value these programmes had by including specific target groups. One of the reported values of Dutch funding and interventions was that the Netherlands insisted on including gender objectives in policies and on gender analyses of project proposals. Another added value that they brought up was the insistence by the Netherlands on a focus on poor and vulnerable groups. Desk officers said these interventions were done in particular in governing boards and during replenishment rounds of multilateral funds, as well as during decision-making on a new contribution or project approval. Our hypothesis was that climate-relevant programmes intend to reach specific target groups: poor and vulnerable groups, women, smallholder farmers, youth and small and medium-sized enterprises (SMEs).

For the evaluation of targeting and reaching specific target groups, IOB studied eighteen large and relevant programmes.¹⁰² Evaluations were available for 11 programmes (see Table 5.12). Of six programmes (two were evaluated, four were not), we assessed a sample of project proposals (see Table 5.13). In addition, document reviews and interviews with MFA staff of three other programmes¹⁰³ were included in the interpretation and discussion of the results. For a brief description of the total set of activities studied in more detail, please see Annex 2.

First, the evaluation findings on the reach of different target groups are summarised for eleven programmes. This is complemented by our assessment of project proposals of six programmes (5.7.2). The subsequent sections discuss the reach of specific target groups: gender and women (5.7.3), vulnerable and poor people (5.7.4), and farmers, youth and SMEs (5.7.5).

¹⁰² We did not focus our study on the climate relevance of these programmes and funds. For the purpose of this section, suffice to say that AEF, CIO, EnDev, ESMAP, GCF, MoMo and Partners for Resilience were 100% climate-relevant (marked with a principal Rio climate marker), GEF 66% and the rest 40% (marked with a significant Rio climate marker). IOB does not have reason to believe these markers were used incorrectly in these cases.

¹⁰³ IOB studied eighteen funds and programmes for this section: the ones included in the tables plus DAWCA (Dutch Agro-Water Climate Alliance, managed by IUCN), the Dutch Fund for Climate and Development (DFCD) and Mobilising More for Climate Change Adaptation (MoMo). Annex 2 contains more details on these funds and programmes. For DAWCA, an evaluation on that alliance 2014-2018 by The Terrace (2019) informed us.

5.7.2 Results: tables showcasing findings on some climate-relevant funds and programmes

Table 5.12 includes 1) large funds and programmes relevant mostly for mitigation, such as AEF, GCF¹⁰⁴ and GEF, (2) ODA programmes in the water and food sectors involving public-private partnerships such as 2SCALE and FDW, which are relevant for adaptation, and (3) two Strategic Partnerships led by NGOs, which primarily contribute to adaptation.

Table 5.12 Intended target groups reached by ten funds and programmes				
Fund or programme (implementing agency) + Evaluation used	Gender & women (G&W)	Smallholder farmers	Poorest, most vulnerable	SMEs
2SCALE¹⁰⁵ - IFDC Phase II Evaluation Phase I Oomes et al., 2018 ; FDOV Mid-Term Review, KIT 2016	☑ ☺	☑ ☺ or ☺	☑ ☺	☑ ☺
AEF (Access to Energy Fund, FMO) Evaluation FMO AEF, Slob et al. 2017	G: ☑ W: ☺		☑ ☺	
EnDev III (Energising Development, GIZ/RVO) Strategic Evaluative Review, Feibel and Kamphuis 2018	G & W: ☑ ☺		☑ ☺ or ☺	☑ ☺
ESMAP (Energy Sector Management Assistance Programme, WB) External Evaluation, ICF 2020	☑ ☺ to ☺		☑ ☺	
FDOV (Facility for Sustainable Entrepreneurship and Food Security, RVO) Mid-Term Review, KIT 2016	☑ ☺	☺ to ☺	☑? ☺	☑ ☺ to ☺
FDW (Sustainable Water Fund, RVO) Evaluation of FDW Projects, Cameron et al., 2020	G: ☑ ☺	☑ ☺ or ☺	☺	☑? ☺ or ☺ (farmers)
GCF (Green Climate Fund) Forward-Looking Performance Review, GCF IEU, 2019	G: ☑ 0		☑ ☺ or ☺	
GEF VI (Global Environmental Facility) Sixth overall performance study of the GEF, GEF IEO, 2018	G: ☑ ☺		(Only) indigenous people ☑ ☺ Rest 0 LDCF ☑	

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¹⁰⁴ Note that GCF is mandated to focus 50% of its activities on adaptation and is broadly achieving that target, so GCF does not predominantly finance mitigation.

¹⁰⁵ 2Scale stands for Toward Sustainable Clusters in Agribusiness through Learning in Entrepreneurship.

SFFW <i>(Securing Water for Food, a Grand Challenge partnership)</i> Final Performance Evaluation, Hemson et al., 2020	G&W: ☑ ☺ or ☹	☺ or ☹	☑ ☺ or ☹	
SP Red Cross, Partners for Resilience (II) <i>(Strategic Partnership, led by International Red Cross)</i> End Evaluation, ECDPM 2020	☑ ☺ or ☹	☑? ☺ (Mali)	☑ ☺ (or ☹)	
SP IUCN, Shared Resources, Joint Solutions End Evaluation, Blomeyer and Sanz, 2021	G: ☑ ☺	☑ ☺	☑ ☺	

- Intentions: ☑ = intended target group (empty = not an explicit target group)
- Evaluations: ☺=reached, ☹=not reached (or no evidence found), or ☹=sometimes reached
- Colours indicate overall assessment based on the evaluations: **green** means results were found (☺), **light green** means sufficient (☺ or ☹) **yellow** indicates mixed results (☹), dark **orange** means few results (☹ to ☹), **red** means intended results were not found (☹)
- The light colours used for **GCF**, **GEF** and **Partners for Resilience** indicate that not enough information was available for a definite assessment
- 0 = not addressed in evaluation, unknown or results not yet assessed
- ? Question mark indicates uncertainty about this finding. Not fully clear whether this was a relevant intended target group.

A note of caution: a limitation to this part of the study was that most of the evaluations we found did not dedicate much effort to evaluating or reporting about reaching target groups, so findings could not be validated. However, we focused on ten funds and programmes with evaluations that provided sufficient information.

IOB studied six funds and programmes which involved the private sector in more detail, including specific projects (see Chapter 6). Table 5.13 below identifies their intentions for reaching target groups according to the project assessment documents IOB received.

Fund or programme	Gender and women	Smallholder farmers and SMEs	Poor and vulnerable
2SCALE	+ women employed female farmers	+ smallholders	+ smallholders, including poorest
AEF	+ clean cooking	+ rural areas, off-grid	+ much off-grid electricity
CIO	+/0 gender analysis gender-neutral	+ (SHF: not applicable) SME: livelihood diversification	+/0 poorer areas neutral on-grid electricity
G4AW	+/0 gender analysis only few activities	+ smallholder farmers	+/0 smallholder farmers, not the poorest
IDH ISLA	0 few female farmers some women's training community-neutral	- includes large and very large farms	-/0 includes large and very large farms community-neutral
SDGP	+/0 some specific for women some target 50%	+ smallholder farmers	+/0 smallholder farmers, not the poorest

*Based on an IOB review of project assessment forms from implementing agencies.

+ = positive (included)

+/0 = somewhat positive (largely included)

0 = neutral (included to some extent)

- = negative (not included)

5.7.3 Gender and women

All funds and programmes that we studied mentioned gender equality and women as a target group in some way or other (except one¹⁰⁶ small programme). Most of the funds and programmes have gender action plans and/or gender analysis per project, and almost all of the activities studied use gender markers to indicate their relevance to gender equality.¹⁰⁷

Having read the available evaluations, we conclude that there is little evidence, however, that the targets and target groups of most funds and programmes in the field of gender equality (for instance, jobs for women) are actually being reached.

¹⁰⁶ DAWCA, the Dutch Agro-Water Climate Alliance by IUCN, see Annex 2 for more details.

¹⁰⁷ Climate-relevant ODA activities have more gender markers comparatively than Dutch development activities in general, according to the policy department, IGG: 50% of all MFA activities have a gender marker and 58% of all climate-relevant activities have a gender marker; 35% of all activities under budget article 2.3 (climate, energy and natural resources) have a gender marker.

In other words, it cannot be said with any certainty that the intended results and impact are actually being achieved on the ground.¹⁰⁸ EnDev, FDW and 2SCALE seem to do relatively well in that regard, as well as the Strategic Partnership ‘Shared Resources, Joint Solutions’, led by IUCN. Projects involving the private sector, from the six funds and programmes which we studied in more depth for Chapter 6, showed evidence of an intended gender focus, although evaluations were not available for the latter four yet. They are 2SCALE, AEF, CIO, G4AW, IDH ISLA and SDGP. 2SCALE, in particular, assessed project proposals on gender relevance. GCF and GEF have gender policies, but do not yet show evidence of prioritising the targeting of women, according to the GCF’s ‘Forward-Looking Performance Review’ and the ‘Sixth Overall Performance Study of the GEF’.

The lack of evidence on gender relevance may be partly due to the fact that gender objectives, action plans and indicators seem to have been integrated into the systems of the funds and programmes relatively late. For instance, FMO – which manages AEF – does not have a proper gender strategy (yet). AEF projects are not given an OECD gender marker. Similarly, IDH also only introduced gender as an impact theme in 2017. FMO does, however, think that its non-financial additionality is largely derived from its insistence on integrating gender, environment and human rights concerns. A recent independent evaluation of FMO seems to confirm this idea.¹⁰⁹

Another reason for the lack of data on gender relevance is probably the fact that DGIS did not request the implementing agencies to monitor and report on gender indicators from the outset. In the case of RVO and FMO, we understood that these entities decided to integrate gender equality (and other Sustainable Development Goals) in their funds and programmes themselves, based on the minister’s development cooperation policy.

5.7.4 Vulnerable and poor people

The large majority of the funds and programmes studied intend to reach poor and vulnerable groups. We found indications of this in around thirteen of a set of seventeen. However, several of the available evaluations and reviews stated that they could not assess or prove benefits for the poor and most vulnerable groups, and others did not show such effects either. On the other hand, Partners for Resilience¹¹⁰ – a Strategic Partnership that focuses on people vulnerable to climate change – and EnDev – which targets poor households – seem to have been targeted relatively well, and this is even more true of the Strategic Partnership led by IUCN, ‘Shared Resources Joint Solutions’.

¹⁰⁸ An upcoming IOB study on gender mainstreaming (expected in spring 2021) that focuses on a larger set of evaluations is expected to confirm that gender mainstreaming in MFA activities – with a focus on development projects – was often inadequate. The research team for this study read an advance copy of that report.

¹⁰⁹ Evaluation of FMO by ITAD (Spratt et al., 2020). FMO’s beliefs about its own added value first came to the fore in interviews.

¹¹⁰ Partners for Resilience is a Strategic Partnership for Lobby and Advocacy, which focuses on climate resilience and adaptation. It identifies vulnerable groups within the countries and landscapes it works in, in particular those whose livelihoods are negatively affected by climate change, such as farmers, fishers and shepherds. It also mainstreams gender and pays attention to youth.

One of the problems with finding out whether the poor and vulnerable were reached was that often no relevant indicators used. In some cases, such as 2SCALE, household income was taken into account, which makes it easier to identify effects on the poor. However, in the case of 2SCALE, which scores relatively well in other categories, such as reaching women, farmers and youth, the results on reaching the poor seem mixed. At the same time, the Mid-Term Review of FDOV II¹¹¹ and the Evaluation of 2SCALE 2012-2017 both suggest that 2SCALE, which works with partnerships from the bottom up to support marginalised people, does have a more inclusive focus than FDOV, as well as a better gender focus.

Considerations of people's vulnerability to climate change were generally not a priority for project design and approval of the funds and programmes we studied. The Strategic Partnerships 'Partners for Resilience' and 'Shared Resources Joint Solutions' were positive exceptions in that regard.

5.7.5 Farmers, youth and SMEs

Some of the funds and programmes targeted farmers and some of them targeted smallholder farmers in particular. IDH targets farmers, and a review saw some evidence of impact, although no specific evaluation on the landscape programme ISLA is available yet (although our own assessment of some projects in ISLA showed that mostly large farmers were reached). FDOV targeted farmers, as does its successor SDGP, but the mid-term review of FDOV was critical about the ability to actually reach smallholders. 2SCALE and G4AW are said to have managed to reach farmers better.

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As regards youth, only a few programmes that IOB studied targets this group explicitly, for instance to create youth employment or enhance young people's participation. FDOV did not succeed in reaching youth very well, according to an evaluation of that fund, whereas 2SCALE most likely did. The Strategic Partnerships also targeted youth explicitly. In the tables above, however, youth as a category is not included because, overall, there was little data available in the evaluations.

Micro-, small and medium-sized enterprises were hardly mentioned in these climate-relevant activities, although the distinction between farmers (agricultural producers) and SMEs in the programmes studied is not always clear. FDOV did not succeed in reaching small companies very well according to the mid-term review, whereas 2SCALE most likely did.

¹¹¹ Source: Mid-Term Review of the Facility for Sustainable Entrepreneurship and Food Security (FDOV) (KIT, 2016); Evaluation of 2SCALE 2012-2017 (Oomes et al., 2018).

5.7.6 Overall conclusions about the target groups

Of the target groups identified, a focus on gender and women was the most common among the funds and programmes studied. However, there was not much evidence showing the actual achievement of the targets, possibly due to the fact, in some cases, that monitoring on gender and gender indicators was not introduced, or introduced only recently. A focus on poor and vulnerable people was the intention in the large majority of this set of funds and programmes, but again, the effects on the actual target groups were not clear in most of the available evaluations. Some activities focused on farmers, and there the challenge seems to have been to reach smallholder, poor farmers rather than semi-commercial ones.

If we compare the various instruments – (1) large funds and programmes focusing largely on mitigation, such as AEF, GCF and GEF, (2) ODA programmes in the water and food sectors involving public-private partnerships, such as zSCALE and FDW, which are relevant for adaptation, and (3) the Strategic Partnerships led by NGOs, which primarily contribute to adaptation – then we can conclude that the latter two categories are more effective at reaching target groups, in particular women, smallholder farmers and poor people. This is not surprising, due to the different nature of these instruments and their different focus. Also, there are nuances across the categories. Please note that sources and capacity for this part of the study were limited. However, on the basis of relevant reviews and evaluations, we can come to the tentative conclusion that the efforts by the larger funds and programmes to achieve a gender and poverty focus, which policymakers mentioned in interviews, have not yet led to substantial results on the ground.

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The lack of data available on target groups presents a challenge to this part of the study. We can conclude that targeting specific groups is not a high priority. However, some background information is needed here. First, target groups are effectively monitored when it comes to specific targets set in the context of DGIS's Theories of Change on water and on food security, in the context of the DGIS cycle of results management.¹¹²

Second, DGIS does not deliberately aim to reach certain target groups or even countries with climate-relevant finance, because climate finance is reported in hindsight, on the basis of the Rio marker system, and not provided as a distinct input that can be allocated. On the other hand, this second fact is no excuse, if one expects DGIS to encourage certain project results for the benefit of groups mentioned in the minister's policy notes: in particular women, poor people and youth. Third, policymakers informed IOB that a large part of climate-relevant funding is channelled through multilateral development banks and organisations, without earmarking so it cannot be easily targeted at certain groups.

¹¹² *Resultatenrapportage*, or results-based reporting, is an annual exercise where DGIS informs the public and parliament on achievements in development cooperation. We point out, for instance, the target to reach smallholder farmers in the Theory of Change on food security, which is also an indicator in the results reporting cycle. Criticism of the results reporting system that IOB heard is that it focuses too heavily on a limited set of narrow, thematic and quantitative results, while climate change is a cross-cutting theme that requires a different approach for steering, monitoring and reporting.

This offers a partial explanation, but again, it does not mean that officers should not (continue to) promote a focus on gender equality and reaching the poorest, for instance.

For targets and target groups to be reached, they need to be clearly articulated and integrated into policy as well as programme design, monitoring and evaluation. Clear objectives need to be defined, as well as indicators for project design and approval. DGIS should also systematically include the required information on target groups in monitoring, evaluation and learning. When Dutch policymakers have limited influence on individual programmes and projects, such as in major funds and programmes managed by the World Bank, GCF and GEF, Dutch representatives should continue to emphasise the need for a gender and poverty focus in the governing board, if that remains the ministry's policy. They should see to it that gender and poverty considerations are incorporated throughout the project cycle, with validated effects on the ground.

5.8 Findings on the ministry's information systems

The Ministry of Foreign Affairs (DGIS) does not have an easily accessible data system that contains all types of information including climate relevance. Throughout this study, IOB noted that it was hard to get a full overview of Dutch climate-relevant activities and their disbursements in 2016-2019, disaggregated by recipient country, distinguishing between climate mitigation and climate adaptation, and with information about mobilised private sector finance. This is due to the fact that various data systems are not interoperable, not harmonised and not all based on actual disbursements.

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The Netherlands Court of Audit¹¹³ stated in 2019 that the Netherlands should improve the information it provides to the public and parliament. Although the ministry has followed up almost all of the recommendations in that regard, the systems are still fragmented.

We had to use different internal and publicly available information systems to get a detailed and complete overview of the (i) climate-relevant activities, (ii) the total disbursements on climate, (iii) a distinction between climate change adaptation and mitigation, (iv) country allocation, and (v) the amount of private climate finance mobilised.

¹¹³ [Netherlands Court of Audit, 2020.](#)

Databases and information sources

The databases and information sources used each have their advantages and disadvantages:

- The annual reports 'International Cooperation' (*Homogene Groep Internationale Samenwerking, HGIS*).
 - Advantage: overview of overall Dutch climate finance, including contributions by the Ministry of Finance to multilateral development banks (not included in MFA databases).
 - Disadvantage: not disaggregated by activity or country.
- The two MFA Information Systems: (i) MiOS for development cooperation and (ii) MiBZ for all MFA activities. Both are presented in different ways in the interface software system Tableau.
 - Advantage: complete overview of all Dutch-funded activities, based on the internal administration system (SAP).
 - Disadvantage: limited information on country allocation; ex-ante assessments; limited information on climate relevance.
- The database of the International Aid Transparency Initiative (IATI).
 - Advantage: actual disbursement of funds, up to country level and breakdown of disbursements to and by all contracted parties.
 - Disadvantage: incomplete. Filling in IATI also depends on implementing organisations. Ideally, unarmarked Dutch contributions to multilateral organisations can be interpreted if these organisations fill in IATI.
- The MFA/IGG annual reports to UNFCCC on climate finance.
 - Advantage: all climate-relevant activities with information on adaptation/mitigation, and on climate relevance: principle, significant, or % relevance.
 - Disadvantage: no information on country allocation for multi-country programmes.
- Climate Funds Update (website¹¹⁴), providing an analysis of climate finance, adaptation and mitigation, and country allocations, for multilateral organisations working on climate.
 - Advantage: the unarmarked Dutch contribution for some organisations (GEF, GCF, and LDCF) can be disaggregated into disbursements per country, adaptation and mitigation.
 - Disadvantage: not all multilateral organisations that claim climate relevance are included.

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For a detailed description on the gathering of climate data, see Annex 1: Detailed methodology.

