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SIDA'S CLIMATE MITIGATION FINANCE: A PORTFOLIO EVALUATION

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Sida's Climate Mitigation Finance: a Portfolio Evaluation

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Summary

Historically, Sweden has been one of only seven countries to provide its 'fair share' of climate finance and is poised to continue doing so until 2025 (UNFCCC 2022). What this means on the project portfolio level of development finance actors, however, is often understudied. This portfolio analysis shows that in the case of the Swedish International Development Agency (Sida), climate mitigation related projects mainly encompass renewable energy (RE) and energy efficiency (EE) projects in least developed countries (LDCs) in Sub-Saharan Africa. Sida's focus on LDCs, energy access and grant-based finance are in line with its mandate to reduce poverty, but at the same time this limits the overall immediate emission reduction potential of the portfolio.

Thus, assessing the transformational potential (according to Larson et al. 2023), Sida's projects score only 'medium' on average. Projects score well regarding the time aspect, aiming at swift implementation of mitigation projects in this 'critical decade', as all but two projects end before 2030. The dimension of relevance received the lowest overall score, due to commonly broad project descriptions and focus on interventions with ambivalent emission mitigation potential, e.g. clean cooking projects. Information dissemination and market-based interventions targeted at the private sector are among the most common strategies employed by the projects. Some projects overlap considerably, working in the same location, targeting the same sector and/or employing similar strategies.

To maximize its impact in reducing GHG emissions, Sida should (1) develop a dedicated climate strategy and consider broadening its focus in terms of sector and region to include more projects in emerging economies and in other sectors beyond energy (and clean cooking) such as transport or land use; (2) projects with high transformational and emission reduction potential should be supported by increasing funding volumes and replicating projects designs considering local contexts; (3) all projects with a clear climate mitigation focus should include an ex-ante and ex-post estimation of avoided emissions or removals in tonnes of carbon dioxide-equivalent (t CO_2e) per year.

About Sida

The Swedish International Development Agency (Sida) is a government agency responsible for Sweden's international development cooperation. With a commitment to reducing global poverty and promoting sustainable development, Sida provides financial support and expertise to partner countries and organizations worldwide (e.g., Sida 2023a). Sida is guided by geographical and thematic strategies, including three separate ones on sustainable development aspects but does not yet have a dedicated strategy on climate change (Sida 2023b). Climate change is also not yet listed as one of Sida's key thematic areas (Sida n.d.a.).

Sida's mandate is broader than that of Swedfund and the Nordic Development Fund (NDF) – two other Swedish development finance institutions – covering various development sectors, and Sida's project portfolio makes up almost half of all Swedish development assistance in 2022 (OpenAid 2023). Swedfund primarily supports private sector engagement and sustainable business development in developing countries, whereas the NDF specializes in climate-related projects, particularly in the context of climate change mitigation and adaptation.

After Sida's total aid budget reached a new high in 2021 (USD 3.29 billion), in 2022, it fell again to its 2017-level (USD 2.52 billion) (OpenAid 2023). Overall, climate mitigation finance plays an ancillary role in Sida's portfolio. According to a report by Sida, 4% of the total budget was dedicated to climate mitigation in 2022 (Sida 2023c). Based on the list of mitigation-relevant projects provided by EBA, Sida currently invests USD 354.33 million [1] in initiatives that mitigate greenhouse gas (GHG) emissions.

[1] Committed investments with climate mitigation as one of main objectives between 2017 and 2022.

1 Portfolio overview: Climate mitigation

1.1 Introduction

Sweden is one of the few donor countries fulfilling its 'fair share' of the USD 100 billion climate finance target (Colenbrander et al. 2022). Sida receives a major part of Swedish climate related development finance. In 2021, the Swedish government declared that it aims at doubling climate assistance by 2025, compared to 2019. Sweden's current right-wing government (since 2022) still aims at substantially increasing climate finance (Williams 2023).

Figures on the provided funding itself do not reflect the actual impact on climate change mitigation. Thus, this assessment will analyse Sida's climate related projects especially regarding their scale, timing and overall transformational potential for climate mitigation. By analysing the portfolio's composition, light is shed on what Sida can do to ensure a strategic mix of projects that best align with its development and climate objectives and optimise resource utilisation. To this end, EBA and Sida provided a list of 27 projects which the authors analysed in the form of an ex-ante portfolio evaluation. In a preliminary assessment the projects were scanned for climate mitigation relevance and six projects were excluded due to lacking climate mitigation potential (see Annex 2: Excluded projects.

1.2 General insights from quantitative portfolio mapping

For the remaining 21 projects the total funding volume amounts to USD 354.33 million. The average funding volume per project is USD 16.87 million. However, Sida's contribution to projects varies substantially, with funding volumes ranging from USD 0.16 million (*EARF - COVID19 off-grid relief fund)* to USD 91.54 million (*Beyond the Grid Fund for Africa)*. The data set includes projects starting from 2017 onwards until 2022, with no projects starting before 2017, in 2023 or 2024. Projects last on average 6.1 years, with the longest project duration being 17 years, thus all but three projects end before 2030.

The projects mainly focus on the energy sector, which comprises a total of USD 332.58 million, or 94% of Sida's total climate mitigation funds, specifically for renewable energy (RE) and energy efficiency (EE). 70%

(USD 247.80 million) of Sida's climate mitigation funding is directed towards nine projects in Sub-Sahara-Africa and especially least developed countries (LDCs). Two projects have been funded in Europe (both in Bosnia and Herzegovina) while the remaining ten projects have no specified geographic focus or have a global scope.

Due to the sectoral focus on RE and EE, emissions mitigation is only achieved through reducing fossil fuel or biofuel-based energy consumption. Carbon removals, e.g. through nature-based solutions (NBS) are not supported by the projects in the data set.[2] Twelve projects were assessed to have indirect mitigation effects via their interventions, e.g., capacity building or institutional support. Only four projects provide ex-ante estimations for avoided emissions.

The following section will outline the analytical approach. After that a more in-depth section will present the analysis of the projects' features. Finally, via the five dimensions of transformative change (speed, scale, relevance, systemic change and additionality), we assess the potential of Sida's climate portfolio regarding mitigation impact.

2 Portfolio evaluation

2.1 Approach

The analysis of Sida's climate mitigation portfolio was conducted in two steps. Firstly, we mapped each project's key features – like geographic focus, sector, partner organisation, intervention type, mitigation figures and co-benefits – to identify aggregate trends in the portfolio.

Secondly, the transformational potential of each project was analysed to assess the expectable mitigation outcomes. To achieve this, the authors developed an analytical framework which allowed a streamlined assessment, since the portfolio comprised a mix of highly diverse projects with both direct and indirect mitigation effects. The analytical framework was based on 'Principles for transformational climate finance to advance just and equitable solutions', published by the Climate Investment Funds (Larson et al. 2023). The framework consists of five key dimensions: speed, scale, potential for systemic change, relevance and additionality. Specific sub-questions were defined for all dimension and applied to each

[2] Sida is funding projects in agriculture, forestry and other land use sectors (AFOLU) which however did not name climate mitigation as the main objective and were thus excluded or not part of the data set provided by EBA. However, these projects may enhance GHG sinks.

project (see detailed methodology in Annex 3) based on which projects received scores between 0 and 2 for each project. Project with full scores for scale and relevance received two extra points as they are considered especially transformational. On an aggregated level, alignment with each dimension implies high transformational potential of the respective project and thus good prospects of fulfilling its mitigation potential. Projects which would have scored 0 across all categories were excluded as this assessment focuses only on climate mitigation relevant projects.

