



GUIDING PRINCIPLES FOR THE DANISH CLIMATE ENVELOPE

February 2016



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1. PURPOSE AND BACKGROUND

Climate change is one of the greatest challenges of our time. Dramatic changes in climate conditions and weather extremes are already affecting millions of people around the world, damaging crops and coastlines and putting food, water and energy security at risk. Climate change threatens to reverse progress towards sustainable development. Therefore, steps are needed to help countries adapt to the impacts of climate change and assist countries in the transition to become low carbon economies. The Paris Agreement marks a historic turning point for global cooperation to address climate change. The Danish Government is fully committed to supporting the implementation of the Paris Agreement and assisting developing countries with delivering action on the ground.

Established in 2008 the Climate Envelope is a mechanism for channeling Danish dedicated climate funding to support mitigation and adaptation activities in developing countries. The envelope is managed as an integrated part of Danish development assistance. The Envelope is operating within the strategic framework of Danish development assistance which focuses on fighting poverty and supporting growth and employment in developing countries as well as improving security and fighting migration. The Ministry for Energy, Utilities and Climate proposes and prepares activities for half of the Climate Envelope funds while the Ministry for Foreign Affairs proposes and prepares activities for the other half of the Climate Envelope funds.

In May 2014, the External Grant Committee requested that the ministries took “steps to prepare a strategic framework which can guide the use of the Climate Envelope, including guidance on focus, modalities, etc”. Furthermore, in September 2015 an external evaluation of the Climate Envelope concluded that “a strategy for the Climate Envelope should be prepared to set out priority objectives and activities for mitigation and adaptation which could help focus climate finance and increase its impact”. The evaluation also recommended that more efforts are put into improving the monitoring and evaluation framework for all Climate Envelope activities.

A key point from the evaluation was that strong competences are present in Denmark when it comes to low carbon solutions and support to marginalised groups most impacted by climate change. This is in terms of both commercial and institutional competencies (including public sector, research sector and civil society organisations). Cleantech has been the fastest-growing sector of Danish exports in recent years and Danish universities are leading worldwide on a range of issues related to resource efficiency. It is important that these competences are also used in Danish international cooperation. Also, it was found that Denmark’s ongoing energy transition away from a fossil fuel economy is an extremely powerful example.

In response to the demands from the External Grant Committee and the evaluation team, the Ministry for Foreign Affairs and the Ministry for Energy, Utilities and Climate have developed this document with guiding principles for use of the Climate Envelope. The guiding principles are meant to serve both as a guiding tool for Danish officials dealing with programming of the Danish Climate Envelope as well as a tool providing more clarity to members of the External Grant Committee and to the broader public on the framework within which Danish climate funds are planned to be used. Furthermore, the guiding principles can provide guidance to stakeholders in partner countries and partner organisations on the framework for the Danish Climate Envelope as well as on the intervention logic that projects to be funded by the Climate Envelope should relate to.

In short, the purpose of this document is to increase the impact and the effect of Danish climate change cooperation and assistance by:

- 1) Setting out a framework with a number of principles which will be guiding the future identification, selection and implementation of activities to be funded by the Danish Climate Envelope and the envelope’s interaction with other Danish assistance/cooperation
- 2) Outlining an indicator framework for the Climate Envelope to improve monitoring of results.

2. FRAMEWORK FOR THE DANISH CLIMATE ENVELOPE

2.1 Overall framework (Theory of Change)

To provide the overall picture of what the Danish Government aims to achieve with the Climate Envelope and how it will be achieved, a Theory of Change for the Climate Envelope has been developed. In short, the Theory of Change sets out the building blocks required to bring about the long term goals of the Climate Envelope.

The overall objective for the Climate Envelope is threefold: It is to 1) Assist developing countries to adapt to climate change; 2) Assist developing countries with the transition to a low carbon economy; and 3) Prepare developing countries to enter into and implement the new global climate agreement, agreed at COP21 in Paris with a view to sustainable development.