Mobilised private sector finance

The various MFA databases do not report on mobilised private sector finance. The reporting on finance mobilised through the private sector is done in a separate process, where DGIS commissions Trinomics every year to calculate, in hindsight, the amounts mobilised by Dutch public finance – particularly by ODA – in line with the OECD reporting guidelines. The disadvantage of this information source is that it does not disaggregate data by recipient country or in terms of climate adaptation and mitigation. The increase in private sector contributions to climate action that we expect will probably decrease the transparency of reporting further, because it is hard to keep track of the hundreds of private sector initiatives and to register which ones were enabled by public (concessional) finance, partnerships or other forms of government support.

¹¹⁴ [Climate Funds Update website provides information about finance flowing through multilateral funds.](#)

Linking information sources

The difficulty for this study was to link or merge the different databases and information sources. The overview of climate finance per recipient country required much manual work and was therefore limited to the year 2019. Different information sources were available for different activities, and different choices had to be made regarding the source to be used in our analyses.

Rio markers

The Rio markers system, first of all, is set up to track the climate relevance of activities, by attaching a principal (100%) or significant (40%) climate marker to these activities. (The climate markers are explained in Chapter 2 and commented on in Chapter 7.) It was not set up (and it is certainly not perfect) to monitor and account for international commitments to climate finance. The MiOS/MiBZ databases, on the other hand, are based on actual expenditures. However, when climate finance is reported, the Rio marker system is used for this accountability purpose, because for now, it is the only internationally agreed system available.

The way forward

We therefore recommend that the Ministry of Foreign Affairs (DGIS, in particular IGG and FEZ¹¹⁵) set up a more transparent and more comprehensive database for Dutch climate finance, to the extent feasible; or at least identify which system can provide such transparency and paint a complete picture. Initial discussions between IOB and FEZ pointed in the direction of improving the use of IATI. MFA should encourage or even require recipient organisations to correctly fill in all IATI fields, including recipient countries and details about climate relevance. A more systematic use and presentation of IATI information by MFA, for example on climate finance, will also encourage implementing organisations to make more of an effort. Eventually, the ministry should also make data on Dutch contributions available to recipient countries, in particular longstanding partners, which do not have easy access to data on donors' support flowing to their country.

In contrast to ODA, for which full transparency is required, we should accept a less precise estimate for the mobilised private finance for climate action, for pragmatic reasons. Ultimately, the climate impact achieved by mobilised private sector finance is more important than the amount of private sector finance mobilised.

The ministry should also be accountable and transparent about climate finance to recipient countries, so they know what kind of climate action their climate finance is spent on in their country.

¹¹⁵ The Inclusive Green Growth Department and the Financial and Economic Affairs Department of the Ministry of Foreign Affairs.



6

Involvement of the private sector and ‘additionality’ of ODA in blended finance

6.1 Introduction

In this chapter, we first discuss the rationale for involving the private sector in climate action and present two common ways of mixing ODA with private sector or commercial finance: non-revolving programmes and revolving funds (6.2). We then explain the challenge of assessing ‘additionality’ of ODA in this blended finance, compared to what commercial finance alone would have achieved. From this, we propose a set of ‘additionality assessment criteria’ (6.3). Two additionality assessments are presented: an ex-ante assessment of project proposals from six programmes and funds, and ex-post evaluations of projects from four programmes and funds (6.4). We then explore the transfer of successful projects, from the innovation development phase to the phase of commercial upscaling (6.5). Finally, we zoom out and discuss the broader funding options, from purely public to purely commercial support (6.6).

Box 6.1 Main questions and findings of this chapter

How additional is ODA in climate-relevant blended finance in the spectrum from mainly ODA to mainly commercial finance?

- The revolving¹¹⁶ funds, providing, for example, equity and loans, active in renewable energy with a clear business case, carefully check financial input additionality. Their additionality claim is convincing.
- The non-revolving programmes, providing, for example, a 50% ODA subsidy for innovations (new products, new markets) in climate adaptation in agriculture and water management with an uncertain, risky business case, make a plausible claim on development additionality and financial input additionality.
- However, there is a category of projects in between, supported by non-revolving funds, where additionality is questionable. They are not particularly innovative, and it is not clear whether commercial finance would be available or not.

How do initiatives mature and transfer from mainly ODA to commercial funding?

- Frequently, non-revolving programmes do not transform their innovative projects into bankable business cases.
- Most revolving blended finance funds that invest in convincing business cases and bring them to commercial investment do not pick investment ideas from the non-revolving fund programmes.
- There is a mismatch in scale: many project proposals that passed a successful innovation and development phase require much smaller support (less than EUR 100,000) than is offered by most revolving funds (more than EUR 1,000,000) for the commercial upscaling phase.
- There is no DGIS strategy to graduate innovations from high concessional support to low concessional support.

¹¹⁶ If a blended finance loan composed of ODA and commercial finance is paid back, at least the ODA part – sometimes also the commercial part – can be reused in the ‘revolving fund’.

What type of funding is appropriate for what climate action in what context?

- Not all climate action can be supported by blended finance. Blended finance fills a niche of temporary support between what can be funded commercially and what requires continuous public support.
- Too little attention is given to supporting the enabling environment of the private sector to engage in climate action.

6.2 Why and how to involve the private sector

Possibly the most interesting research question in the context of Dutch climate finance – given the desire to optimise private sector engagement in development cooperation – is whether the public climate finance used in combination with private sector funding has had added value. Thus, IOB decided to evaluate the added value of Dutch climate finance from 2016 to 2019, with a focus on the additionality of major ODA funds and programmes that include a form of private sector engagement, as presented in the 2017, 2018 and 2019 Trinomics reports.¹¹⁷ We focused mostly on the funds and programmes that were set up, and largely funded, by the Dutch Ministry of Foreign Affairs. As explained in Chapter 2, the Netherlands aims to mobilise the private sector to account for 50% of its climate finance. One of the ways to achieve this is to use blended finance.

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Box 6.2 *Ways for the public sector to involve the private sector in public services*

- Government can improve the **enabling environment**: create policies, regulations and infrastructure that are favourable for private sector investment.
- Government and private sector can **complement each other** with separate tasks and budgets for a common goal, e.g. a public electricity network and private electricity generators.
- Government can give **long-term subsidies** to the private sector for providing public services that are not profitable in themselves, e.g. access to drinking water in remote and poor areas.
- Government and private sector can **mix public and private resources**, in blended finance and public-private partnerships, to overcome a temporary constraint in product or market development, with the objective that the private sector continues projects on a profitable basis. This requires temporary concessional funding.

The latter form is the focus of this chapter, as well as the focus of our question regarding additionality.

¹¹⁷ The Trinomics reports (2018, 2019, 2020), commissioned by the MFA, calculate the private sector finance mobilised by public finance; they calculate the commercial contribution to public-private partnerships and blended finance instruments, distinguishing the total sum of finance mobilised and the portion contributing to climate finance.

The objective is to optimise, not maximise, the amount of commercial finance to be leveraged by ODA in climate finance. Minister Kaag explained in a Letter to Parliament in the spring of 2019¹¹⁸ that her goal is to maximise poverty reduction rather than to maximise the leverage ratio. In other words, there is an assumed optimum leverage ratio for maximum development impact. This optimum leverage ratio will be higher in sectors and in contexts with more commercial opportunities, for example on-grid renewable energy in stable, middle-income countries and lower in other sectors and contexts, for example water or agriculture in fragile, low-income countries (as we have seen in Section 5.6). A major rationale for involving the private sector, besides the direct effect of mobilising commercial finance, is that a commercially viable business case will increase the likelihood of sustainability, upscaling and transformation in the (sub) sector. One of the concerns, however, is how to assure that new technologies developed by the private sector using public funds become publicly available for developing countries (this is discussed further in Chapter 7).

The policy regarding additionality has not been elaborated in detail. A [Policy Note of 14 February 2019](#) on financing instruments for Foreign Trade and Development Cooperation did offer some explanation regarding the policy. It stated that government instruments should be ‘additional and/or complementary to the market’. The government would only support ‘projects that the private sector cannot fund fully by itself and projects that mobilise private finance for social impact’. For instance, by mitigating financial risks.

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It appears that policymakers from DGIS follow the principles and guidelines of ‘blended finance’,¹¹⁹ as well as the definitions and standards described by the Development Assistance Committee of the OECD. Other authorities on the subject and their principles are also taken into account, such as the DCED, a network for Donor Committee for Enterprise Development. The DCED principles,¹²⁰ and to some extent the rest of the principles, are used for guidance by some of the funds and their managers, notably FMO.¹²¹ There is not a single set of established guidelines for decision-makers and desk officers at DGIS.

Blended finance can be interpreted as any mix of public and private funding. The OECD DAC¹²² (2018) defines blended finance as: *The strategic use of development finance for the mobilisation of additional finance towards sustainable development in developing countries, with ‘additional finance’ referring primarily to commercial finance.* The OECD DAC’s ‘Blended Finance Principles Guidance’ explains that ‘blended finance should only be applied if it is the most effective tool in a donor’s toolbox to achieve a targeted development impact’.¹²³ It should, in other words, be used intelligently. An intended purpose of blended finance is often to mobilise additional investments, in other words to catalyse or leverage other finance, with a focus on commercial, private sector finance.

¹¹⁸ Letter of April 2019 in response to a report by the Netherlands Court of Audit focusing on climate finance in 2018 (Ministry of Foreign Affairs 2019c). A similar letter was sent in April 2020 to a similar Netherlands Court of Audit report on the year 2019 (Ministry of Foreign Affairs 2020c).

¹¹⁹ Blended Finance Principles Guidance (OECD 2020c).

¹²⁰ DCED 2014. Demonstrating additionality in private sector development initiatives (Heinrich M, 2014).

¹²¹ FMO is a prominent member of the DFI working group on concessional blended finance.

¹²² Development Assistance Committee of the Organisation for Economic Co-operation and Development.

¹²³ From Principle 2: Design blended finance to increase mobilisation of commercial finance.

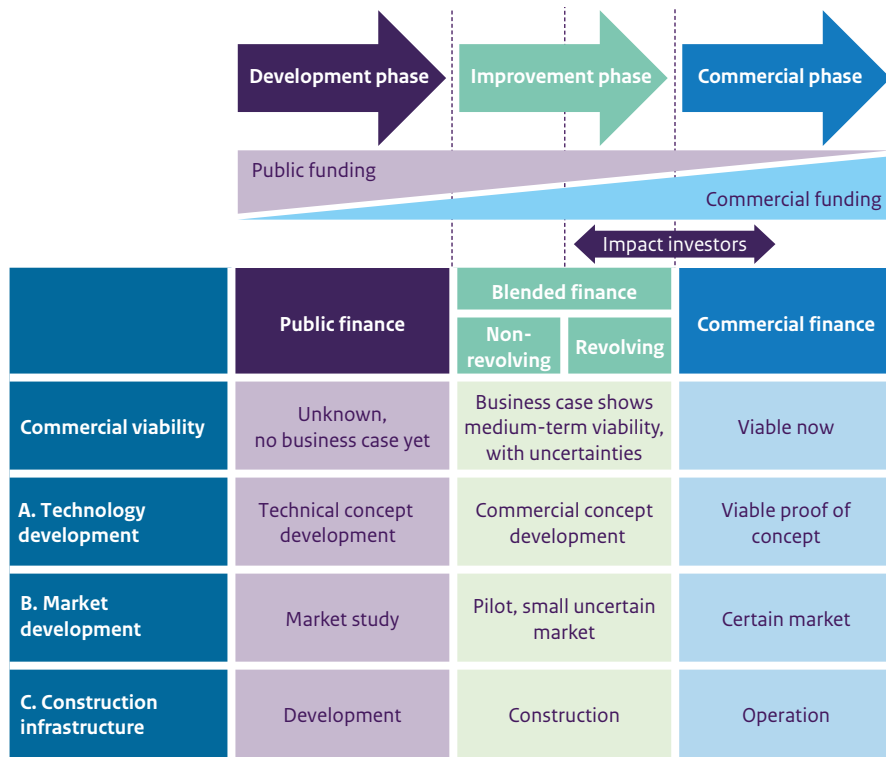
We distinguish two types of blended finance (BF) in this chapter:

- **non-revolving BF programmes**, providing subsidies (e.g. 50% ODA), for example, complementing a private sector contribution in cash or in kind (the other 50%), that does not need to be paid back. These high concessional non-revolving programmes are more appropriate for projects with an uncertain business case, innovative ideas (new products or new markets) that are risky for private sector investments.
- **revolving BF funds**, providing equity and loans (and several other financial products), for example, that will have to be paid back (loan repayment, dividends and shares). These low concessional revolving funds are more appropriate for projects with a clear business case, which are considered less risky for private sector investments, but which cannot access 100% commercial finance yet. Revolving funds have a greater incentive to ensure commercial viability.

The two types of blended finance above also present, in a simplified way, two, ideally succeeding, phases in the development of an uncertain innovation (new product or new market) to a business case interesting for commercial investment (see Figure 6.1), which is then followed by a project exit towards full commercial viability. Note that the type of commercial funding varies over time and is often a combination of various forms. In non-revolving programmes, it often starts with a co-investment by the private sector in a public-private partnership, in kind and in cash, sometimes followed by a concessional loan. In the revolving funds, it often starts with concessional equity, first-loss concessional loans and guarantees, for example, all of which can mobilise commercial investments that fund the least risky loans or short-term loans. Over time, as the business case becomes clearer, more commercial investors step in. In all phases, the assumption is that the private or commercial sector will not invest without the ODA contribution.

Impact investors, using private, non-ODA money, on more favourable terms than commercial finance, operate in the border area between blended finance and commercial finance. There are projects temporarily supported with blended finance that are continued with funding from impact investors, rather than pure commercial funding.

Figure 6.1 Blended finance: phases in product and market development



Both cases make the following assumptions:

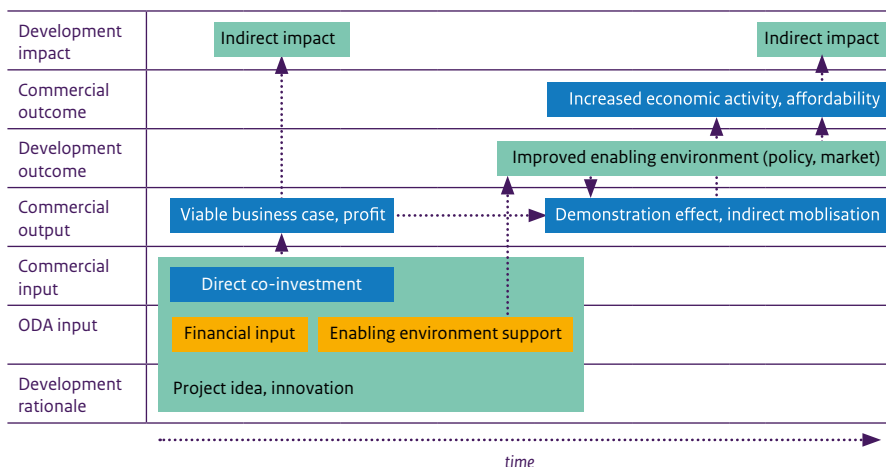
- i. There is a prospect of commercial viability, but only in the long term.
- ii. Temporary ODA support can bridge (a) the development of a technology (or product or service), (b) the development of a market (e.g. an existing product in a new country or for a new target group), or (c) the development and construction of infrastructure to the point that it is commercially viable without ODA support.
- iii. There is no commercial finance available on the terms needed to enable the activity.
- iv. The minimum level of concessionality (ratio ODA : commercial finance) needed to support this development declines over time, during the development of an uncertain project idea into a commercially viable business. Minimising concessionality reduces the costs (for the ODA budget) for the same development impact. Since markets are dynamic, the level of concessionality for subsequent projects needs to be adjusted over time.

When considering a simplified theory of change of how public and private inputs lead to development impact, it is important to distinguish the short-term direct effects, which are often planned and monitored, and the long-term indirect effects, which are often uncertain and more difficult to monitor but potentially much more important.

Figure 6.2 illustrates this. A temporary project combines ODA financial input with direct commercial co-investment to develop a project idea or innovation into a viable business case, which has its own direct impact. This direct impact may be limited in terms of scale, and in terms of affordability for larger groups of consumers. However, at the same time, the project could work on the enabling environment, for example address constraints or absent policies or market failures, paving the way for other companies. This, together with the demonstration effect of the first business case, can encourage other companies in the sector to also invest in the new technology, service or market.

This will increase the economic activity and improve the affordability of the product or service, which eventually may have a much larger indirect effect in the long term.¹²⁴

Figure 6.2 Simplified theory of change for blended finance, distinguishing direct and indirect effects.



6.3 How to assess the additionality of ODA in blended finance

One of the challenges in using ODA in blended finance is the question of ‘additionality’. The notion of additionality is used in different ways. In this chapter, we use additionality for ‘the additional development effect that ODA achieves through blended finance, beyond what would have been achieved by the private sector and commercial finance alone’ (see Box 6.3). The OECD DAC (2016)¹²⁵ gives more precise definitions for financial additionality and non-financial additionality (see Box 6.4).

¹²⁴ An example of this mechanism is seen in German (and other European) subsidies for renewable energy, which accelerated the development of solar panels in China, where prices dropped by 90%, which has had an enormous impact on the application of renewable energy worldwide.

¹²⁵ Understanding Key Terms and Modalities for Private Sector Engagement in Development Co-operation (OECD DAC 2016a).

Box 6.3 *Additionality: definition*

In this study, we focus on the definition of ‘additionality’ as commonly used in public-private partnerships and funds that mix public and private finance, (blended finance).^{126,127} We believe that additionality should answer the following question: has public finance (ODA) and its conditions enticed the private sector to do something *different* (better, more, faster) or something new that it would not have done without the public funds? Because if the private sector would have done it anyway, then the public support was not ‘additional’. This is our focus in question 2.

- There are other interpretations of additionality that we will briefly discuss in this report. Additionality can also be used as a criterion to assess whether the private sector contribution has resulted in development that would not have been achieved by public funding alone.
- More in general, additionality is sometimes used to describe the added value of a new fund or initiative, among other available funds and initiatives.
- The term ‘new and additional’ for climate finance in the context of the UNFCCC uses the word ‘additional’ in a special way, which is mostly understood as additional to the ODA that was already available.

Box 6.4 *Financial and non-financial additionality*

Financial additionality

The OECD DAC (2016) states that: ‘*a transaction is financially additional if it is extended to an entity that cannot obtain finance from local or international private capital markets with similar terms or quantities without official support, or if it mobilises investment from the private sector that would not have been otherwise invested.*’ FMO describes financial additionality as ‘only providing financial services which the market does not provide, or does not provide on an adequate scale or on reasonable terms’.¹²⁸

Additional finance offers more advantageous terms, better timing, takes more risks than regular commercial finance and/or crowds in other investors, catalysing others. It offers the minimum level of concessionality (so as not to compete unfairly with cheap money).

¹²⁶ See *Demonstrating additionality in private sector development initiatives* (Heinrich 2014).

¹²⁷ There are other forms of public and private actors working on a common goal: (1) with clearly separated tasks, e.g. public electricity network and private electricity generation; (2) public long-term subsidies to the private sector that provides public services, e.g. access to affordable drinking water or postal services in remote areas. These forms are outside of our focus on concessional and temporal ‘blended finance’ and public-private partnerships, and our question of ‘additionality’.

¹²⁸ Core concepts in blended finance (Spratt et al., 2021).

Below, we will describe in more detail which aspects of financial additionality IOB identified as useful criteria for approving, rejecting and evaluating project proposals.

