

Management response and follow-up note to the Evaluation of Denmark's Climate Change Funding to developing countries

This note contains the executive summary from the final report of the Evaluation of Denmark's Climate Change Funding to Developing Countries and Danida's response and follow-up actions to the evaluation. The management response prepared by the Danish Ministry of Foreign Affairs and the Danish Ministry for Energy, Utilities and Climate is presented after the conclusions and recommendations from the report.

The evaluation was commissioned and managed by the Evaluation Department in the Ministry of Foreign Affairs and conducted by consultants from LTS International (UK). The Evaluation was conducted from October 2014 – June 2015.

1. Executive summary

Background and Rationale

Climate change is a complex problem that threatens to reverse global progress towards sustainable development. It represents a new focus for development assistance and requires a substantial and innovative response. Understanding what works, what does not work and why it is critical to ensuring that development resources are spent optimally. This was the purpose of the Evaluation of Denmark's Climate Change Funding for Developing Countries.

Denmark has made substantial contributions to mitigating the impact of climate change by supporting activities that will result in emissions reduction. A "Climate Envelope" for funding was created in 2008 supporting fast action on climate change. From 2008 to 2012 nearly DKK 1.5 billion was committed. In addition, substantial funds have been given outside this Envelope, primarily in Danish priority countries.

The evaluation concludes amongst other things that Denmark has been a consistent and reliable supporter of international climate change programmes and initiatives. The investments made by Denmark have been highly relevant to international and national priorities and have been well aligned to commitments from other donors.

In particular, Denmark has drawn strongly on its experience of energy efficiency and greater use of renewable energy. It has also supported poorer countries' adaptation to the effects of climate change through support for policy development, awareness-raising and increasing the resilience of land-use practices and infrastructure. Engagement with vulnerable and marginalised groups, to ensure their needs are not overlooked, has also been a significant focus of the assistance.

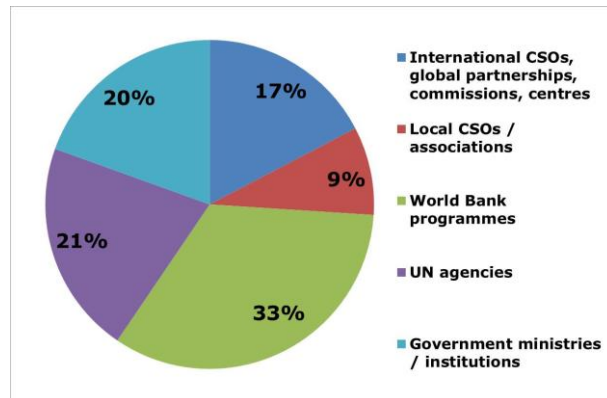
The evaluation encompassed a policy review, two reviews of partner institutions (CARE Denmark and World Bank), two thematic reviews (climate finance and energy), and two country studies (Kenya and Viet Nam). The Evaluation was designed to look at the Climate Envelope and not at individual projects in detail. However, 43 interventions covering about 80 pct. of the funding from the climate envelope during the period 2010-12 were subject to greater scrutiny.

Financial Support Given and Implementing Partners

Within the overall Climate portfolio, just over half of the funding went to mitigation while almost one-fifth of the funding was devoted to supporting actions such as global climate change policies, skills and

capacity building. Of the interventions sampled by the evaluation, a little over half of their funding was distributed through World Bank and UN agencies, with one-fifth being bilateral support to government ministries and institutions in partner countries. Local Civil Society Organisations (CSOs) received just under 10 pct. of the funds in the sample.

Sampled Projects by Implementing Partner
Total DKK 1.2 billion



Results from the interventions

There are many good examples of highly relevant projects and interventions leading to good results, see boxes. Overall the evaluation assesses based on a review of sampled projects that there was good progress towards achieving outputs, with a few exceptions. For many of the interventions, it is still too early to assess the outcomes. This may improve as currently ongoing projects mature. In terms of sustainability of the resultant changes, there is a mix of positive and inconclusive information. Again, this is partly due to fact that many projects are still in process. More time is needed to assess sustainability confidently.