The specific impact that is targeted by the Climate Envelope is the following:

- Reduced greenhouse gas emissions
- Increased climate resilience specifically for vulnerable and marginalised groups

To achieve this impact Climate Envelope interventions will address the following outcomes:

- Strengthened national and community-level climate change policies, planning frameworks and information systems
- Scale up of climate-relevant technologies, infrastructure and markets
- More consolidated, effective and ambitious international climate architecture

To address the outcomes set out for the Climate Envelope the following activities/outputs will be supported by the Climate Envelope:

- 1) Supporting more effective policies and planning (in particular related to the energy and water sectors)
 - › Training and capacity building for policy makers for better climate planning

- › Supporting enabling environments, including integrating climate change in regulation and policies, e.g. through government-to-government cooperation
 - › Building more effective climate information, monitoring and MRV (Monitoring, Reporting and Verification) systems
 - › Supporting development of financial, regulatory and other incentive mechanisms
 - › Strengthening enforcement and alignment to international best practices
 - › Supporting communities to plan for climate change and hold officials to account
- 2) Promoting climate solutions through more effective markets and investments
 - › Promoting climate-friendly technologies and solutions as well as public and private investments through effective markets.
 - › Promoting and financing incremental costs of investments in climate resilient infrastructure and mitigation technology deployment to encourage scale up
 - › Supporting the development and maturation of projects e.g. NAMAs (National Appropriate Mitigation Actions) in order to make projects finance-ready
 - › Encouraging technologies R&D, innovation, and transfer (including south-south)
 - › Improving access to finance through innovative market and risk mechanism
 - › Promoting community-led models to adopt or promote climate technologies
- 3) Building more robust international architecture
 - › Promoting the implementation of the international climate agreement, in particular the nationally determined contributions
 - › Developing effective and credible international financing frameworks
 - › Making policies and procedures of key institutions more transformational
 - › Aligning institutional agendas, including lesson learning and knowledge transfer

- › Promoting Danish priorities in UNFCCC negotiations/post-Paris implementation
- › Supporting marginalized voices and ensuring accountability to most vulnerable

The activities and outputs of the Theory of Change are process-oriented and apply both to mitigation and adaptation activities.

To further narrow the scope of the Climate Envelope a number of principles for the use of Climate Envelope funds have been developed and incorporated into the Theory of Change. The principles are integrated in the illustration of the Theory of Change which is attached in annex 1 to this document and are further explained in section 2.2 below.

2.2 Principles

The principles for the use of Climate Envelope funds are divided between 1) Principles that set out the balance and boundaries for the overall Climate Envelope and 2) Principles that deal with project effectiveness to guide prioritization of activities.

1. Principles on balance and boundaries

The principles dealing with balance and boundaries (portfolio shape) reflect a number of choices which have been made in terms of future funding from the Climate Envelope. These principles are the following:

- **Intervention logic:** The intervention logic of a Climate Envelope activity/project must be aligned with the overall Theory of Change for the Climate Envelope.
- **Alignment:** Activities to be funded must be based on demand from recipient countries.
- **Evidence and indicators:** Proposed Climate Envelope interventions must be able to demonstrate significant effect in terms of contribution to overall Climate Envelope impact and outcomes as well as the indicator framework for the Climate Envelope

which is set out in part 3 of this document. Strong justification and rationale is needed. A result framework is to be developed for all interventions.

- **Balance between adaptation and mitigation:** The aim is to use half of the Climate Envelope funds for mitigation purposes and the other half for adaptation purposes. At the same time, it is recognized that several interventions will address both mitigation and adaptation purposes – mainly in the least developed countries. Because of this, a strict 50/50 division of the funds will not be possible on an annual basis.
- **Geographic focus:** The bilateral Climate Envelope interventions will be targeted in few selected countries. Mitigation activities will mainly be focused in the emerging economies where mitigation purposes are most cost efficient and potentially most impactful. Interventions mainly targeting adaptation purposes will be focused in poor countries - mainly in Africa - which are most vulnerable to consequences of climate change. However, to a large extent mitigation and adaptation activities may be strongly related for example in terms of activities to support access to sustainable energy. Furthermore, bilateral interventions in focus countries of The Ministry of Foreign Affairs or the Ministry of Energy, Utilities and Climate will be prioritized in order to optimize synergies. This means that bilateral interventions in Danida's priority countries and countries engaged in government-to-government cooperation on energy will be preferred.
- **Modalities:** Denmark will continue to use a combination of multilateral and bilateral support channels for Climate Envelope interventions. Denmark intends to continuously support the Green Climate Fund and a limited number of the multilateral climate funds.
- **Predictability and continuity:** To the greatest possible extent, longer-term/more predictable planning of Climate Envelope activities will be pursued. Activities will be identified with a view to follow-on as a new phase to an on-going or previously Danish funded activity and/or with an existing implementing agency.