The ex-ante portfolio evaluation was done through desk research and based on project documents provided by Sida and EBA. Due to this approach and limited data availability, the evaluation was confronted with multiple challenges and limitations outlined in Annex 4: Methodology limitations.

2.2 Portfolio Overview

The following sections provide an overview on the results of the portfolio mapping. Sida's climate mitigation portfolio is focused on the energy sector and on LDCs in Sub-Sahara-Africa, providing energy access and making RE and EE technologies available. Overall decarbonization and GHG mitigation impact is supposedly limited. The assessment of the portfolio in terms of its climate impact reveals that trying to simultaneously achieve poverty reduction (as per Sida's mandate (Government of Sweden 2017)) and the reduction of GHG emissions, represents a major challenge. However, the financial support offered mainly through grants and targeted at small and medium-sized enterprises (SMEs), public institutions and marginalised population groups has the potential to fill an important niche in international climate mitigation finance (e.g., Zagema et al. 2023)

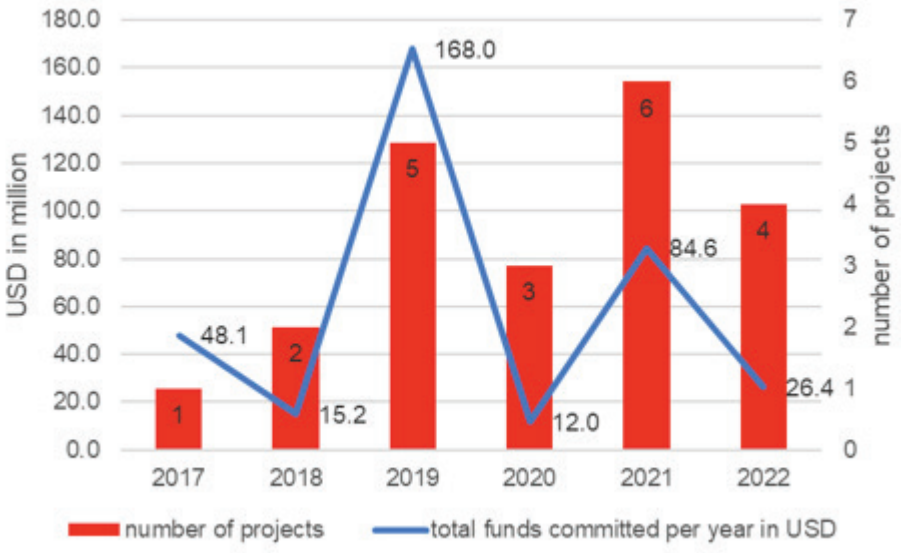
2.2.1 Funding committed per year

The graph below shows that Sida's finance for climate mitigation varies substantially. 2021 (six projects) and 2019 (five projects) were the years with most committed climate mitigation funding,[3] whereby the average project budgets in 2019 (average USD 33.61 million per project) were significantly higher than in 2021 (USD 14.10 million per project).

[3] Funding committed to newly initiated projects. Additional funds committed to existing projects were not considered.

It can be assumed that domestic and foreign events led to or amplified these fluctuations. Some events that potentially affected finance available could be the Swedish elections in 2018 and 2022 with a catch-up effect in 2019 when a centre-left-green government was formed. Budgetary and implementation constraints due to the COVID-19 pandemic in 2020 could be an explanation for the stark drop in the following year. The drop in 2022 may have been exacerbated by the Russian war against Ukraine and the resulting European energy crisis. Identifying the definitive reasons for these fluctuations, however, would require a more in-depth analysis, which is outside the scope of this working paper.

Figure 1: Columns depict the amount of funding pledged for climate mitigation projects per year.



Source: Authors, based on data provided by EBA

2.2.2 Recipient countries and regions

Sida's investment in climate mitigation focuses specifically on eleven countries, totalling seven single country projects, and 14 multi-country projects:

Table 1: Recipient Countries involved in single and multi-country projects

Country	Multi-country projects	Single-country projects	Total number of projects[4]
Bosnia and Herzegovina	0	2	2
Burkina Faso	2	0	2
Democratic Republic of Congo	1	0	1
Kenya	2	0	2
Liberia	2	0	2
Mali	1	1	2
Mozambique	3	2	5
Tanzania	1	1	2
Uganda	0	1	1
Zambia	2	0	2
Zimbabwe	2	0	2
Unspecified			11

Source: Authors, based on data provided by EBA.

The list of countries conveys that Sida puts emphasis on Sub-Sahara-Africa, as roughly 70% of its climate mitigation finance is directed towards this region. Projects in Sub-Sahara-Africa attract the highest project volumes per project (average USD 27.53 million) whereas global projects have lower funding volumes (USD 6.86 million) but on average longer timescales (8.2 years) than Sub-Sahara-African projects (4.9 years).

Mozambique receives most funding, hosting two single-country and three multi-country projects. There is also a substantial thematic overlap to be observed for the Mozambique projects, all focusing on support for energy access and the roll out of RE and clean cooking (see section 2.2.3).

Sida focuses on LDCs, with eight LDCs among eleven specified recipient countries (classification based on UN 2023). Only four projects in the dataset focused explicitly on emerging economies. These comprise two projects in Bosnia and Herzegovina and two global projects (*IFC Green Bonds Technical Assistance Program; Public-Private Infrastructure Advisory Facility*) (classification based on IMF 2023). These projects scored mostly high to very high in the assessment because of their high emission mitigation potential (see section 2.3.1).

By directing most of its climate related official development assistance (ODA) to LDCs, Sida is mainly targeting low emitting countries (UNEP

[4] The total number of projects per country does not add up to the total of projects analysed (20) because of the inclusion of multi-county projects.

2023). Poverty strongly correlates with low per capita GHG emissions (Kartha et al. 2020). This is where Sida's conflicting goals become apparent, as the development agency focuses on poverty reduction on the one hand but wants to maximize its climate change mitigation effect on the other. Achieving both goals simultaneously is challenging as demonstrated by the experience with the Clean Development Mechanism (CDM). The CDM was focused on generating mitigation outcomes but was criticised for not having fulfilled its development mandate, having supported projects almost exclusively in only five countries[5] (Shishlov & Bellassen 2012). Sida finds itself in the inverse situation where it is caught in the dilemma between prioritising development goals and maximising emission reductions.