Influencing the Global Agenda, Poverty and Social Inclusion

One notably successful aspect has been the **influence on global climate change policy**. Although a generous aid donor, in absolute terms, Danish aid is relatively small. By being an early supporter of many multilateral initiatives, Denmark has been able to secure good alignment between the way in which finance is allocated and its own national aid priorities and aims. Partnering with WB enabled Denmark to access multilateral funding modalities and, notably, to influence these on Denmark's particular development interests of gender, indigenous peoples and fragile states. Furthermore, development of an agenda on sustainable energy and fossil fuel reform was a result of significant and timely joint engagement by both Ministry of Foreign Affairs (MFA) and Ministry of Climate, Energy and Building (MCEB) staff.

Finance channelled through CSOs has been effective in giving **a stronger voice to vulnerable and marginalised groups**. The institutional review of CARE Denmark found that its focus on giving voice to communities through advocacy and planning was efficiently delivered and well-grounded in country-led demand and in priorities identified by civil society. The Southern Voices Programme was a Danish initiative. The Adaptive Learning Programme, although initially a Danish initiative, was later joint-funded by UK-DFID.

Support given to **building capacity around the global negotiations** has enabled poorer countries to engage in these more strongly. This has assisted these countries make their views and needs more explicit and visible. This helps to prevent their being marginalised in the global debate.

The **Mangroves for the Future project in Viet Nam**, now in its second phase, is a notable success. It encompasses ecological restoration and enhanced livelihoods in parallel with mangrove protection and

management. Although the small-grants programme and efforts to partner with the private sector have only achieved mixed results so far, and progress with enhanced climate resilience is restricted by other pressing developmental needs, it is a useful example of a well-designed and delivered response.

In Kenya, a small project run by 10 Soroptimist Clubs had a specific focus on **women in climate change**. It worked a range of small enterprise sectors as well as on livelihood aspects such as clean water. It established good synergies with other programmes and succeeded in meeting its target outputs and desired outcomes. Target businesses recorded substantial reductions in energy use and provide useful demonstrations of improved, and more profitable, practice.

Promoting Energy Efficiency and Renewable Energy

The Climate Envelope also funds initiatives that facilitate **access to Danish expertise on energy efficiency and renewable energy**. In order to secure progress and gain experience in the application of this, the work has been predominantly with middle-income countries, such as the work with the China National Renewable Energy Centre. This Centre has graduated from receiving budget support to a self-sustaining research institution. It has good capacity and can conduct high quality long-term scenario modelling. Such models, by analysing and comparing renewable energy paths with more conventional scenarios directly inform national policy.

Working with partners in middle-income countries has facilitated good progress and provided opportunity for **learning that can be adapted and transferred to poorer country partners** with more limited capacity and expertise. Experience gained has been useful to support, for example, the development of renewable energy policy in Kenya.

The Climate Envelope has funded a number of **private sector finance and innovation mechanisms** that have the potential to result in transformational change. **The Danish Climate Investment Fund** generates climate finance from private investors and offers risk capital and advice for climate investments in developing countries and emerging markets. By establishing the Danish Climate Investment Fund, Denmark is at the forefront and has procured EUR 174 million of public and private funds. Private funds amounting to EUR 104 million have been contributed by pension funds. The fund only offers part of the total project financing and it is estimated that total investments will amount to approximately EUR 1-1.2 billion. The Danish Climate Investment Fund is considered **a leading early example of a national public sector fund** that has succeeded in attracting private institutional investment in renewable energy projects.

Findings

The evaluation found that the climate change portfolio was relevant and aligned with Denmark's international commitments as well as Danish national development and climate change policies and strategies. In the scope, relevance and delivery of its portfolio, Denmark appears to compare favourably with other, similar organisations.

The case studies on Viet Nam and Kenya also underscored that Danish bilateral support was aligned and relevant to national policies and strategies of partner countries and that they were building on strong participatory inputs from partners. However, there was no clear guidance on funding priorities in terms of the balance across different themes, modalities and geography. Without guidance, there had been a tendency to be opportunistic and engage in too many climate funds. The evaluation recognised that all donors faced a steep learning curve on where best to invest and the uncertainty over which specific instruments would prove to be the most effective. The evaluation acknowledged that strategic guidance had improved from 2012 and noted that the draft strategy prepared by MCEB in 2014 was identified as a useful start to the further development of this. This improvement resulted in greater targeting on sustainable energy and resource efficiency and enhanced Denmark's policy influence on both multilateral funds and bilateral partners.

