



IBIS



care
THE SOONER THE BETTER



Analysis of Danish climate finance

Foreword

Climate finance is one of the thorniest issues on the UN climate change agenda. Developed countries claim to be complying with their financial commitments, while developing countries continue to ask where the money is. To overcome this recurring discussion, the parties must first hammer out and agree on some rules for the accounting of climate finance.

We, the undersigned three Danish NGOs, namely CARE Denmark, DanChurchAid and Oxfam IBIS, decided to commission the present report. We wanted to learn more about Danish climate finance, whose reporting methods are adhering to OECD guidelines and to standard practices among developed countries in general. Consequently, the conclusions are relevant for a much broader audience than our three organisations. Understanding the limitations of current reporting rules and practices is an important step in designing better climate finance accounting modalities for the future. This is already on the agenda of the UN climate negotiations. Accordingly, the recommendations of this report serve to illuminate an important debate. The conclusions of the report give rise to four recommendations on how to proceed in these difficult negotiations.

- 1) **There should be an agreed definition of climate finance, accounting and reporting:** A major conclusion of the study is that there is a lack of standardised climate finance reporting. The current UNFCCC reporting guidelines provide no internationally agreed definitions or clear methodology to this effect. Biennial Reports have shown that current guidelines leave ample room for interpretation and enable a wide range of reporting approaches. This has resulted in poorly harmonized monitoring and reporting practices, complicating comparisons between figures from different countries.
- 2) **There should be greater transparency and accuracy in the assessments:** The report highlights a number of problems associated with using OECD accounting standards for climate finance reporting. A Danish water project in Uganda is examined as a case. Only a limited share of the project focused on climate change, yet all expenditure ended up being reported as 100% climate finance. Many developed countries use of the so-called Rio markers as the basis for reporting to UNFCCC. This practice, however, does not guarantee sufficiently accurate accounting of climate finance, which is necessary to build mutual trust. Accordingly, more accurate rules must be developed. We suggest looking at the following areas in particular.
 - **Agreement on transparency:** To make it transparent what is counted as climate finance, both donors and recipients should have the same information about how climate finance is mobilized, allocated and spent.
 - **Stepless assessments:** In Denmark as well as in other developed countries using the Rio markers to determine the level of climate finance, the spending on each project is counted as 100%, 50% or 0% climate finance. This is a very blunt tool. There is a need for greater accuracy, including a stepless scale to realistically assess the climate finance provided by each project.
 - **Better breakdown by type of climate action:** Many projects contribute to both mitigation and adaptation. Such projects are currently labelled 'cross-cutting' (in the case of Denmark, approximately 50% of climate finance is reported to be in this category). This method, however, is too crude to capture the exact balance between mitigation and adaptation in each undertaking. Once again, the solution is to introduce a stepless assessment of the mitigation-to-adaptation ratio in each climate-related undertaking.
- 3) **Climate finance should be balanced between mitigation and adaptation:** The report notes that current climate finance is skewed in favour of mitigation rather than adaptation. This imbalance is expected to become even more pronounced when private finance mobilized by developed parties is

included in the reporting, as there is little private investment in adaptation. This calls for political leadership to ensure compliance with commitments to balanced climate finance.

- 4) Climate finance should be genuinely “new and additional”.** Governments have also agreed that climate finance should be “new and additional”. The report touches upon this concern, as it documents how funds are often counted both as ordinary development aid (ODA) and as climate finance. This practice, combined with the use of the Rio markers, may create incentives to make development aid greener and more focused on climate change resilience. However, it also implies that developed countries are avoiding responsibility for making climate finance “new and additional”, when it is simply taken from decades-long general ODA budgets. The international community has accepted that climate change imposes a new and additional burden on poor and vulnerable countries, which is why it has been agreed that climate support must also be new and additional. This needs to be upheld in practice.

Birgitte Qvist Sørensen
Generalsekretær

DanChurchAid (ACT Alliance)

Niels Tofte
Generalsekretær

CARE Denmark

Mie Roesdahl
Generalsekretær

Oxfam IBIS

IBRA CONSULT



Analysis of Danish climate finance

Study for DanChurchAid, CARE Denmark and Oxfam IBIS

Jonas Appelt and Hans Peter Dejgaard

Final report

March 2017

List of Content

Acronyms and abbreviations.....	iii
EXECUTIVE SUMMARY.....	iv
1. INTRODUCTION.....	1
2. CONTEXT FOR CLIMATE FINANCE	2
2.1. COP decisions.....	2
2.2. Danish Climate Finance and Danida Strategies.....	2
2.3. OECD Estimate of 2013 and 2014 Finance.....	3
3. UNFCCC, OECD-DAC AND DENMARK’S REPORTING	5
3. UNFCCC, OECD-DAC AND DENMARK’S REPORTING	5
3.2. Rio Markers used by OECD-DAC	6
3.3. How is the Danish Reporting Done?	7
3.4. Sources for Danish Climate Finance.....	7
3.5. New and Additional Climate Finance.....	7
4. METHOD FOR DATA ANALYSIS	9
4.1. Extraction of Data from UNFCCC, OECD-DAC, and OpenAid	9
4.2. Data Processing and Calculation of Danish Climate Finance.....	10
4.3. List of Annexes.....	14
5. OVERVIEW OF DANISH CLIMATE FINANCE	15
5.1. Total Climate Finance per Year 2010 to 2015, UNFCCC and OECD-DAC.....	15
5.2. Source of Finance of Danish ODA Climate Finance.....	19
5.3. Climate Finance Implementation Channels	19
5.4. Breakdown by Income Groups and Danida Priority Countries	20
5.5. Distribution between Mitigation and Adaptation.....	22
5.6. Project Database on Climate Finance 2014	23
5.7. Examples of Projects included in Danish Climate Finance	24
5.8. General Conclusions on Danish Climate Finance.....	26
6. DANISH CLIMATE ACCOUNTING PRACTICE FROM AN INTERNATIONAL PERSPECTIVE.....	28
6.1 List of International Constraints – and Danish Practice	28
6.2. Recommendations.....	30
7. REPORTING ON PRIVATE CLIMATE FINANCE.....	32
7.1. Accounting for Private Danish Climate Finance	32
7.2. Affecting the Balance between Adaptation and Mitigation.....	33

Acronyms and abbreviations

BR1	Denmark's First Biennial Report (UNFCCC)
BR2	Denmark's Second Biennial Report (UNFCCC)
CAN	Climate Action Network
CIF	Climate Investment Funds (World Bank)
COP	Conference of the Parties
CPI	Climate Policy Initiative
CSR	Creditor Reporting System (OECD)
CTCN	Climate Technology Centre & Network
CTF	Common Tabular Format (UNFCCC)
DAC	Development Assistance Committee (OECD)
DKK	Danish kroner
ESMAP	Energy Sector Management Assistance Programme
EU	European Union
FCPF	Forest Carbon Partnership Facility
GCF	Green Climate Fund
GCPF	Global Climate Partnership Fund
GEF	Global Environment Facility
IFC	International Finance Corporation
LDCF	Least Developed Countries Fund
LDCs	Least Developed Countries
MDB	Multilateral Development Bank
MFA	(Danish) Ministry of Foreign Affairs
NGO	Non-governmental organisation
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
PPCR	Pilot Programme for Climate Resilience
QWIDS	Query Wizard for International Development Statistics (OECD-Stat)
SCF	Standing Committee on Finance (UNFCCC)
ToR	Terms of Reference
UNEP	United Nations Environmental Program
UNFCCC	United Nations Framework Convention on Climate Change
UNIDO	United Nations Industrial Development Organization
USD	US dollar

EXECUTIVE SUMMARY

Below is a summary of the chapters in the main report and recommendations for the Danish government and the Danish 92 Group's future work on the accounting and reporting of climate finance.

1. *Introduction*

This study aims to establish an overview of Danish climate finance and the methods behind Denmark's reporting to the UNFCCC and OECD-DAC. DanChurchAid, CARE and Oxfam IBIS have commissioned this study with the intention of conducting a continuous dialogue with relevant ministries and stakeholders.

2. *Context for climate finance*

Under the UNFCCC adopted in 1992, developed countries have an obligation to provide climate finance, i.e. to help meet the additional cost of mitigating and adapting to climate change. In the Copenhagen Accord from COP15 (and reconfirmed in the Paris agreement), developed countries agreed on the goal of collectively mobilising climate finance of USD 100 billion annually starting from 2020. COP16 established a Standing Committee on Finance to develop and improve the reporting and verification of financial support, and COP22 in Morocco agreed on a number of recommendations for improving the measurement, reporting and verification of climate finance flows.

An OECD report from 2015 has estimated the aggregate volume of public and private climate finance mobilised by developed countries to developing countries to be USD 61.8 billion in 2014, up from USD 52.2 billion in 2013.

3. *Danish reporting to the UNFCCC, EU and OECD*

As regards climate finance, Denmark is submitting reports to three international institutions, namely the EU, UNFCCC and OECD. The latest figures submitted on climate finance can be found in Denmark's Second Biennial Report to UNFCCC (for 2013 and 2014). Denmark also reports on an annual basis to the OECD-DAC's Creditor Reporting System (CRS) database, which is the most reliable source of comparable data on the development assistance of OECD countries. Danida's own data for disbursements can be found in its database OpenAid (<http://openaid.um.dk>).

Donors reporting to the OECD-DAC's Creditor Reporting System (CRS) seems to be the most reliable source of comparable data on the OECD countries' development assistance today. Most developed countries have relied on data collected using the OECD's 'Rio markers' as basis for their reporting to UNFCCC on climate finance provided to developing countries. In the OECD-DAC statistical system, each project/programme is marked as either being in pursuit of climate change mitigation/adaptation as its *principal* objective or as a *significant* objective, or as *not* pursuing any climate-related objective at all (as stated in the project/programme document). In Denmark's climate finance accounting, interventions marked 'significant' count 50% of their budgets as climate finance, while those marked 'principal' count 100% of their budget as climate finance. The accuracy of such calculations is limited, because the classification of interventions in terms Rio markers is merely a crude estimate. This is further analysed in Chapter 5, providing examples from the water sector and Danish NGOs, where there has been an overstatement of Danish climate finance.

The major challenge for the Danish reporting is related to the weaknesses in the international system agreed by the parties (countries) within UNFCCC. Consequently, the best option is the use of OECD's 'Rio markers' as basis for the donor countries' reporting, despite their limitations. However, the Rio markers were originally designed by policy makers to help members track the extent to which they integrated the Rio Conventions into their aid portfolios. The Rio markers methodology was *not*

originally designed to monitor financial pledges, which is problematic, since nowadays the demand for reliable quantitative data is great, given the commitment to mobilise USD 100 billion a year. In general, there is *no* international consensus as to what the best accounting practices are, and accounting systems vary widely from one country to another. The weaknesses in the international system are described in more detail in Chapter 6.

The Rio markers are *not* mentioned in Danida's Aid Management Guidelines (AMG), which describe how to prepare Danida's programme support. The application of Rio markers is often done by the same desk officer in Danida who inserts the DAC code for the programme type, sector, etc.

The Danish 92 Group has paid attention mostly to the Climate Envelope, which was launched in 2008. However, a significant part of Danish climate finance is taken from other appropriations set down in the National Budget Act (*Finansloven*), such as contributions to multilateral institutions, bilateral programmes in priority partner countries, framework agreements between Danida and Danish NGOs, and the Investment Fund for Developing Countries (IFU), which manages the Danish Climate Investment Fund.