2.2.3 Sector

Most projects (18 out of 21) focus on the energy sector, totalling 94% of Sida's analysed climate mitigation finance portfolio. Along the energy value chain, projects focus on power generation (USD 171.76 million), distribution (USD 49.6 million), and consumption (USD 146.42 million). Most emphasis is put on RE, which makes up 50% of Sida's climate mitigation related finance. This is followed by projects focusing on EE which makes up 41% of total funding. Due to this high concentration on RE and EE, project descriptions suggested overlaps in terms of sector and location. For example, multiple projects simultaneously take place in Mozambique, all promoting energy access[6], but with little or no coordination between them indicated in the project documents.

The three projects focusing on other sectors than energy, namely on support for the financial sector, 'business and other services' and 'general environmental protection' (as classified by Sida) all have no clear geographic focus and on average smaller funding volumes (average USD 7.25 million per non-energy climate projects compared to USD 18.48 million for energy projects).

2.2.4 Intervention type

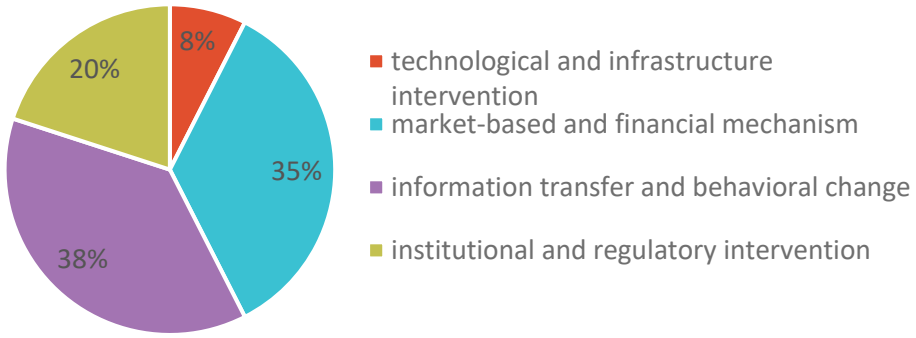
Using the intervention classification developed by Pasha et al. (2023), 'information and behavioural change' components were identified as

[5] China, India, South Korea, Brazil and Mexico (93% of all issued credits as of 2012).

[6] *Mozambique Energy for All, Renewable energy investment Brilho, Renewable Energy and Adaptation to Climate Technologies, Beyond the Grid Fund for Africa*

being most prevalent followed by 'market based and financial mechanisms'. Information-based and marked-based interventions are often used in combination. 'Institutional support', e.g. seeking policy support or regulation adjustments to create favourable conditions for RE and EE, complemented other activities in over 22% of the projects but was never the sole focus of a project. 'Technological and infrastructure interventions' are the rarest (only three of the 21 projects) and received the lowest share of funding (USD 48.59 million for technology and infrastructure interventions compared to the total portfolio volume of USD 354.33 million).

Figure 2: Share of intervention types in the portfolio.



Source: Authors, based on data provided by EBA

2.2.5 Investment type

The analysed projects are financed through two distinct finance instruments: grants and guarantees. However, in case of the guarantees, Sida only reports the subsidy component (which also is a grant), and not the total amount covered by Sida's guarantees. Out of the initial five guarantees two were excluded as they lacked a clear connection to climate mitigation. Notably, 'pure' grants constitute 98% of the total funding volume since the guarantee subsidies are very limited (USD 7 million in total). These grants are used directly for the interventions or utilized by funds that extend Sida's funding in the form of concessional loans to private sector actors and especially SMEs.

2.2.6 Mitigation contribution

Most of the funding (57%, USD 219.54 million) went to projects with indirect mitigation effects, e.g. through capacity-building, support for advisory panels or market platforms. A minority of projects (33%, USD 117.54 million) are classified as having direct mitigation effects while some

projects support a mix of activities with direct and indirect mitigation effect (5%, USD 17.25 million).

The documentation provided by Sida revealed large gaps regarding the availability of mitigation figures. Only four out of 21 projects provided estimations of mitigation potential in tonnes of carbon dioxide-equivalent (t CO_2e) per year. Projected avoided emissions amount to a total of around 3 megatons CO_2e/year for all four projects or an average of 750 kilotons CO_2e/year per project. Calculating avoided emissions per USD as an estimation for the whole portfolio is not suitable due to the limited sample size.

2.2.7 Partner organisations

Table 2: Partner organisations, managing Sida's climate mitigation related funds, classified by geographic origin

Organisation	Number of Projects	Total funds (USD million)	Geographic classification	Share of total funds
World Bank	5	93.91	Multilateral	38%
UNDP	3	31.83		
UNIDO	1	9.21		
AECF	2	51.80	African	16%
GERE	1	6.46		
SNV	2	17.73	European	44%
NEFCO	2	128.03		
SIMA	1	0.16		
BUILD fund S.A,	1	1.05		
European Commission	1	7.54		
CPI	1	0.80	USA	2%
Sunfunder	1	5.81		

Source: Authors, based on data provided by EBA

The most frequent channels used by Sida for their climate mitigation portfolio are multilateral organisations, with the World Bank (five projects) and UNDP (three projects) being the most prevalent ones.

European organisations receive the most funding. Examples are the Dutch development agency SNV and the Nordic finance institution NEFCO, both with two projects each. NEFCO manages the single biggest project (*Beyond the Grid Fund for Africa)* and is therefore the biggest recipient among all partner organisations.

African organisations are only supported for three climate mitigation projects, with the Africa Enterprise Challenge Fund managing Sida's grants for two projects.

2.2.8 Co-benefits

The most frequent co-benefit mentioned in the project documents is improved gender equality (seven projects) and poverty reduction (six projects). This focus may be due to Sida's priority setting, focusing on areas which assist poverty reduction (Sida n.d. a) and its gender mainstreaming strategy (Sida 2015).

During the portfolio assessment, the authors put specific focus on identifying projects which have climate change adaptation co-benefits and consider just transition. Six projects were thus identified as contributing to adaptation, all with comparatively low funding volumes (average USD 10.96 million per project) and in four of six cases an unspecified geographic focus. Only two projects were identified which mention or benefit the just transition. To some extent, this might be since 'just transition' is a rather new concept within the space of international cooperation and development finance, as illustrated by the (so far only four) Just Energy Transition Partnerships[7] (e.g., Ferreira Marques 2023). Besides, historically just transition discussions have dominated in developed rather than developing countries (Pinker, 2020). South Africa is a prominent exception due to its traditionally strong labour unions and its Just Transition Framework (Presidential Climate Commission n.d.) to which, however, Sida provides no climate mitigation finance.

Project type example: Clean cooking

One of the most prominent intervention types besides support for renewable energy is support for clean cooking. 41% of Sida's climate mitigation finance is directed towards projects where at least one project component is focused on clean cooking. This trend could be due to the high alignment of cooking project's social benefits with Sida's gender mainstreaming strategy and overall policy framework (Sida 2015; Government of Sweden 2017).