The lack of clear guidance also created delays and difficulties with funding decisions, leading to somewhat reduced efficiency. The value of multiple agencies engaging in Denmark's climate change was recognised. There is good technical expertise within the MFA and the split of the Climate Envelope had been positive for accessing the sector level expertise at the MCEB and improving the alignment of Danish technical expertise and Danish development objectives. But, the evaluation also noted the need for improved cross-agency communication and more focused reporting to provide a better basis for decision-making.

The evaluation pointed to the need to strengthen monitoring and reporting to enable assessment of impact in the years to come. Furthermore there is no formal process for following-up and reviewing reports received to track progress. The evaluation points to the staffing constraints and the historic mismatch between the number of staff and number of interventions Denmark is engaged in. The programme would benefit from clear and consistent monitoring and evaluation frameworks linked to the overall theory of change for the Climate Envelope. This should be shared with partners to ensure reporting against an agreed set of data that are acceptable to both sides.

The evaluation also found evidence that there had been lessons learned and adaptations made to on-going programmes, but there was no systematic or strategic approach to capturing and sharing lessons learned between programmes and institutions.

Denmark has considerable national strength's to draw upon in its cooperation on Climate Change. These lie in diverse areas ranging from energy, energy efficiency, flood control, storm forecasting, to insurance. Energy efficiency and renewable energy had been a primary area of intervention and a wide range of modalities had been employed, focusing on securing large-scale change through support to the negotiation processes. Most technical interventions have engaged with integrating fluctuating renewable energy sources, energy efficiency in buildings and industrial processes. These are all areas of strong Danish expertise that has been employed in the efforts. The Evaluation did not find strong evidence of a strong Danish identity in the climate "market place", nor of a strategic approach to engaging Danish –based research, civil society and commercial capacity. There are good examples to build on.

Work in partner countries has been laudably country-led. But there are drawbacks as this leads to difficulties in maintaining coherence across diverse partners. At the same time, the need for rapid decision-making and a system of annual budgeting have limited the time available for appraisal. Both country studies identified issues with limited planning frameworks and reporting of progress and achievements. There has also been limited review and feedback of experience into future programming at both national and programme levels. There should be more emphasis on pilot and demonstration projects that have potential to influence policy change and demonstrate scalability.

Conclusion and recommendations

Denmark's generous, rapid and wide-ranging response on climate change issues was appropriate initially to help identify what worked well. It has generated much useful experience in addition to the results obtained. Nevertheless, it has proven hard to maintain oversight of the whole portfolio of climate change support as it consists of small and large contributions to diverse topics through a wide range of partners and hence to optimise coherence. The many activities supported provide a rich basis of experience and expertise that can be moulded into a more coherent and focused system of support. The major point identified is the need for existing Danish policies and strategies to be incorporated into a more formalised planning and reporting framework that should allow for better management of the portfolio and for better results. Such a framework also provides a common basis for all agencies to work from. The evaluation made the following recommendations:

Recommendation 1 - A strategy for the Climate Envelope should be developed.

The strategy should set out priority objectives and activities for mitigation and adaptation, to aid the optimal focus of climate finance and increase its impact. It should provide guidance on appropriate funding modalities, target institutions and geographical scope for different sectors and types of intervention.

Recommendation 2 - Improve the structure and administration of the Climate Envelope.

Efforts should be made to enhance cross-ministerial cooperation on cross-cutting climate finance issues. Further efforts should be pursued to mainstream mitigation, adaptation and development co-benefits across the portfolio and to ensure more coherence between adaptation and mitigation activities where possible. The existence of a Climate Envelope is an opportunity to develop best practice that could be used for climate relevant programming outside the envelope. In both MFA and MCEB project identification, design and appraisal should be improved to enhance project quality.

Recommendation 3 - Develop consistent monitoring, evaluation and learning frameworks for all future Climate Envelope projects and use data generated to improve decision making.

The strategy for the Climate Envelope should relate to the intervention logic to help ensure coherence between outputs and the intended outcomes and impacts. A set of indicators should be developed that allows assessment of performance against outputs, outcomes and impact. Partners should be provided with clear guidance and information to help align their proposals with the intervention logic. Emphasis should be placed on the importance of lessons learning and adaption in the monitoring and evaluation process.

Recommendation 4 - Maximise the impact of Danish climate change funding.

Denmark has made solid commitments to multilateral climate funds, remaining funding should focus on innovation and leverage. If Denmark aims to support transformational change it appears that the focus should be on interventions in support of climate policy and climate finance. Where possible, the Danish Government should consider targeting its resources to programmes and thematic areas where it believe Denmark can add most value – hence where Denmark has strong expertise.