Non-financial additionality

Non-financial additionality is sometimes called developmental additionality, or part of it is. A recent OECD report¹²⁹ says that ‘There is no agreed definition of development additionality’. Whilst it is most commonly used to describe additional changes in SDG-type outcomes, it can be used in other ways. UKAN (2015) distinguish ‘design additionality (improved results as a consequence of better design features); operational additionality (specialised advice... for knowledge and skills gaps among clients); and institutional additionality (improved standards of corporate governance, environmental and social sustainability, and regulation, and better public/private risk allocation). [...] Different forms of additionality can result from the conditions attached to financing, or from knowledge transfer, capacity building, or policy influence. They may be an integrated aspect of financing or funded in parallel by TA [Technical Assistance].’

Assessing additionality is not easy. DCED elaborated eight additionality criteria (plus one cross-cutting criterion) that can be used to assess, ex-ante, the likelihood that ODA in a blended finance project will be additional (Heinrich, 2014). DCED created a simple decision tool to use these criteria; not all criteria have to be met to conclude on additionality. Several public-private partnership programmes supported by the Netherlands use these criteria, or some of these criteria, in their assessment of project proposals. OECD DAC (2020)¹³⁰ formulated five principles for blended finance, referred to above, which include similar criteria for additionality under the second principle: ‘Design blended finance to increase mobilisation for commercial finance’.

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Revised additionality criteria for this study

After consultations with an expert in blended finance and additionality, we combined the DCED criteria and OECD principles, and developed our own set of additionality criteria that can be used in an ex-ante assessment of a project proposal. Our five main additionality criteria are as follows:

1. Development impact additionality of the project itself. Development objectives are criteria for ODA in general. In blended finance (BF), the expected development impact should be more than what would have been achieved by (i) commercial finance without ODA, and more than (ii) what ODA would have achieved without commercial finance.
2. Input additionality of ODA
 - a. Financial input additionality of ODA. BF bridges the temporary, unviable phase of product or market development, up to the long-term commercial viable business, which cannot be bridged by private or commercial finance alone. This is the key

¹²⁹ Core concepts in blended finance (Spratt et al., 2021).

¹³⁰ Blended Finance Principles Guidance (OECD DAC, 2020c).

financial additionality criterion. In the early and later development phases, we distinguish between two sub-criteria:

- i. At the initial stage, the innovation (a new technology or service) or market is new and uncertain, there is no business case yet, and the commercial finance sector is not yet interested.
 - ii. At a later stage, the business case is clearer, but the commercial finance sector is still hesitant because of relative uncertainty and risk, for example, a long pay-back period or constraints in the enabling environment.
 - b. Non-financial input additionality of ODA. The ODA component, besides providing funding, often also includes non-financial support, such as technical assistance and capacity building, convening different partners from the private sector, government, international partners, financial sector, and, in the case of value chain development, large groups of producers, which could not have been accessed or organised by the commercial partners alone. This category includes support to the enabling environment.
3. Output additionality of commercial investment, triggered by concessional ODA, blended finance can mobilise (crowd in)
 - a. Direct co-investment by the commercial actors involved at the start, forming the blended fund.
 - b. Indirect, additional commercial finance, during or as a follow-up to the blended finance project trajectory.
 4. Development outcome additionality in the enabling environment, beyond the directly supported PPP or private sector. The blended finance programme lifts constraints in the enabling environment: government policies, regulations and institutions or market institutions (market failures) that cannot be lifted by one commercial actor alone.

Assumptions about the involvement of the private sector and the additionality of ODA

The main assumptions we will test in this chapter are:

- i. In different stages of technology or market development, different additionality criteria are important. For projects developing uncertain innovations (new technologies or services, or new markets) without a clear business case, other additionality criteria apply (e.g. first-of-a-kind product, new in the country) than for more mature projects with a clear business case, close to commercial viability (e.g. no commercial funding available).
- ii. In order to minimise concessionality (the ratio ODA : commercial finance) along the phases of development between uncertain innovation to a commercially viable business case, concessionality should be flexible and decline over time.
- iii. There is a trade-off between the leverage of private and commercial finance, and the development effects. It is less likely that BF reaches the commercially less interesting (or difficult) sub-sectors, regions and countries (see Section 6.6).

6.4 How additional is ODA in climate-relevant blended finance?

We used two sources to assess the additionality of a selection of programmes:

1. The detailed ex-ante assessment of project proposals by the programme managers of IDH-ISLA, 2SCALE, SDGP, G4AE, AEF and CIO (see Box 6.5 for more information on these programmes). Each programme used a set of criteria that were transparently assessed and shared with the evaluation team. The sample included both approved and rejected project proposals.
2. A limited number of programme evaluations that assessed the additionality of a selection of case study projects: 2SCALE, FDOV (predecessor of SDGP), GAFSP and AEF (see text box). Each evaluation had a different approach to assessing additionality, which was often more of an anecdotal than a systematic approach.

Box 6.5 Brief description of the programmes assessed on additionality

The non-revolving programmes:

1. **Initiative for Sustainable Landscapes (ISLA)** by the Sustainable Trade Initiative (IDH): financing pilot projects at the first stage, including technical assistance to prepare farmers for bigger investors. Sector: food security/agriculture/forest management.
2. **Towards Sustainable Clusters in Agribusiness through Learning in Entrepreneurship (2SCALE)**: setting up partnerships with local private sector companies, capacity building and technical assistance; local Bottom of Pyramid consumers for known products; development and origination phase of projects; attention to women and farmers. Sector: agriculture, food security.
3. **Geodata for Water and Agriculture (G4AW)**: setting up PPPs for commercial services, overcoming technical barriers and helping producers/farmers connect with authorities and other parties. Sector: agriculture/food security and water.
4. **Sustainable Development Goals Partnership (SDGP): building on FDW and FDOV**: supporting the set-up of public-private partnerships including business, knowledge institutes and NGOs. It can take more risks than other funds thanks to grants. Sector: food security/agriculture, water.
5. **Facility for Sustainable Entrepreneurship and Food Security (FDOV)**: one of the predecessors of SDGP. Encouraging public-private partnerships in the field of food security and private sector development in developing countries.

The revolving funds:

6. **Access to Energy Fund (AEF)**: offering long-term finance for projects that improve access to renewable energy, off-grid and mini-grid, clean cooking stoves. Developing new markets in the poorer developing countries. Sector: energy.

7. **Climate Investor One (CIO):** development of projects in a special funding window; support throughout three phases: from development through construction to refinancing; early stage project development of commercial projects, starting with the enabling and regulatory environment; promoting economic, social and governance standards and social and environmental assessments. Sector: energy.
8. **Global Agriculture and Food Security Programme (GAFSP):** the IFC managed private sector window. Co-investment alongside IFC investment, addressing market failures by providing affordable funding with less demanding terms. Sector: agri-business, rural finance.

1. Ex-ante assessment of additionality

Table 6.1 presents our assessment of the six programmes, with the four non-revolving programmes on the left and the two revolving programmes on the right. Note that CIO is only presented on the right as a revolving fund, but it also contains a smaller, non-revolving 'development fund', preparing projects for the larger blended finance 'construction fund' and 'refinancing fund'. The additionality criteria are grouped along our five main criteria.

Legend to Table 6.1

The table includes two scores divided by a slash: a / b

- a. The first score indicates to what extent this criterion was addressed in the project assessment form by the implementing agency (by the project selection or approval team).
- b. The second score is our IOB assessment of the original assessment report, of how convincing this assessment was to us in showing additionality.

The two scores are often similar, but on occasion our assessment was more negative or more positive than the implementing agency's assessment. The meaning of the scores is as follows:

- + (++) : a) well assessed / b) IOB convinced
- o+ : a) hardly assessed / b) IOB hardly convinced
- o : a) not assessed / b) IOB not convinced
- : b only) IOB convinced that criterion is not met

The set of projects studied includes projects that were rejected. If these were rejected because of poor additionality, and we agreed with this assessment, we scored this as +/- (rightfully rejected).

Certain criteria are considered to be more important than others. When the importance differs between the non-revolving subsidy programmes (on the left) and the revolving equity/loan programmes (on the right), the important criteria are marked in yellow and less important criteria in white. Criteria that we considered crucial for all blended finance programmes are marked in orange: development outcome additionality *and* financial input additionality.

Table 6.1 Summarised additionality assessment of six programmes based on project assessments by programme or fund managers and by IOB									
type of additionality	additionality criteria	Non-revolving BF (more ODA)				Revolving BF (more commercial)			
		ISLA	25SCALE	SDGP	G4AW	AEF	CIO		
1. Development Impact	1. Development impact (expected) of the supported PPP or PS project:								
	1.1. General development impact	++/+	++/++	++/++	++/++	++/++	++/++	++/++	++/++
	1.2. PS demonstrates commitment to ESG (do no harm)	+/+	+/+	+/+	+0/+0	+/+	+/+	+/+	+/+
	1.3. PS invests in public goods, externalities (do good)	++/+0	+/+	+/+	++/++	+/+	+/+	+/+	+/+
	1.4. Services/products affordable for end-users (business case farmers, pro-poor)	+0	+/+	++/+0	+0	+/+	+/+	+/+	0/0
	1.5. Align with national policy priorities	++/++	+/+	+/+	+0/0	+/+	+/+	+/+	+/+
	1.6. No duplication other ODA efforts	0/0	+0/+0	0/0	+0/+0	0/0	0/0	0/0	0/0
2. Financial input	1.7. No unfair competition with PS (services, products)	0/0	0/0	+0	+0	+/+	+/+	+/+	0/+
	2. BF only to bridge temporary constraint that cannot be met by commercial finance:								
	2.1. Long-term viability promising for PS	0/0	+/+0	++/+0	++/+0	++/++	++/++	++/++	+/+
	2.2. Short-term viability constraint (Phase 1): No business case yet; major uncertainty; no interest from commercial investors yet	+/+	0/0	++/+	++/+	++/+0	++/+0	++/+0	+/+
	• innovation (new technology, new market)								
	• high risk (uncertain business case, risk of failure)								
	2.3. Short-term viability constraint (Phase 2): There is a business case, but commercial investors are still reluctant to step in. PS has no access to:	0/0	0/0	0+0/+0	0/0	0/0	0/0	0/0	+/+
• (i) type of financial product (long-term loan, equity, small size of loan/investment),									
• (ii) low profitability/high-risk investments,									
• (iii) risk reduction products									
2.4. Minimum concessionality depends on market maturity (sector and country context) at project start; no crowding out commercial finance.	0/0	0/0	0/0	0/0	0/0	0/0	0/0	+/+	
3. Non-financial input	2.5. BF (i) Vision on transition path (ODA > commercial), (ii) declining concessionality over time (development phase, revolving phase and exit):	(i) 0/0	0/-	0+0/+0	0/0	0/0	0/0	0/0	++/++
	(ii) 0/0	0/-	0/0	0/0	0/0	0/0	0/0	++/++	++/++?
	3. Project assistance to PS								
3.1. Assist PS with access to knowledge, innovation, TA and capacity development	+/+	+/+	+/+	+/+	0/+	+/+	+/+	+/+	
3.2. Convener, honest broker and investment dealmaker. Assist PS in new contacts (other PS, government, international partners, finance, other than value chain development)	+/+	0+0/+0	++/++	+/+	0/+	0/+	0/+	0/+	
3.3. Assist PS in value chain development: market and information linkages	0/0	+/+	+/+	0/0	0/0	0/0	0/0	+/+?	
4. Commercial output	4. Co-investment and mobilised commercial finance								
	4.1. Contribution or co-investment by the PS in PPP (condition at programme start)	+/+	+/+	+/+	+/+	+/+	+/+	0/0	0/0
5. Development outcomes	4.2. Crowding in external, additional commercial finance (bonus, can come in later)	0/0	0/0	0/0	0/0	0/0	0/0	++/++	++/++
	5. Enabling business environment (beyond the directly involved PS/PPP)								
	5.1. Government: Support policy, sector regulation, institutional dev.	++/++	0/0	+/+	+0/+0	0/+	+0/+0	0/+	+/+
5.2. Broader market/PS: address obstacles for sub-sector	+/+	+/+	0/0	+/0	0/0	+/0	0/0	+/+	

Following the five main additionality criteria, and distinguishing between the ‘non-revolving programmes’ and the ‘revolving funds’, we show here whether additionality was assessed and how convincing the additionality claim was to us.

1. Development additionality. The ex-ante expected development impact of the supported public-private partnership (PPP) or private sector project is generally well assessed. However, based on this criterion alone, we could not assess whether this development impact is indeed additional, without considering the other additionality criteria.

- The revolving funds pay more attention to the private sector’s commitment (rather than the PPP as a whole) to environmental, social and governance (ESG) issues and the private sector investments in public goods.
- There is little focus on avoiding duplication of other ODA efforts. Only a few projects were rejected because similar projects already existed in the country.

2. Financial input additionality. PPP and blended finance should only be used as a temporary measure to bridge an unviable period that the commercial sector is unwilling or unable to fund. Here we find an important distinction between the non-revolving programmes and the revolving funds, which we think makes sense:

- The non-revolving programmes emphasise innovation: the technology, product or service is new in the country where the market is not yet developed, and has an uncertain, high-risk business case. The fact that the private sector adopts this innovation, as a first mover, is then an indication of development additionality. In these cases, a more thorough assessment of the business case (financial input additionality) is indeed not necessary. Even though several programmes do require this, it is often based on uncertain assumptions.
- The revolving funds support projects with a clear business case: the concept or technology is proven, there is clear market potential, but the commercial sector does not provide the required financial products, e.g. equity, first loss, long-tenure loans. These funds, in particular AEF, carefully consider whether concessional finance from AEF is needed, or whether it can be funded by non-concessional finance from FMO-A. In these cases, it makes sense that innovation and risk are not important additionality criteria.

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However, there is a category of projects in between the two categories, in several of the non-revolving programmes, that are not convincingly innovative, and where project proposals have not convincingly motivated that commercial finance was not available. Examples are some of the value chain projects that are not new and that have proven to be commercially viable even in the same country.

More in general, we see that the idea to minimise concessionality, i.e. not to contribute more public funding than needed, and the idea of a gradual reduction of concessionality over time as the innovation matures (as the business case becomes clearer, and the investment can be taken over by commercial finance), are well applied by the revolving funds, but they are hardly applied by the non-revolving programmes. Most programmes work with a fixed minimum co-investment by the private sector partner (e.g. 50%) that does not change over time, and they do not anticipate the graduation of non-revolving programme support to revolving funds support and – as an eventual exit strategy – to commercial investors.

3. Non-financial input additionality. All programmes support the private sector with valuable technical assistance, capacity development and convening different actors: private sector, international partners, government, financial support, and in the case of value chain development, also large groups of smallholder producers. It is plausible that these contacts are difficult to make by an individual company. The blended finance programme can open doors, act as a liaison and add credibility to the project.

4. Mobilisation of non-concessional finance. As expected, the revolving funds are most successful in mobilising commercial finance. This is often already negotiated from the start: when concessional funds provide equity, long-term loans or high -loans, the commercial sector is then willing to provide low-risk or short-term finance. More commercial finance may come in later, when the business case is clearer, or, in case of large constructions, the prospect of earnings in the operational phase becomes clear. The non-revolving programmes, on the other hand, are mostly unsuccessful in mobilising commercial finance, but sometimes they also mobilise other concessional finance, or non-ODA impact investments. The mobilisation of non-concessional finance is not considered a crucial additionality criterion, but works for revolving funds as a mechanism to minimise concessionality.

5. Support to the enabling environment, beyond the directly supported PPP or private sector company, receives insufficient attention in the six programmes we assessed. By the enabling environment, we mean conducive government policies, regulations and institutions, for example, as well as the need to address other obstacles in the market or sub-sector such as infrastructure and education. This is something individual commercial parties cannot achieve individually and without public support to a multi-stakeholder dialogue. Therefore, this is a crucial additionality of ODA in blended finance. Some projects, especially those in public domains, such as forest conservation or water quality (IDH ISLA), devote considerable attention to involving the government from the start. Others see government regulation as a precondition that needs to be addressed first, before investing in the private sector (CIO, AEF). However, many projects pay little attention to the enabling environment.¹³¹

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Whereas DCED considered this a desirable but not compulsory criterion, we think this should be a compulsory additionality criterion. Not every small PPP can work on the enabling environment alone, but PPPs should at least link up with others, for example through the Dutch embassy to the World Bank, that are involved in policy dialogue.

¹³¹ The enabling environment for private sector development is defined as the conditions needed for domestic business and entrepreneurs to operate, and the conditions that facilitate international trade and private investment in a country. Two earlier IOB evaluations mentioned that Dutch development assistance puts too little emphasis on the enabling environment. (1) The IOB evaluation on private sector development (2014) noticed a shift in Dutch policy emphasis from working on the enabling environment in developing countries to more direct support to interventions by Dutch companies and institutions (IOB 2014). (2) The IOB evaluation on renewable energy (2015) noticed that most projects had insufficient time to work on market development, which is often necessary to support an enabling environment, e.g. government regulations and public education (IOB 2015).

This will be needed more in countries with a less favourable business climate, for two reasons: without addressing constraints in the enabling environment, (i) there is less likelihood of upscaling and transformational change, and (ii) there is more likelihood of market distortion.¹³²

2. Ex-post evaluation of additionality

Introduction

In addition to the ex-ante additionality assessment of project proposals of six programmes, we also summarised the ex-post additionality assessment of sampled projects in evaluations of four programmes: 2SCALE (Oomes et al., 2018), FDOV (KIT 2016), GAFSP (Enclude 2016) and AEF (Slob et al., 2017).¹³³ We use these evaluations to see (i) whether the same criteria are used, and (ii) whether the same conclusions are drawn, as in the ex-ante assessment.

Overview of additionality evaluation results

In Table 6.2, we present the judgement by the evaluator, followed by our own judgement, in the same ways as presented in the ex-ante assessment. The evaluation of FDOV provided insufficient detail to make our own judgement, so we are only presenting the evaluator's judgement. While the ex-ante assessment table presented one average judgement per programme, this evaluation table presents disaggregated information: the number of projects that received a certain score is presented in brackets.

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The AEF evaluation only assessed input additionality. The other three evaluations distinguished between input additionality and development additionality, although not in a consistent way: for example, 'innovation', 'partnership' and 'capacity development' were sometimes categorised as input additionality, and sometimes as development additionality.

¹³² The need to work on the enabling environment is reflected in the dual approach of the DGIS directorate DDE, which combines direct support to companies to improve the enabling environment. This notion is also confirmed by the World Bank and IFC's 'cascade approach' that recommends first addressing constraints in the enabling environment before considering direct support to individual companies ([World Bank, 2017](#)).

¹³³ Out of nine available evaluations of climate-relevant programmes that involved the private sector, only four evaluations assessed the 'additionality' of a selection of case study projects.