The support for clean cooking could be called into question from the climate perspective, as employed technologies mainly use natural gas and liquified petroleum gas (IEA 2023), while Sweden committed to cease

[7] With South Africa, Indonesia, Viet Nam and Senegal.

international finance for fossil fuels (CETP 2021). However, since the more efficient use of resources through clean cooking devices could reduce fossil-related GHG emissions compared to business-as-usual, some see clean cooking as an exception to the CETP while others, like Swedfund, do not (IISD 2022). Thus, Sida could reconsider its focus on clean cooking to ensure Paris alignment (see section 3).

2.3 Dimensions for transformative climate finance

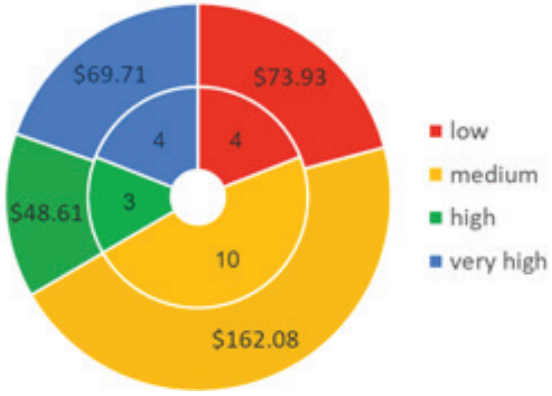
The criteria for the evaluation of Sida's climate mitigation projects are speed, scale, systemic change, relevance and adaptive sustainability. These are the five dimensions for transformative climate finance, identified by the Transformational Change Learning Partnership (TCLP), a multi-stakeholder and interdisciplinary community set up by the Climate Investments Funds (CIFs). The authors excluded 'adaptive sustainability' but added 'additionality' to assess the efficiency with which Swedish public money is deployed for climate mitigation (see Annex 3 for further details).

Each project was given a score from 0 to 2 for each dimension, according to whether it met the subset of questions (0 - no; 1 - partially; 2 - fully). Two additional points were granted for projects which are scored with 2 points ('fully') for both scale and relevance, as large scale and highly relevant projects are considered especially transformational. This led to a total scoring range from 0 to 12 (0-3 low, 4-7 medium, 8-10 high, 11-12 very high).[8]

[8] Projects that were rated 'fully for both relevance and scale received two additional points because they are considered particularly transformative (see Annex 3 for further details).

2.3.1 Overall scores

Figure 3: Overall scores of projects, assessing their transformational potential.



Notes: Inner circle depicts the number of projects per score, outer circle shows the funding committed in USD million to projects in each scoring class.
Source: Authors, based on data provided by EBA

Table 3: Average score for projects per assessment dimension

Dimension	Score average
Scale	1.2
Speed	1.3
Systemic Change	1.2
Relevance	1
Additionality	1.2

Source: Authors, based on data provided by EBA

Across the total portfolio, Sida's climate projects score 6.3 on average regarding their transformational potential (based on speed, scale, systemic change, relevance and additionality), which is a 'medium' score (median: 6 points).

The four 'low' scoring projects have in common that they all have either a global or unspecified country focus. Vague project concepts made it difficult to assess the transformational potential. Ten projects received a 'medium' score, making it the most common rating and accounting for the largest portion of the total funding. Only three projects achieved a 'high' score.

Four projects' transformational potential was scored 'very high' because of their large scale and fully climate mitigation relevant interventions. Three of the four projects, however, have below-average funding volumes

from Sida's side.[9] This is not contradicting full scores for scale as projects can also have large scale impact through private capital leveraging and signalling effects. Therefore, given their classification as highly transformative, these four projects merit scaling up or replication in other countries, taking into account local contexts (see Recommendations).

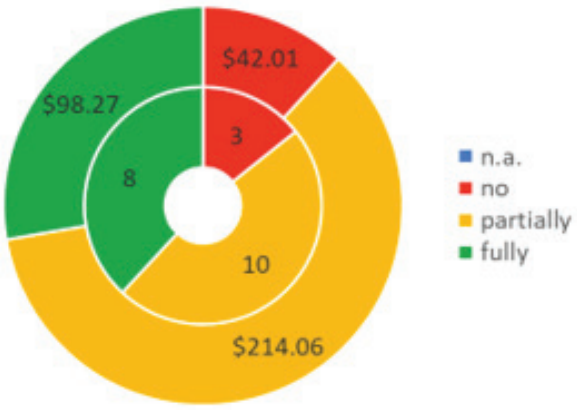
Project Example: Energy Efficiency in Residential Sector
(Bosnia and Herzegovina, UNDP)
The project aims to enhance the energy efficiency of residential buildings by establishing the groundwork for increased investments in low-carbon housing. Over a three-year span (2021-2024) in partnership with 36 municipalities, it focuses on strengthening institutional capacities, creating financial mechanisms, conducting energy efficiency studies, and fostering public awareness to reduce GHG emissions, promote green jobs, and facilitate access to affordable finance for EE retrofitting.

Assessment of potential for transformational change: 12 points (very high)
Funding size: USD 2.50 million (second smallest 'pure' grant)

2.3.2 Scale

The dimension 'Scale' describes if investments are enabling impact at scale by, for example, leveraging other funding or having a signalling effect (see Annex 3).

Figure 4: Portfolio analysis for the dimension 'scale'.



Notes: Inner circle: number of projects meeting the criteria; outer circle: aggregated amount of funding per score in USD million.
Source: Authors, based on data provided by EBA

[9] Only funding provided by Sida was assessed, total programme budgets provided by other donors were out of the scope of this assessment.

Ten projects, and over half of Sida's climate mitigation relevant ODA is directed to projects which 'partially' fulfil the requirements for scoring high for the dimension 'scale'. Eight projects are rated as large scale, having high private capital leveraging ratios and a signalling effect. Only three projects – all of which are very small in their scale and expected mitigation effect – did not suggest any leveraging effect.

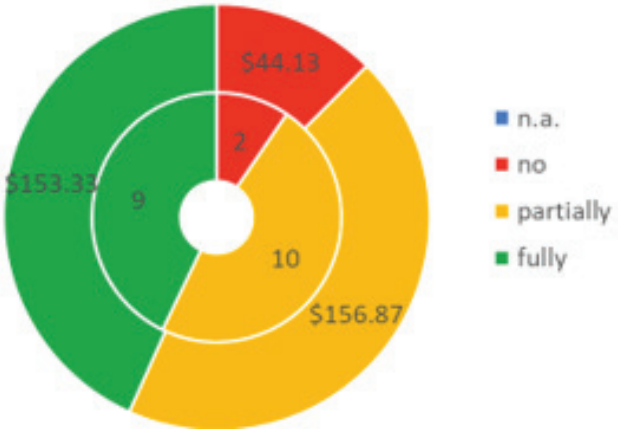
These results can be explained by the fact that the majority of Sida's climate projects focus on supporting the private sector in rolling out RE or EE technologies. Consequently, most projects have the potential to leverage private capital, and thus to amplify their mitigation effect and score at least partially regarding the scale criteria. However, only for a limited number of projects (six out of 21) an ex-ante estimation of the intended expansion of energy capacity or the savings from the EE interventions was identified. This lack of upfront disclosure has impeded the assessment of project scale in several instances.