The Cancun Agreements (2010) stated that “*scaled up, new and additional, predictable and adequate funding shall be provided to developing country Parties*”. The Danish 92 Group's press release from COP22 (19 November 2016) pointed out that “*a large part of the climate support is money that is already promised in development assistance. A greater focus on the climate must not lead to less support for education, health and other important development tasks.*”

However, the Danish government does *not* account for how much of Denmark's climate finance is ‘new and additional’, although this information is explicitly requested by the UNFCCC's Common Tabular Format. It has therefore *not* been possible to clearly tell apart ‘new and additional’ climate funds in Danish climate finance. In its Second Biennial Report to the UNFCCC Denmark simply states: “*There is still not any agreement on a definition of new and additional. Denmark sees climate and development assistance as strongly interdependent and, as climate is mainstreamed in Danish development assistance, climate finance cannot be clearly separated from development finance altogether, except for the earmarked funds in the Climate Envelope.*”

4. Methods for data analysis

Chapter 4 presents the methods used by the consultant team to find and calculate figures on Danish climate finance, based on the reports to the UNFCCC, OECD-DAC and using information from Danida OpenAid, which includes descriptions of projects and disbursements. The information found in the OECD's database (CRS Database) was also used to work out the distribution between mitigation and adaptation spending, between different implementation channels, between types of recipient countries (income groups), as well as the amounts going to Danida priority countries.

5. Overview of Danish climate finance

a) Using the methods described in Chapter 4, a number of conclusions can be drawn about Danish climate finance between 2010 and 2015. They are based on the information available from the Danish reporting to the OECD's CRS database, which the consultant team considers a better source of information than the UNFCCC database. However, the crude scale of specific project/programme budgets being either 0%, 50% or 100% climate finance do *not* provide accurate data to underpin the total figures.

b) In the period between 2010 and 2015, Denmark has disbursed an annual average of **DKK 1.42 billion in climate finance** (including imputed multilateral contributions), with slightly higher levels of commitments (on average DKK 1.55 billion). A large decrease in climate finance commitments can be observed in 2015 following a change of government. The new government made significant cuts in total Danish ODA, while much higher expenditure on refugee reception in Denmark was reported as ODA to the OECD (increased from DKK 650 million in 2011 to DKK 2.66 billion in 2015).

Nevertheless, even when taking out the costs of refugees, climate finance commitments as a percentage of total ODA fell from 12-13% between 2012 and 2014 to only 7.4% in 2015 (a reduction in climate finance from DKK 1.6-1.9 billion DKK between 2012 and 2014 to only DKK 1.0 billion in 2015). The conclusion is that there has been a significant *reduction* in Danish climate finance in 2015 compared to previous years.

c) The above figures are based on the OECD-DAC database and are different from what is reported to the UNFCCC (the Common Tabular Format), since the OECD takes a different, more accurate approach to calculation of the climate-relevant parts of core funding to multilateral institutions.

d) The Climate Envelope is only a minor part of overall Danish climate finance, constituting 29% of committed funds on average. Following the massive cuts in ODA since 2015, in relative terms the Climate Envelope has increased to about 36% of total Danish climate finance in 2015, although in absolute terms the Climate Envelope has been reduced from DKK 475 million (2012-2014), to DKK 375 million in 2015 and DKK 275 million in 2016.

e) The implementation of climate finance follows the same overall channels as general ODA, and in similar proportions, with bilateral partners receiving 35-40%, multilateral partners receiving 35-40%, and NGOs receiving less than 20% of climate finance.

f) It is commendable that Danida has allocated an increasing share of Danish climate finance to Least Developed Countries (LDCs). Their share rose from approx. 50% (2010-2012) to approx. 60% (2013-2015), while there was a corresponding fall of 10 percentage points in the share of climate finance provided to middle income countries.

Of the climate finance going to LDCs, a significant part is allocated to adaptation (42%), which is a significantly higher share than what is spent on adaptation in middle-income countries (approx. 20%).

If all official Danish climate funds must be divided between two categories only, namely mitigation and adaptation, approximately 50% of Danish climate finance spent on 'cross-cutting' purposes, i.e. an unspecified mix of supporting both mitigation and adaptation, needs to be split between the two categories. If this is done evenly, as in the calculations presented in this report, it is possible to suggest that 65% is spent on mitigation and 35% on adaptation, though with the clear proviso that the all-important 'cross-cutting' category in many ways defies such narrow categorisation. Furthermore, the money might well provide higher value when it contributes to both mitigation and adaptation at the same time.

g) If we take a closer look at some of the individual projects that make up Danish climate finance, it is hard to understand the precise reasoning behind why some projects are assigned high levels of climate finance and others either low levels or no climate finance. As demonstrated with examples from the water sector and NGO framework agreements, the method used to define the proportion of climate finance in each project/programme budget is a somewhat crude estimate, which makes the aggregate data rather inaccurate. This primarily derives from the use of Rio markers to decide on the level of climate relevance, which has resulted in an overestimation of total Danish climate finance within the NGO and water sector. However, this study does *not* have sufficient samples or evidence in all sectors to conclude that there is a general overestimation of Danish climate finance in official reporting.

h) The Danish reporting of climate finance applies an overall methodology similar to what is used by many other donor countries, i.e. one based on the internationally agreed definitions and methodology from the UNFCCC and the OECD. In general, the Danish reporting is transparent with access to detailed data on project and programme levels. A general conclusion of this study is that most of the challenges identified in the accounting of Danish climate finance spring from weaknesses in the UNFCCC methodology, which are described further in Chapter 6.

6. Danish climate accounting practice from an international perspective

Several aspects of Danish reporting practice are related to constraints and weaknesses in the international reporting system on climate finance. Chapter 6 summarises observations about current international practices as used to draw up the well-founded reports issued by the OECD together with the Climate Policy Initiative as well as by AdaptationWatch. They point to the need for the UNFCCC to adopt clear and well-defined climate finance accounting modalities. Weaknesses in the international reporting system pose the main challenge for improving Danish climate reporting. The following are the most important international constraints on Danish reporting:

1. *Lack of standardised reporting.* The existing reporting guidelines and Common Tabular Format (CTF) developed in 2012 provide no internationally-agreed definitions or methodology for basic financial reporting, let alone for the term ‘climate-specific’ finance. Biennial Reports have shown that the guidelines leave room for interpretation and for a range of reporting approaches. There seems to be some degree of political interest in the way in which these numbers are calculated. Accordingly, it is difficult to reach an internationally agreed standard for reporting (within the UNFCCC Standing Committee on Finance), which has given rise to a hotchpotch of poorly harmonized monitoring and reporting practices, as well as a lack of transparency.
2. *‘Coefficients’ to mark the level of climate finance in proportional way.* The volume of finance associated with the Rio markers is often scaled down by using ‘coefficients’ to mark the level of climate finance. These coefficients differ across DAC members and range from 0 to 100 per cent. The Danish practice is to report 50% of the budget as climate finance for a project with a ‘significant’ climate objective, and 100% of the budget for one with a ‘principal’ climate objective. Danida could consider using a ‘range of coefficients’ instead, in order to make its reporting more accurate. This could be done during the preparation of new projects/programmes, as formulation and appraisal teams have to draw up a ‘Climate Change and Green Growth Screening Note’.
3. *Possible ‘over-reporting’ of climate finance.* According to the AdaptationWatch report, governments are under pressure to show that they are taking action on climate change, and this fairly lax system allows for the possibility that such pressure result in ‘over-reporting’ of climate finance. The system relies exclusively on self-categorization, and there is *no* process for recipient countries or watchdog groups to dispute how projects are counted. Based on the two examples analysed (water programmes and Danish NGO framework agreements), it is suggested that Danida reassess its climate financing accounting methodology.
4. *Staff making categorisation.* Another flaw of the Rio markers system is that different OECD member countries have been using different types of staff, in a variety of positions and applying disparate methods to categorize projects. In the case of Denmark, it would be an advantage to include the Rio markers in the Aid Management Guidelines (AMG) and the aforementioned screening note, since this would benefit from the insights of embassy staff and consultants involved in the planning of each new programme.

7. Reporting on private climate finance

Developed country officials often state that most climate finance will have to come from private sources. However, there is no agreement under the UNFCCC on what should count as ‘mobilised private finance’ towards meeting the USD 100 billion goal. So far, most developed countries including Denmark have *not* reported on private climate finance to the UNFCCC Secretariat.

In 2015, the OECD estimated that USD 14.7 billion was mobilised as private finance per year on average in 2013 and 2014, which is equivalent to 26% of total climate finance from developed countries. This figure refers only to how much private finance was mobilised by means of public finance (based on ‘co-financing’, i.e. directly associated with public finance instruments).

During 2017, the OECD will be collecting 2016 data, where the Rio markers are also applied to private amounts mobilised. For 2015, IFU has developed a pilot test report, showing that they have mobilised a total of approx. **DKK 1.3 billion** in private capital for climate projects, of which the lion's share has been raised for public-private partnerships channelled through the Danish Climate Investment Fund (KIF), which is managed by the Danish Investment Fund for Developing Countries (IFU). The KIF has invested EUR 174 million of public and private funds, of which Danish pension funds have contributed the major part (EUR 104 million).

The DKK 1.3 billion estimated to have been raised as climate finance from private sources is an impressive increase in private funding within few years. It has reached approximately the same amount as what was calculated as Danish climate finance disbursements from ODA in 2015 (DKK 1.36 billion). Considering the types of investments known from KIF/IFU, it can be assumed that most privately mobilised climate finance will go to projects focused on mitigation (and not adaptation). This translates into a significant change in the distribution between mitigation and adaptation spending, from 44% to 20% of total climate finance being spent on adaptation in 2015. This might be seen as an argument for further increase in the Danish government's support for adaptation in poor countries.

Recommendations

Below are the report's recommendations, which the Danish NGOs can consider with a view to following up this study. The first recommendations are of a technical nature, and can be passed on by the NGOs to the Danish government.

Recommendation 1: Danida should include Rio markers in its Aid Management Guidelines (AMG), so that consultants and embassy staff directly involved in the preparation of a new programme can use their insights to apply the Rio markers and thus contribute to estimating the amount of climate finance.

Recommendation 2: In accordance with international agreements on climate finance, the Danish government should identify 'new and additional' climate funds in its reporting to the UNFCCC, and account for how these are calculated.

Recommendation 3: Danida should introduce a function in OpenAid that enables identification of projects/programmes based on Rio markers, with a view to facilitating transparency and independent analysis of Danish climate finance. In the future, OpenAid should also provide open and machine-readable data that can be more easily extracted for analysis. Furthermore, more information could be included (programme documents, journal numbers etc.).

Recommendation 4: Danida should consider methods to improve the precision of its accounting of Danish climate finance. This includes reassessing the exact proportion to be counted as climate finance in the funding of various aid modalities, such as water programmes and NGO framework agreements. Furthermore, Rio markers and the amount of climate-related finance should be on the agenda in the ongoing revision of AMG guidelines, which are expected to change the concept of NGO 'framework agreements' into 'strategic partnerships'.

Recommendation 5: Danida should make individual assessments of projects by using a 'range of coefficients' (0-100%) to indicate the degree of climate finance in each project/programme. It could also be considered to assign coefficients for both adaptation and mitigation individually, which would reduce the use of the 'cross-cutting' category, which is diluting the value of information about the distribution between spending on adaption and on mitigation.

Recommendation 6: Danida should explore the possibilities of using the 'Imputed multilateral contributions' method for calculating the climate finance component in core funding given to multilateral institutions, when reporting to the UNFCCC. This would improve the accuracy of the reporting and of data on Danish climate finance donated to third parties.