Table 6.2 Ex-post evaluation of the additionality in selected projects of 2SCALE, FDOV, GAFSP and AEF						
type of additionality	additionality criteria	Non-revolving programmes			Revolving funds	
		2SCALE 6 cases	FDOV* 22 cases	GAFSP 4 cases	AEF 15 cases	
1. Development impact	<p>1. Development impact (expected) of the supported PPP or PS project:</p> <p>1.1. General development impact</p> <p>1.6. No duplication of other ODA efforts</p>	+/(1) +/(3) -/(1) -/(1)	+ (1)	+/(0) (2) -/(1)		
2. Financial input	<p>2. BF only to bridge temporary constraint, that cannot be met by commercial finance:</p> <p>2.2. Short-term viability constraint (Phase 1): no business case yet. i. innovation (new technology, new market) ii. high risk (uncertain business case, risk of failure)</p> <p>2.3. Short-term viability constraint (Phase 2): there is a business case. i. PS has no access to commercial finance ii. PS is unwilling, considers profitability too low iii. PS needs part concessional funding in total funding</p> <p>2.5. BF (i) Vision on transition path (ODA > commercial), (ii) declining concessionality over time (development phase, revolving phase and exit): 3. Project assistance to PS</p>	+/(2) +/(0) (1) -/(1) +/(0) (1)	+ (4)	+/(2) +/(2)	+/(2)	
3. Non-financial input	<p>3.1. Assist PS with access to knowledge, innovation, technical assistance 3.2. Convener, honest broker and investment dealmaker. New partnerships, other than value chain development 3.3. Assist PS in value chain development</p>	+/(2) +/(2) -/(1) +/(1) -/(2)	+ (6)	+/(2) +/(2) -/(1) +/(1) -/(2)	+/(1) -/(2) +/(1)	
4. Commercial output	<p>4. Co-investment and mobilised commercial finance</p> <p>4.2. Crowding in external, additional finance (DFI and commercial) 5. Enabling business environment</p>			+/(2)	+/(1)	
5. Development outcomes	<p>5.2. Broader market/PS: address obstacles for sub-sector (commodity)</p> <p>5. Enabling business environment i. Would not have taken place without ODA ii. Would have taken place, on a smaller scale or slower, without ODA</p>	+/(2) (6) +/(0) (1) (6) -/(3) (6)	+ (9) + (5) +/(+ 9) (22) +/(0: 5) (22)	+/(2) (6) +/(0: 1) (6) -/(3) (6)	+/(+ 1) (11) +/(+ 15) (15)	
Additional criteria in evaluation (FDOV only)	Number of cases with plausible additionality claim					
Overall judgement						

* The FDOV evaluation did not provide a complete overview of all 22 projects, and provided insufficient information to make our own (IOB) judgement on additionality.

Indicators used for evaluating additionality

The indicators used to evaluate additionality are a sub-set of the indicators used in our ex-ante assessment, with one addition: in the ex-post evaluation of FDOV, evaluators asked stakeholders to what extent this project would have taken place without the ODA-funded PPP – the key question of additionality. This is more convincingly evaluated afterwards in the field than beforehand. Although our answers to these questions are still based on perceptions, they seem to make a plausible case.

We expected ex-post evaluations to draw more convincing conclusions on additionality than the ex-ante assessment of project proposals. However, it was often difficult to draw firm conclusions even in evaluations. A few criteria used in the ex-ante assessments were not used in the evaluations, for example the co-investment by the private sector in a PPP. To our surprise, work on the enabling environment was never mentioned as a criterion for additionality.

Ex-post evaluations confirm our ex-ante assessment of additionality

The conclusions on **financial input additionality** of projects with a clear business case, funded by revolving funds, were more convincing than the conclusions of **development additionality** of programmes in the stage of innovation development, funded by non-revolving programmes. Often, under the heading ‘development additionality’, only a description of the expected development impact was given, which is insufficient to claim the achieved development *additionality*. This is partly due to the early stage at which the evaluations were studied, sometimes mid-term evaluations. The ex-post evaluations confirm our ex-ante assessment findings, as follows:

- i. Projects with a clear business case, close to the commercial upscaling phase, supported by revolving funds, focus on **financial input additionality**.
 - a. AEF, supporting renewable energy in the construction phase, has the clearest case for financial input additionality, by showing that part of the required finance is not available from commercial funders, and by showing declining concessionality over time, when more commercial finance comes in. The fact that FMO decides what can be supported by the concessional AEF, and what by the non-concessional FMO-A, is a strength.
 - b. GAFSP, supporting investments in the agricultural sector, operates in between innovations and commercial upscaling. They are less convincing in demonstrating financial input additionality.
- ii. Projects without a clear business case in the innovation development phase (new product, new market) supported by non-revolving programmes focus more on **development additionality**: they focus on what is really new in that country context. In such cases, financial and non-financial input additionality are less of an issue, because the private sector and commercial finance are not yet active in that product, service or market.
 - a. Both zSCALE and FDOV mainly work on value chain development, sometimes with new products or techniques, often with new groups of smallholder farmers.

- b. However, there are also FDOV and 2SCALE projects that build on preceding initiatives, partnerships and value chains, or even copy initiatives already going on in the same country, which makes it more difficult to show their development additionality.

A few examples of where additionality was found to be absent are worth mentioning as a warning. In one case, local commercial finance was available, and had been used before, but was now crowded out by a concessional loan (a GAFSP project). In another case, a project was presented as an innovation, while several similar projects, supported by government and NGOs, were active in the same country (a 2SCALE project). Finally, in a few cases the initial investment was clearly additional, but after several years the follow-on concessional support was not, because commercial finance was already stepping in (two AEF projects).

6.5 How do initiatives mature and transfer from mainly ODA to more commercial funding?

From our assessment of the six programmes and our first series of interviews at the ministry and implementing organisations, we had the impression that there is a disconnect and a gap in the support between the more concessional non-revolving programmes and the less concessional revolving funds. It seemed that very few projects from the non-revolving programmes ‘graduated’ to revolving funds. And the revolving funds, in turn, which generally have a shortage of good project ideas with a well-elaborated business case (‘a lack of bankable projects’) did not select successful projects from the non-revolving programmes. We therefore held some follow-up interviews with the DGIS IGG managers of these programmes, and with implementing agency RVO about the Dutch Good Growth Fund (DGGF/Track 1, a revolving fund that supports projects in the agricultural sector which could in theory come out of the non-revolving programmes).

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CIO and the newly established DFCD are an exception: these funds have their own non-revolving development fund (CIO) and origination fund (DFCD) that prepare proposals for their revolving construction fund (CIO) or agriculture or water funds (DFCD).

Forwarding projects from non-revolving programmes to revolving funds is limited in practice:

- **SDGP and DGGF.** At least in one project assessment, the graduation of an SDGP project to the revolving DGGF fund was foreseen. However, DGGF (Track 1, managed by RVO), which currently has 39 projects, including in the agricultural sector, has not picked up projects from SDGP, 2SCALE, ISLA or G4AW yet. The impression at RVO is that these projects are driven more by NGOs or producer organisations than private companies, and that more emphasis on a private sector lead and a bankable business case would help the projects graduate to revolving funds and commercial finance. About a quarter of the DGGF projects are picked up from PSI, PSOM and DHI,¹³⁴ non-revolving RVO programmes that prepare

¹³⁴ Three programmes managed by the Netherlands Enterprise Agency (RVO): Private Sector Investment Programme (PSI); Programme for Cooperation in Emerging Markets (PSOM); Demonstration projects, feasibility studies and investment preparation studies (DHI).

companies or joint ventures for more commercial finance. It has also happened that commercial banks forward an innovative and uncertain idea from a client to DGGF.

- **G4AW.** About 30% of the G4AW projects attracted additional blended finance support, e.g. from Rabo Foundation, FMO, and a local bank. These include revolving funds, as well as additional grants. However, the attracted support has not reached a level yet that allows commercial upscaling. G4AW is expected to add a programme extension enabling successful three-year projects to apply an additional year's funding to develop a bankable business scale and sufficient scale to be interesting for commercial banks or blended finance institutes.
- **2SCALE.** About 30% of 2SCALE's projects managed to attract additional blended finance support, for example from the Rabo foundation, CFC or local micro-finance institutions, but often not quite up to a level for commercial investment yet. CFC, a blended finance institute, participates in 2SCALE's selection committee, which helps select ideas with a potential business plan. The step to FMO funding, only available for large budget investments, is too big. IFC-GAFSP is more accessible for smaller projects. There is one project that is partly funded by 2SCALE (organisation of farmers) and partly by SDGP (processing hardware).
- **ISLA.** Although ISLA quickly mobilised private sector co-investments in their landscape projects, often from partners already involved in other IDH¹³⁵ work, it is more difficult, or at least it takes longer, to develop a bankable business case for a blended finance or commercial investor. ISLA hopes to prepare proposals for DFCD and investments funds such as the concessional Agriz Fund,¹³⁶ over the next five years.
- **AEF.** Most project ideas that AEF collects are identified by FMO staff in the field, who can then decide whether AEF concessional funds are needed, or if non-concessional FMO-A funds can be used. No projects are picked up from Dutch-funded non-revolving programmes such as EnDev. EnDev works with the local private sector that receives local financial support. On the other hand, EnDev did develop proposals that were picked by the public sector, for example the World Bank and national governments.

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A few generic constraints in forwarding successful projects from non-revolving programmes to revolving funds were mentioned by IGG staff and other experts. One would not expect all innovative projects to make it to commercial upscaling – only the successful ones. Nevertheless, it seems that the design of the programmes, each having their own eligibility criteria, does not favour the transfer of a successful innovation from a non-revolving programme to a revolving programme for commercial upscaling.

- **Shortage of bankable business cases.** Many innovative initiatives supported by non-revolving funds do not manage to develop a bankable business case. Market demand and commercial viability receive too little emphasis. On the other side, several revolving funds and Development Finance Institutes (DFI) have limited possibilities (modest grant funding) to develop project proposals. Most agree, though, that more grant funding is needed to coach companies to develop good, bankable proposals, as is the case with 'GetInvest', for example, which is funded by the European Commission (EC).

¹³⁵ IDH implements a number of programmes, including ISLA.

¹³⁶ The Agriz Fund is set up by UNEP and Rabobank, together with partner IDH, and is supported by FMO.

- **Small size of investments.** Many DFIs, including FMO, as well as the Green Climate Fund, are only interested in larger projects (with budgets running in the several millions), leaving interesting investment opportunities with smaller budgets unserved. There are some successful intermediate DFIs that serve smaller budget proposals; for example, the EU-funded instrument ‘ElectriFi’ supports renewable energy projects that are too small for FMO. There are a few other financial instruments that bridge this gap, but there is certainly a need to support smaller scale initiatives.
- **Linking non-revolving support to revolving funds.** Some of the people interviewed are enthusiastic about the concept of DFCD, with an origination facility (non-revolving fund) than can forward successful ideas to the two revolving funds under DFCD for agriculture and for water projects. On the other hand, doubts were expressed as to whether one should limit this handing over of viable projects from one Dutch origination fund to another Dutch revolving fund. It may be better to allow for more flexibility and take a broader international approach, enabling a handover to other DFIs or multilateral funds as well. For example, projects from the DFCD origination fund that are not picked up by the DFCD investment funds can be handed over to other international funds. This flexibility requires adjusting the eligibility criteria of the individual programmes and funds.
- **Overview of instruments.** There is no simple overview of all the different instruments, each with its own requirements, that would help direct applicants to the right fund or programme and would help to forward successful projects from the non-revolving support to the revolving support. An exception is RVO, which provides a good overview of all its private sector development instruments.

There are several options to bridge this gap, which are presented in the recommendations. There is also a role for the individual project assessment to play. Increasing the focus on certain additionality criteria could increase the likelihood that successful innovations become commercially viable.

First of all, even for uncertain innovations, the longer-term commercial viability – the business case – needs to be anticipated. This includes a good market analysis: the potential demand by a chosen target group, the affordability of the product or service, and a plausible technical and operational plan to meet this demand. This does not have to be a detailed, quantified cash-flow prediction, but at least it should be clear who will be the lead company or investor, what financial flows are expected and how both profitability and the development impact will be ensured. We have come across descriptions of interesting partnerships where these issues were not clear.

Second, there should be an idea of the minimum concessionality, which declines over time. More concessionality (e.g. non-revolving subsidies) is justified in the initial phase, while less concessionality (e.g. loans and equity) is justified in the later phase. We note that this flexibility is relatively well taken care of in investments in renewable energy, but this flexibility hardly exists in the non-revolving support that we examined in the agricultural sector.

Two approaches for handing over successful innovative projects from non-revolving programmes to revolving funds for commercial upscaling are worth considering: (i) integrate this flexibility into a single instrument as is foreseen in DFCD, and (ii) enable much more proactively the handover of projects between the different instruments, which should then not be limited to instruments funded by the Netherlands.

6.6 Zooming out: what type of finance is appropriate when?

In the previous sections of this chapter, we distinguished between two main types of blended finance and PPPs: the non-revolving programmes with more ODA in the blend, and the revolving funds with a larger private or commercial contribution. Zooming out, and applying the principle of minimum concessionality, this brings us to a broader discussion, including the following questions: What could be funded purely by private and commercial funding? What is best funded by temporary blended finance? And what will require long-term public funding?

In Section 5.6, we already illustrated the model that would be appropriate for different sectors, in different contexts, with different blends, from 100% ODA to 100% commercial funding.

This section first discusses the distinction between short-term concessional blended finance and long-term public subsidies, and then suggests a decision tool to help find the appropriate public support. Finally, this section describes a broader interpretation of 'the added value' of a project in the landscape of other projects and other donors.

Short-term business development versus long-term public services

DGIS should make a clearer distinction between projects with potential commercial viability, which should be driven by the private sector and focus on a bankable business case, and projects with no potential commercial viability but which are important for other forms of development impact, for example multi-stakeholder dialogue and forming partnerships, or giving poor people in marginal areas access to energy, water or other services. For the latter, longer-term public support is justified, as it differs from short-term business development. This could occur through a PPP construction. End-user subsidies are an option to provide people with access to renewable energy in marginalised areas.

A draft decision-support tool to find appropriate public support

An ex-ante classification of project ideas can help the ministry decide what type of support is appropriate for what type of projects. In Box 6.6 we present a very first draft of such a decision-support tool: a slightly expanded version (points 5-8) of what the World Bank and IFC have presented in their cascade approach for blended finance¹³⁷ (points 1-4). The model illustrated in Section 5.6 gives an indication of what one could expect for different sectors and sub-sectors.

¹³⁷ World Bank, 2017. 'Operationalizing the IDA18 IFC -MIGA Private Sector Window.' (Box 1, p. 7)

Box 6.6 *Decision-support tool for type of private/public/blended finance*

1. Can commercial financing be cost-effectively mobilised for sustainable investment?
 - a. yes: commercial financing should do the job
 - b. no: → next
2. Can upstream reforms in the enabling environment be put in place to address market failures? (country sector policies, regulation and pricing, institutions and capacity)
 - a. yes: work on this
 - b. no: → next
3. Can risk instruments and credit enhancement cost-effectively cover remaining risks (guarantees, first loss)?
 - a. yes: work on this
 - b. no: → next
4. Can development objectives be resolved with scarce public financing? Public and concessional financing, including sub-sovereign finance (public finance, including national development banks and domestic sovereign wealth funds, multilateral development banks and development finance institutes).
 - a. no: no solution with ODA or blended finance.
 - b. yes: → next
5. Is it commercially viable in the medium term (3-20 years)?
 - a. yes: BF (ODA + private sector contribution), go to 6
 - b. no: → 7
6. Is the business case calculated and clear, or still to be developed?
 - a. business case clear --> support from a revolving fund
 - b. business case to be developed --> support from a non-revolving programme
7. (Not commercially viable in the medium term: BF not appropriate.) Can private sector play a role if long-term subsidy is provided?
 - a. yes: → long-term subsidy to private sector (social marketing, subsidising availability and affordability)
 - b. no: → next
8. Can ODA or other public funding deliver the development outcomes through a purely public service?
 - a. yes: → only then provide 100% ODA grants or other public funding to public organisations or NGOs
 - b. no: → no ODA or other public funding solution.

The broader added value of working with the private sector on climate action

The previous sections focus on the narrow definition of additionality¹³⁸ of ODA in blended finance, compared to commercial finance alone. Here we discuss broader aspects of additionality – or better yet: added value – of programmes working with the private sector on climate action.

According to the desk officers interviewed, the funds and programmes that the Netherlands set up or helped to set up are all ‘additional’, with an emphasis on added value for development, or developmental impact, compared to what other donors and other programmes or funds are already doing. The interviewees were convinced that ‘their’ funds and programmes add value by being innovative, supporting the development of new techniques and products – and especially promoting the development of new markets. Dutch policymakers also feel that they have added value in that they promote a gender lens and a pro-poor focus. However, these results are not yet evident in most of the available evaluations, as was explained in the Section 5.7 on reach.

Dutch programmes (e.g. AEF, DFCD and CIO) often play an innovative role in that they support the origination and development of projects that are ‘bankable’, i.e. interesting for DFIs and commercial investors to take up. This is confirmed by many interviewees as an important niche, because DFIs and commercial investors experience a shortage of ‘bankable projects’.

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We note, however, that for some projects funded by Dutch revolving funds, similar funding from other actors, notably DFIs, could have been available. The question should not only be whether Dutch concessional support, e.g. from FMO, is additional to the commercial financial sector, but also whether it is additional to concessional support available from other (non-Dutch) DFIs.

¹³⁸ For definitions on additionality see also DECD, ‘Demonstrating additionality in private sector development initiatives’ (Heinrich, 2014).



7

Discussion on the future of climate finance

7.1 Introduction

In this chapter, we will link some of the broader issues that have come up during this study, beyond the core subjects ‘reach of climate finance’ (Chapter 5) and ‘additionality of ODA in blended finance’ (Chapter 6). We will present these issues as potential pathways for future climate policy and climate finance.

We first discuss the needs for international climate action and finance for developing countries (7.2). Then we present three pathways for future policy and finance: agreeing on dedicated climate finance (7.3), mainstreaming climate finance into development assistance (7.4), and aligning all policies and all finance to climate objectives (7.5). The latter section will include considerations on policy coherence, the Rio climate markers, an enabling business environment, working on mitigation in richer countries and technology transfer. Section 7.6 discusses avoiding the perverse incentive of reporting mobilised private sector finance. This chapter ends on the topic of improving transparency in climate finance (7.7).

Box 7.1 *The main findings and recommendations presented in this chapter*

- **Using the needs of developing countries as a basis for future climate finance.** Climate change increases the costs of development, which is an argument for dedicated, new and additional climate finance. Current climate finance does not meet the needs for climate action in developing countries. So far, an agreed needs assessment based on country plans has been lacking. The Netherlands can use the methodologies discussed in the UNFCCC Needs Determination Report to support partner countries to identify needs and to help develop country plans. The Netherlands can use this as a starting point for further discussion on how to target its climate action and what climate finance it can provide. This will increase southern governments’ ownership of climate action in their countries.
- While political choices about the level of ambition in climate finance will determine the course of a new cabinet, we suggest that they consider all three policy pathways (strategies) to increase support for climate action:
 1. **Deciding on dedicated climate finance (pathway 1).** Developed and developing countries have different interpretations about what counts as dedicated climate finance. Developed countries will need to agree on a new envelope for support to developing countries by 2025. The Netherlands can contribute to the discussions on a new target amount and rules in the context of UNFCCC and OECD DAC.

2. **Mainstreaming climate considerations in all development assistance (pathway 2).** At the very least, following the Paris Agreement, all Dutch ODA should avoid harming the climate (being climate-sensitive, avoid being climate-blind). In addition, a substantial part of ODA could do good (being climate-relevant), either by mitigating climate change, or by helping vulnerable groups and countries adapt to climate change. Applying Rio climate markers is the minimum requirement, but it is important to really enhance climate relevance or smartness,¹³⁹ in particular in climate adaptation activities. Besides climate markers, climate-relevant indicators, baselines and targets, need to be used to achieve climate impact.
 3. **Aligning all Dutch policies with the Paris Agreement (pathway 3).** This requires an effort to increase policy coherence, including a shift away from support to fossil fuels. It also requires a public strategy to encourage the private sector to do good and to discourage the private sector from harming the climate, for instance through climate-friendly taxes and tariffs. To maximise effects, the focus moves from mobilising private finance to aligning private finance with climate objectives. International cooperation can promote green investment and support an enabling environment for green and innovative private sector development in developing countries. For policy coherence and greater southern ownership, national plans such as NDCs could be the starting point for climate action.
- **Improving the transparency of climate finance.** Southern governments and civil society organisations regret that a large part of the climate expenditure reported by developed countries cannot be traced to climate action on the ground in developing countries, and that commitments are often not specific or long term. The Netherlands could actively seek to achieve greater transparency regarding climate finance, in the context of UNFCCC and OECD.