Instead of figures on energy capacity and savings in kilowatt hours, the number of beneficiaries is a more frequently reported metric, as it is common across development finance actors (observed in more than half of Sida's climate mitigation projects). While this gives insights in the projects social impact, the number of beneficiaries does not facilitate an estimation of the project's mitigation effect. This reporting style is exemplary for Sida's main focus on poverty alleviation and prioritisation of social impact and secondary focus on mitigation.

2.3.3 Speed

The dimension 'Speed' describes if investments are enabling fast action, for instance by aiming at immediate action with timescale ending before 2030 or supporting streamlined processes like easier access to finance (see Annex 3).

Figure 5: Portfolio analysis for the dimension 'speed'.



Notes: Inner circle: number of projects meeting the criteria; outer circle: aggregated amount of funding per score in USD million
Source: Authors, based on data provided by EBA

Most projects were considered timely, indicating that projects will be implemented swiftly, and that the climate mitigation effect will be prompt, thus scoring 'fully' or 'partially' regarding the speed dimension. This was the case because most projects end before 2030. Furthermore, to receive all points, projects had to include measures to speed up the implementation process by easing access to funding, for instance through pay-as-you-go mechanisms for RE or EE equipment, which applies to nine projects.

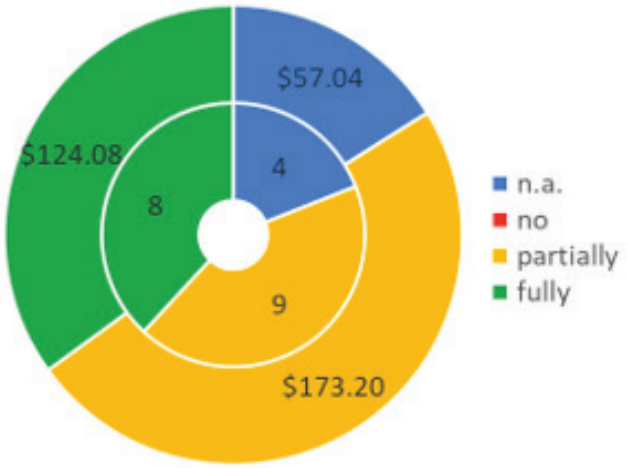
Two out of 20 projects were rated 'no' regarding the speed criteria.[10] In two cases this is due to projects being part of a long-term initiative and insufficient explanations for the renewed funding. Projects with timescales beyond 2030 and no indication of swift implementation also received low scores.

2.3.4 Systemic change

The dimension 'systemic change' describes to what extent investments encompass the entire lifecycle of an investment or sector, featuring experimental, small, and decentralized solutions while addressing various levels (national, regional, local, etc.) and relevant actors, with a focus on capacity-building and institutional support (see Annex 3).

[10] *ESMAP, The Public-Private Infrastructure Advisory Facility, Bamboo Capital - BUILD SME Fund*

Figure 6: Portfolio analysis for the dimension 'systemic change'.



Notes: Inner circle: number of projects meeting the criteria; outer circle: aggregated amount of funding per score in USD million.
Source: Authors, based on data provided by EBA

The largest share of funding is directed towards projects which 'partially' foster systemic change in their intervention. Projects which fully support systemic change are second most frequent. No project received no points for the systemic change dimension, but four projects were not assessable due to lacking data. This is especially true for open-ended project designs or project descriptions which do not outline a clear set of activities. These are mainly global projects or those with unspecified geographic focus.

In contrast, cases where detailed project descriptions were available mostly do well in explaining their theory of change and linking specific interventions to barriers preventing change. These projects all 'partially' or 'fully' outlined how barriers could be overcome. Projects categorized as 'partially' fostering systemic change commonly rely on a singular intervention type, often centred around information transfer or market-based and financial mechanisms that address issues related to asymmetric information or imperfect financial markets.

Conversely, projects with high scores for systemic change utilise a mix of multiple intervention types, e.g. fostering institutional support alongside setting up financing mechanisms for off-grid projects and offering technical assistance to implementing SMEs. Only three projects[11] got full scores because they convincingly demonstrated that the intervention

[11] *Advancing regional energy projects, Green Bonds Technical Assistance Program, Energy Efficiency in Residential Sector*

would fundamentally change the logics of a sector (see project example below).

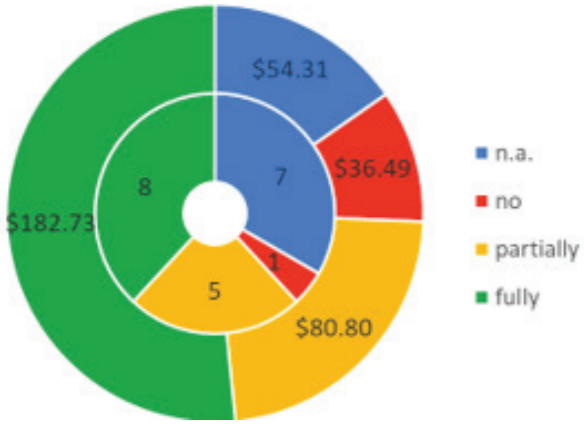
Project Example: Advancing Regional Energy Projects (AREP)
(Sub-Sahara-Africa, multi-country project, World Bank)
The project aims to establish interconnected, cross-national grids and regional energy trading systems by working together with regional authorities ('power pools') and providing technical studies and training. The initiative is pivotal for decarbonizing existing power systems and enables the expansion of RE by balancing out variability in energy generation. This fosters growth in RE markets and economic activity due to improved access to reliable electricity supply.

Assessment of potential for transformational change: 11 points (very high)
Funding: USD 10.39 million (below portfolio average of USD 16.87 million)

2.3.5 Relevance

The dimension 'Relevance' describes to what extent the interventions are aligned with priorities to combat climate change nationally, defined by the priorities set in countries' Nationally Determined Contributions (NDCs), and globally, as outlined by the as outlined by the Intergovernmental Panel on Climate Change (IPCC 2023, p.27) (see Annex 3).

Figure 7: Portfolio analysis for the dimension 'relevance'.



Notes: Inner circle: number of projects meeting the criteria; outer circle: aggregated amount of funding per score in USD million
Source: Authors, based on data provided by EBA

Half of Sida's climate mitigation finance is directed towards fully mitigation relevant projects and sectors. A quarter of the projects and the

respective funding is 'partially' mitigation relevant. Seven projects were not assessable due to vague project descriptions. However, these projects comprised only relatively small funding volumes. Thus, 85% of Sida's climate mitigation finance was assessable regarding its relevance.

Projects which received the 'partially' score either focused on a sector which is not the country's priority, as outlined in its NDC, or that the sector in question is not highly mitigation relevant according to the IPCC assessment (IPCC 2023, p. 27). One project (*Modern Cooking Facility for Africa*) does not fulfil either requirement and thus receives no points for relevance.