Recommendation 7: The Danish government should adopt a *strategy* for Danish climate finance, including principles and rules for allocations, accounting and reporting, based on the commitments made in UNFCCC.

Recommendation 8: The Danish NGOs should focus more on the large share of Danish climate finance that is not part of the Danish Climate Envelope. Furthermore, the Danish NGOs should engage with the Danish government on how to quantitatively assess the climate-specific part of various types of programmes and other aid modalities, including bilateral sector programmes, NGO framework agreements and core funding to multilateral institutions.

Recommendation 9: The Danish NGOs should, through their work in CAN, ACT Alliance, CARE, Oxfam, and other worldwide alliances, continue to promote improved climate finance accounting practices. Among other sources, the Adaptation Watch 2015 and 2016 reports provide valuable analysis and recommendations for new climate finance accounting modalities to be agreed at COP 23 in 2018.

Recommendation 10: Danish NGOs should promote studies similar to this one, which can be carried out by CAN members in other countries, including Norway and Sweden, in order to get a more detailed picture of differences in climate finance and accounting practices between countries.

Recommendation 11: Danish NGOs should continue a dialogue aimed at getting the Danish government to increase its future public and private climate finance commitments/disbursements, in particular to be spent on adaptation projects.

1. INTRODUCTION

In recent years, the Danish 92 Group's sub-group on climate and development finance has been engaged in a constructive dialogue about Danish climate finance with the Danish Ministry of Foreign Affairs (MFA) and the Danish Ministry of Energy, Utilities and Climate. The dialogue has included the Danish Climate Envelope, the balance between climate change mitigation and adaptation, negotiations on the UN Framework Convention on Climate Change (UNFCCC) and the need for a pro-poor focus of Danish support for the Global Green Growth Institute.

However, it has been difficult to establish a complete overview of the climate finance reported by Denmark to the OECD-DAC and the UNFCCC. What kinds of projects are accounted for as climate finance? And how are both civil society and the private sector engaged in their implementation? Therefore, DanChurchAid, CARE and Oxfam IBIS have commissioned this study about Denmark's international reporting of climate finance based on the Terms of Reference attached in Annex A.

The study has the following objective: *“To analyse and discuss Danish climate finance in relation to the agreed principles adopted at UNFCCC meetings (COP16 agreement §95-112) and in line with the Danish strategy for development cooperation.”*

DanChurchAid, CARE and Oxfam IBIS intend to use the study for continued dialogue with relevant ministries and stakeholders over how to prioritize climate finance in order to optimize pro-poor adaptation and speed up the transition towards a low-carbon society.

This study was undertaken by INKA Consult and carried out by Hans Peter Dejgaard (team leader) and Jonas Appelt.

The team has held informative meetings and exchanged emails with the Danish MFA (Danida), who have provided answers to a number of specific questions regarding Danish reporting of climate finance to OECD-DAC and the UNFCCC. The Ministry of Finance and the Ministry of Energy, Utilities and Climate have also participated in this communication. In addition, the Investment Fund for Developing Countries (IFU) has provided information about financial contributions from the private sector. The list of persons contacted can be found in Annex B.

The main report encompasses an introduction in Chapter 1, followed by a brief analysis of the context in Chapter 2 and a description of Denmark's reporting to the UNFCCC and OECD-DAC in Chapter 3. Chapter 4 highlights the team's method for data analysis, while Chapter 5 presents the generated overviews of Danish climate finance. Chapter 6 offers the team's assessment of Danish climate accounting and reporting practices, ending with conclusions and recommendations. Finally, Chapter 7 briefly explains about climate finance from the private sector.

The annexes provide detailed information about the consultant team and the data processing methods. Copies of Excel spreadsheet files have been saved to a Dropbox account.

This final version of the report has taken into account comments from DanChurchAid, CARE Denmark, Oxfam IBIS and other members of the Danish 92 Group's sub-group on climate and development finance. Furthermore, it has incorporated useful suggestions from the Danish Ministry of Foreign Affairs (Danida), the Ministry of Energy, Utilities and Climate and IFU.

The consultant team would like to thank participant organisations for their valuable contributions to this report. The views and findings expressed in this report are those of the team that carried out the study, and do not necessarily reflect those of the organisations which commissioned it.

2. CONTEXT FOR CLIMATE FINANCE

Danish climate finance should be seen in the context of the UNFCCC and the Conference of Parties (COP) decisions, which will be briefly summarised in this chapter.

2.1. COP decisions

The UNFCCC from 1992 sets down developed countries' obligation to assist in covering the costs of dealing with climate change.

In 2010, the UNFCCC formalised the collective climate finance goal to be met by developed countries: *"of mobilizing jointly USD 100 billion per year by 2020 to address the needs of developing countries... from a wide variety of sources, public and private, bilateral and multilateral, including alternative sources"* (UNFCCC, 2010).

In the Copenhagen Accord from COP15, developed countries committed to providing USD 30 billion from 2010 to 2012, known as Fast-Start Finance, to support developing countries in the areas of climate adaptation, mitigation, capacity building, technology development, and forest conservation.

The Paris Agreement confirmed the intention of developed countries to maintain their collective mobilization goal of USD 100 billion per year for climate finance between 2020 and 2025. Paragraph 114 in the Paris Agreement explicitly calls on developed countries to submit a financial roadmap and enhance the provision of climate finance for developing countries towards meeting the 2020 Goal (this roadmap was delivered by developed countries prior to COP22). The Paris Agreement also calls for striking a balance between climate finance for mitigation and for adaptation that addresses conditions and capacity constraints in the poorest and most vulnerable developing countries (Article 9.4).

However, it is not clear *how* developed countries must fulfil this obligation. This lack of precision in agreed mechanisms for accounting of climate financing makes it difficult to judge progress towards meeting existing goals, and sets a poor precedent for new and more ambitious goals to be agreed upon in 2025.

COP16 established a Standing Committee on Finance to assist the COP in exercising its functions in relation to the Financial Mechanism of the Convention. This involves: i) improving coherence and coordination in the delivery of climate change finance, ii) rationalization of the Financial Mechanism, iii) mobilization of financial resources, and iv) measurement, reporting and verification of support provided to developing country Parties. At the COP22 in Morocco, the Standing Committee on Finance made a number of recommendations for improving the measurement, reporting and verification of climate finance flows, which is part of the Paris Agreement's 'Pre-2020 Action'.

2.2. Danish Climate Finance and Danida Strategies

As stated in the Danish 92 Group's positions paper from August 2016¹, it will *"be crucially important, for the Paris Agreement to become a success, that the developing countries experience that the developed countries will deliver on their promises for climate finance."*

Since 2002, Danida has supported bilateral and multilateral climate change interventions, including financial contributions to the Least Developed Country Fund (LDCF) managed by the Global Environment Facility (GEF). The *Danish Climate and Development Action Plan* (2005) marked the beginning of coordinated bilateral and multilateral development cooperation covering both mitigation and adaptation to climate change. The focus of the action plan was on mainstreaming climate change

¹ Danish 92 Group's comments to the Danish Parliaments draft proposal on Danish ratification of the Paris Agreement (August 2016).

in development assistance, including climate screening by 'climate proofing' development interventions. Denmark also supported capacity building as regards the clean development mechanism in a number of emerging economies, including South Africa, Thailand, Malaysia, and Indonesia.

Established in 2008, the Danish governments 'Climate Envelope' is an important mechanism for financing reduction and adaptation activities in the field of climate change (Danish contribution to the so-called 'Fast-Start Finance' from COP15). The Climate Envelope supports activities in developing countries prepared by both the Danish Ministry of Foreign Affairs and the Danish Ministry of Energy, Utilities and Climate, with an inter-ministerial group taking the decisions.

Over the period 2010-2016 covered by this study, Danida has had the following overall strategies:

- '*Freedom from poverty – freedom to change*' under the Liberal-Conservative coalition government (adopted in 2010).
- '*The Right to a Better Life*' adopted in 2012 under the 'S-R-SF' coalition government (headed by the Social Democrats), which was complemented by the specific strategy: A Greener World for all: Strategic Framework for Natural Resources, Energy and Climate Change (2013).
- '*World 2030 – Denmark's development and humanitarian strategy*' (still not translated into English). This overall strategy was agreed in the *Folketing* (Parliament of Denmark) in January 2017.

All these Danida strategies have chapters on climate change, but, perhaps most importantly, the level of finance allocated to combat climate change in the National Budget Act (*Finansloven*) has varied significantly. The centre-left government (S-R-SF) increased the Climate Envelope to DKK 500 million a year, which the current centre-right government reduced to DKK 270 million a year in the National Budget for 2016 and DKK 300 million in the National Budget for 2017. In addition, the current government's extensive cuts in Danida's budget, as well as significant costs of refugee reception in Denmark covered by the ODA budget, have significantly scaled back Danish-funded long-term development programmes.

The international evaluation of the Danish Climate Envelope (from 2015)² affirms that, from 2008 to 2012, about DKK 1.5 billion was committed to climate relevant activities in developing countries.

The meeting of Danida's Programme Committee on 4 November 2016 had this item on the agenda: "*Mainstreaming Climate Change in Danish Development Cooperation*". The discussion revolved around a study made as follow-up to an international evaluation of the Climate Change Fund aimed at providing suggestions for improving the mainstreaming of climate in Danida's bilateral portfolio. The minutes quote this example "*land use changes in arid and semi-arid regions, cross-sectoral consequences for governance, employment, health and other sectors where climate change impacts are often forgotten.*"

It is important for Danish NGOs to follow up these considerations about mainstreaming climate change into Danish development cooperation.

2.3. OECD Estimate of 2013 and 2014 Finance

A few months before COP21, OECD published an estimate of the current status of the world's climate finance in 2013 and 2014 in the report "*Climate Finance in 2013-14 and the USD 100 billion goal*"³, which the OECD prepared in collaboration with the Climate Policy Initiative (CPI).

² Evaluation of Denmark's Climate Change Funding to Developing Countries. Danida 2015.

³ Link to the OECD-CPI report: <http://www.oecd.org/environment/cc/OECD-CPI-Climate-Finance-Report.htm> (October 2015).

This is an important report that was able to address a number of technically complex issues, including the risk of double counting and the difficulty of attributing multilateral flows to particular countries in a credible and reasonable fashion. Furthermore, it is commendable that the report is methodologically transparent, which made it a significant contribution to the information available to the international community prior to COP21.

The aggregate estimate is based on the following elements of public and private finance:

- Provisional estimates of bilateral public climate finance based on Parties' reporting to the UNFCCC. The countries reported their first Biennial Reports for the years 2011-12, adhering to a common reporting format for the first time.
- Multilateral public climate finance from multilateral development banks (MDBs) and key climate funds that can be attributed to developed countries.
- Climate-related officially supported export credits, predominantly for renewable energy, together with supplementary Party reporting.
- A preliminary and partial estimate of private finance mobilised by bilateral and multilateral channels attributed to developed countries.

In the table below, the OECD-CPI report estimated the aggregate volume of public and private climate finance mobilised by developed countries for developing countries to be USD 61.8 billion in 2014, up from USD 52.2 billion in 2013. This translates into an average for the two years of USD 57 billion annually. A large share of the rise from 2013 to 2014 was due to an increase in outflows from multilateral development banks. It should be noted that the report was criticised for including both concessional and non-concessional loans.