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In the Summary, these findings are elaborated into recommendations, presenting policy options for the new cabinet, at a modest and higher level of ambition.

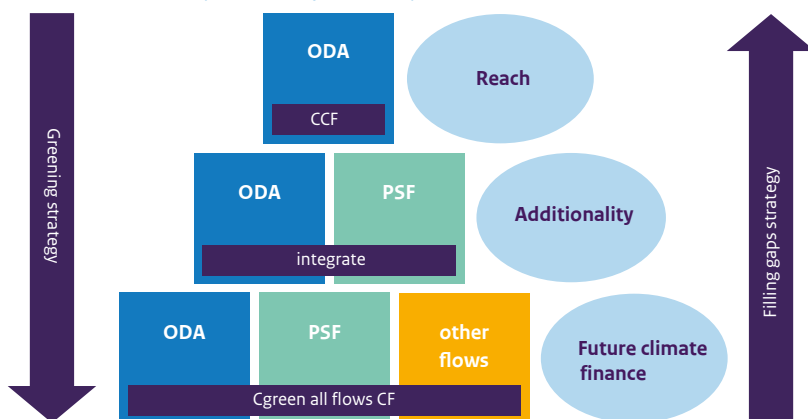
Three pathways, three types of finance: greening the flows and filling the gaps

Figure 7.1 illustrates the complementarity between different finance flows for climate action: (i) ODA used for climate finance, (ii) private sector finance mobilised by ODA, and (iii) other public and private financial flows. The main evaluation questions of this report concerned (a) the reach of ODA and mobilised private finance, (b) the additionality of ODA in blended finance and (c) the future of climate finance. To design future climate finance, one could either do an analysis and plan according to a 'greening strategy', from top to bottom: identify the amount of dedicated climate finance, then mainstream climate into development assistance (and mobilise private sector finance), and then work on policy coherence: not only

¹³⁹ Climate-smart is a term used mostly for agriculture but it can apply to other sectors as well. It means incorporating the need for adaptation and the potential for mitigation into sustainable development strategies (website: [FAO website Climate-Smart Agriculture](#)).

mobilising private finance but also greening all other financial flows. Alternatively, one could do an analysis where dedicated ODA 'fills the gaps', from bottom to top: first identify what policy coherence and greening all financial flows can achieve, then identify how climate-smart assistance can fill unmet needs in developing countries, and finally identify how dedicated climate finance can fill the remaining gaps.

Figure 7.1 Figure representing the three sources of finance for climate action (in three stacked sets of blocks), the strategies of greening flows or filling the gaps, and the structure of this report (in the ellipses on the right). CF = climate finance, PSF = private sector finance.



7.2 Using the needs of developing countries as a basis for future climate finance

Climate change increases the costs of development. The longer we wait with climate adaptation and mitigation, the higher the costs will be. Moreover, investments now save much higher costs in the future. For example, the Global Commission on Adaptation estimated a benefit cost-ratio between 1:2 and 1:7, i.e. one dollar of investment saves 2-7 dollars in costs¹⁴⁰. They estimated that a USD 1.8 trillion investment in the areas of early warning systems, climate resilient infrastructure, improved dryland agriculture, global mangrove protection and resilient water resources could generate USD 7.1 trillions of avoided costs and non-monetary social and environmental benefits. The case for early warning systems and disaster risk reduction (DRR) is most convincing. Climate change has increased the number and severity of natural disasters, floods and droughts. The benefits of disaster risk prevention and reduction go beyond recovery and the saving of lives and livelihoods. While analyses of the costs and benefits of climate action vary wildly, 1 USD invested in disaster risk reduction is claimed to lead to around 7 USD benefits, although that figure is disputed and is expected to differ per sector and type of activity¹⁴¹.

¹⁴⁰ Global Commission on Adaptation, 2019. 'Adapt now: a call for global leadership on climate resilience.'

¹⁴¹ See e.g. Shreve and Kelman (2014) Does mitigation save? Reviewing cost-benefit analyses of disaster risk reduction.

Similarly, investments in renewable energy in developing countries now prevents loss of investment in fossil energy (stranded assets) and the need to pay for a more expensive transition later (carbon lock-in).

To assess what kind of finance the Netherlands could or should contribute to international action on climate change, we would ideally need to get a clear picture of what exactly is needed. However, estimates of the needs, both for climate change mitigation and adaptation, vary widely, as explained in Chapter 2. Estimates of the global investment required for mitigation ‘range from USD 1.6 trillion to USD 3.8 trillion annually between 2016 and 2050, for [...] energy system investments alone’ (International Panel on Climate Change 2018).

Box 7.2 *Estimates of the needs for developing countries*

For **mitigation**, the needs of developing countries are estimated at USD 1.2 billion per year, between 2016 and 2050.¹⁴²

For **adaptation**, the expected needs show a gradual increase.¹⁴³

USD 70 billion per year in 2020

USD 140-300 billion per year in 2030

USD 280-500 billion per year in 2050

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The finance that developed countries provided and mobilised for developing countries reached USD 78.9 billion in 2018, USD 62.2 billion of which was public climate finance.¹⁴⁴ The trend is upward, but at the time of writing it is still uncertain whether the goal of USD 100 billion a year will have been met in 2020.¹⁴⁵ Developing countries in particular will be unable to carry all of the costs for climate change adaptation that their countries will inevitably face in the coming decades. The COVID-19 crisis has exacerbated the challenge to reach development goals and international climate targets.

¹⁴² The ‘Forward-Looking Performance Review of the GCF’, estimated the needs for developing countries using the IPCC estimates of the worldwide needs (GCF IEU, 2019).

¹⁴³ ‘Adaptation Gap Report 2020’ (UNEP, 2021). There are many other reports. See also the evidence submitted to UNFCCC SCF, inter alia a [report by Climate Analytics \(2020\)](#), which mentions mitigation finance needs of around 830 billion annually, while acknowledging a wide possible range of estimates.

¹⁴⁴ Report on Climate Finance Provided and Mobilised by Developed Countries 2013-2018 (OECD, 2020a).

¹⁴⁵ At the time of writing, in early 2021, the MFA had not yet verified and reported expenditures for 2020. Some critics maintain that the annual target of USD 100 billion collective support from developed countries was unlikely to be achieved.

Box 7.3 *COVID-19 and the financing gap for the SDGs*

COVID-19 and the financing gap for the SDGs

The COVID-19 crisis in 2020 has shown how vulnerable people are – and how vulnerable our economies are – and how easily sources of finance can stop, decline or be diverted. Not surprisingly, the COVID-19 crisis is threatening to undo some of the progress. The OECD¹⁴⁶ stated that the annual financing gaps towards reaching the SDGs was 2.5 billion before the crisis and predicted that the 'SDG financing gap' would increase to 4.2 trillion, with additional needs for COVID-19 spending of USD 1 trillion in 2020 and a USD 700 billion drop in external private resources for developing countries. At the same time, the COVID-19 crisis has also shown that climate change caused by the fossil fuel industry and air travel, for example, are not necessarily inevitable: fossil fuel prices and stocks in the oil and gas sector fell sharply (although the long-term effects of this are unclear) and air travel was temporarily forced to a near standstill. The OECD calculates that aligning 1.1% of USD 379 trillion in global finance with the SDGs could fill the USD 4.2 trillion gap.

The crisis has also inspired plans to 'build back better'. When setting up support packages and proposing reforms because of the crisis in 2020, multilateral actors such as the World Bank and the EU committed to using this as an opportunity to promote green and sustainable initiatives. Relief and reform packages can be made green and inclusive. Support can be made climate-smart: it can be extended (only) to sustainable investments rather than heavily carbon-dependent industries or be accompanied by conditions for green reforms. Financial flows can be reverted to advance public causes, rather than spent only on damage control.

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The Special Committee on Finance (SCF) of the UNFCCC is currently (2020-2021) working on a Needs Determination Report, that focuses on methodologies. The Netherlands plays an active part in these discussions, as an important player in the group of EU member states. Agreement on the methodologies can help developing countries to develop their country plans further. Internationally agreed needs assessments could also help the international community to determine new financial targets to support climate action in developing countries.

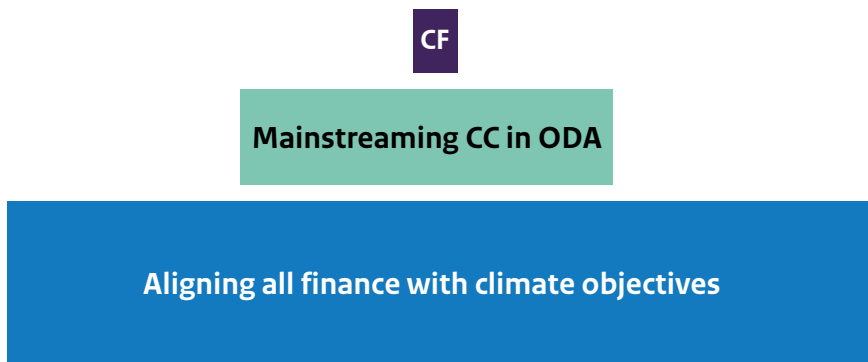
To provide resources for climate action, three strategies, or policy pathways, need to be considered at the same time, which will be discussed in the following three sections: (7.3) deciding on dedicated climate finance, (7.4) mainstreaming climate considerations in all development assistance, and (7.5) aligning all policies with the Paris Agreement¹⁴⁷ (Figure 7.2).

¹⁴⁶ In the *Global Outlook on Financing for Sustainable Development 2021 (OECD, 2020d)*.

¹⁴⁷ The Paris Agreement states in Article 2.1.c, we need 'to make finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development' - see Chapter 2.

These pathways derive from commitments that the Netherlands and other developed countries have already made, in particular in the Paris Agreement¹⁴⁸ and in UNFCCC meetings.

Figure 7.2 Three forms representing the ways to generate flows for climate action and their approximate size. If the true proportions were depicted, the box for ODA and the one for mainstreamed assistance would be much smaller. CF = climate finance.



Considering these three pathways for climate finance, which should be walked down at the same time, it would be wise to start analysis for strategy and planning by looking at the overall picture. If policies and financial flows are aligned with climate objectives as much as possible (pathway 3), what remaining gaps can be addressed by climate mainstreaming of ODA (pathway 2)? And finally, which important gaps remain that really require additional, dedicated public climate finance (pathway 1)?

¹⁴⁸ As described in Chapter 2, the Paris Agreement (UNFCCC, 2015) aims to 'make finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development' (article 2.1.c.). It also says in article 9 that 'developed country Parties shall provide financial resources to assist developing country Parties with respect to both mitigation and adaptation in continuation of their existing obligations under the Convention'. These existing obligations include the commitment to collectively provide USD 100 billion per year from 2020. Developed countries should also 'continue to take the lead in mobilising climate finance from a wide variety of sources, instruments and channels, noting the significant role of public funds, through a variety of actions'. The Paris Agreement does not specify what part of the support should be ODA (which is defined and governed by the OECD DAC), but since this report focuses on development assistance, and alignment is an important strategy, IOB identified a second pathway here, on mainstreaming climate change into all development assistance.

7.3 Pathway 1: Deciding on dedicated climate finance

The first strategy is to agree on an envelope with dedicated climate finance, nationally and internationally. This pertains to public finance, especially ODA, but it could be accompanied by technical assistance and (the promotion of) transfer of technology. Developed country parties to the UNFCCC have agreed to support developing countries. The UNFCCC already agreed to provide ‘new and additional’ financial support to developing countries in 2009.¹⁴⁹ In the Paris Agreement and earlier UNFCCC negotiations, however, there was no detailed agreement on what constitutes climate finance, and most donors have not provided new and additional ODA, as explained in Chapter 2.

A note of caution is appropriate here. Discussions in the UNFCCC negotiations have tended to focus on what constitutes ‘new and additional’ climate finance and what new levels of ODA are to be dedicated to climate action. These discussions are likely to remain fruitless. Experts point out that it is more important to strive not for a maximum amount but for the optimal use of public funding and provide the type of assistance that is most effective. Furthermore, what constitutes ODA is decided by donor countries (the DAC) themselves. In addition, what is reported as ODA is subject to national political decisions, and reporting on ODA is often criticised by NGOs and developing countries.

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The OECD DAC and others have managed to identify rules on reporting – both on public finance including ODA and on what constitutes mobilised private sector finance, but reporting remains insufficiently clear and there is still criticism from civil society and developing countries. Civil society organisations¹⁵⁰ and developing countries argue that the reported climate finance is not ‘new and additional’ and that it is grossly overestimated, consisting in large part of non-grant elements. Furthermore, the collective commitment to provide and mobilise USD 100 billion a year from 2020 onwards has not (yet) been agreed to be split up in obligations, or fair shares, per donor country¹⁵¹, although the Netherlands did informally calculate its fair share as explained in Chapter 2.

The Netherlands actively participates in discussions on what constitutes climate finance and how to measure the mobilised private sector finance. Assuming that the new cabinet will have a level of ambition comparable to or at least not much lower than the previous cabinet, the Netherlands can continue to do so, ensuring that it dedicates enough capacity to this purpose.

¹⁴⁹ At the Conference of Parties to the UNFCCC in Copenhagen, 2009.

¹⁵⁰ See, for instance, the annual Oxfam Climate Finance Shadow Reports (Oxfam 2018; 2020) provided and mobilised by developed countries, first mentioned in Chapter 2.

¹⁵¹ Calculating shares could be done, for instance, on the basis of gross national income or on the basis of historical greenhouse gas emissions, in line with the UNFCCC concept of ‘common but differentiated responsibilities’ for developed and developing countries. In late 2014, Oxfam published a report calculating ‘fair shares’, which for the EU, including the Netherlands, would be much higher than the Netherlands Court of Audit and MFA calculated: around EUR 2.1 billion a year.

Indeed, international agreement is required to establish what kind of support developing countries need and to determine which contributions are in line with commitments and should qualify as climate finance.

Another reason to get a more detailed agreement on climate finance is that finance is the grease in the wheels of climate negotiations. Developing countries feel that they cannot be asked to set ambitious mitigation targets, nor can they be held accountable for their own climate actions, while developed countries have had more than a century of fossil fuel driven industrial development, which gave them prosperity but also led to global climate change, temperature rise and natural disasters. Developing countries see adaptation to climate change in their own countries as an inevitability, which developed countries should pay for. This is all the more pertinent for least-developed countries, small island developing states and Africa, which are especially vulnerable to climate change. The notion of ‘common but differentiated responsibilities’ – which is frequently used in the UNFCCC context – implies that developed countries should pay their dues. Although the Paris Agreement in 2015 abandoned the dichotomy of developed versus developing countries, there is still a feeling among developing countries that developed countries have a historical responsibility for the damage that has been done, which will not easily go away.

Another note of caution is warranted here: a focus on increasing the envelope for climate finance may end up being counter-productive, because (i) most developed countries – including the Netherlands – have fully accommodated climate finance within their ODA¹⁵² budget, which is limited and for political reasons likely to remain limited, and (ii) it is difficult to separate the additional costs of climate change action, notably the costs of adaptation, from the costs of sustainable development. A better basis for further discussion and new commitments would be determining the total needs (development needs, including climate-related needs) of developing countries, taking into account that new ways have been suggested to identify global public goods and ways in which all countries would contribute. Such new mechanisms should be explored through appropriate international fora such as the UNFCCC.¹⁵³ An increased envelope for Dutch development cooperation would make it possible to support developing countries’ economic development and simultaneously cover the extra costs caused by climate change, in particular the costs of adaptation. Such an approach would require that all departments at DGIS take into account climate considerations – which leads us to pathway 2: mainstreaming.

¹⁵² An additional issue is that a limited group of members within the OECD’s Donor Assistance Committee determines the rules for what constitutes ODA, and in practice also determines how progress against the climate finance commitments by providers is reported, separately from the biennial reports to UNFCCC. So it is not the Conference of Parties to the UNFCCC, including developing countries, that determines what is reported as climate finance from ODA, but a limited group of donor countries supported by the OECD Secretariat.

¹⁵³ Glennie et al. (2019) proposed a different way of governing development assistance, proposing the UN rather than the OECD as the main forum for discussion, and suggesting that contributions by developing countries to global public goods also be included, using a scale determined by income category.

7.4 Pathway 2: Mainstreaming climate in all development assistance

The second strategy to increase climate finance is to ensure that all development cooperation is in line with the Paris Agreement, integrating climate objectives into all policies and programmes. The Ministry of Foreign Affairs can do even more to promote the integration of climate considerations and objectives into project design, approval processes, and implementation and monitoring, and to exploit the opportunities fully.

For climate mainstreaming to have enough of an impact, it is not sufficient for development assistance and ODA to ‘do no harm’ (avoid being climate-blind; be climate-sensitive);¹⁵⁴ climate-sensitiveness should apply to all ODA. It is also important that a substantial part of ODA actively ‘does good’ (climate-relevant), that it kick-starts and catalyses action, paving the way for a transformation and a greening of our economies. The 2019 OECD report ‘Aligning Development Co-operation and Climate Action: The Only Way Forward’¹⁵⁵ – which the Dutch minister for Foreign Trade and Development Cooperation contributed to – argues that development assistance should first and foremost support developing countries and help them overcome financial, capacity and policy constraints: ‘Development co-operation needs to focus on contributing positively to developing countries’ transition to low-emissions, climate-resilient societies.’

Meaningful mainstreaming is only possible if the selection and assessment criteria for funding proposals make solid use of climate analysis. Policy officers and fund managers need to be trained, and managers and officers need to be held accountable. The staff’s knowledge and capacity needs to be enhanced to increase and improve climate action in development cooperation, at headquarters (in The Hague) and at embassies.¹⁵⁶ Meaningful mainstreaming also means realising that not each and every activity can be made climate-relevant: support in sectors such as health and education can be useful even if it is not fully climate-smart.

¹⁵⁴ Doing no harm in terms of preventing carbon emissions is difficult, though; for instance, economic growth as a result of giving people and companies access to energy probably generates more emissions. This does not mean development cooperation should *not* try and be climate-smart or climate-friendly (see the fourth paragraph of 2.4. below).

¹⁵⁵ ‘Aligning Development Co-operation and Climate Action: The Only Way Forward’ (OECD, 2019c). The report ‘focuses on how development co-operation providers can align their strategies, programmes and operations’ climate objectives to build a truly sustainable development pathway. It identifies what “Paris alignment” means for development co-operation, and underscores the importance of ceasing decisions that tie countries to outdated, risky high-emissions activities and to insufficiently adaptive development. [While ODA] is important as a financial resource to address critical resource gaps, its fundamental purpose is to support developing countries. To help in the critical task of overcoming key financial, capacity and policy constraints, development co-operation needs to focus on contributing positively to developing countries’ transition to low-emissions, climate-resilient societies.’ Dutch minister for Foreign Trade and Development Cooperation Sigrid Kaag was a member of the High-Level Panel advising this report.

