IOE | IFAD Investing in rural people

Independent Office of Evaluation

Evaluation Panel Meeting, IFAD, 14-15 November 2023

Climate Finance in IOE evaluations

First draft, 1 November 2023

Rob D. van den Berg

14 November 2023

The many faces of finance

Climate Finance refers to all funding of climate action:

- Funding of mitigation and adaptation efforts
- Funding of just transitions
- Funding of loss and damage
- Funding of actors & communities, private and public initiatives

Finance in general refers to all streams of money to:

- Governments
- The private sector
- Private citizens
- Philantropy
- Trade, currency exchange, whitewashing, etcetera

2020: US$ 83.3 bn (OECD)

This is 0.1% of all finance

2020: US$ 83 trillion (GoBankingRates)

Totals differ per source, and range between $44-440 tr., whereas CC finance has not yet reached $100 billion

Partnership in finance

- IFAD is focused on partnership and scores high in this regard
- Climate Finance partnership is relatively new
- Almost all banks have a green unit, that aims to do green investments and climate investments
- The overall portfolio of the bank needs to be looked at. Trust your partner, but accountability is also a solid foundation for partnership
- Many old-fashioned banks, in it only for the money, have started up climate finance, as this now is often seen as a public relations exercise
- Despite sometime being involved in money laundering and financial involvement in criminal activities, most banks are legitimate and accountable, but not “climate finance”

The role of finance in rural development

A cautionary tale:

- The Netherlands aims to turning farming and agriculture towards climate neutral practices
- A vision of climate friendly farming and agriculture emerged from Agenda 2030 and the Paris Agreement of 2015
- Especially intensive livestock farming needed to scale down
- A growing group of “green” farmers focused on climate neutral practices and biodiversity supporting farms
- Dutch policy aimed to support climate neutral farming
- The RABO bank, which profiles itself as a cooperative, sustainable bank, unfortunately continued its practice to mainly invest in intensive livestock farming and agriculture, and for a long time refused to finance green initiatives (global portfolio €74.2 bn)

Banking partners

- Not all countries have a Grameen bank
- Many countries have a traditional banking system that will be focused on return on investment in traditional economic terms
- Some have green banks, but their green credentials are usually not independently verified
- Many LDCs and SIDS lack an effective banking system and are dependent on aid and investments of the regional banks and the World Bank
- Increasingly we see the world's largest banks opening up small investment portfolios to demonstrate that they are "green", but this tends to be less than 1% of the bank's portfolio
- Evaluations should look at the credentials of IFAD's financial partners – this is perhaps also for the ECG to discuss and promote?

Context analysis

- The design phase should start with a broad, heuristic context analysis
- Context needs to be explored to establish the boundaries of the evaluation
- First context analysis is part of the IOE tradition: context of the investment programme
- For climate finance, transboundary issues are important and contextual
- Weather systems have huge transboundary implications
- Ecosystem services often go beyond borders
- Biodiversity issues, deforestation, water management etc.
- The country itself tends to have much of this information, but also the climate funds (GCF, CIF, GEF and bilateral and regional funds)

Scope of climate sustainability evaluation

- To go into climate sustainability an evaluation needs to have a broader scope:
  - Corporate level evaluations: especially if the funding/banking side of investments would be looked at for IFAD as a whole
  - Thematic evaluations: focusing on climate sustainability in the IFAD portfolio
  - Subregional evaluations: focusing on a number of countries that share ecosystems and weather profiles, as well as a range of environmental issues (water, deforestation, biodiversity, etc.)
  - Country strategy and programme evaluations: where the climate portfolio is substantial
- Other evaluation types less likely, unless CC is prominent