Preliminary estimated aggregates of climate finance mobilised from developed countries for developing countries (USD billions)						
Climate Finance Source		2013	2014	Average 2013-14	Coverage of data	Consistency of data
Public	Bilateral finance	22.5	23.1	22.8	28 Parties, ODA and OOF	Party-own reporting to UNFCCC
	Multilateral climate change funds (outflows, attributed)	2.2	2.0	2.1	GEF and 5 main funds	Reporting to OECD DAC CRS
	Multilateral Development Banks (climate finance outflows, attributed)	13.0	18.0	15.5	6 main MDBs, concessional and non-concessional	Joint MDB approach reported to OECD DAC CRS
	Specialised United Nations Bodies and other multilateral organisations (climate-specific inflows)	0.3	0.4	0.4	Range of funds, limited climate-specific data	Party-own reporting to UNFCCC and OECD DAC Statistics
Export Credits	Officially supported export credits	1.3	1.5	1.4	Renewables only	OECD Export Credits Individual Transactions Database
	Supplementary Party reporting	0.3	0.1	0.2	Information from 3 parties	Party-own reporting
Private	Mobilised through bilateral channels	6.5	8.1	7.3	21 bilateral finance institutions and providers; varying instrument coverage	Initial joint-DFI and DAC methodologies
	Mobilised by MDBs, attributed to developed countries	6.2	8.6	7.4	6 main MDBs, MIGA, CIFs, GEF; limited instrument coverage	Initial MDB methodology for estimating co-financing
Aggregate of Climate Finance		52.2	61.8	57.0		

Figure 2.3-1: Estimate of climate finance from bilateral, multilateral and private sources, including the strength of the underlying data. Copy of Figure 2 from OECD-CPI report: "Climate Finance in 2013-14 and the USD 100 billion goal" (p. 11).

3. UNFCCC, OECD-DAC AND DENMARK'S FINANCIAL REPORTING

3.1. Danish reporting to UNFCCC, EU and OECD

As regards climate finance, Denmark is reporting to three international institutions namely the EU, UNFCCC and OECD.

a) The EU: The Danish Energy Agency publishes two reports yearly, which evaluate the Danish efforts towards fulfilling the EU climate obligations. These publications are the *Danish Energy Statistics* and the *Danish Climate and Energy Outlook*. The report *Energy Statistics* shows the Danish reductions of greenhouse gas emissions from a historical perspective. It also includes an assessment of annual emissions of CO₂ and other greenhouse gasses and information about climate finance.

Regarding climate finance to developing countries, Denmark reports to the EU every September as part of the so-called MMR reporting (EU's Monitoring Mechanism regulation). This follows the same Common Tabular Format as the UNFCCC BR reporting.

b) Reports to UNFCCC: Developed countries reporting of climate finance to the UNFCCC adheres to the reporting guidelines for National Communications and Biennial Reports (COP17 decision). The latest figures submitted by Denmark on climate finance are found in Table 7 in Denmark's Second Biennial Report and covers disbursements for 2013 and 2014.

Denmark has thus far submitted its first and second Biennial Reports⁴ (including annexes). The reports provide information on the historical and projected progress made in Denmark as regards the country's contribution to the achievement of the joint EU-quantified emission reduction target under the UNFCCC. Furthermore, the reports present information on Denmark's provision of financial, technological and capacity-building support given to Parties not included in Annex I to the Convention.

The reports from the Parties (member states) are used by the UNFCCC's Standing Committee on Finance for the preparation of a Biennial Assessment Overview of Climate Finance Flows, of which the latest was presented at the COP22 in Morocco.

As explained in more detail in Chapter 4, the current reporting guidelines ('Common Tabular Format': CTF) were drawn up in 2012 without any internationally-agreed methodology for such financial reporting, let alone a clear-cut definition of the term 'climate-specific finance'. In Paris, it was decided to develop modalities for the accounting of climate finance to be adopted at COP24 in 2018⁵.

c) Reports to OECD-DAC: This annual exercise gathers statistics on ODA and other resource flows to developing countries from bilateral and multilateral development co-operation providers. The data are publicly available in the Creditor Reporting System (CRS) database via OECD-Stat⁶. With regard to statistics, DAC plays a central role internationally. It is DAC that sets the international standard for defining and registering ODA, and it is the best source of comparable data on the development assistance of the OECD countries.

Denmark reports official flows of ODA to OECD-DAC's CRS database annually, including type of aid, disbursements and commitments. Here, the so-called 'Rio markers' for estimating climate finance are applied (see next section).

⁴ http://unfccc.int/national_reports/biennial_reports_and_jar/submitted_biennial_reports/items/7550.php

⁵ Paris Decision: para 57. Requests the Subsidiary Body for Scientific and Technological Advice to develop modalities for the accounting of financial resources provided and mobilized through public interventions in accordance with Article 9, paragraph 7, of the Agreement for consideration by the Conference of the Parties at its twenty-fourth session (November 2018),

⁶ QWIDS function in OECD-Stat (<https://stats.oecd.org/qwids>)

Finally, Danida's own data for disbursements can be found in Danida OpenAid (<http://openaid.um.dk>).

3.2. Rio Markers used by OECD-DAC

Current UNFCCC guidelines require Annex II Parties to report on climate finance both in their National Communications and in their Biennial Reports. As explained above, in the absence of internationally agreed methodology and definitions, which are expected to be ready by 2018.

So far, most developed countries have used the OECD-DAC's 'Rio markers' system to collect data and report to the UNFCCC Secretariat on their financial commitments.

The Rio markers were originally designed by policy makers to help members track the extent to which they integrated the Rio Conventions into their aid portfolios, by identifying activities that mainstream the Conventions' objectives into development cooperation. Accordingly, the Rio markers methodology was *not* originally designed to monitor financial pledges. This is problematic, since nowadays the demand for reliable quantitative data is great, taking into account the USD 100 billion per year commitment. In general, there is *no* international consensus on what the best accounting practices are, and accounting systems vary widely from one country to another. Some of these weaknesses in the international system are described in more detail in Chapter 6.

DAC members are requested to indicate, whether each development finance activity pursues environmental objectives. The Rio markers on: 1) biodiversity, 2) climate change mitigation, and 3) desertification were introduced in 1998, with a fourth marker on 4) climate change adaptation being applied to 2010 flows onwards. Once in place (in 2017, reporting on 2016 data), the Rio markers will also apply to amounts raised from private sources.

The Rio markers use a scoring system for bilateral projects, in which projects are 'marked' as pursuing climate change mitigation or adaptation as either their *principal* objective or as a *significant* objective, or as *not* pursuing such an objective at all (as stated in the project/programme documents). Generally, projects marked as having mitigation or adaptation as their *principal* objective would not have been funded but for that objective. Projects marked as having this as a *significant* objective have other primary objectives, but have been formulated or adjusted to help meet mitigation or adaptation concerns, or may do so by chance. When Denmark reports to the UNFCCC, the OECD CRS data on Rio markers is used as a basis. Activities with climate markers of 'significant' count as 50%, while activities marked 'principal' count as 100%. These calculations of the reported Danish climate finance are of limited accuracy, because the method is based on a crude classification of projects in terms of Rio markers. This is further analysed in Chapter 5 with examples from the water sector and Danish NGOs.

Rio markers are applied to all bilateral ODA, except general budget support, imputed student costs, debt relief, administrative costs, development awareness-raising, and refugee reception in donor countries. Core funding for multilateral institutions is *not* marked by member states individually. Instead, organisations report on the actual allocation of their funds ('multilateral outflows').

The same activity can be marked for several objectives, e.g. climate change mitigation and biodiversity. These overlaps reflect that the three Rio Conventions are interlinked and mutually reinforcing. However, care needs to be taken when compiling the total for aid in support of more than one convention. Biodiversity, climate change and desertification-related aid should not be added up, as this can result in double or triple counting. The OECD-CPI report from 2015 had a methodology for avoiding double counting.

Similar to Denmark, several donor countries use Rio markers as a basis for assessing climate finance in ODA. According to an OECD report (2014-15), 49% (USD 14.1 billion per year) of donor programmes had climate change adaptation and/or mitigation as their primary or 'principal' objective. This was considered as the 'lower bound' of the ODA reported as climate-related. For the remaining 51% (USD 14.9 billion per year), climate change considerations were a 'significant' objective,

indicating the mainstreaming of climate objectives within development co-operation portfolios. Under the UNFCCC, a number of donor countries report only a portion of the activities marked 'significant', and some countries count 'significant' as 100% (which Denmark only counts as 50%). See further in Chapter 6 about 'coefficients' to mark the level of climate finance as a proportion of total budgets.

3.3. How is the Danish reporting done?

The major challenge for the Danish reporting is related to the weaknesses in the international system agreed by the parties (countries) within UNFCCC. In general, there is *no* international consensus as to what the best accounting practices are, and accounting systems vary widely from one country to another. The weaknesses in the international system are described in more detail in Chapter 6. Consequently, the best option is the use of OECD's 'Rio markers' as basis for the donor countries' reporting, despite their limitations.

The Rio markers are *not* mentioned in the MFA's 'Aid Management Guidelines', which include a description of the preparation of Danida's programme support⁷. Nor are they considered in the 'Climate Change and Green Growth Screening Note'⁸, which should be filled out when preparing a new programme (before appraisal and decision making).

At a meeting with the Danish MFA in December 2016, the consultant team was informed about how the Danish government is reporting to UNFCCC and OECD-DAC. In short, the Rio markers are often applied by the same ministerial desk officer who inserts the DAC code for the type of programme, sector, etc. (there are internal guidelines for that).

***Recommendation 1:** Danida should include Rio markers in its Aid Management Guidelines (AMG), so that consultants and embassy staff directly involved in the preparation of a new programme can use their insights to apply the Rio markers and thus contribute to estimating the amount of climate finance.*

3.4. Sources for Danish Climate Finance

Part of Danish climate finance comes from budget items other than the Climate Envelope within the National Budget allocation to the MFA. Overall, Danish climate finance can be divided into three broad categories:

- Some of the support for multilateral institutions (core support and specific climate funding), e.g. DKK 400 million to the Green Climate Fund, UN-REDD, GEF, World Bank's energy programme (ESMAP), the Forest Carbon Partnership Facility (FCPF), Pilot Programme for Climate Resilience (PPCR) under the Climate Investment Funds (CIF) and DKK 30 million to the Climate Technology Centre & Network (CTCN) hosted by the UNEP/UNIDO. Part of this funding has indeed gone through the Climate Envelope, which supports both multilateral and bilateral projects.
- Bilateral programmes where the bulk of Danish support concentrates on priority partner countries. Climate objectives are mainstreamed into some of these efforts.
- Danish NGOs as channel with partners in developing countries.

3.5. New and Additional Climate Finance

The Cancun Agreements (2010) stated that "*scaled up, new and additional, predictable and adequate funding shall be provided to developing country Parties*" and reiterated the commitment from the Copenhagen Accord of developed countries to "*[mobilise] jointly USD100 billion per year by 2020*".

⁷ Guidelines for Programmes or Projects above DKK 37 million. Version June 2015

⁸ Climate Change and Green Growth Screening Note. July 2013

Annex II Parties are required to provide a description in their reports for what ‘new and additional’ financial resources they have provided pursuant to Article 4.3 of the UNFCCC (1992) and, furthermore, to clarify how they have determined such resources as being new and additional. However, in the Second Biennial Report to the UNFCCC, Denmark has *not* reported on ‘new and additional’ funds, and has instead inserted this footnote only: *"There is still not any agreement on a definition of ‘new and additional’. Denmark sees climate and development assistance as strongly interdependent and, as climate is mainstreamed in Danish development assistance, climate finance cannot be clearly separated from development finance altogether, except for the earmarked funds in the Climate Envelope."*

The Danish government thus does *not* present figures for ‘new and additional’ climate funds in Danish reporting to the UNFCCC. It has therefore not been possible to clearly tell apart ‘new and additional’ funds in Danish climate finance.