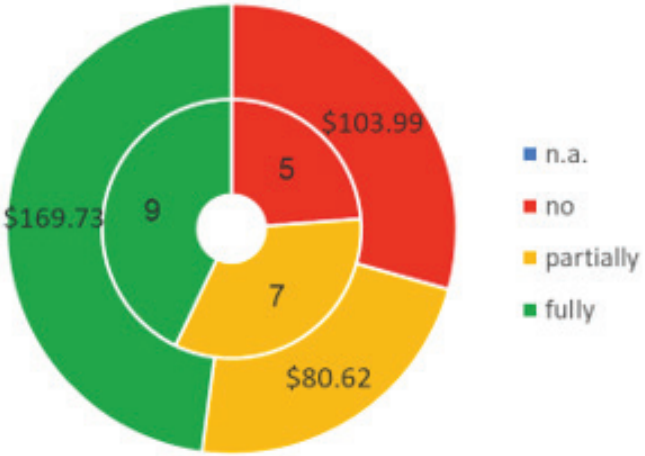
Projects evaluated as fully relevant for climate mitigation are mainly RE projects, EE building projects and infrastructure intensive projects like those focusing at expanding electricity grids. Those projects are characterized by generally above-average funding sizes (average USD 22.85 million per project compared to USD 16.87 portfolio average).

Seven projects could not be rated. Like for the systemic change dimension, open-ended and vague projects were not assessable as they did not specify which sector would be targeted. Furthermore, funds with very broad thematic focus, like the *UNCDF Bamboo Capital Build SME Fund* or for the *Global Innovation Lab for Climate Finance* did not indicate which share of the received funding is earmarked for climate mitigation related investments, thus relevance remained unclear. However, these open-ended, global or unspecified projects are not as large in total investments as country-specific projects (on average USD 7.76 million per project not assessed).
On a global scale, the focus on RE and EE projects in LDCs suggests that the potential for emission reductions is limited, even if the target sectors are very relevant for the global energy transition, as emission baselines are already low. However, assuming that Sida's energy access projects cater to so-called suppressed demand by supplying RE, baseline emissions could go up in the future if met by fossil fuel energy supply in an alternative scenario (e.g., Shishlov & Bellassen 2012). Consequently, although the immediate mitigation effect of Sida's projects in LDCs is supposedly small, the long-term mitigation potential in LDCs should not be underestimated.

2.3.6 Additionality

The dimension 'Additionality' describes if the project documents refer to or undertake some kind of additionality assessment or mention collaboration with other actor (see Annex 3).

Figure 8: Portfolio analysis for the dimension 'additionality'.



Notes: Inner circle: number of projects meeting the criteria; outer circle: aggregated amount of funding per score in USD million
Source: Authors, based on data provided by EBA

The analysis found that three-quarters of all projects, comprising 70% of total funding volume, 'fully' or 'partially' take additionality of their interventions into account. Five projects made no reference to additionality considerations in the assessed project documents.

Nine projects were deemed to 'fully' address additionality concerns because they explicitly outline in their project documents how the intervention generates transformative change compared to the baseline scenario. The projects outlined how this change would have not occurred otherwise through other means or by the actions of another actor in the field.

A project was categorized as 'partially' addressing additionality concerns when it actively pursues collaboration with either private sector entities or other actors within the public sector. This collaboration was observed in seven projects, where efforts are made to engage external partners to strengthen their initiatives.

The five projects with 'no' deliberation on additionality fail to consider any other players or projects — be they private or public — operating in their respective field. This oversight implies a risk of duplication of efforts

with existing initiatives. Conversely, by disregarding private sector activities in the intervention field, the project might lead to a misallocation or inefficient utilization of public funds. For instance, some projects in Sida's mitigation portfolio focus on cooking stoves which could potentially secure financing from private sector actors active in the voluntary carbon market.

2.3.7 Adaptive sustainability

Adaptive sustainability, according to the TCLP of the CIF, implies that climate action and its finance must evolve; informed by learning from past experiences, fostered through transparency and transdisciplinary exchange and cross-sectorial engagement (Larson et al. 2023). This dimension was not analysed project by project, as findings tend to emerge across the entire portfolio.

It could be argued that projects which have an open-ended design are aligned with adaptive sustainability. For instance, by capitalizing programmes for small-scale projects, Sida supports initiatives with the ability to learn from previous experiences, consider country-specific conditions and adapt approaches.

Within the dataset, a small group of projects (four) had a very broad and open-ended project design attracting only very limited funding from Sida (5% of the total climate mitigation finance portfolio).

However, an open-ended and vague design carries multiple risks, in particular that the projects do not fulfil their climate mitigation purpose. Emission curbing effects are not guaranteed if key targets are not clearly outlined at the outset and if funding is not earmarked for direct climate mitigation when granting finance to a broad-focused fund. This was the case for multiple of Sida's projects including both projects providing guarantees (*Bamboo Capital - BUILD SME Fund, EARF - COVID19 off-grid relief fund*).

Furthermore, a broad focus carries the risk that although the project is listed as a climate project, not all of its components are Paris-aligned (see project example). Examples are 'clean' cooking projects which will likely also support gas cookers (see project example).

Project Example: Public-Private Infrastructure Advisory Facility (unspecified location, multi-country project, World Bank)

The facility focuses on strengthening weak institutions in emerging economies and thus fostering the implementation of other multilateral institution's project. Sida's funding will be utilized to shift the focus towards climate and sustainability aiming at a "*nearly* 100 percent environmentally sustainable/climate resilient portfolio over the next five years" (World Bank 2019a, p. 5). Conversely, this means that unsustainable infrastructure projects will still be funded before 2025 in a project that is reported to the OECD as fully mitigation-relevant with the Rio mitigation marker 2.
Assessment of potential for transformational change: 2 points (low)
Funding: USD 14,95 million (below portfolio average)

To conclude, the limited data availability and low ex-ante climate target-setting requirements pose a challenge to safeguarding strong climate mitigation impacts. Improvements can be made by Sida regarding transparency requirements to harness the adaptive sustainability potential of its projects (see section 3 with recommendations).

3 Recommendations

Portfolio focus
Sida should reconsider the strong focus on a few locations and sectors, as diversification could be beneficial. By including more projects benefitting low-income households in emerging economies, higher emission mitigation effects could be achieved. In this regard, Sida could also put more focus on just transition, given the need to phase out fossil fuels in a just and equitable manner (UNFCCC 2023) and further sectors apart from energy like transport and land use.

Based on the portfolio analysis, projects with high transformational and emission reduction potential should be supported by increasing funding volumes and replicating projects designs considering local contexts.

Reporting and transparency
Sida should increase its transparency, by making project documents with more detailed information on the planned intervention publicly available to allow for engagement with and oversight by civil society organisations in Sweden, as well as in the recipient countries and beyond. Project templates should include more information on interactions with private sector actors, and in the case of climate mitigation focused projects it should include estimations of avoided emissions or removals in t CO_2e.

Sida's policies
To double climate finance by 2025 compared to 2019 a strong boost of committed finance is needed in the coming two years, guided by the right strategic set up, including a dedicated climate strategy outlining Sida's priorities and targets. Sida should also bear in mind that climate finance needs to be 'new and additional' and should not encroach on ODA (UNFCCC 2009).