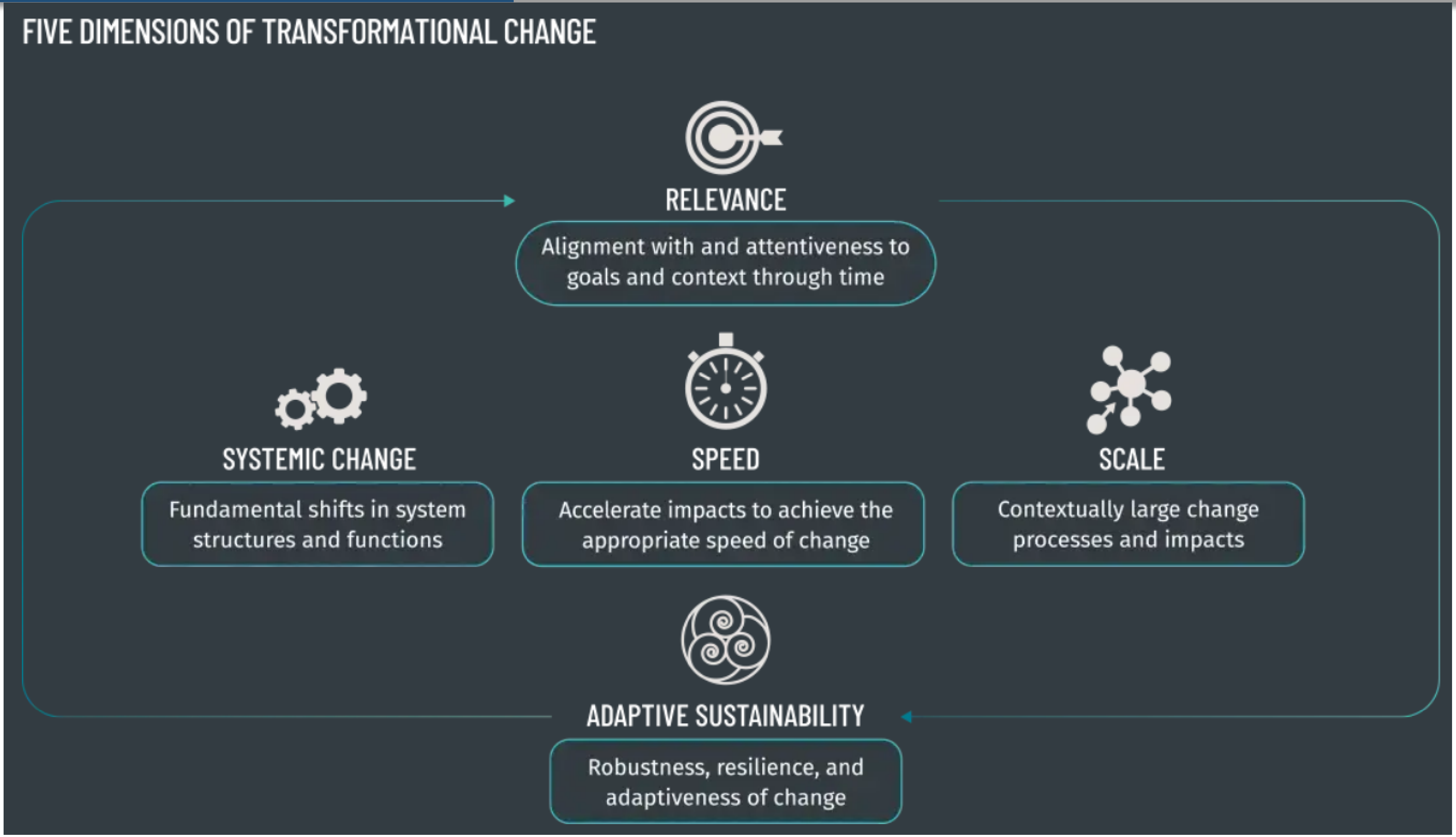
CC issues

- Countries have national plans for climate action: the Nationally Determined Contribution shared with UN FCCC
- Mitigation and adaptation targets can be found in these documents
- Funding tends to be separated: mitigation tends to focus on energy transitions that may costs huge amounts
- Adaptation is also costly, but this is more difficult to justify and usually adaptation receives dramatically less funding than mitigation
- While the climate crisis gets worse, mitigation needs to include appropriate adaptation and vice versa – this is not yet happening
- Other issues, like loss and damage and Just Transition, are relatively new, but it would be good to prepare for them