¹⁵⁶ Note that IGG has been mainstreaming climate change considerations into wider development assistance for a long time, since at least 2012, inter alia through a partnership with the NGO World Resources Institute, which seconded experts to integrate climate into embassies’ development work.

Programmes and projects that receive a climate adaptation marker need to be truly ‘climate-smart’ (climate-relevant): they must include adaptation to a changing climate into their design and implementation, in particular in the food, agriculture and water sectors. To increase the actual climate-smart implementation of projects and enhance the climate impact of adaptation projects, clear indicators, baselines and targets have to be introduced. Furthermore, as described in Chapter 2, the Netherlands can continue to insist that all development organisations it funds are climate-friendly or carbon-neutral – or at least have an action plan on how to get there. This is all the more important for multilateral development banks and multilateral funds, which receive large, often unearmarked contributions from the Netherlands and are, generally, not monitored closely on their climate and development impact. In practice, this means that Dutch representatives, especially on governing boards of multilateral banks and organisations, should consistently ask for climate considerations to be integrated into funds and programmes.

Note that such steps towards aligning with the Paris Agreement would be desirable even at a modest level of ambition, assuming the new cabinet will want to honour its international commitments.

Rio markers on climate

As explained in earlier chapters, the ministry (DGIS) uses the OECD Rio marker system to signal climate relevance and calculate what amounts can be reported as climate finance, just like other donors. The current way of registering climate relevance, through these markers, is insufficient to get a full picture of climate-relevant disbursements. Basically, it makes it possible to indicate either 40% or 100% climate relevance, according to the objectives set at the outset of financing a project, fund or programme. And while the markers were not intended to be tools for calculating the exact amount of climate finance provided, they are in practice widely used as such. This was also explained in some detail in Chapter 2 (Box 2.1) and Chapter 5. The OECD has recently enhanced the reporting system, but we believe the Netherlands would benefit from continuing its active role in the attempt to improve the system further.

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IOB did not check the hundreds of activities with a Rio marker on their true climate relevance.¹⁵⁷ The policy department IGG does have a dedicated policy officer who seems to do a thorough job. However, for this study we read several background documents on individual activities. From our limited review of these activities, we conclude that especially the ‘significant climate adaptation’ marker can be allocated quite easily, while assessment memoranda and evaluations do not always provide sufficient information to support the use of this marker. The next section will elaborate on these issues.

¹⁵⁷ IOB has, however, seen some examples of the use of climate markers in assessment memoranda of funds and programmes, including projects from the four non-revolving programmes that we studied for the chapter on additionality. In an upcoming study on climate change adaptation, IOB will look at the impact of such adaptation projects and hopefully be able to present findings on climate impact.

Climate smartness beyond the Rio markers

The (internationally used) system is imperfect and leaves a lot of room for interpretation by individual desk officers responsible for approving and registering projects. Furthermore, the markers indicate climate change objectives. They were never intended to account for financial commitments.

Box 7.4 *Climate smartness of climate adaptation activities*

Activities with climate mitigation as a 'principal' objective, which promote access to renewable energy or clean cooking stoves, or reduce deforestation, clearly have climate relevance. They contribute to climate mitigation and have development impact. For activities marked 'significant', it is often harder to see to what extent climate impact was successfully integrated into the project.

Activities with a marker for adaptation – mainly found in the water and agricultural/ food sectors – might be labelled 'significant' and count for 40% even when individual projects do not pay much specific attention to climate adaptation. This was the impression IOB got from reading assessment memoranda and evaluations.

IOB saw some examples of activities that seemed to have a real impact on climate adaptation. For instance, the G4AW programme supports innovative projects providing satellite-based weather information to farmers, which they can use for weather insurance products for farmer credit. This is an example of a climate-smart food security project.

Some other activities, on the other hand, continue doing what they have been doing in the past, for example in the field of sustainable agricultural value chain development, but officers have now started to label this 'business as usual' as 'significant' for climate adaptation. This is not necessarily a bad thing, but it does mean that extra climate markers do not in themselves indicate improvements in practice.

Over the past decade, there was an emphasis on reporting as much climate finance as possible (which was politically desirable), combined with the labelling of ODA activities with Rio climate markers. This however carries the risk of over-reporting on climate finance, distracting from the effectiveness of the climate action. For integrity's sake, DGIS should avoid 'greenwashing', for instance by building and dedicating capacity to help desk officers decide and register the climate markers correctly. Note that the Netherlands has already worked on integrating climate considerations into bilateral assistance for approximately a dozen years. Experts, including one seconded from the World Resources Institute, are assigned to help embassies conduct climate analyses and make their programmes climate smart, and this must be recognised as best practice.

In conclusion, for mainstreaming climate into the ODA portfolio, the Rio climate markers represent the minimum that should be done: identifying climate objectives. Above that minimum, there are various extents to which climate can be integrated into development project design and implementation, especially in activities labelled as 'significant for climate adaptation'. Even without changing what is reported as climate finance, there is room for increasing the climate mitigation or adaptation effects on the ground. (This issue is expected to be explored in follow-up IOB studies, notably one on climate adaptation.)

7.5 Pathway 3: Aligning all Dutch policies with the Paris Agreement

The third pathway is to align other (non-ODA) policies, and all public and private finance to the agreed climate objectives. In chapter 2, we noted developed countries' commitment in the Paris Agreement to make all finance flows climate-friendly, that is, 'consistent with a pathway towards low greenhouse gas emissions and climate-resilient development'. This section will explore what can be done beyond ODA and what the challenges are.

Policy coherence

The OECD report of November 2019 on aligning development cooperation and the Paris Agreement¹⁵⁸ carefully sets out the challenges for donor countries. It concludes that they are 'not yet adequately set up to address the climate emergency. [They] should integrate the climate imperative into providers' mandates and performance systems and establish the right capacities and tools to deliver'.

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The OECD underlines the importance of policy coherence for sustainable development: in this case that means aligning all policies to the climate objectives. Indeed, trade and agricultural policies, fiscal policies and support to the fossil fuel industry have exacerbated climate change, hampered some public policy objectives, notably those of developing countries, and contributed to climate change and the degradation of ecosystems, 'doing harm' to future generations. Dutch trade, agricultural and energy policies are, of course, largely regulated by EU common policies. But the Netherlands does have an important role to play, first, in ensuring that its own policies and regulations are climate-friendly, as well as its fiscal system. And secondly, it can influence European policies and regulations – which it does do, of course. In this context, it is excellent news that the EU has adopted ambitious plans over the past few years, such as those outlined in the Green Deal.¹⁵⁹

¹⁵⁸ Referenced in Chapter 2 and above under pathway 2, 'Aligning Development Co-operation and Climate Action: The Only Way Forward' (OECD, 2019c). Minister Kaag was a member of the high-level advisory panel that informed the report, and she was committed to implementing its recommendations.

¹⁵⁹ The Green Deal is the EU's action plan for a clean and circular economy in 2019-2024, which emphasises climate action (website [EU Green Deal](#)). The Netherlands has been a clear supporter of the Green Deal within the EU. The EU has various other standard-setting policies to promote sustainability: for instance, the EU Taxonomy for Sustainable Finance will regulate what is sustainable finance.

In our interviews with policymakers and in desk research, IOB has come across dilemmas and issues around support for the Dutch oil and gas sector, so this issue is certainly relevant to the Netherlands. Foreign trade is part of the same portfolio of development cooperation. Minister Kaag's staff continue to have internal discussions on the balance between national business interests and global climate and development goals, in particular on export credit insurance. If it wants to achieve policy coherence, the Netherlands should finish the process of 'greening' all of its financial instruments for trade and development, including export credit support.¹⁶⁰

The Ministry of Foreign Affairs is lobbying dozens of other countries to be more ambitious in their mitigation action in a dedicated 'campaign', as a future IOB study on climate diplomacy is expected to describe. But climate-friendly policies and ambitious mitigation targets for the Netherlands itself would need to be adopted first, for the sake of credibility.

Coherence in development cooperation also implies aligning your efforts with developing countries' national plans. To increase ownership for climate action, the Nationally Determined Contributions as well as other national adaptation and mitigation plans would provide the best starting point.

The enabling business environment

In the alignment of financial flows with climate objectives, there are two ways to promote private sector development in general: (a) extending direct support to selected companies, and (b) supporting an enabling business environment. As we saw in Chapter 6, it seems that Dutch development cooperation over the past few years has focused on (a), direct support to selected companies, through (i) blended finance to leverage commercial finance for development, and (ii) setting up thematic, small or medium-sized public-private partnerships, alongside (iii) a focus on the development of the private sector in developing countries.¹⁶¹ To have a greater and lasting impact, it would be wise to focus more on creating an enabling environment, improving governance and regulations, affecting all companies in a level playing field, thus contributing to the overall greening of private sector flows. In this way, the government can stimulate Dutch and multinational companies to truly serve and promote climate change objectives – and contribute to developing countries' transformation to a low-carbon, climate-resilient economy. This will be challenging, of course. But in the end, it will probably be more cost-effective and less labour-intensive than (first) supporting the private sector with public finance or (second) setting up public-private partnerships with Dutch companies and their developing countries' counterparts, as seems to be the current trend.

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¹⁶⁰ Reference is made to a Letter to Parliament of February 2019 on greening the financial instruments for trade and development ([Ministry of Foreign Affairs, 2019a](#)). At the moment of writing, April 2021, plans are being discussed in the senior management council of the MFA to further operationalise the greening of the instruments for economic development and foreign trade, including export credit.

¹⁶¹ The focus on public-private partnerships was found at least for the climate-relevant spending in the food and water sectors, which IOB studied, but is probably a wider phenomenon at DGIS, for instance the DDE department. The IOB policy assessment on budget article 1 (trade, investment and development) and its underlying studies will also deal with DGIS policy to engage the private sector for sustainable development.

Finally, cost-effective mechanisms exist – though they may need to be improved – to create incentives for the private sector without requiring much public funding, for instance by CO₂-taxing.

Box 7.5 *Carbon emission trading, carbon pricing and taxation of fossil fuels*

One concrete way to make the polluter pay is enforcing carbon pricing. The EU Emissions Trading System (ETS, set up in 2005) covers 31 countries and it caps (maximises) the carbon emissions by the covered actors and grants them the right to trade emissions, as well as buy international credits for emissions-saving projects. Carbon prices are currently very low, however, and are not a meaningful obstacle for large companies with big budgets. The current international carbon credit trading systems fall far short of the required mitigation action to reach the goals of the Paris Agreement. Parties to UNFCCC have failed thus far to agree on carbon markets. However, the EU's Green Deal aims to revise and possibly expand the EU ETS.¹⁶² And China is also setting up its own carbon market.

The aviation and marine cargo sectors are large polluters and are currently not taxed on carbon at all – except for intra-European flights in the ETS. However, international taxation schemes for these sectors are being developed, albeit slowly.

Taxing the use of fossil fuels would in itself be an option to raise billions of euros in Europe alone. Even tax reforms that simply do away with tax cuts for activities involving fossil fuels could generate a lot of resources. Signalling potential new taxes would at the very least provide clear incentives for citizens and companies to change their consumption and production patterns, and therefore it seems an option worth pursuing.

The EU's Green Deal^{163, 164} (2020) contains concrete plans to tackle climate change. It includes a proposal for a carbon border adjustment mechanism that would put a carbon price on imported goods and prevent carbon leakage. This plan was welcomed by the Dutch parliament. The Green Deal also envisages testing all EU proposals against the principle of 'do no harm', essentially aligning all initiatives with green or climate objectives.

In fact, there is an additional way of promoting development through the private sector: promoting the transfer of technology. This will be briefly discussed below.

¹⁶² Sources: European parliament factsheet, and OECD (2019d): Taxing Energy Use 2019; 'Emissions trading systems that are analysed in the OECD's Effective Carbon Rates report account for approximately 6% of carbon price signals in OECD and G20 countries'.

¹⁶³ [EU's website on the Green Deal](#).

¹⁶⁴ See Dutch policy response to the Green Deal in Letter to Parliament of 31 January 2020 ([Ministry of Foreign Affairs, 2020d](#)).

Work on climate change mitigation in upper middle-income and high-income countries

So far, Dutch climate finance has been taken from the ODA budget and therefore rightly used in developing countries, which need this support the most. However, climate action is also urgently needed in some upper middle-income countries (UMIC) and high-income countries (HIC) that are emitting a lot of greenhouse gases and/or have high rates of deforestation. The opportunities for the Netherlands to influence these richer countries through development assistance are limited.

The question is not only whether it should use ODA climate finance for this, which is preferably spent in lower-income countries and not allowed to be spent in HICs,¹⁶⁵ but also whether one should use Dutch public finance at all to invest in climate change mitigation in HICs.

A stable climate is a global public good, and mitigation and adaptation action are urgently needed. Therefore, the Netherlands could choose to assist other countries beyond development assistance: with climate diplomacy, technical assistance, as a convener, enabling multi-stakeholder dialogues, and for instance by promoting a well-functioning international CO₂ credit and taxing system. An efficient carbon pricing system would be needed to encourage climate action in UMICs and HICs alike. All of this could be financed by using modest amounts of public funds, possibly from a carbon levy, in addition to climate finance from the ODA budget.

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Technology transfer

Developing countries ask for technology transfer in particular, with a view to acquiring green technologies and advancing renewable energy. This may go beyond the topic of climate finance, but it is a crucial step in the transformation towards low-carbon, climate-resilient economies.

So far, we have discussed an enabling environment in terms of enhancing the business environment for foreign (direct) investors in developing countries. However, when it comes to climate action, an important element in the equation is the fact that new, green technologies are often owned by western or multinational enterprises, who do not want to lose their intellectual property rights. Technology transfer requires private companies to share innovative solutions, which presents a challenge. However, without access to green technology, low-income countries risk falling into the same trap as western industrialised countries: the trap of investing in carbon-intensive technologies and exacerbating climate change. Technology transfer must be a part of climate action, if we look at the commitments that developed countries made in the context of the Paris Agreement, the Addis Ababa

¹⁶⁵ ODA can be allocated to UMICs but not to HICs. Assistance to HICs cannot be reported as ODA according to the rules, which are set by the OECD DAC. The issue is that 'emerging economies', which over the past few decades have become very big and powerful, still consider themselves to be developing countries and request assistance, referring to historical responsibilities of the traditional donor countries, the members of the DAC. A related issue that was discussed in the DAC is whether small island states, which are expected to suffer most from sea-level rise and hurricanes exacerbated by climate change, should be eligible for ODA even when they fall into the category of HICs.

Action Agenda and the 2030 Agenda for Sustainable Development.¹⁶⁶ To realise policy coherence for sustainable development, global goods such as technology development and a stable climate should be key considerations. And if public funds (ODA) are used in public-private partnerships to develop new technologies, one would expect these technologies to become publicly available.

Box 7.6 *The Netherlands and green and innovative solutions*

The Netherlands is a frontrunner in the field of green energy solutions, including hydrogen as an energy carrier. It is among a select group of countries exploring possibilities of exporting energy through hydrogen, together with inter alia Japan, Morocco, Norway, Saudi Arabia as well as the European Commission. The Netherlands is one of the agenda-setters in the international community in this field, and this is one of the areas where it could promote the interests of and opportunities for developing countries.

Similarly, the Netherlands is a frontrunner in the digital economy and innovation (according to Minister Kaag's Digital Agenda, 2019), and it could proactively share digital and technological solutions with developing countries. In the context of trade negotiations, the Netherlands has indeed advocated access to digital services markets as well as other advantages for the least-developed countries.

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Avoiding the perverse incentive of reporting mobilised commercial climate finance

The ministry aims to mobilise at least 50% of Dutch climate finance from the private sector,¹⁶⁷ which has led to increased efforts to find opportunities in public-private partnerships and blended finance constructions. The new Dutch Fund for Climate and Development was planned by the new cabinet in 2018 against the background of its desire to mobilise private sector finance and give Dutch companies a chance to compete for support in the water and agriculture sectors.¹⁶⁸

¹⁶⁶ Addis Ababa hosted the Conference on Financing for Development of 2015 ([UN website](#)), and the UN 2030 Agenda ([UN website](#)) includes the Sustainable Development Goals of 2015 ([UN website](#)), as described in Chapter 2.

¹⁶⁷ As explained in Chapter 2, on Dutch policy on climate finance. The claim by developed countries that their public finance has mobilised private sector finance can be problematic because they want to prove that they have lived up to their commitments. Although there are more or less adequate OECD DAC reporting rules on this, the political incentive to inflate climate finance figures will probably also play a part.

¹⁶⁸ In practice, the DFCD, which has been operational since 2019-2020, does not prioritise Dutch companies, but it is almost certain that an assumed competitive advantage of Dutch companies and knowledge institutions plays a part in the support for these priority sectors in Dutch development cooperation, and that it played a part in discussions around this new fund at the time of the formation of the Rutte III government's cabinet. However, the emphasis the DFCD puts on adaptation action while mobilising private sector finance is welcome and promising, if we consider that private sector investment thus far is mostly geared at mitigation (largely energy and infrastructure) projects and that private sector funding is much needed for adaptation too.

One concern that developing countries, civil society organisations and even development policy officers express, is that donors desire to mobilise as much climate finance as possible and their desire to show that they are living up to their climate finance commitments result in a narrow focus on climate finance: focusing on amounts spent rather than aiming for climate impact (maximising rather than optimising).

Enabling policies that involve the private sector to increase climate action make sense. As described above, there are various ways to involve the private sector, to encourage alignment and discourage misalignment with climate objectives. New legislation, regulations, taxes and tariffs can encourage private sector investors of a sub-sector to steer their money towards more climate-friendly action. But these financial flows are not calculated or reported as climate finance, even though the climate impact may be huge. It is only when direct support is given to individual companies – in a public-private partnership or supported by public finance, for instance by concessional equity or loans – that the commercial (private) contribution is counted and reported. Currently, there is a risk that the ministry (DGIS) focuses too much on direct, financial support to companies at the expense of supporting an enabling environment for a (sub-) sector as a whole. Technology transfer and capacity development can be just as important as direct investment. We therefore recommend that the ministry acknowledges, assesses and reports the climate alignment of private sector flows in a much broader sense¹⁶⁹ – possibly in the context of international guidance on responsible business conduct and impact investment. Such an approach would be more conducive to achieving climate impact than monitoring and reporting only the narrow, direct and monetary private contribution to climate finance.

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In conclusion: changing course and ‘shifting the trillions’¹⁷⁰ in private financial flows will probably be much more cost-effective than supporting relatively small development projects, including projects with the private sector. Better mechanisms for transparency and accountability are needed to ensure the integrity of private sector finance for climate action. In the conclusions in the first part of this report, we distinguish between recommendations for a cabinet that is modestly ambitious on climate finance and recommendations for a more ambitious cabinet. If the political commitment, in line with the Paris Agreement, is to achieve a transformation of energy systems, a zero-carbon economy and climate-resilient societies, we need governments to create an enabling environment and we need donor countries to support developing countries to get there. If the Dutch cabinet embraces the spirit of the Paris Agreement and the 2030 Agenda or Sustainable Development, we also require solid fiscal and regulatory incentives, and overall policy coherence to invest in climate action, for ‘the planet and the public good’.¹⁷¹ Of course, the Paris Agreement and 2030

¹⁶⁹ Experts have explained that increased private sector contributions to climate action will decrease the transparency of reporting. This is not necessarily a serious problem if the climate (and development) impact is the ultimate objective.