2. Principles on project effectiveness

The principles on project effectiveness will be used to guide the selection and design of Climate Envelope interventions in order to select those activities that will maximize effect of the limited funds available, and demonstrate added-value in terms of outcome and impact. The extent to which proposed Climate Envelope interventions can deliver on these criteria will determine whether they will be selected for funding. Three key principles on project effectiveness have been selected. These are:

- **National strengths:** Where possible, Climate Envelope funds will be targeted interventions where Denmark can add value in terms of national strengths, competences or interests (commercial or regulatory), rather than being visible in a broad variety of support mechanisms. Therefore Climate Envelope interventions will thematically focus on: a) Energy including renewable energy, energy planning, energy efficiency and reform of policy frameworks; b) Water related activities including water management, water infrastructure resilience, information services, land management and agriculture. These are thematic areas where Denmark holds strong know how and business competences.
- **Leverage:** Leverage of private finance and innovation are seen as important objectives of the Climate Envelope. Thus, a willingness to take risks guides the prioritization of interventions financed from the envelope in order to a) mitigate risks and create incentives for private actors to make climate relevant investments; b) test and promote new instruments and practices generating valuable lessons learned; c) supporting the development and maturation of climate projects in order to boost the global pipeline of finance-ready climate projects; d) address gaps in the existing financial flows towards investment in climate activities. In practice leveraging can also entail creating incentives for the investments within the policy or regulatory framework of a country. Within adaptation the challenge is that adaptation projects tend to be less commercial making leverage of private finance less likely. However, some adaptation activities can be privately driven and supported, e.g. transformation of agriculture to alternative crops and transformation of water management and supply into more

climate adapted systems which may result in cost savings. In these cases the private sector can have a role. In addition to this, activities related to climate proofing of private sector investments and investing in enabling environment can be seen as leveraging.

- **Transformation:** Priority will be given to interventions where chances of achieving transformational change through accompanying changes in policy, markets or finance structures (both public and private) are largest. Transformational change can be also be in the form of innovation and test of new approaches, changes in existing systems and structures (systemic change), changes in conception and values, changes which are irreversible and change which are based on a clear identification of entry points and opportunities and the presence of a clear vision for change. Increasing chances of achieving transformational change also involves scale in form of national, sectoral or economy wide programmes including policy and technology scale up as well as replicability in terms of programmes that others can copy and accelerate the roll out of.

The extent to which proposed Climate Envelope interventions can deliver on all or some of these three key principles will determine whether they will be selected for funding.

In addition to the above mentioned three key principles on project effectiveness, the following principles will also guide the selection of interventions. These include:

- **Linkages:** Linkages between Climate Envelope interventions and other Danish or other ODA funds/ongoing cooperation should be well described. How is the intervention aligned with existing programmes and how can wider Danish (climate) funding for developing countries benefit from the intervention?
- **Poverty orientation:** Seeking, where appropriate, to involve target groups and communities in design and implementation of interventions, while considering how to benefit and mobilize poor and marginalized groups, in line with the overall objectives of DK development cooperation.

- Added value post COP21: Post COP21 there is a great need for consolidation of the international climate and energy architecture. Priority will be given to those interventions delivering most added value to the international climate architecture post COP21 in context of the follow-up on negotiations as well as the implementation of a new global climate agreement.

During the practical selecting of specific Climate Envelope interventions, all criteria will not have to be met. Holding all possible interventions up against these criteria, however, will provide a method for a focused prioritization.

3. MONITORING FRAMEWORK

Projects within the Danish Climate Envelope currently report on a wide range of indicators as part of their individual log frames. However, the recent evaluation of the Climate Envelope concludes that the use of indicators currently is not consistent across the portfolio. This has created barriers both to assessing value for money and to aggregating and reporting results of Climate Envelope interventions. The purpose of the following is to set out a number of indicators for the Climate Envelope as well as some methodological considerations and key principles in terms of how these will be applied.