Recommendation 5 - Maximise Danish impact by clearly defining policy-influencing strategies for the Climate Envelope and in country programmes.

The Danish Government should be clearer and more proactive in its approach to influencing both national and international policy agendas. Policy influencing guidelines should be referenced in the overarching strategic framework and developed further for national policy initiatives. Policy influencing strategies should be more clearly defined in country programmes with CSOs engaged to assist their development.

2. General comments to the evaluation

The Ministry of Foreign Affairs (MFA) and the Ministry of Energy, Utilities and Climate (MEUC) welcomes the evaluation, and appreciates that the evaluation has aimed at generating clear conclusions and specific recommendations concerning a complex and challenging evaluation topic. The Ministries agree with most of the constructive recommendations.

The two ministries welcome the overall conclusion of the evaluation stating that in terms of scope, relevance and delivery of its portfolio Danish climate funding compares favourably with other donors. The portfolio is assessed to be relevant and aligned with Danish as well as

partners priorities. In terms of effectiveness the evaluation finds that with a few exceptions there is good progress towards achieving outputs. For many of the interventions, it is still too early to assess the influence of the outputs, namely the outcomes. This may improve as ongoing projects mature.

Further to this, it is welcomed that the Climate Envelope portfolio is rated relatively high on most of the OECD DAC criteria of relevance, efficiency, effectiveness, impact and sustainability.

The efforts to (retrospectively) establish a Theory of Change for the Climate Envelope is welcomed and valuable. It would have been useful to get the evaluators' further assessment of to what extent the established outcomes for the climate envelope have been addressed by Climate Envelope interventions so far.

It is noted that in terms of impact of the Danish climate funding the evaluation concludes that evidence is less convincing especially since no common framework has been established for measuring and evaluating the performance of all the projects and programmes funded by the Climate Envelope. Efforts to sharpen the strategic focus of the Climate Envelope and to strengthen the monitoring framework for Climate Envelope interventions in order to increase impact are ongoing and will be further strengthened. At the same time, it should be noted that a large part of the activities funded under the Climate Envelope in the period 2010-2012 are long term engagements. Thus, it is still too early to measure impact in full.

The international climate architecture is still being established. Likewise, climate relevant technologies and instruments for scaling up are still being tested. The commitment made by developed countries at COP15 in 2009 to fast start financing and to mobilise 100 billion USD from a broad variety of sources per year in climate financing from 2020 was to some extent the starting point for this process. The establishment of institutions to support this process is still ongoing (e.g. the Green Climate Fund) and modalities still need to be developed further (for example in terms of mobilising private financing). The efforts to increase impact of Danish climate funding should be seen in this context.

Also important to note is that climate financing has been closely linked to the ongoing negotiations under the United Nations Climate Convention. It is a separate goal for the Climate Envelope to assist developing countries to engage in global negotiations on a new climate agreement. In this context the issue of climate financing is crucial for developing countries.

Recommendation 1 - A strategy for the Climate Envelope should be developed.

The strategy should set out priority objectives and activities for mitigation and adaptation, to aid the optimal focus of climate finance and increase its impact. It should provide guidance on appropriate funding modalities, target institutions and geographical scope for different sectors and types of intervention.

The MFA and the MEUC agree that the strategic focus for the Climate Envelope should be improved to increase impact and effectiveness of the envelope. The split between mitigation and adaptation will be considered during the drafting of the guiding principles document bearing in mind that in many cases it is not possible to

make a clear separation. Work to develop an overall framework document with a number of guiding principles for the Climate Envelope has been initiated. Building on an overall “Theory of Change” for the Climate Envelope the framework document including a result framework will provide guidance on a number of key principles in terms of funding modalities, geographic coverage, thematic focus, use of Danish know how and business competences, risk appetite, mobilising private sector engagement, interplay with wider ODA and more.

Recommendation 2 - Improve the structure and administration of the Climate Envelope.

Efforts should be made to enhance cross-ministerial cooperation on cross-cutting climate finance issues. Further efforts should be pursued to mainstream mitigation, adaptation and development co-benefits across the portfolio and to ensure more coherence between adaptation and mitigation activities where possible. The existence of a Climate Envelope is an opportunity to develop best practice that could be used for climate relevant programming outside the envelope. In both MFA and MCEB project identification, design and appraisal should be improved to enhance project quality.