As explained in the report from AdaptationWatch 2016⁹, a key exclusion from the Paris Agreement is the phrase “*new and additional*” in reference to climate finance, breaking with two decades of environmental treaty-making (including Copenhagen and Cancun). This phrase is important, because its inclusion in the UNFCCC and other key texts sought to ensure that funding and assistance for projects outside of climate finance (such as development) would *not* be reduced or double-counted as climate change contributions. For example, spending on climate action should not be diverted from ODA for building schools, roads or hospitals, nor should it be counted as both ODA and climate finance. The Paris Agreement acknowledges that climate finance is to be provided in accordance with developed countries’ existing obligations under the UNFCCC.

The term ‘new and additional’ has always been problematic, since many funds are commingled (assets from several accounts that are blended together) and because climate issues need to be mainstreamed into the rest of development work, but the issue needs to be addressed in negotiations.

A promising inclusion in the Paris Decision text is the decision to request the Subsidiary Body for Scientific and Technological Advice (SBSTA) to develop modalities for the accounting of financial resources provided and mobilized through public interventions¹⁰. This has to be agreed in November 2018 (COP24), and is needed for the assessment, in 2020, of the extent to which the USD 100 billion per year pledge has been fulfilled. In spite of the decision in the Rio Convention on Climate that assistance must be ‘additional’ resources to development aid, unfortunately, the UNFCCC has not made any effort to ensure this. Thus, the Danish 92 Group's press release from COP22 (19 November 2016) pointed out that *"a large part of the aid is money that is already promised in development assistance. A greater focus on the climate must not lead to less support for education, health and other important development tasks."*

As a conclusion, unfortunately, the calculation of Danish climate finance does *not* make it possible to distinguish between general ODA-related climate finance and ‘new and additional’ climate finance.

Recommendation 2: *In accordance with international agreements on climate finance, the Danish government should identify ‘new and additional’ climate funds in its reporting to the UNFCCC, and account for how these are calculated.*

⁹ 2016 Adaptation Finance Transparency Gap Report. AdaptationWatch 2016.

¹⁰ Article 9, paragraph 7, of the Paris Agreement and paragraph 58.

4. METHOD FOR DATA ANALYSIS

This chapter presents the methods used by the consultant team to find and calculate figures for Danish climate finance, based on the reports to the UNFCCC and to OECD-DAC through the Creditor Reporting System (CRS)¹¹.

The team has made its calculations of various aspects of Danish climate finance based on three main sources: i) reports to the UNFCCC, ii) reports of projects in CRS within OECD-DAC, and iii) Danida OpenAid, which describes projects and lists budget items. The detailed project information found in the OECD's CRS database was also used to learn about the distinction between mitigation and adaptation, the implementation channels, the recipient countries (income groups) and the amounts going to Danida priority countries.

The method used to calculate Danish climate finance is described in section 4.2 and is based on the calculations in Denmark's Biennial Report II to the UNFCCC (BR2). Because this method is based on a crude classification of projects/programme in terms of Rio markers, the accuracy is limited.

Efforts have also been made to find information on individual climate projects through Danida's OpenAid database. These projects are reported in an attached Excel file database.

Further information on methods and data extraction can be found in Annex C.

4.1. Extraction of Data from UNFCCC, OECD-DAC, and OpenAid

4.1.1. Climate Finance Data from the UNFCCC

An overview of Danish climate finance reported to the UNFCCC can be found in section 5.1. The information is reported in the Common Tabular Format (CTF) in Table 7 of the Danish Biennial Reports.

Table 7 in the Biennial Reports is a UNFCCC standard that includes figures in both national currency and USD, with the funding divided into climate-specific finance and core/general funding of multilateral institutions. The climate-specific finance is further divided into mitigation, adaptation and cross-cutting. Table 7(A) and 7(B) include a more detailed breakdown of climate-specific multilateral and bilateral ODA respectively.

Denmark's reporting of climate-specific finance is based on reporting of Rio markers to the OECD-DAC. Projects with Rio marker 'significant' objective (identified by a score of 1) – in pursuit of either adaptation or mitigation – are weighted 50%, while projects with Rio marker 'principal' objective (scoring 2) are counted as 100% climate-specific (see in further detail under 4.2.1).

The Biennial Reports to the UNFCCC use a format where core funding to multilateral institutions, including MDBs, GEF and others, is accounted for separately rather than being included as climate-specific funding (see in further detail in section 4.2.2).

4.1.2. Data from OECD-DAC

Reporting of ODA to OECD takes place through the CRS database. The total amount of climate related ODA is *not* reported separately, but can be calculated based on the attached Rio markers 'significant' and 'principal' objective in pursuit of mitigation and adaptation. Reporting of Rio markers and climate finance from OECD¹², is divided into amounts for pursuit of climate mitigation and adaptation as 'significant' and 'principal' objectives, but the amounts are not adjusted according to scores of significant or principal (as in the UNFCCC reporting).

¹¹ The calculations in this report do not specifically consider the reporting of climate finance to the EU, since this is based on the same method as the reporting to the UNFCCC and OECD.

¹² e.g. in their data visualisation: <http://www.oecd.org/dac/environment-development/rioconventions.htm>

To access information on the projects reported to the CRS, data has been extracted from OECD-Stat, using the *Query Wizard for International Development Statistics* (QWIDS) function. The data was downloaded for each year in the period from 2010 to 2015, encompassing project titles, descriptions, Rio markers and funding. Separate downloads have been made to determine commitments and gross disbursements¹³, and all figures measure the paid out ('current') value of payment. Data in USD was converted into DKK using the OECD's annual exchange rates.¹⁴

Detailed information on the download process and selections can be found in Annex C, while the raw-data is included in an Excel file (see Annex E).

4.1.3. Data Available in OpenAid

Data on Danish development projects under Danida is available in the OpenAid database (<http://openaid.um.dk/>). It is possible to find updated numbers on disbursements to individual projects and total sums for disbursements to countries, sectors and particular implementing organisations.

However, it is *not* possible in OpenAid to break down projects by climate relevance, Rio markers or similar scores, so the database cannot be used to calculate Danish climate finance. Instead, project information has been used to let descriptions of goals and targets feed into a more detailed analysis in section 4.2.8.

4.2. Data Processing and Calculation of Danish Climate Finance

4.2.1. Total Climate Finance

Data on total Danish climate finance was taken from UNFCCC reporting and mainly from OECD CRS reporting. UNFCCC data is directly quoted in Table 5.1-1, but *no* calculation was made based on this data. Considerable differences do exist between Danish reporting to the UNFCCC for 2011-2012 (BR1) and for 2013-2014 (BR2). First of all, the 2011-2012 figures are reported in commitments, while the 2013-2014 figures are in disbursements. In addition, it seems that the figures for 2011-2012 do not include data on climate-specific multilateral contributions, and therefore underestimate the total climate-specific funding. An overview of the figures reported to the UNFCCC is found in Table 5.1-1.

To derive more consistent and accurate data on Danish climate finance between 2010 and 2015, another set of figures is worked out based on the Danish CRS reporting to OECD, where the team used a method similar to the one used in Danish reporting to the UNFCCC. This means that projects with a Rio marker of 1 ('significant' objective) or 2 ('principal' objective) in pursuit of either mitigation or adaptation were counted as climate finance, with projects scoring 1 weighted as only 50%. Projects with scores in both mitigation and adaptation were classified as 'cross-cutting'. A complete overview of scores and sums for 2015 can be found in Table 4.2-1, below.

¹³ Gross disbursements in "current" funds (amounts as disbursed, not updated according to inflation and changes in exchange rates).

¹⁴ <https://data.oecd.org/conversion/exchange-rates.htm>

Rio marker		No. of projects in 2015	Classification	Distribution of cross-cutting between mitigation and adaptation (Figure 5.5-2)
Mitigation	Adaptation			
1	0	46	Mitigation	100% mitigation
0	1	12	Adaptation	100% adaptation
1	1	116	Cross-cutting	50% mitigation 50% adaptation
2	0	23	Mitigation	100% mitigation
0	2	8	Adaptation	100% adaptation
2	1	19	Cross-cutting	66.6% mitigation 33.3% adaptation
1	2	5	Cross-cutting	33.3% mitigation 66.6% adaptation
2	2	16	Cross-cutting	50% mitigation 50% adaptation

Table 4.2-1: Classification of possible Rio marker combinations in CRS data. The table also indicates the no. of projects for each possible classification of Rio markers for 2015 (2015 being indicative of the distribution of projects between 2010 and 2015).

The results of calculating total Danish climate finance based on OECD-Stat figures can be found in Table 5.1-2.

4.2.2. Core Funding to Multilateral Institutions

In the Biennial Reports to the UNFCCC, core funding to multilateral institutions, whose activities include a number of climate projects, was reported separately under the ‘Core/general’ column in Table 7. The figures in this column have *not* been adjusted according to the share of climate activities in the institutions’ portfolios. Since this reporting does *not* consider the amount of contributions resulting in actual spending on climate-related activities, it does *not* give a complete picture of total Danish climate finance. It should be noted that this lack of information on climate-related activities is not a failing of the Danish reporting, but of the Common Tabular Format provided by the UNFCCC.

Alternatively, climate finance that is part of core funding to multilateral institutions can be calculated using OECD data. Since the CRS reporting to OECD on core funding to multilateral institutions does not include reporting on Rio markers, the climate-related figures are instead calculated using the simple *imputed multilateral contributions* method, as suggested by OECD¹⁵. To do this, numbers on core funding to individual multilateral institutions are extracted from OECD-Stat for 2011-2015 (numbers for 2010 are *not* available in the database). These figures are then multiplied by the share of the institutions’ activities that are climate-relevant (as reported by the institutions themselves to the OECD), to find the climate-specific part of Danish funding.

¹⁵ The imputed multilateral contributions method is described further in the OECD Technical Note: *Treatment of Climate-Related Multilateral Flows in DAC Statistics & Status of Reporting* available here: <http://www.oecd.org/dac/stats/climate-change.htm>

Data on the level of climate-relevant activities in the multilateral institutions has been taken from OECD's own calculations used in the OECD-CPI report on climate finance from 2015¹⁶. The OECD-CPI report only covers 2013 and 2014, and it has not been possible to find information on the level of climate activities of multilateral institutions for other years. The average of the 2013 and 2014 reporting is therefore used for all the reported years, i.e. according to our method, from 2010 to 2015 only the total amount of Danish funds and not the institutions' share of climate-relevant spending is subject to change.

It should also be noted that the calculations in this report only consider funding to institutions that are also included in the OECD-CPI report, since these are the only institutions for which there is data on the level of climate activities¹⁷. The institutions included are listed in the attached Excel file: *Imputed multilateral contributions*.

4.2.3. Source of Climate Finance

The size of the Climate Envelope relative to total Danish climate finance has been calculated, using information on the commitments of the Climate Envelope from Danida Programme Committee meeting notes as well as info notes from Danida¹⁸. These figures have been compared to the total Danish climate commitments between 2011 and 2015 in Figure 5.2-1 in section 5.2.

4.2.4. Implementation Channels of Climate Finance

The breakdown of climate finance by implementation channel can be found by accessing available information in the CRS reporting. Projects in CRS are classified into five categories: 'Public Sector Institutions'; 'Non-Governmental Organisations (NGOs) and Civil Society'; 'Public-Private Partnerships (PPPs) and Networks'; 'Multilateral Organisations'; and 'Other'. Since only a small number of Danish projects between 2010 and 2015 are classified as 'PPPs and Networks', this category was added to 'Other'.