Indicators

It has been decided to closely align the choice of indicators for the Climate Envelope with the Performance and Measurement Framework which is being developed by the Green Climate Fund (GCF). This is because the GCF is likely to emerge as an international standard for the selection of climate indicators and their methodologies. As several multilateral agencies already are using the GCF measurement framework this will also limit the administrative burden which is associated with the monitoring and evaluation process. The implication of this is that the indicator framework set out below and the methodological considerations related to it will be subject to forthcoming revisions as the GCF measurement framework is further developed.

Based on the GCF framework the Climate Envelope will work with indicators at two different levels.

1. Core indicators

Three core indicators have been selected which all projects to be funded by the Climate Envelope should report on unless it can be justified that these indicators are not appropriate for the specific action (this will typically apply to projects focusing on policy reforms, institutional frameworks and capacity building, e.g.

government-to-government cooperation)¹. These indicators are the following:

- Tons of carbon dioxide equivalent (tCO₂ eq) reduced as a result of Climate Envelope mitigation projects/programmes
- Total number of people supported to cope with the effects of climate change by Climate Envelope resilience programmes (direct and indirect, gender disaggregated)
- Volume of finance leveraged by Climate Envelope funding (disaggregated by public and private sources, annual)

2. Voluntary project indicators

Around the core indicator set, the wider emerging GCF indicator set is applied for the Climate Envelope as a basis for voluntary project reporting. These are indicators like “number of regulations/policies introduced/adjusted to address low-emission planning and development” (mitigation), “number of key targeted institutions with evidence of their strengthened capacity and coordination mechanisms to mainstream climate resilience” (adaptation). Project proposers are encouraged to draw on upon this indicator set when developing projects frameworks. Projects are expected to report on as many of the relevant GCF indicators as is reasonable given their scale, sector and thematic focus.

All projects will also be able to develop their own project specific indicators that address project level outputs where they are not covered by the GCF framework. However, methodologies and baselines should be clearly set out or referenced where drawn from third party approaches. These indicators will not be consolidated at the level of the Climate Envelope.

Methodological considerations

The methodological framework used by the GCF is meant to provide the basis for the core and voluntary indicators set out above.

1) The exception from using the core indicators applies regardless of the further development of the GCF indicators applicable for same type of projects.

In terms of the core indicators GCF methodologies are developed and should be applied. Other GCF indicators currently refers to frameworks developed and used by other key funds (CIF, LDCF, etc.) until best practices have been identified. These methodologies can be used until the GCF updates them as proprietary methodologies.

In terms of the core indicators set out above, an annual effort will be undertaken to track these indicators and aggregate them at the level of the Climate Envelope. This effort will be undertaken on the basis of reporting from the organizations responsible for each project. For the voluntary indicators aggregation will only be pursued in a few selected cases. For the portfolio indicators, an overall assessment will be presented when presenting the projects for approval.

Contributions to multilateral initiatives other than the GCF are likely to result in Denmark buying a share of results from existing indicator sets and performance reporting frameworks. These frameworks may currently only be partially aligned with that of the GCF. Denmark will work to ensure alignment in reporting indicators and methodologies with emerging GCF standards.

In addition, there are a number of principles that should be followed using this indicator based reporting framework:

Timing and measurement: Indicators should be developed ex-ante, with baseline and targets agreed before project implementation (unless it can be justified that ex ante baseline and targets are not appropriate for the specific action). Actual delivery against the target is then tracked during implementation (with timing to be agreed on a project by project basis). Finally, there should be an ex-post assessment of the overall achievement.

Attribution: Results attributable to the Climate Envelope should be calculated on the pro-rated share of overall Danish funding within a given initiative. Where there is a strong case for catalytic role of Danish funding, this can be noted in the form of contribution analysis, but should not be used for reporting purposes.