Transformational Change

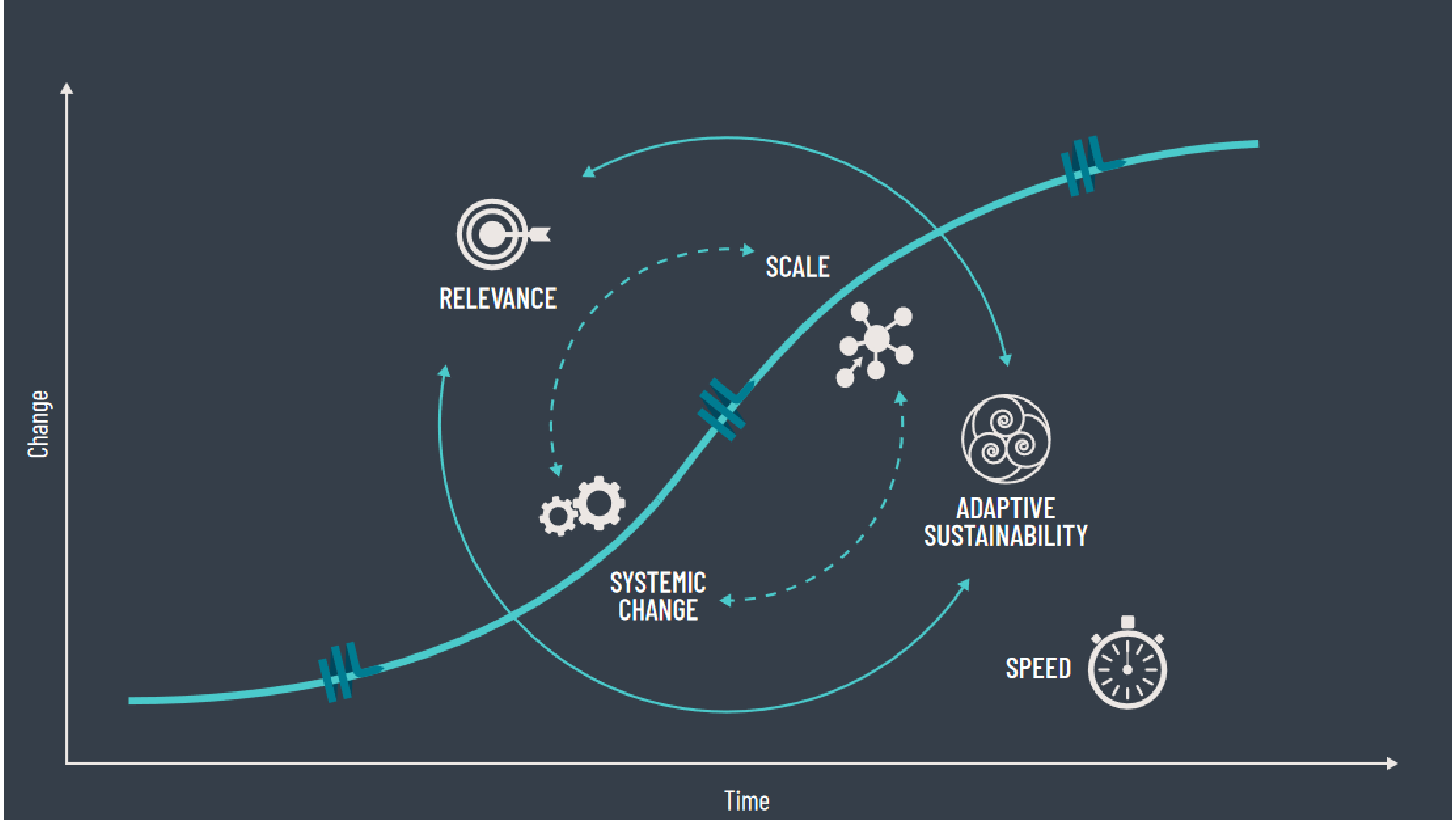
- With the climate crisis becoming more urgent, the focus tends to shift towards transformational change as the way to speed up the transition
- This is recognized in the evaluation manual of 2020 – see for example box 7
- While this leads to sophisticated theories of change (see for example figure 9), the focus on transformational change of complex systems could be sharper
- It would benefit from incorporating/reflecting on the dimensions of transformational change as identified by the Transformational Change Learning Partnership of the Climate Investment Funds

TCLP dimensions



Non-linear pathways

FIGURE 2. "S-CURVE" MODEL USING DIMENSIONS TO TRACK TRANSFORMATIONAL CHANGE IN CLIMATE ACTION



Resources

- Principles for Transformational Climate Finance (June 2023): https://tinyurl.com/4v72by7h
- Toolbox for Just Transition: https://cif.org/just-transition-toolbox/home
- Concepts and dimensions of Transformational Change (2021): https://tinyurl.com/4zmfrb6j
- The TCLP is shifting from a Learning Partnership to a Community of Practice for Transformational Change
- Management/practitioners and (Independent) evaluation are both involved in the new Community of Practice
- IFAD has been involved at the start of TCLP but not recently – something to be picked up?

Recommendations

- A corporate IFAD perspective on climate finance should be discussed, as private banks pay lip-service and undo with their main portfolio what they support in climate finance
- The Climate Investment Funds through the Transformational Change Learning Partnership (TCLP) have taken the lead in publishing the most advanced guidance and toolboxes
- IOE's manual is fundamentally sound but could do with an update on complexity and non-linearity of transformational change
- IOE's evaluations have scope for climate finance, but will need fine-tuning to look at transboundary issues, include a broader context analysis and including a corporate perspective on climate finance
- Suggestion: to connect IOE and IFAD management/practitioners to the new community of practice of TCLP