The figures for implementation channels include core funding for multilateral institutions, since this is easily identified as belonging in the 'Multilateral Organisations' category. Figure 5.3-1 in section 5.3 shows the resulting breakdown of Danish climate finance by implementation channels.

4.2.5. Breakdown by Country Income Groups and Danida Priority Countries

The shares of climate finance going to Danida priority countries and to countries in various income categories are calculated based on information available in CRS. Since similar information is not readily available for the core funding for multilateral institutions, these figures are not included in the calculations.

The breakdown by income groups is based on the four categories found in CRS data: Least Developed Countries (LDCs); Other Low-Income Countries (Other LICs); Lower Middle-Income Countries (LMICs); and Upper Middle-Income Countries (UMICs). It should be noted that for a considerable part of Danish ODA (38%), the income category of the recipient country is *not* identified (classified as 'unallocated'). This is the case of, for instance, funds channelled through NGOs and multilateral institutions.

The distribution between mitigation and adaptation funds within each income group is determined using the method for dividing the cross-cutting category described below; under "4.2.6 Determining the distribution between mitigation and adaptation spending".

¹⁶ The data is available in the excel sheet with calculations for the OECD-CPI report, here: <http://www.oecd.org/dac/stats/climate-change.htm>.

¹⁷ It should be noted that support to the Green Climate Fund in 2014 and 2015 is *not* included in the calculations. This is because the OECD-CPI figures do not include information on climate relevant activities implemented by the Green Climate Fund. The method is consistent with the method used in the OECD-CPI.

¹⁸ Info notes from Danida: "Faktaark - Tilpasning af udviklingsbistanden i 2015" and "Faktaark - Tilpasning af udviklingsbistanden i 2016".

Identification of allocations to Danida priority countries is also based on the name of recipient in CRS, and is therefore easily calculated based on the extracted data from OECD-Stat. It should be noted that this categorisation only applies to funds given directly to projects in the countries, and therefore does not include funds channelled through e.g. framework agreements with NGOs, even if the NGO has activities in priority countries.

4.2.6. Determining the Distribution between Mitigation and Adaptation Spending

Since a large part of the Danish climate finance is categorized as “Cross-cutting” (scoring 1 or 2 in both Rio markers for mitigation and adaptation), an attempt has been made to divide this category into mitigation and adaptation. This is done by dividing up cross-cutting projects, so that projects scoring either 1 or 2 for both mitigation and adaptation are split in terms of 50-50 spending on mitigation and adaptation. Projects scoring 1 in one category and 2 in another are divided with 2/3 going to the category where the project scores 2 (*see the last column in Table 4.2-1, setting out how all possible Rio marker combinations translate into a certain distribution of spending between the two categories*).

While the 50-50 distribution for projects with the same score in both mitigation and adaptation seems logical, the distribution of spending in cases of projects scoring 2 in one category and 1 in another can be done in a variety of ways (other than 2/3-1/3). As an alternative, dividing 50-50 between the two categories or attributing all spending to the category for which the project scores 2 (100-0) have been tried. This gives almost the same results as the 2/3-1/3 distribution, since very few projects score 2 in one category and 1 in another (see Table 4.2-1 with number of projects in each category for 2015).

In section 5.5, Figure 5.5-2 shows Danish climate finance broken down by the objectives of mitigation and adaption in the period from 2010 to 2015.

4.2.7. Database of Danish Climate Projects in 2014

To enable further investigation of projects included in Danish climate finance, a database is electronically attached to this report, with Danish climate projects that were funded through ODA in 2014. The database is based on the list of projects in Table 7(B) in BR2, but projects found in the CRS system have been added along with information found in OpenAid on budget items and disbursements.

The information on disbursements and projects found in CRS does not compare directly with the information in the UNFCCC reporting. In some cases, it has been necessary to add up or split disbursement figures from the CRS, in order to derive comparable figures in the constructed database.

It should be noted that a complete overview of projects cannot be easily extracted from OpenAid (since there is unfortunately no possibility of extracting a comma-separated values (CSV) files), for which reason each project must be looked up individually. This is also necessary because many projects in OpenAid do not include reference numbers, and therefore have to be identified based on recipient country and title. This makes it more likely that the database will yield mistaken information, due to the large amount of manual copy pasting, as compared to the computed figures otherwise presented in this report.

***Recommendation 3:** Danida should introduce a function in OpenAid that enables identification of projects/programmes based on Rio markers, with a view to facilitating transparency and independent analysis of Danish climate finance. In the future, OpenAid should also provide open and machine-readable data that can be more easily extracted for analysis. Furthermore, more information could be included (programme documents, journal numbers etc.).*

4.2.8. Analysis of Water Sector Programmes and NGO Framework Agreements

To present more detailed information on climate finance in Danida projects, an analysis has been carried out of Danish sector support for large water and sanitation programmes and of the framework agreements between Danida and individual Danish NGOs in 2014 and 2015.

The relevant water and sanitation programmes are identified in the CRS as those that have been given the purpose code 140 'Water & Sanitation'. Furthermore, relevant programmes are identified based on title and description, while projects not falling into the category of sector budget support are removed¹⁹. Most of the programmes include several different components and sometimes, these components have different Rio markers in CRS. The total amount of disbursements for each programme is copied from the project pages in OpenAid, and this is then compared with the calculated level of climate finance for each programme. An overview of the programmes is found in Table 5.7-1.

The NGO framework agreements can be found by searching for "Frame agreement" in the CRS reporting and comparing the results to online information on Danida framework agreements with NGOs²⁰. The level of climate finance is then assessed based on scoring in Rio markers, as previously described.

4.3. List of Annexes

Additional information on data extraction and a more detailed description of the calculation method are provided in the annexes to the report. These include:

- *Annex A: Terms of Reference for study*
- *Annex B: List of persons interviewed*
- *Annex C: Data extraction and calculations in Excel*
- *Annex D: Description of database of climate projects*
- *Annex E: Overview of Excel files attached to the report.*

¹⁹ Based on experience with MFA reference numbers, programmes included are limited to reference numbers in the format: "104.COUNTRY.814", since this indicate the preferred type of projects

²⁰ To include all possible projects, search terms also included 'Partnership agreement' and 'Rammeaftale' [framework agreement]. Online source for framework agreements:
<http://um.dk/da/danida/samarbejsspartnere/civ-org/stoetteform/rammeaftaler>

5. OVERVIEW OF DANISH CLIMATE FINANCE

Chapter 5 presents an overview of Danish climate finance provided through ODA between 2010 and 2015. The consultant team has established the figures indicated by using the methods described in the previous chapter.

The total climate finance reported to UNFCCC for 2011 to 2014 is presented, together with climate finance figures calculated based on the CRS reporting to OECD (5.1). Next, the size of the climate envelope is compared to the estimated total climate finance (5.2), as well as the breakdown by implementation channel (multilateral, bilateral etc.) (5.3). 5.4 and 5.5 provide an overview of recipient countries of climate finance and allocations to Danida priority countries, based on the CRS reporting to OECD. Finally, the attached project database is presented (5.6), examples are given of two project categories (water sector support and NGO framework agreements) included in the Danish climate finance (5.7), while overall conclusions from the analysis are drawn in section 5.8.

As described in Chapter 3, Denmark assesses the climate content of specific projects/programmes as either 0%, 50% or 100% (of total budget). This crude categorisation does not provide accurate primary data. Accordingly, the figures calculated in this chapter, including the size and breakdown of Denmark's climate finance, should be considered rough estimates.

5.1. Total Climate Finance per Year 2010 to 2015, UNFCCC and OECD-DAC

5.1.1. Danish Climate Finance Reported to the UNFCCC (2011 to 2014)

Reporting of climate-specific finance to the UNFCCC and OECD-DAC takes place through Denmark's Biennial Reports and the CRS system (as described in chapter 3 and 4). Table 5.1-1 below, presents an overview of Denmark's reporting of climate finance to the UNFCCC in Biennial Report 1 (BR1) and Biennial Report 2 (BR2).

Year	UNFCCC report	Type of financial reporting	Reported finance to UNFCCC (DKK millions)				
			Core/ general	Climate-specific			
				Mitiga- tion	Adapta- tion	Cross- cutting	Total climate- specific
2011	BR1	Commitments	1,532	589	47	86	722
2012	BR1	Commitments	3,409 ²¹	389	111	381	881
2013	BR2	Disbursements	1,567	302	143	763	1,207
2014	BR2	Disbursements	1,412	355	150	864	1,369

Table 5.1-1: Climate finance reported to the UNFCCC in Denmark's Biennial Report I and Denmark's Biennial Report II.

²¹ It is unclear why the reported number for commitments of core funding to multilateral institutions is so much higher in 2012 compared to the other years. The number is not detailed in BR1 and the higher level of commitments is not reflected in commitment data from OECD-Stat. One explanation might be that the whole of the DKK 2.1 billion Danish contribution to the 16th replenishment (2012-2016) of the International Development Association under the World Bank has been allocated to 2012.

Denmark's method for reporting to the UNFCCC was changed between BR1 and BR2, so that reporting in BR2 reflects disbursements of climate finance in 2013 and 2014, and *not* commitments, as was reported in BR1²². It is therefore *not* possible to directly compare the figures for 2011-2012 to those for 2013-2014, in order to assess changes in the Danish level of climate finance.

In biennial reporting, calculation of *climate-specific* finance is based on reporting of Rio markers in CRS, which means that 27% of Danish ODA²³ is *not* considered, as it is provided as core funding to multilateral institutions and therefore *not* reported in the CRS. Instead, core funding provided to relevant multilateral institutions is reported separately (in the "Core/general" column in Table 5.1-1), however, the Common Tabular Format (CTF) used for biennial reporting does not specify a method for calculating the climate-specific part of this. Therefore, the consultant team has decided to calculate the climate-specific percentage of Danish ODA based on OECD-Stat, as it is *not* possible to accurately assess this from the UNFCCC reporting.²⁴

5.1.2. Danish climate finance reported to the OECD-DAC (2010 to 2015)

To get more complete data for Danish climate finance between 2010 and 2015, the team has made calculations based on data extracted from OECD-Stat, as described in chapter 4.

Danish climate finance disbursements between 2010 and 2015 are reported in Table 5.1-2. Detailed data for Danish support to multilateral institutions is only available in OECD-Stat from 2011 and this does not allow for determining the distribution between 'Mitigation', 'Adaptation' and 'Cross-cutting'.

Calculated Danish climate finance (DKK millions)		2010	2011	2012	2013	2014	2015	Average 2010-2015
Commit- ments	Mitigation	162	270	208	100	329	184	209
	Adaptation	168	62	427	31	0	87	129
	Cross-cutting	1061	656	810	1468	1182	576	959
	Multilateral core funding	-	248	218	272	346	189	212
	Total climate finance	1391	1236	1663	1871	1856	1037	1509
	<i>% of total ODA</i>	<i>10.7%</i>	<i>8.1%</i>	<i>11.3%</i>	<i>12.2%</i>	<i>11.2%</i>	<i>6.2%</i>	<i>9.9%</i>
Disburse- ments	Mitigation	542	593	377	302	355	213	397
	Adaptation	47	47	111	143	150	106	101
	Cross-cutting	494	393	374	763	859	781	611
	Multilateral core funding	-	313	332	378	270	261	259
	Total climate finance	1083	1346	1194	1585	1634	1361	1367
	<i>% of total ODA</i>	<i>6.5%</i>	<i>8.4%</i>	<i>7.3%</i>	<i>9.1%</i>	<i>9.2%</i>	<i>7.6%</i>	<i>8.0%</i>

Table 5.1-2: Danish climate finance, calculated on the basis of figures reported to OECD-CRS. No data available on multilateral core funding for 2010.