¹⁷⁰ Shifting trillions is a notion commonly used about financing for sustainable development since the Sustainable Development Goals were negotiated in the run-up to the 2015 conferences, used, for example, by UNEP in their report ‘The Financial System We Need’ (UNEP, 2015).

¹⁷¹ This section makes use of texts from OECD’s ‘Global Outlook 2021 on Private Sector Finance for Sustainable Development’ (OECD, 2020d).

Agenda also require private sector companies to have the courage to change course and acknowledge that sustainability is, in the long term, the only option.¹⁷²

7.7 Improving the transparency of climate finance

Developing countries and civil society organisations have consistently complained about a lack of transparency in the reporting on climate finance, as explained above.¹⁷³ It is hard for civil society and the general public to understand what exactly is being reported by developed countries and international organisations ('providers'). Developing countries do not agree, for instance, with the way the OECD reports on the progress towards the collective commitment of USD 100 billion a year for support to developing countries.¹⁷⁴ OECD members include non-grant elements (loans, guarantees and other non-concessional instruments) in their reporting and do not report at the project or even programme level.¹⁷⁵ Developing countries do not have a clear picture which climate-relevant activities are allocated to their country and lack an overview of the actual projects being implemented at any given time.¹⁷⁶

Critics have expressed concerns about reporting, especially where climate finance is used to mobilise commercial finance. There are no clear and universal standards, measurements or baselines for impact investment. The OECD has started working on this, but it is a complex challenge, with many stakeholders and a wide variety of types of investment. Critical experts are concerned that private sector initiatives for climate action are mostly a matter of covering reputational risks or only doing good out of self-interest: the risk of 'greenwashing'.

¹⁷² For more reading, see '[Better growth better climate](#)': the flagship project of the [Global Commission on the Economy and Climate \(2014\)](#), an international initiative to examine how countries can achieve economic growth while dealing with the risks posed by climate change. Their reports identify opportunities for sustainable economic growth.

¹⁷³ The Netherlands Court of Audit in its annual 'accounts' of the MFA Annual Reports on Foreign Trade and Development Cooperation, concluded that the transparency of climate finance should improve (Netherlands Court of Audit, 2019, 2020).

¹⁷⁴ Reference is made again to the annual OECD Report on Climate Finance Provided and Mobilised by Developed Countries (OECD, 2020a) as well as the annual Oxfam 'Climate Finance Shadow Report' (Oxfam, 2018; 2020). Developing countries have made clear they do not agree with these reports either, in the context of OECD DAC and UNFCCC.

¹⁷⁵ OECD members are allowed to report non-grant contributions. The Netherlands hardly does this. Members report climate relevance at aggregate levels, but the United Kingdom (an exception) does report at activity level, according to the OECD DAC paper on results of the first survey on coefficients applied by Members of the DAC to the Rio marker data (OECD DAC 2019a).

¹⁷⁶ The OECD Development Cooperation Directorate has been trying to elaborate the 'recipient perspective' in Total Official Support for Sustainable Development since the Addis Ababa conference on financing for development in 2015 (UN website), but it is still work in progress.

There are commendable private sector initiatives and well-established reporting procedures on responsible business conduct, but there are no internationally agreed norms, baselines and standards for their reports on climate finance and climate impact investment yet.¹⁷⁷ Making information transparent and easily accessible to developing countries would help improve their ownership of and support to climate-relevant activities, including Dutch activities. The ministry, including the embassies, as well as other providers, could present facts and figures about climate-related projects in developing countries to improve transparency. Another way to improve ownership is to make sure that development projects are in line with national (or even local) development plans, national action plans for adaptation and mitigation and in particular the nationally determined contributions (NDCs). Engagement and information-sharing with national and local authorities will further help improve transparency and ownership.

The Netherlands plays an active part in the UNFCCC discussions on climate finance and to some extent in the context of the OECD, and it seems sensible to continue doing so. Moreover, the Netherlands can (continue to) support international initiatives that aim to improve reporting, including reporting on private sector finance mobilised, with diplomatic, political and financial means. This will take time, effort and – if the new cabinet is ambitious about climate finance - some extra capacity at the Ministry of Foreign Affairs.

¹⁷⁷ Relevant in this context is, first, the notion that the quality of funding strongly varies. Commercial debt funding can be highly detrimental to poor and already indebted countries, in particular when 'vulture investments' are involved. Second, guarantees provided by public funders, on the other hand, can do a great deal of good by unleashing commercial loans for investments in developing countries. Finally, the development effectiveness of interventions by the private sector can differ, see [OECD's website on development effectiveness](#), and [OECD's website Kampala principles](#). The OECD is also working on the measurement of impact investment.

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Annex 1

Detailed methodology

This annex explains in more detail how IOB set out to answer the three main evaluation questions:

- i. What is the reach of climate finance? (1)
- ii. What is the additionality of ODA in blended finance? (2)
- iii. What are broader considerations for future climate policy and climate finance? (3)

These three questions are translated into sub-questions, indicators, analyses and judgement criteria, and information sources.

1. What is the reach of climate finance?

There is a concern that climate finance is not being sufficiently spent in poorer countries, either on climate adaptation or on poor and vulnerable groups. Especially when ODA is used to mobilise private sector or commercial finance, the hypothesis is that more will be spent on renewable energy in middle-income countries. These hypotheses led to the following sub-questions, 1.1-1.5. The evaluation matrix shows for each sub-question what indicators, analysis and judgement criteria and information sources were used. The analyses and information sources are described in more detail below. Results are presented in Chapter 5.

Sub-question	Indicator	Analysis and judgement criteria	Information sources
1.1 Climate expenditure? (Results in 5.2)	a) Public climate finance provided (EUR ODA to CF) b) Private climate finance mobilised	a) Calculate CF: project expenditure x % climate relevance (20%, 40%, 100%, or imputed share); Aim EUR 1.2 billion in 2020 b) Mobilised private finance. Analysis and calculations by Trinomics; aim: 50%	MFA reports to UNFCCC 2016-2019 a) Rio markers/climate relevance per activity b) Trinomics reports 2018, 2019, 2020
1.2. Share of climate finance (CF) spent on adaptation (CA) and mitigation (CM)? (Results in 5.3)	% of CF to CA and CM	Compare with policy objectives. Informal aim: at least 50% to CA Compare with what was criticised in international CF reports. Aim: more to CA	Ministry of Foreign Affairs (MFA) reports to UNFCCC 2016-2019 IATI allocations to countries (for multiple country activities) in 2019. Ministry information system (MiBZ) allocations to countries (for one-country activities) 2019. OECD and NGO reports on international CF

Sub-question	Indicator	Analysis and judgement criteria	Information sources
1.3 Share of CF going to low income countries (LIC)? Share going to fragile states? (Results in 5.4)	% of CF to LIC % of CF to fragile states	Compare the shares with policy objectives Compare the shares with % of the population in LIC/ fragile states Compare with international CF (criticised by NGOs) Informal aim at least 50% to LICs	(as 1.1)
1.4.1. ODA through blended finance: share to CA? (Results in 5.5)	% of CF (in blend) to CA % of CF (no blend) to CA	Compare reach of ODA in blend with unblended ODA Aim: also to CA	(as 1.1) + Trinomics reports: CF activities that mobilised PS finance
1.4.2. ODA through blended finance: share to LIC? (Results in 5.5)	% of CF (in blend) to LIC % of CF (no blend) to LIC	Compare reach of ODA in blend with unblended ODA Aim: also to LICs	(as 1.3)
1.4.3. ODA through blended finance: share to vulnerable countries or countries with poor business climate? (Results in 5.5)	GNI per capita Climate vulnerability index Ease of doing business.	Compare countries where FMO is active, countries where AEF is active, and average of all developing countries Aim: also to LICs, vulnerable countries	FMO database renewable energy investment, 2016 and 2019, World Bank GNI Notre Dame vulnerability index, WB ease of doing business index
1.4.4 ODA through blended finance: what sectors are reached? (Results in 5.6)	% of ODA to different sectors	Own theoretical model: in what sectors, in what contexts, do we expect blended finance?	International CF reports. Evaluations of Dutch programmes Expert opinion
1.5 Reach of poor or vulnerable groups? (Results in 5.7)	Groups: women, smallholder farmers, poorest and most vulnerable people, SMEs. Objectives: specific groups? Achievements: specific groups?	Compare policy objectives, project objectives and project achievements Aim: reach women, smallholder farmers, poorest and most vulnerable people, SMEs	Policy documents Project documents and interviews with MFA staff Project evaluations and interviews with MFA staff

Analyses and information sources for ‘reach of climate finance’

Calculating climate finance: total, for adaptation and for mitigation

The Netherlands uses the OECD DAC guidelines for the application of Rio markers to indicate the climate relevance of activities ([OECD DAC, 2016](#)). Section 2.2.6 explains the distinction between climate as a ‘principal’ and as a ‘significant’ marker. If an activity is marked as principal for mitigation or adaptation, 100% of the support is reported as climate finance.

If an activity is marked as significant for mitigation or adaptation, 40% of the support is reported as climate finance. Just like other donors, the Netherlands considers this percentage to be a reasonable estimate of the average climate contribution of projects that have climate change adaptation or mitigation as a significant objective.

An activity can have both an adaptation and a mitigation marker. Each can be principal or significant. In those cases, the contribution to adaptation and mitigation is shared. Table 2 gives an overview of possible combinations and assigned shares. Table 2 also presents the number of activities for each adaptation/mitigation relevance category. In total, 494 activities received a climate policy marker, of which 94 contributed for 100% to climate change adaptation or mitigation. Four-hundred and six activities had an adaptation marker; 168 activities had a mitigation marker.

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Table A1: Policy marker = 1, significant policy marker; policy marker = 2, principal policy marker

Adaptation policy marker	Mitigation policy marker	Contribution to adaptation (%)	Contribution to mitigation (%)	Total contribution to climate finance (%)	Number of activities 2016-2019
1	0	40	0	40	251
0	1	0	40	40	24
1	1	20	20	40	85
2	0	100	0	100	34
0	2	0	100	100	23
2	1	60	40	100	8
1	2	40	60	100	8
2	2	50	50	100	20
0	0	?	?	1-100	41
				Total	494

To determine the climate-specific share of core contributions to multilateral organisations, the Netherlands applies the OECD DAC ‘imputed climate-related shares’ (weighted averages, in %) to its relevant core contributions to multilateral organisations.

For a number of multilateral/UN agencies carrying out climate-relevant work (UNDP, UNEP, WFP, UNICEF and UNCCD) OECD DAC has not yet determined 'imputed climate-related shares'.

For these organisations, the Netherlands has self-determined climate-specific shares to apply to core/general contributions. The same method applies for contributions through and to NGOs in the framework of the 'Dialogue and Dissent' programme. The imputed climate-related shares do not distinguish climate change adaptation or mitigation focus. For some multilateral organisations working on climate action, the '[Climate Funds Update](#)' website provides a dashboard with information on what share is spent on adaptation and mitigation, and what amounts are spent in which country.

For an overview of the Dutch climate finance disbursements to adaptation and mitigation, we used the MFA reports to UNFCCC for four years, 2016 to 2019. These reports list all climate-relevant activities (about 300 activities per year), and indicate total disbursement, share (%) spent on adaptation, share (%) spent on mitigation and share (%) 'unspecified'. Unspecified is often used for unearmarked contributions to multilateral organisations, and can be used for adaptation and/or mitigation.

Calculation of climate disbursements per country

To calculate climate finance expenditure by country, several databases were combined. This was done only for 2019.

- **MiBZ and MiOS** give a good overview of expenditure for bilateral activities, activities that take place in one country. The MiBZ and MiOS databases retrieve their financial information from the MFA internal administration system SAP. Most activities that are under the responsibility of Dutch embassies are single-country activities. This 'delegated budget' made up 23% of the total climate disbursement in 2016-2019.¹⁷⁸ Activities under the responsibility of MFA headquarters, i.e. climate-relevant activities funded by the 'central budget' (68% by IGG and 15% by DDE), are often multi-country activities that do not indicate country-specific disbursements in the MiBZ system. Of the 301 climate-relevant activities, 100 activities with country disbursements were retrieved from MiBZ. Twenty-five of them duplicated with what we retrieved from IATI, so we preferred using the IATI disbursements.
- **IATI**¹⁷⁹ registers the actual expenditures of an activity after disbursement, on two different levels. The first level is the direct recipient partner of MFA. The second level is the implementing partner of the MFA partner, often organisations responsible for the execution on the ground. This second layer allows us to trace expenditures by country. In principle, all MFA partners are obliged to report in IATI. However, information in IATI is not complete: country-specific disbursements were not found for all projects. Sixty-three climate activities with expenditure in 2019 were retrieved from the IATI

¹⁷⁸ Non-MFA disbursements (Ministry of Finance) are excluded in the calculation.

¹⁷⁹ IATI is the International Aid Transparency Initiative, of which the Netherlands is a member, and is used as shorthand to indicate the relevant data system for registering project information and making it accessible to a wider public. IATI hopes to ensure that aid money reaches its intended recipients. The ultimate goal is to improve standards of living worldwide and reduce global poverty. The IATI also publishes a standard to be used by organisations, allowing different datasets to be combined and shared.

database, covering EUR 126 million or 26% of the MFA's climate disbursements in 2019. Since we assume that the IATI data are the most precise and reliable data, these data have our preference over other data.

- **Tableau** is a software system that is built on data from MiBZ and IATI and presents data for different purposes. This database has an ex-ante estimation of budget by country, also for multi-country activities, made by the MFA officer responsible for the activity. In many cases, the expected disbursement by country is calculated as an equal share of the total budget for each of the targeted countries.
- **The Climate Funds Update** website¹⁸⁰ provides a dashboard with information about disbursements by country. We calculated the relative share by country and used this for the Dutch un-earmarked contributions to GEF, GCF and LDCF.
- **The MFA reports information to UNFCCC** about another 160 activities.
- **Other reports** were used to cross-check reports to Dutch parliament¹⁸¹ and to the UNFCCC.¹⁸²

In 2019, MFA funded 301 climate-relevant activities. These combined databases generated data on the allocation of disbursements for 257 activities. The remaining 44 activities had a global or regional focus that we could not trace up to the country level.

Comparing climate finance with and without mobilising private finance

Since 2017, the MFA has commissioned Trinomics to calculate the mobilised private finance. The reports also indicate what private finance is mobilised for climate action. The Trinomics reports on the years 2017, 2018 and 2019 were used (Trinomics 2018, 2019, 2020). Most, but not all, activities mentioned in the Trinomics reports could be identified in our combined database with country-specific climate disbursements. In total, 23% of ODA disbursements to climate action in 2019 could be linked to activities that mobilised private or commercial finance. The remaining 77% of ODA for climate action in 2019 was considered to be ODA that did not mobilise private finance (acknowledging that we will have missed a few 'mobilising' activities mentioned in the Trinomic reports, but for which we did not find country-specific disbursements in MiBZ or IATI data).

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Reach of poor countries, countries vulnerable to climate change and countries with an unfavourable business climate (example AEF and FMO-A)

FMO provided IOB with two databases of investments in renewable energy, made in 2016 and in 2019. It distinguishes investments made by FMO-A, a non-concessional fund that did not receive climate finance from MFA, and investments made by AEF, a concessional fund that received climate finance from MFA. This allowed us to compare the reach of a non-concessional, commercially operating fund and a concessional fund.

¹⁸⁰ <https://climatefundsupdate.org/>

¹⁸¹ Notably the annual reports on HGIS funding (Homogeneous Group on International Cooperation), including ODA and non-ODA expenditure in the field of international cooperation. This budget is coordinated by the Minister for Foreign Trade and Development Cooperation, seated in the Ministry of Foreign Affairs.

¹⁸² Biennial reports to the United Nations Framework Convention on Climate Change, on 2015-2016 (UNFCCC, 2016) and 2017-2018 (UNFCCC, 2018).

The analyses looked at various country characteristics: income category, fragile state (yes/no), vulnerability to climate change (index), and score regarding ease of doing business. The FMO databases further specified different types of energy investments: wind, solar, hydro, non-renewable, other/mixed renewable energy.

Information sources

Reach of countries

Country characteristics:

- The [OECD DAC](#) income categories 2018 and 2019:¹⁸³
 - Low-income countries (LICs): LDC + Zimbabwe and North Korea
 - Lower middle-income countries (LMICs)
 - Upper middle-income countries (UMICs)
- The gross national income per capita (GNI, [World Bank](#));
- Distinction between 33 fragile and 93 non-fragile states ([World Bank](#));
- The ‘vulnerability index’ of the Notre Dame Adaptation Initiative ([ND GAIN](#)). This scale indicates the vulnerability for climate change for each country;
- The score ‘ease of doing business’ of the World Bank ([WB, 2019 score](#)); and
- Number of capita per country, obtained from a UN overview ([UN 2018](#)).

To interpret the relative reach of different country categories, this reach was compared with the share of the total population of developing countries living in these countries (See Table A1).

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Category		Number of countries	Population (million)	%
LIC	fragile	18	269	4%
	non-fragile	13	391	7%
LMIC	fragile	12	177	3%
	non-fragile	40	2,787	46%
UMIC	fragile	5	50	1%
	non-fragile	40	2,358	39%
Total		128	6,032	100%

Reach of sectors by ODA and blended finance

Based on findings in literature about the extent to which sectors were reached by blended finance, and in discussion with an external expert, we developed a concept showing how different blends (ODA, blended finance, commercial finance) would reach different sectors. This concept was not validated, but served as a basis for recommendations.

¹⁸³ OECD DAC list uses World Bank’s 2016 GNI data. In the World Bank list of 2017, part of the LDCs have graduated from the LIC to the LMIC category.

Reach of specific target groups

A comparison was made between policy objectives, programme and project objectives, and the actual reach of specific target groups: women, smallholder farmers, poorest and most vulnerable, as well as SMEs. Information sources were policy and project documents, assessment memoranda (so-called '*bemos*'), programme evaluations, and interviews with MFA staff and staff at implementing organisations, including RVO and FMO.¹⁸⁴

The MFA database with project information provided insufficient information about the intended reach of target groups, although the OECD 'gender markers' were used in that database.¹⁸⁵ Even the evaluations often only made a limited effort to evaluate the reach of specific target groups.

In total, we studied 18 programmes in more detail. Programmes were selected on the basis of (i) climate relevance; (ii) budget; (iii) the wish to include both projects that were 100% ODA-funded, and projects with a private sector or blended finance component.

- Eleven Programme evaluations: 2SCALE (Oomes et al., 2018); AEF (Slob et al., 2017); EnDev III (Feibel and Kamphuis, 2018); ESMAP (ICF, 2020); FDOV (KIT, 2016); FDW (Cameron et al., 2020); CGF (IEO, 2019); GWF VI (IEO, 2018); SFFW (Hemson et al., 2020); Partners for Resilience (ECDPM, 2020); Shared resources, joint solutions (external reference group, 2021).
- Six programmes, IOB judgement of ex-ante project assessments: 2SCALE, AEF, CIO, G4AW, ISLA (two were also evaluated, four were not).
- Three additional programmes, other document review and interviews: DAWCA, DFCD and MoMo.

For more details about these programmes, see Annex 2.