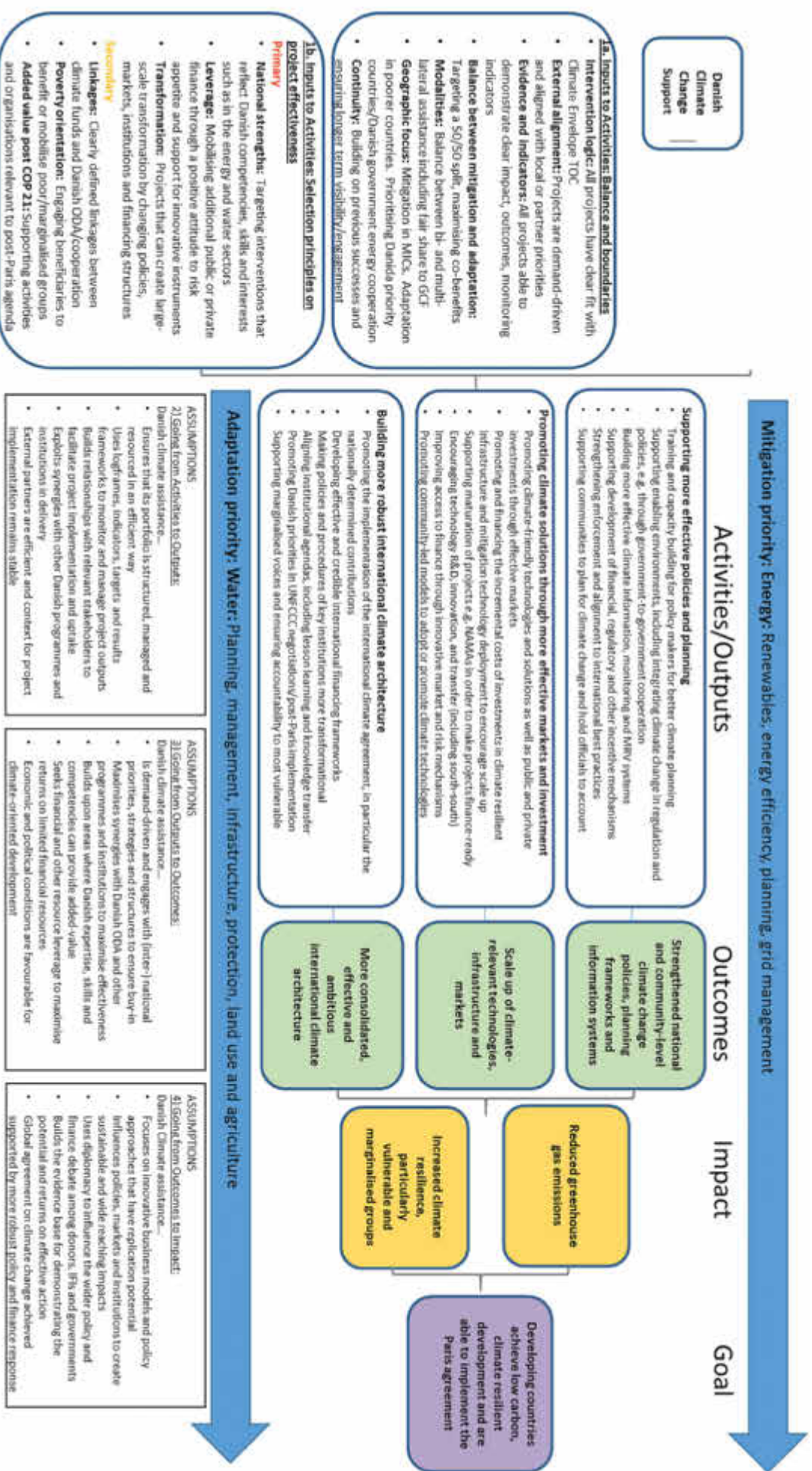
Mitigation/Adaptation co-benefits: Where applicable, mitigation projects/programmes that also generate adaptation results (e.g. land use of forestry) should report on adaptation indicators (and vice versa for adaptation projects/programmes with mitigation results).

Gender: Where possible, disaggregation by gender will be attempted. This is particularly relevant to indicators associated with people, but may also be possible in relation to other quantitative or qualitative indicators where data sources and research processes allow it.

4. IMPLEMENTATION

The Theory of Change, the principles and the indicator framework as set out in this guiding principles document will guide the selection, design and implementation of activities to be funded by the Climate Envelope. The guiding principles are supplementing (not replacing) the Aid Management Guidelines. It is important that partners are made aware of the guiding principles document prior to the project development. Each proposed intervention will be assessed against the principles during appraisal and the approval process.

ANNEX 1: THEORY OF CHANGE FOR THE CLIMATE ENVELOPE





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