²² The MFA informs that reporting to the UNFCCC in the future will include figures on both commitments and disbursements, which will facilitate better comparison with BR1 and BR2.

²³ On average 73% of Danish ODA was reported to CRS between 2010-2015 (average for gross disbursements).

²⁴ A conservative approach would suggest only considering the climate-specific figures, since these are the only ones that can be clearly identified as climate finance in the reporting to the UNFCCC.

On average, **Denmark has disbursed DKK 1.42 billion annually** in climate finance between 2010 and 2015²⁵, amounting to 8.3% of total Danish ODA disbursements²⁶. Out of this, an average of 19% has been channelled as core funding of multilateral institutions, while the remaining 81% has been distributed either as earmarked multilateral contributions or as bilateral support given to governments or NGOs.

The calculated multilateral core funding in Table 5.1-2 covers the same amount as the “Core/general” figures reported to UNFCCC (in Table 5.1-1). The imputed multilateral contributions methods used here (according to which the Danish core funding is multiplied by the reported percentage of the institutions’ project portfolio that is climate-specific), gives an estimate of the actual climate-specific part of these contributions. At only approx. DKK 325 million in 2013 and 2014, the calculated climate-specific part is significantly lower than the total multilateral core funding, whereas the figures for total multilateral core funding reported to the UNFCCC (in Table 5.1-1) are three to four times higher (between DKK 1.4 and 1.6 billion).

Table 5.1-3 below shows a breakdown of multilateral core funding included in the UNFCCC reporting and the climate-specific part calculated using the imputed multilateral contributions method for 2013 and 2014. The significant difference between the climate-specific numbers and the totals reported by Denmark to the UNFCCC stems from a much larger share of the support for MDBs being included in the UNFCCC reporting. This refers primarily to disbursements to the International Development Association under the World Bank and to the African Development Bank²⁷, where only 20% and 31% of the disbursements are counted as climate-specific in the calculation. In addition, the reporting to the UNFCCC includes large disbursements to specialised United Nations bodies (primarily UNDP), that are *not* included in the imputed multilateral contributions calculations, since no information on the share of climate-related activities could be found.

Core funding to multilateral institutions, 2013-2014 (DKK million)	UNFCCC reporting (BR2)	Climate--specific part, calculated based on OECD figures
Multilateral climate change funds (E.g. GEF, Green Climate Fund etc.)	443	312
Multilateral financial institutions (World Bank, African Development Bank etc.)	1359	323
Specialised United Nations bodies (UNDP, UNEP etc.)	737	13
Other	440	0
Total	2979	648

Table 5.1-3: Breakdown of disbursements of multilateral core funding for 2013 and 2014 (combined) included in the Danish reporting to the UNFCCC and calculated using imputed multilateral contributions method from OECD figures. It has not been possible to identify what the category ‘Other’ in the UNFCCC reporting includes.

Since the imputed multilateral contributions method takes account of the actual level of climate activities in the multilateral institutions, it is our assessment that using this method gives a more

²⁵ Both DKK 1.42 billion and 8.3% have been adjusted for the missing data on core funding to multilateral institutions in 2010 (assuming the figures for 2010 are equal to the average for the period between 2011 and 2015).

²⁶ While the figure indicates a slight increase in Danish climate finance, it should be noted that the figure indicates actual distributed funds. There is no clear tendency towards an increase in the percentage of total ODA spent on climate-related activities.

²⁷ Including funds disbursed to both the African Development Bank and to the African Development Fund.

complete picture of the the level of Danish climate finance than what can be found in the figures reported to the UNFCCC²⁸.

It should be noted that *earmarked* funding to multilateral institutions has Rio markers attached when reported in the CRS system. The climate-specific part of this funding is therefore calculated based on these markers on not using the *imputed multilateral contributions* method. The category for “core funding to multilateral institutions” in the figures does *not* include earmarked multilateral funding, which constitute approx. 20% of the rest of the Danish climate finance.

In contrast with the multilateral core funding figures, the figures reported as climate-specific to the UNFCCC correspond well with the amounts calculated based on OECD-Stat (mitigation, adaptation and cross-cutting in Table 5.1-2). For 2013 and 2014, the difference between the figures reported to UNFCCC and our calculation was less than 1%²⁹.

Figure 5.1-2 below shows Danish climate finance commitments between 2010 and 2015. On average, Denmark has committed DKK 1.55 billion annually, amounting to 10.2% of total Danish ODA commitments³⁰. The higher percentage of committed climate finance, when compared to the disbursed amount, is partly due to larger actual commitments, and also a result of total Danish ODA commitments being lower than total disbursements in the period concerned (on average, Denmark’s annual ODA disbursements were DKK 1.7 billion higher than annual ODA commitments).

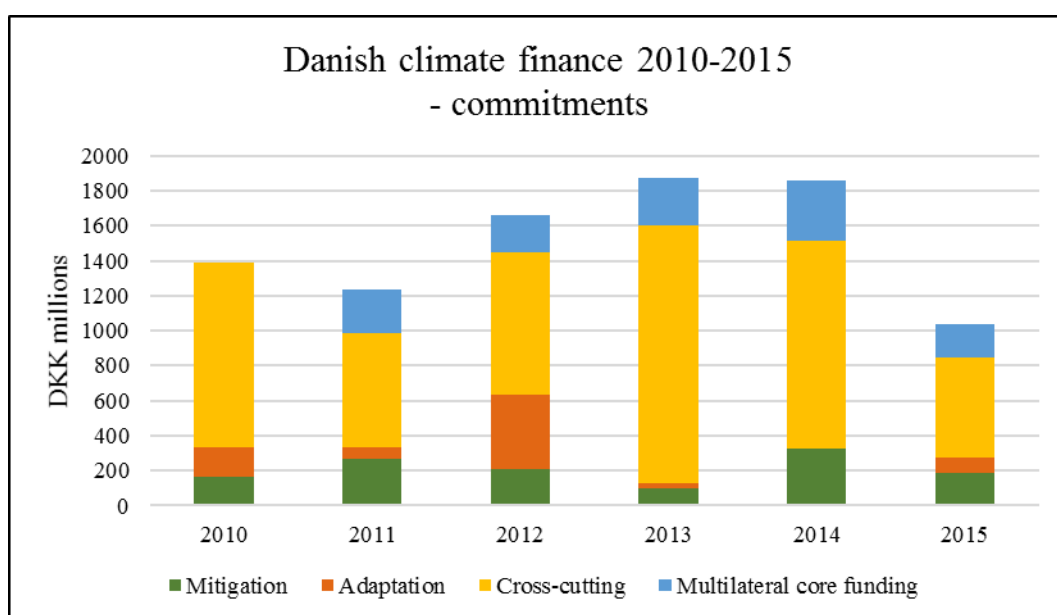


Figure 5.1-1: Commitments of climate finance from Denmark between 2010 and 2015, based on calculated OECD-CRS data. Visual representation of the numbers found in Table 5.1-2.

Comparing between the figures on commitments and on disbursements of climate finance, the commitments fluctuate more. This can, to a large extent, spring from individual approvals of large programmes and transfers that differ from year to year. Nevertheless, the large decrease in climate commitments between 2014 and 2015 is noticeable. It is first and foremost caused by a significant decrease in total Danish ODA, due to the Liberal government's general reduction in the ODA budget as well as considerable expenditure on refugees inside Denmark (this type of spending in Denmark

²⁸ Note that the figures for multilateral core funding, indicated here, probably understate actual contributions, since data is missing on the share of climate-related activities from a number of relevant institutions, including the Green Climate Fund.

²⁹ The similarity is to be expected, since the calculation method used to arrive at the OECD figures is the same as the one used in the UNFCCC reporting.

³⁰ Adjusted for the missing data on core funding to multilateral institutions in 2010 (assuming the figures 2010 are equal to the average for the period between 2011 and 2015).

reported as ODA to the OECD increased from DKK 650 million in 2011 to DKK 2.66 billion in 2015).

Nevertheless, even when taking out the spending on refugees³¹, climate finance as a percentage of ODA fell from 12-13% between 2012 and 2014 to only 7.4% in 2015 (a reduction in climate finance from DKK 1.6-1.9 billion between 2012 and 2014 to only DKK 1 billion in 2015). The conclusion is that there has been a significant *reduction* in Danish climate finance in recent years.

5.2. Source of Finance of Danish ODA Climate Finance

While much attention has been paid to Danish climate finance committed through the Danish Climate Envelope, Figure 5.2-1 shows that less than half of Danish climate finance is channelled through this mechanism. On average, 29% of Danish climate finance has been committed as part of the Climate Envelope between 2011 and 2015.

The size of the Climate Envelope has changed over the period, with an increase from DKK 380 million (2011) to DKK 475 million between 2012 and 2014. With the change of government in 2015, the Climate Envelope was cut to DKK 375 million, and this level was further reduced in 2016 to only DKK 270 million. Still, as it is evident in Figure 5.2-1, the fall in total ODA commitments between 2014 and 2015 (discussed in 5.1.2) increased the relative size of the Climate Envelope to 36% of total Danish climate finance in 2015.

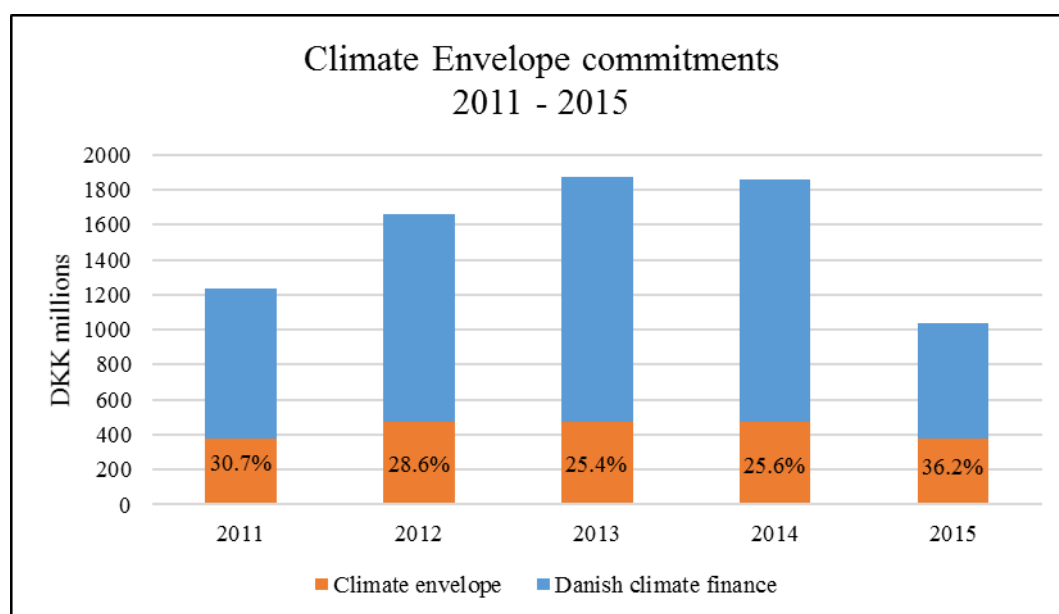


Figure 5.2-1: The Danish Climate Envelope's share of total Danish climate finance commitments between 2011 and 2015.

5.3. Climate Finance Implementation Channels

Figure 5.3-1 below illustrates the breakdown of Danish climate finance by different implementation channels. The categories are based on information available in CRS, and include multilateral institutions (both earmarked project allocations and core funding), bilateral grants to government institutions in partner countries, and NGO-managed funds.