2 What is the additionality of ODA in blended finance?

There are a few assumed advantages to using a temporary ODA contribution in blended finance: (i) more finance would be available for climate action, and (ii) temporary ODA support results in lasting private investment and involvement in climate action. An implicit assumption is that an initiative 'graduates' from highly concessional support in the innovative, uncertain, risky development phase, to a low-concessional commercial upscaling phase, when the business case is clear. However, there is also a risk of 'non-additionality', where the private sector alone could have achieved the same results without the ODA contribution. The latter is to be avoided as much as possible. These hypotheses led to the following sub-questions, 2.1-2.3. The evaluation matrix shows for each sub-question what indicators, analysis and judgement criteria, and information sources were used. The analyses and information sources are described in more detail below. Results are presented in Chapter 6.

¹⁸⁴ RVO = the Dutch Enterprise Agency, FMO = Dutch Entrepreneurial Development Bank.

¹⁸⁵ OECD gender markers indicate an intention, rather than a verified achievement. The system is similar to the OECD's Rio markers for climate, with 40% labels for significant projects and 100% for projects with gender equality as a principal objective. An upcoming IOB study on gender mainstreaming (2021) will include a discussion on the use of gender markers.

Sub-question	Indicator	Analysis and judgement criteria	Information sources
2.1 How to assess additionality? (Results in 6.3)	Score on additionality criteria	IOB set of adapted additionality criteria	DCED 2014 criteria OECD 2020 principles Expert opinion
2.2 How additional is ODA in different forms of blended finance (BF)? (Results in 6.4)	Level of concessionality in BF/ types of BF instruments	Two categories: non-revolving (highly concessional) and revolving (less concessional)	Non-revolving programmes: 2SCALE, FDOV, SDGP, G4AW, ISLA. Revolving funds: AEF, CIO, GAFSP
		Ex-ante assessment Aim: project is convincingly additional	Project assessments made by AEF, CIO, SDGP, 2SCALE, G4AW, ISLA
		Ex-post evaluations Aim: project is convincingly additional	Evaluations of AEF, GAFSP, FDOV, 2SCALE
	What criteria to use for what type of BF?	Compare importance and convincingsness of projects from (i) non-revolving prog. and (ii) revolving funds	Project assessments and evaluations; IOB judgement; expert opinion
2.3 How do initiatives graduate from ODA to commercial funding? (Results in 6.5)	Number and share of projects graduating	Graduation from non-revolving programmes to revolving funds Aim: substantial share of projects graduate	Interviews with MFA staff and implementing agencies of BF programmes (+DGGF as a non-climate fund)
		Graduation to commercial finance support Aim: substantial share of projects graduate	(same as above)
	Constraints for graduation (perceived)	Converging perceptions of MFA staff and agencies	(same as above)
2.4 What type of funding to use for what kind of climate action? (Results in 5.6 and 6.6)	Level of concessionality x sector x phase in development	Hypothetical model constructed by IOB.	Reports on international finance (OECD), evaluations (PBL), evaluations and other literature, expert opinion

Sub-question	Indicator	Analysis and judgement criteria	Information sources
	Appropriateness for (i) pure commercial role; (ii) ODA support for an enabling environment; (iii) blended finance; (iv) long-term subsidies; (v) pure ODA.	Hypothetical decision tool by IOB: what type of public support to private sector, in case of what type of constraint?	World Bank / IFC 'cascade approach' Expert opinion

Analyses and information sources for the 'additionality of ODA in blended finance'

Distinguishing different types of blended finance

In discussion with an external expert, we drafted a figure that visualises the spectrum from pure ODA, highly concessional blended finance, low concessional blended finance to pure commercial finance. This helped to situate the different Dutch blended finance funds and programmes, and to distinguish non-revolving programmes from revolving funds. It also helped to visualise how innovative initiatives with a risky and uncertain business case can graduate to projects with a clear business case, soon ready for commercial upscaling. In this trajectory, the level of concessionality would decrease.

The Triodos reports (2017-2019) and the MFA database (see above, methodology 1) gave us a long-list of climate-relevant programmes and funds, which included an element of blended finance. From this list, eight programmes and funds were selected along the spectrum of high concessional (non-revolving) programmes, and low concessional (revolving) funds, for a more detailed assessment (see below: ex-ante and ex-post additionality assessments).

Revised additionality criteria for this study

We started by studying the literature and having discussions with an external expert about definitions and different aspects of additionality (including financial input additionality and development additionality) in blended finance. We merged the [DCEC additionality criteria](#) (2014) and [OECD principles for blended finance](#) (2020, in particular principle 2) into one list, discussed this with an external expert, and composed our own revised list on this basis. The revised list was presented in Section 6.3.

Ex-ante assessment of projects

The programme or fund manager from the six programmes and funds provided us with ex-ante project assessments, which included an assessment of additionality. The sample also included rejected projects, which also helped us to understand what criteria were important. The six programmes and funds were: 2SCALE, SDGP, G4AW, ISLA, AEF and CIO. We extracted information from the project assessments and compared these against our revised additionality criteria. In several cases, follow-up interviews were held with programme or fund managers for clarification.

We presented two judgements:

- The judgement in the project assessment (by the programme or fund manager)
- Our judgement: the extent to which we were convinced of additionality.

The judgement was made in two steps. First per project. Results were discussed by two IOB researchers. Then judgements were averaged per programme. Only average judgements per programme are presented in this report.

Ex-post assessment of projects

For four programmes, evaluations were available that assessed the additionality of a selection of projects, during or after project implementation. These four programmes and funds were: zSCALE, FDOV, AEF and GAFSP. We used our revised set of additionality criteria, but presented only those criteria for which information was available in the evaluations. We presented two judgements, in the same manner as the ex-ante assessment. The judgement was made in two steps: first per project and then summarised per programme. Per programme, the number of projects receiving a particular score is presented in this report. The findings of the four evaluations were mainly used to confirm the findings of the ex-ante assessments of the six programmes.

Comparing two types of BF instruments, non-revolving programmes and revolving funds

By presenting the additionality results for different programmes in different columns and in two groups – revolving programmes on the left, and revolving funds on the right – it was easy to identify a pattern of which criteria are considered important for what type of blended finance programme, and which criteria we judged as most convincingly additional, for what type of programme.

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Broader 'added value' beyond additionality of ODA in blended finance

IOB interviewed relevant MFA staff and staff from implementing agencies, including about other aspects that they consider to be an added value of climate finance programmes and funds, compared to what other donors and programmes are already doing.

3 What broader considerations are relevant for future climate policy and climate finance?

In addition to the more focused evaluation questions on reach and additionality, IOB, experts and the reference group also wanted to broaden the discussion and come up with considerations for future climate policy and climate finance. This part of the study does not so much concern an evaluation or judgement of Dutch climate policy but is more of an inventory of topics in the international debate, which we think deserve attention in new Dutch climate policies. During the interviews and literature search, we identified a number of topics, presented in the matrix below. Results are presented in Chapter 7.

Sub-question	Indicator	Judgement criteria	Information sources*
3.1 What are the needs for climate finance?	EUR/year needed for developing countries.	International agreement?	Publications by IPCC, UNEP, NGOs
	What does 'climate action' and climate finance entail?	Climate finance versus development finance Finance versus other support (e.g. technical assistance)	Paris Agreement, UNFCCC. Interviews with MFA staff, experts and reference group. Various reports by international organisations
3.2 What is the role for dedicated climate finance?	International commitments	International agreement?	COP UNFCCC Copenhagen, Cancun, Paris agreements. UNFCCC reports
	Definition of 'new and additional' climate finance	International agreement?	International NGO publications. Interviews with MFA and OECD staff
3.3 What is the role of climate mainstreamed ODA?	% of ODA that is climate-relevant	Rio – climate markers; MFA's own assessments	OECD DAC guidelines Critical reports (Oxfam)
		Level of 'climate-smart-ness'	(not analysed)
	Ambition of mainstreaming climate	100% of activities 'do no harm' Substantial % of activities do good	Discussions with MFA staff
3.4 What is the role of alignment of all financial flows and all policies with climate objectives?	Ambition of policy coherence	Share of Dutch (and EU) policies aligned to climate ambitions Aim: all	(not analysed)
	Mechanisms of mainstreaming other financial flows	Besides ODA: tariffs/ subsidies; CO2 levy; TA and technology transfer; support enabling environment	(not analysed)
3.5 Transparency of international climate finance?	Climate finance is traceable to climate action at project and country level	Information accessible to southern countries, NGO's	OECD reports. NGO reports (Oxfam) IATI Climate Funds Update

*Information sources: only a few publications are mentioned as examples. More publications are mentioned in Chapter 7.

The main information sources are publications on international climate finance for climate action in developing countries, and interviews with MFA staff (and with OECD staff). The reference group, including MFA staff and external experts, provided many suggestions and references for these broader considerations.

As presented in the matrix, a number of topics are not analysed in this study:

- The climate smartness of climate-relevant activities. This is a subject IOB plans to address in a follow-up study on climate adaptation.
- Policy coherence: how well are other Dutch (including EU) policies aligned with the climate objectives? And what mechanisms can Dutch (and EU) policies use to align all other (including private) finance flows with the climate objectives? IOB plans to address these subjects in a follow-up study on policy coherence and the effects on food security, water and climate in developing countries.

Annex 2

List of sixteen funds and programmes studied in detail

Description, followed in italics by the amount the Netherlands spent in 2016-2019 and the share which was considered climate-relevant for adaptation or mitigation.

1. **2SCALE (Toward Sustainable Clusters in Agribusiness through Learning in Entrepreneurship)**: incubator for partnerships in developing countries, financing support services to companies and farmer groups enabling them to produce, transform and supply quality food products to local, national and regional end-user markets, including Base of the Pyramid consumers.

Sector: food/agriculture, value chain development, PPPs

Climate relevance: 40%; 40% for climate change adaptation, 0% for climate change mitigation

Total budget MFA 2012-2019: EUR 46.9 million (phase 1).

Total budget MFA 2018-2020: EUR 50.1 million (phase 2)

1. **Access to Energy Fund (AEF)**: fund that supports private sector projects aimed at providing long-term access to renewable energy services – generation, transmission and distribution – in emerging markets and developing countries, including through loans and minority equity, including for early stage project development. Offers long-term finance for projects that improve access to renewable energy, off-grid and mini-grid. Develops new markets in the poorer developing countries.

Sector: energy

Climate relevance: 100%; 0% for climate change adaptation, 100% for climate change mitigation

Total budget MFA 2006-2017: EUR 70 million

Total budget MFA 2018: EUR 40 million

Total budget MFA 2020: EUR 40 million

3. **Climate Investor One (CIO or CI1)**: blended finance facility delivering renewable energy infrastructure projects in emerging markets with a technological focus on: onshore and near-shore wind; solar PV; and run-of-river hydro. Development of projects in a special funding window; support throughout three phases: from development through construction to refinancing; early stage project development of commercial projects, starting with enabling and regulatory environment. Promotes environmental, social and governance standards and social and environmental assessments.

Sector: energy

Climate relevance: 100%; 0% for climate change adaptation, 100% for climate change mitigation

Total budget MFA 2012-2020: EUR 48.3 million

- 4. Dutch Agro-Water Climate Alliance (DAWCA, by IUCN):** incubator, supporting small innovative projects, part of IUCN's SUSTAIN Africa programme. 'A platform that brings together Dutch companies, NGOs, knowledge institutions and governments to develop business cases around adaptation and mitigation', especially for landscape investments. DAWCA helps organisations in the agro-food and water sectors to understand the finance landscape; connects people and private organisations in developing countries; and helps develop new climate initiatives; it develops practical tools that help strengthen the financial engineering of climate finance. EUR 1.3 million, of which EUR 300,000 for start-up initiatives.

Sector: agriculture

Climate relevance: 40%; 20% for climate change adaptation, 20% for climate change mitigation

Total budget MFA 2013-2020: EUR 12 million

- 5. Dutch Fund for Climate and Development (DFCD):** Fund that promotes private sector investments and allocates at least 50% to adaptation. The DFCD is managed by a consortium of Climate Fund Managers (CFM), World Wide Fund for Nature Netherlands (WWF-NL) and SNV Netherlands Development Organisation, and is led and managed by the Dutch Entrepreneurial Development Bank, FMO. An origination facility of EUR 30 million helps projects become bankable. Its business cases are meant to 'graduate' into one of the two investment facilities: they will then receive equity or debt financing from the EUR 55 million DFCD Land Use Facility managed by FMO, or the EUR 75 million DFCD Water Facility, managed by CFM. The DFCD origination facility uses an integrated landscape approach to identify commercial opportunities taking a contextual perspective to local stakeholder and ecosystem needs.

The DFCD applies a landscape strategy: the origination facility is meant to actively source and develop investment opportunities in the surrounding area where other DFCD projects are located. The Netherlands is supporting the fund with EUR 160 million for four years, of which EUR 40 million was led through AEF in 2018-2019, when the fund was not fully set up yet.

Sector: energy

Climate relevance: 100%; 50% for climate change adaptation, 50% for climate change mitigation

Total budget MFA 2019-2023: EUR 160 million

- 6. Energising Development (EnDev):** programme executed by RVO and BMZ/GIZ providing poor households, social institutions and small and medium-sized enterprises (SME) in selected countries with sustainable access to modern energy technologies and services, in around 25 countries, mainly in Africa.

Sector: energy

Climate relevance: 100%; 0% for climate change adaptation, 100% for climate change mitigation

Total budget MFA 2019-2020: EUR 32.6 million

- 7. Energy Sector Management Assistance Programme (ESMAP):** a global knowledge and technical assistance programme administered by the World Bank, promoting access to renewable energy and energy efficiency. The programme assists low- and middle-income countries in growing their know-how and institutional capacity to formulate environmentally sustainable energy solutions for poverty reduction and economic growth. It promotes SDG 7 targets on affordable and clean energy for all. This multi-donor funded partnership programme is administered by the World Bank.

Sector: energy

Climate relevance: 100%; 40% for climate change adaptation, 60% for climate change mitigation

Total budget MFA 2016-2019: EUR 31.4 million

Total budget MFA 2020: EUR 34.7 million

- 8. Geodata for Water and Agriculture (G4AW):** involving the private sector for overcoming technical barriers and helping producers/farmers connect with information providers and other parties. G4AW uses satellite information to inform smallholder farmers in developing countries about weather forecasts, market prices and agronomic advice. It also provides access to harvest insurance, improved seeds and microcredits. More than 80 companies, of which 30 are Dutch, work together in the programme.

Sectors: agriculture/food security and water

Climate relevance: 40%; 20% for climate change adaptation, 20% for climate change mitigation

Total budget MFA 2013-2020: 66,5 million

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- 9. Global Environmental Facility (GEF):** a multilateral trust fund hosted by the World Bank, which provides funding to assist developing countries in meeting the objectives of international environmental conventions. The GEF serves as a 'financial mechanism' to five conventions, including the Convention on Biological Diversity (CBD) and the United Nations Framework Convention on Climate Change (UNFCCC). The GEF mainstreams private sector engagement in all of its activities. In 2019, the GEF was assessed as 66% climate-relevant in Dutch climate finance reporting.

Sectors: biodiversity, ecosystems, energy, chemicals, forests

Climate relevance: 66%

Total budget MFA 2015-2019: EUR 78.9 million (GEF VI)

Total budget MFA 2020: EUR 83.6 million (GEF VII)

- 10. Green Climate Fund (GCF):** multilateral fund, governed by the UNFCCC. It aims to catalyse a flow of climate finance to invest in low-emission and climate-resilient development, driving a paradigm shift in the global response to climate change. GCF aims for a 50/50 balance between mitigation and adaptation investments over time. It also aims for a floor of 50% of the adaptation allocation for particularly vulnerable countries, including least-developed countries, small island developing states and African States. It has a private sector facility to engage directly with the private sector. Developing countries appoint a national designated authority that acts as the interface between their government and the GCF, enhancing ownership.

Sectors: energy, transport, infrastructure, forests, agriculture, water

Climate relevance: 100%; 50% for climate change adaptation, 50% for climate change mitigation

Total budget MFA 2015-2019: EUR 100 million

Total budget MFA 2020: EUR 120 million

- 11. Initiative for Sustainable Landscapes (IDH ISLA):** financing pilot projects at the first stage, including technical assistance to prepare farmers for bigger investors. A programme implemented by IDH in 2015-2020. IDH was to broaden the scope of its public-private partnership work on sustainable supply chains by applying a landscape approach where agricultural commodities are produced. ISLA promotes change in business practices, landscape governance with multi-stakeholder coalitions and plans, and pilots new business models and policies to promote sustainability.

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Sector: food security/agriculture

Climate relevance: 40%; 20% for climate change adaptation, 20% for climate change mitigation

Total budget MFA 2013-2019: 19.7 million

Total budget MFA 2020: EUR 25 million

- 12. Mobilising More for Climate (MoMo4C):** support for local production projects with a landscape approach, set up under the DAWCA programme and continued as a standalone. Clearing house and deal room, supporting projects in around nine landscapes in different sectors (e.g. cacao in Africa) to become investor ready. Enabling knowledge development and convening parties, helping with incubation and matchmaking for example. Aiming to bridge the gap between smaller projects that need to develop a business plan and climate finance in search for bankable projects.

Sectors: land and forest management, value chain development and PPPs

Climate relevance: 100%; 50% for climate change adaptation, 50% for climate change mitigation

Total budget MFA 2019-2020: EUR 7.9 million

- 13. Partners for Resilience:** Strategic Partnership led by the Red Cross. It strengthens community resilience by reducing risks and strengthening livelihoods of vulnerable communities, with specific attention for marginalised groups and women, by involving the wider civil society in addressing risks, and by working on a conducive legal and financial environment. The programme focuses on the capacity of civil society for dialogue on integrated risk management in policy, investment and practice. It works in ten climate-vulnerable developing countries.

Sectors: support to civil society and disaster risk management

Climate relevance: 100%; 100% for climate change adaptation, 0% for climate change mitigation

Total budget MFA 2015-2020: EUR 51.7 million

- 14. Shared Resources, Joint Solutions:** Strategic Partnership led by IUCN, together with IUCN-Netherlands and WWF. It aims to help NGOs and other civil society organisations increase their influence in multi-stakeholder partnerships with governments and business, and strengthen their leverage in advocating for inclusive and green development. The ultimate goal is to protect global public goods, including ecosystem services, water supply, climate resilience and food security. There are nine target landscapes across sixteen countries.

Sectors: support to civil society and ecosystems, land and forest management

Climate relevance: 40%; 20% for climate change adaptation, 20% for climate change mitigation

Total budget MFA 2015-2020: EUR 59.5 million

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- 15. Securing Water for Food (SWFF):** A Grand Challenge for Development, which helps farmers around the world grow more food using less water, enhance water storage, and improve the use of saline water and soil by ensuring that the entrepreneurs and scientists behind new approaches get support. Led by USAID, the Netherlands/IGG, SIDA and South Africa.

Sectors: water and food

Climate relevance: 40%; 40% for climate change adaptation, 0% for climate change mitigation

Total budget MFA 2014-2020: EUR 6.9 million

- 16. Sustainable Development Goals Partnership (SDGP):** building on FDW and Facility for Sustainable Entrepreneurship and Food Security (FDOV), supports the set-up of public-private partnerships including business, knowledge institutes and NGOs. It can take more risks than other funds thanks to grants.

Sectors: food security/agriculture, water

Climate relevance: 40%; 20% for climate change adaptation, 20% for climate change mitigation

Total budget MFA 2018-2020: 57.7 million

Evaluation and study reports of the Policy and Operations Evaluation Department (IOB) published 2015-2021

Evaluation reports published before 2013 can be found on the archive of the IOB website: <http://archieff.iob-evaluatie.nl/en.html>. The reports below can be downloaded at <http://english.iob-evaluatie.nl>.

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