The MFA and the MEUC find that the institutional structures in terms of cross-ministerial cooperation related to the administration of the Climate Envelope are working well. Frequent interaction between the two ministries on Climate Envelope issues is an indication of this. However, the two ministries agree that further efforts could be made to improve overall effectiveness of the Climate Envelope in terms of institutional issues including project identification, design, appraisal and implementation. The possibility to work with multi-year financing is one of the measures which will be looked at in this regard. It should be noted and acknowledged, however, that several Climate Envelope activities has been co-funded by the Poverty Frame and the Global Frame every year since the creation of the two frames reflecting close cooperation between the MFA and MEUC on cross-cutting climate issues. The MFA and MEUC furthermore agree that the Climate Envelope should generate good practice and learning that can be used and activated across the Danish development assistance portfolio and that linkages between Climate Envelope interventions and other Danish development activities should be strengthened further, for example between bilateral projects funded from the Climate Envelope and Danida’s country programmes.

Recommendation 3 - Develop consistent monitoring, evaluation and learning frameworks for all future Climate Envelope projects and use data generated to improve decision making.

The strategy for the Climate Envelope should relate to the intervention logic to help ensure coherence between outputs and the intended outcomes and impacts. A set of indicators should be developed that allows assessment of performance against outputs, outcomes and impact. Partners should be provided with clear guidance and information to help align their proposals with the intervention logic. Emphasis should be placed on the importance of lessons learning and adaption in the monitoring and evaluation process.

The MFA and the MEUC agree that consistent intervention logic needs to be in place for the Climate Envelope. The guiding principles document will set out an overall “Theory of Change” with intended impacts and outcomes for the Climate Envelope. Also, a set of indicators will be developed. All Climate Envelope projects must relate to the “Theory of Change” as well as the indicators. This will happen in cooperation with relevant partners/recipients in line with their policies and programmes. The work that the Danish Energy Agency has done to agree with country partners on monitoring frameworks is an example of these efforts. A monitoring framework needs to be in place for all Climate Envelope projects. The M&E framework will allow for improvement of the effectiveness of the cooperation, systematic generation of learning and reporting and overall the above initiatives are seen as key steps to ensure increased focus on cost effectiveness and value for money of the Climate Envelope.

Recommendation 4 - Maximise the impact of Danish climate change funding.

Denmark has made solid commitments to multilateral climate funds, remaining funding should focus on innovation and leverage. If Denmark aims to support transformational change it appears that the focus should be on interventions in support of climate policy and climate finance. Where possible, the Danish Government should consider targeting its resources to programmes and thematic areas where it believe Denmark can add most value – hence where Denmark has strong expertise.

The MFA and the MEUC are working to maximise the impact of Danish climate change funding. A combination of bilateral and multilateral support channels is used in this endeavour. Looking forward we will focus interventions where Denmark can add value for example in terms of policy-related and technical knowhow as well as business strengths. The MFA and MEUC agree with the recommendation that Climate Envelope interventions where chances of achieving transformational change through accompanying changes in policy, markets or finance including piloting new approaches and partnerships should be prioritised relative to other types of bilateral funding. The guiding principles document will reflect this. Leveraging of private funds will also be a key focus point for future Danish funding thorough the Climate Envelope. This will also include willingness to take risks. Denmark has initiated a study supporting the OECD-led process of developing a methodology for measuring private climate finance generated by public interventions.

Recommendation 5 - Maximise Danish impact by more clearly defining national policy-influencing strategies in the over-arching Climate Envelope strategy and in the country programmes.

The Danish Government should be clearer and more proactive in its approach to influencing both national and international policy agendas. Policy influencing guidelines should be referenced in the overarching strategic framework and developed further for national policy initiatives. Policy influencing strategies should be more clearly defined in country programmes with CSOs engaged to assist their development.

The MFA and MEUC agree that a pro-active approach is needed in terms of maximising Danish influence on national and international policy agendas. Efforts to ensure that results and learning from piloting activities are integrated into national policy frameworks will be continued and general guidelines on the issue will be included in the guiding principles document for the Climate Envelope. The aspect of analysing the political economy related to specific interventions and the important role of embassies will be key to influence policy and increase scalability. The ongoing efforts to involve and consult with CSOs though formal and informal consultations and thorough public hearings ahead of meetings of the Programme Committee will be continued.