Furthermore, Sida should consider preparing a policy which clearly states fossil fuel exclusion principles applying to *all* projects, to ensure compliance to the CETP and article 2.1.c of the Paris Agreement. Therefore, Sida could examine how lessons learned of its gender mainstreaming efforts are applicable, aiming for a 'climate mainstreaming' process.

The climate strategy could be of high importance for Sida's future role in the light of the new Swedish development reform agenda (Government of Sweden 2023).

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Appendix 1: Portfolio summary

Annex A1: Table summarising portfolio

(simplified overview)

Project information												Project Assessment						
Project Name	Recipient Country	Recipient Region	Start Year	End Date	Funds in USD million	Funds in SEK million	Partner Organisation	general	Investment type	Mitigation figure (t CO2e/year)	Geographic origin partner org.	Speed	Scale	Systemic change	Relevance	Additionality	Transformational potential	Clean cooking
Beyond the Grid Fund for Africa	Burkina Faso, Liberia, Mozambique, Zambia	Sub-Sahara-Africa	2019	2028	92	830	NEFCO	energy	grant	n/a	Europe	1	1	1	2	2	medium (7)	n
ESMAP	unspecified	unspecified	2021	2026	29	265	World Bank	energy	grant	n/a	multilateral	0	1	n.a.	1	0	low (2)	y
Energy Efficiency in Public Buildings	Bosnia and Herzegovina	Europe	2020	2025	9	76	UNDP	energy	grant	n/a	multilateral	1	2	2	2	2	very high (9)	n
Energy Efficiency in Residential Sector	Bosnia and Herzegovina	Europe	2020	2025	2	23	UNDP	energy	grant	n/a	multilateral	2	2*	2	2*	2	very high (12)	n
Tanzania Clean Cooking Project	Tanzania	Sub-Sahara-Africa	2022	2025	4	38	Africa Enterprise Challenge Fund	energy	grant	n/a	Africa	1	1	n.a.	1	1	medium (4)	y

AREP - Advancing regional energy projects	unspecified	Sub-Sahara-Africa	2022	2026	10	106	World Bank	energy	grant	n/a	multilateral	2	2*	2	2*	1	very high (11)	n
Private Financing Advisory Network	unspecified	unspecified	2018	2022	9	80	UNIDO	energy	grant	n/a	multilateral	1	2	n.a.	n.a.	0	low (3)	n
Sustainable energy access for all Second phase	Mali	Sub-Sahara-Africa	2022	2026	6	65	GERES	energy	grant	n/a	African	2	0	2	2	1	medium (7)	n
Inclusive Markets for Energy Efficiency in Uganda	Uganda	Sub-Sahara-Africa	2021	2025	9	79	SNV	energy	grant	n/a	Europe	2	1	1	2	2	high (8)	n/a
Modern Cooking Facility for Africa	Kenya, Tanzania, DRC, Zambia, Zimbabwe, Mozambique	Sub-Sahara-Africa	2021	2028	36	325	NEFCO	energy	grant	1.500.000	Europe	2	1	1	0	0	medium (4)	y
IFC GBTAP - Green Bonds Technical Assistance Program	unspecified	global	2018	2025	6	54	World Bank	other	grant	n/a	multilateral	2	2	2	1	1	high (8)	n
The Public-Private Infrastructure Advisory Facility	unspecified	unspecified	2019	2032	15	135	World Bank	other	grant	n/a	multilateral	0	0	n.a.	n.a.	2	low (2)	n
Blended finance: The Global innovation Lab for climate finance	unspecified	unspecified	2020	2024	1	7	Climate Policy Initiative	other	grant	n/a	USA	2	1	1	n.a.	2	medium (6)	n

EARF - COVID19 off-grid relief fund	unspecified	global	2021	2027	0	1	SIMA	energy	guarantee	n/a	Europe	1	1	1	n.a.	1	medium (4)	y
UNCDF/Bamboo Capital - BUILD SME Fund	unspecified	global	2021	2031	1	9	BUILD fund S.A, SICAV-RAIF	energy	guarantee	n/a	Europe	1	1	1	n.a.	2	medium (5)	n
AECF 2017-22 Renewable Energy and Adaptation to Climate Technologies	Burkina Faso, Ethiopia, Kenya, Liberia, Mali, Mozambique, Zimbabwe, Somalia	Sub-Sahara-Africa	2017	2022	48	433	Africa Enterprise Challenge Fund	energy	grant	n/a	Africa	2	2*	2	2*	1	very high (11)	y
Renewable energy investment, Brilho	Mozambique	Sub-Sahara-Africa	2021	2023	9	79	SNV	energy	grant	400.000,00	Europe	1	1	2	1	0	medium (5)	y
Global Energy Transformation Programme	unspecified	global	2019	2023	8	72	European Commission	energy	grant	940.000,00	Europe	1	2	1	n.a.	2	medium (6)	n/a
Mozambique Energy for All	Mozambique	Sub-Sahara-Africa	2019	2025	33	310	World Bank	energy	grant	196.000,00	multilateral	2	1	2	1	2	high (8)	n
UNCDF LMF-Booster	unspecified	global	2019	2024	21	189	UNDP	energy	grant	n/a	multilateral	1	0	1	n.a.	0	low (2)	y
Gigaton Fund guarantee	unspecified	global	2022	2039	6	52	Sunfunder Inc	energy	guarantee	n/a	USA	1	2	1	2	1	Medium (7)	n

Notes: y= yes, n = no, n/a = non-applicable , * = Project gains two additional points for full scores of scale and relevance

Annex 2: Excluded projects

Table A2: List of projects excluded from the analysis.

Project Name	Funds (in USD million)	Explanation for Exclusion	Rio-marker[12]
Portfolio Guarantee Georgia - Subsidy	2.30	The guarantee focuses on economic support to SMEs, no clear climate mitigation focus	0
IISD Sustainability Standards	2.20	No clear reference made to mitigation finance	1
Water and Energy for Food (WE4F) 2019-2024	19.04	Food security is focus, mitigation is only a co-benefit	1
Forest Farm Facility	15.03	GHG mitigation is not the main objective, only co-benefits	1
Innovations Against Poverty 2	n.a.	GHG mitigation is not main objective, doesn't outline how climate mitigation efforts will be supported	1
Guarantee SDG-bond health, fin. inclusion, environment, climate change, agriculture	1.78	GHG mitigation is not main objective, impact report does not cover it	0

[12] The Mitigation Rio Marker tracks GHG reduction effects of ODA projects for OECD reporting requirements. 0=no mitigation focus, 1=partially, 2=fully mitigation focused.

Annex 3: Methodology

In 2023, the Climate Investment Funds (CIF) published its "Principles for Transformational Climate Finance to advance Just and Equitable Solutions" (Larson et al. 2023). The publication outlines key principles which have to be followed to achieve transformational climate finance, basing their recommendations on five core dimensions of climate finance: scale, speed, systemic change, relevance and adaptive sustainability (see Figure 9).

We have evaluated all projects regarding four of the five dimensions (relevance, systemic change, speed and scale), but excluded 'adaptive sustainability' as it was not applicable on a project-by-project base. Instead, as can be seen in the running text, the authors provided summary assessments regarding observations about adaptive capacity for the whole portfolio. Additionality of investments has been considered as well, but as it goes beyond the CIF principles, this has not been assessed across all three portfolios of Swedish development finance institutions.

Similarly, co-benefits of projects beyond mitigation potential were not assessed on a project-by-project basis but summarised for the portfolio as a whole.

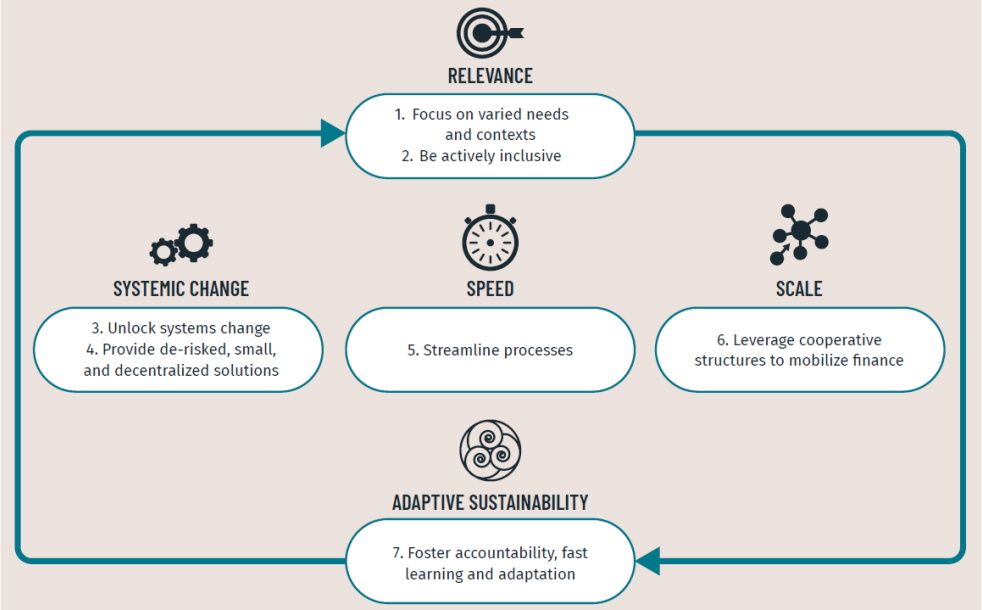

Figure 9: Transformational Climate Finance Principles and the Five Dimensions of Transformational Change. (Source: Larson et al. 2023, p. 14)

Based on the definitions put forward by Larson and colleagues the authors define the four categories as follows and analysed the portfolios based on the following evidence:

- **Scale**: Investments are enabling faster action
    - Evidence to consider
        - Mentions of how much private finance is raised for every unit of public finance
        - Mentions of catalysing and unlocking private finance
        - The investment is funding innovation
- **Speed**: Investment outcomes will manifest by 2030 and investments contribute to streamlining access to finance
    - Evidence to consider
        - Timeline of the project – when are which outcomes expected to become reality?
        - Timing of the investment: is the investment providing additional funding into a long-term ongoing initiative? Is it boosting certain initiatives, addressing needs identified in previous phases
        - If available, a figure of mitigation per annum
        - Evidence of streamlining may include removing red tape, increasing access to finance, building capacity for accessing climate finance, providing institutional support to accelerate access to finances
- **Systemic Change**: Investments consider different levels of actors in a coordinated, interconnected and inclusive manner, and are providing new and innovative solutions

    - Evidence to consider
        - Is the investment considering the whole lifecycle of an investment and/or a sector?
        - Are solutions experimental, small, and/or decentralised?
        - Are different levels (national, regional, local, etc.) and relevant actors identified/mentioned/addressed?
        - Mentions of capacity-building and institutional support
- **Relevance**: Investments are aligned with national needs as identified through NDCs and global areas/sectors of high importance identified in the Paris Agreement
    - Evidence to consider
        - Mentions of alignment with NDCs or sectors identified in the Paris Agreement
        - Using NDCS (especially conditional pledges) and the areas identified in the Paris Agreement to see if they match the sectors of the project
- **Additionality:** Would these outcomes have come about without this project?
    - Evidence to consider
        - Mentions of additionality/some form of additionality assessment
        - Innovative and experimental projects are more likely to be additional
        - Mentions of reducing risks or that this is a high-risk investment

Scoring framework

- There are five categories that contribute to the overall transformation potential assessment
    - Relevance, Additionality, Scale, Speed, Systemic change
- All five of these are initially weighted equally, and then two additional points are automatically added for projects that score a yes for relevance and scale
- All five categories are individually assessed based on the questions/definition provided for indicators and relevant evidence.
- Assessment responses are:

    - Yes (if it meets the criteria/answers all questions positively)
    - No (if it does not meet the criteria/answers none of the questions positively)

- Partially (if it meets parts of the criteria/positively answers some of the questions)

- There is a point score according to these responses

  - Yes = 2
  - Partially = 1
  - No = 0

- Once all 5 categories have been assessed, the overall transformational potential is assessed by adding up scores for indicators across one project. An additional 2 points is added for projects that score a 'yes' for both scale and relevance. These are categorized as follows:

  - Very high = 11-12 points
  - High = 8-10 points
  - Medium = 4-7 points
  - Low = 3 or fewer points

Annex 4: Methodology limitations

This ex-ante portfolio evaluation of Sida's mitigation finance commitments presents a qualitative, not quantitative analysis. It does not seek to comply with international evaluation standards, but rather maps and interprets Sida's 'climate mitigation portfolio'.

The analysis was compiled based on desk research and was thus limited to the insights available in the project documents. No 'on the ground checks', like stakeholder interviews were conducted since it was outside the scope of the working paper. Conclusions on the project's scale, relevance and additionality are thus bound to the information provided by Sida and the partner organisation and give more of a glimpse in the considerations of these organisations on the assessment criteria than in the projects itself. For example, the authors were not able to rule out the possibility that a project that does not provide any explanations regarding its additionality might not actually be additional. It is only less likely if it is not considered in the documents and project plans.

Data availability posed a major challenge to the assessment. For roughly 57% of the available project documents were insufficient for a thorough analysis due to lack of detailed descriptions of the planned activities.

A dearth in available data hampered the assessment of mitigation effects, intervention types and co-benefits. There is thus a risk that the analysis of these categories is incomplete, as not all aspects of the planned interventions were always described in detail in the project documents.

The analysis only presents a momentary 'snapshot' of Sida's climate mitigation ODA, as only current projects were listed in the analysed dataset. There were no projects starting prior to 2017 and none in 2023 or later.

As most of the projects were being implemented at the time of the analysis, data on disbursement of funds was incomplete. Data for committed funding was also contradictory for some projects, due to outdatedness or divergent exchange rates. Considering the most up-to-date documents and amendments available, the funding figures in the assessment present the best possible effort for accuracy.