³¹ This only refers to the expenses identified as "Refugees in donor country" in DAC's CRS reporting.

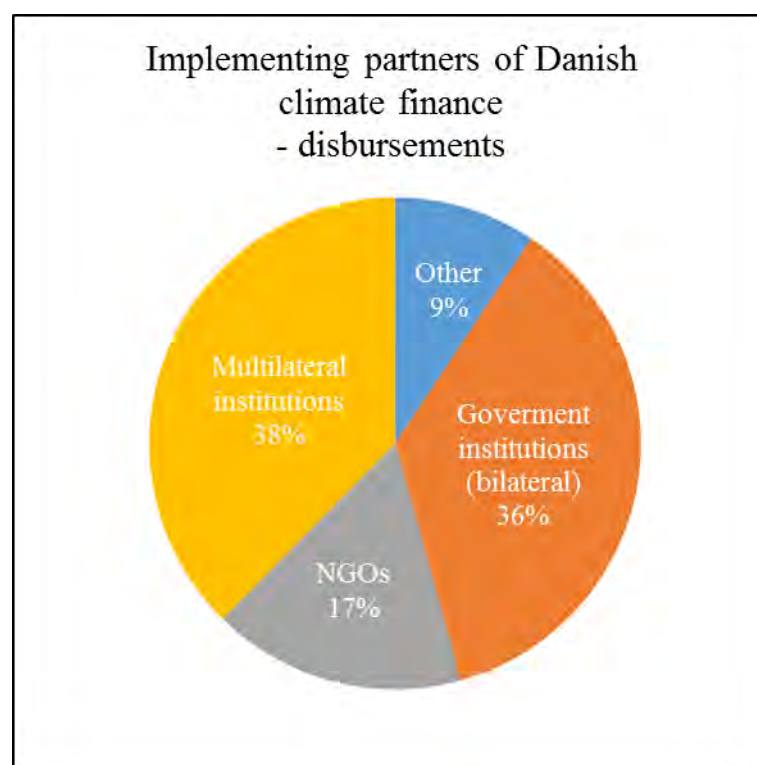


Figure 5.3-1: Allocation shares of Danish climate finance disbursements 2010-2015 to different implementing partners. Figures are based on information in CRS data on receiving partners.

As shown in the figure, bilateral (36%) and multilateral (38%) partners are the primary implementation channels for Danish climate finance, both accounting for about twice as much of the climate finance as NGOs (17%).

It should be noted that this distribution to a very large degree follows the overall distribution of implementation channels for *total* Danish ODA (e.g. the implementation channels for bilateral institutions and multilateral institutions are 36% and 39%, respectively, of total Danish ODA).

5.4. Breakdown by Income Groups and Danida Priority Countries

5.4.1. Breakdown of Climate Finance by Income Group

Based on the project information available in CRS, it is possible to categorise Danish climate finance according to recipient country income groups. This is illustrated in Figure 5.4-1 below, which shows how Danish climate finance disbursed between 2010 and 2015 is distributed between income groups used by the OECD-DAC (LDC: Least Developed Countries; Other LICs: Other Low Income Countries; LMICs: Lower Middle Income Countries; and UMICs: Upper Middle Income Countries). The figure excludes the 38% of funding categorised as “*Unallocated*” (e.g. spent by means of framework agreements with NGOs or universities).

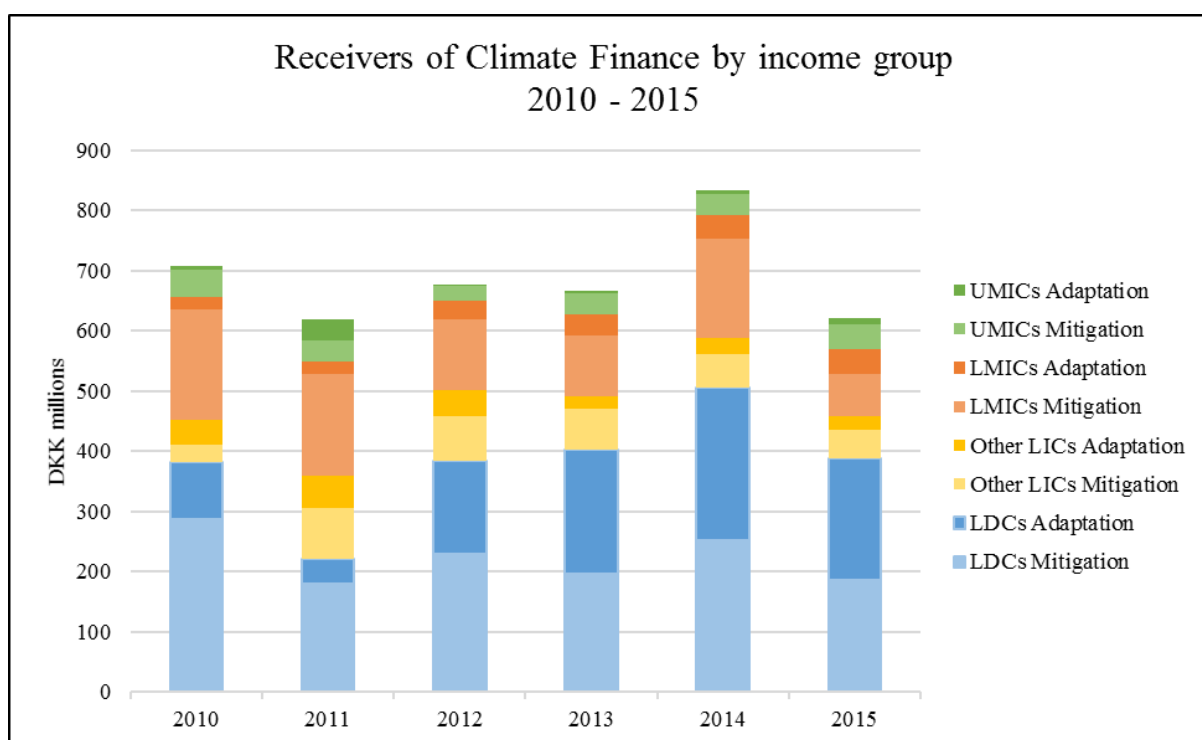


Figure 5.4-1: Danish climate finance disbursements 2010-2015 as distributed between different income groups of recipient countries. The 38% of finance marked as ‘Unallocated’ has not been included in the figure. Due to limitations in data, only the 89% of Danish climate finance reported in the CRS has been taken into account.

The least developed countries, LDCs, received more than half of total climate finance from Denmark between 2010 and 2015. As shown in the figure, the share of climate finance going to LDCs rose from approx. 50% (2010-2012) to approx. 60% (2013-2015), with a corresponding fall of 10 percentage points in the share of climate finance to middle income countries. The distribution of climate finance largely follows the general distribution of Danish ODA between country income groups for the period, the main difference being that LDCs received a slightly higher share of total ODA (approx. 60%).

Between 2010 and 2015, 42% of total climate finance received by LDCs was for adaptation (the rest being for mitigation), significantly higher than for middle income countries, where only approx. 20% went to adaptation³². Over the period, a significant increase in adaptation funding for LDCs occurred, from approx. 20% of the total climate finance received by these countries in 2010-2011 to approx. 50% in 2013-2015.

5.4.2. Allocation of Climate Finance to Danida Priority Countries

Figure 5.4-2 below shows disbursements of Danish climate finance between 2010 and 2015, distributed across Danida priority countries³³. As indicated in the figure, the amount of climate finance varies a lot between the priority countries, but countries in South and Southeast Asia as well as in Africa are well represented.

The orange bar for Uganda shows the amount disbursed to the Water and Sanitation Programme and illustrates how much impact an individual programme can have on the amount of climate finance in any given country. The DKK 205 million disbursed to this programme between 2013 and 2015 (programme started in 2013) is, on its own, more than what 19 of the 22 priority countries received in climate finance between 2010 and 2015.

³² Similar to figure 5.5-2, the way in which cross-cutting has been divided between mitigation and adaptation has here been calculated according to the scoring presented in Table 4.2-1.

³³ DKK 3.2 billion (48%) of unallocated funds or funds allocated to non-priority countries between 2010 and 2015 have not been included in the figure.

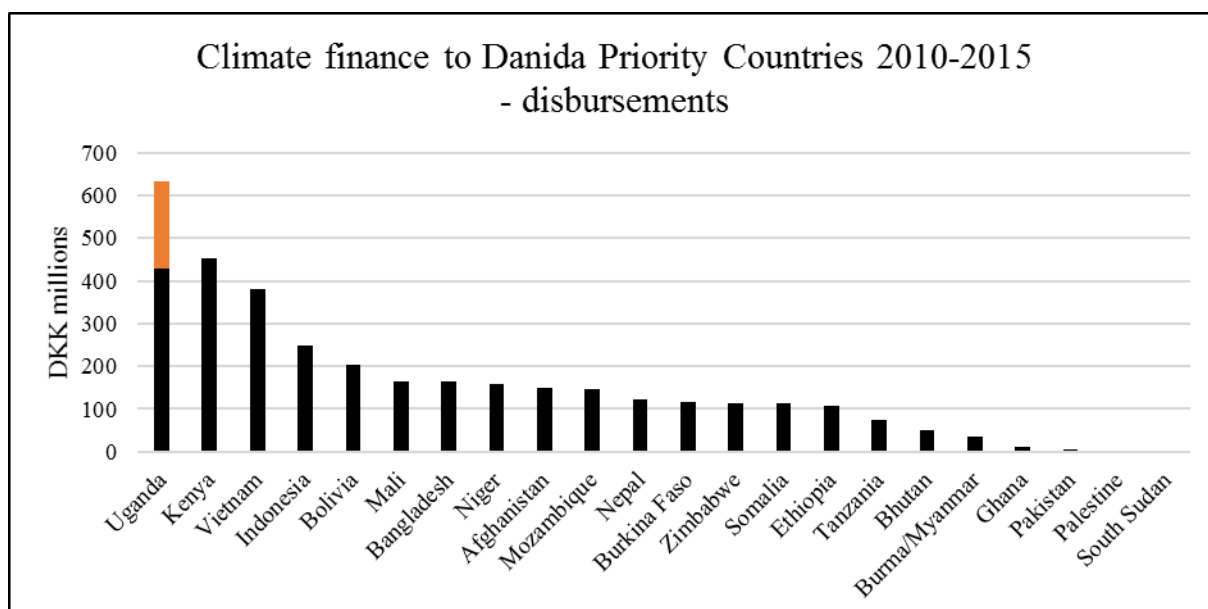


Figure 5.4-2: Danish climate finance disbursements 2010-2015 going to Danida priority countries. The part of the Uganda column marked with orange illustrated the Water and Sanitation programmes share of disbursements. The 48% of Danish climate finance that is “Unspecified” or going to non-priority countries has not been included in the figure. In addition, due to limitations in data, only the 89% of Danish climate finance reported in the CRS has been taken into account.

5.5. Distribution between Mitigation and Adaptation

Figure 5.5-1 below shows how Danish climate finance disbursements have been distributed between mitigation, adaptation and cross-cutting, based on reported Rio markers as described in Table 4.2-1. The support has, on average, spent 36% on mitigation, 9% on adaptation and 55% on cross-cutting projects (not including the figures on multilateral core funding).

These figures can be compared with the OECD 2015 report stating that mitigation activities remain a dominant share of worldwide bilateral climate-related ODA. On average development finance targeting 'adaptation only' was 29% in 2014-15. In comparison, finance allocated to 'mitigation only' was 49% and the share of activities addressing *both* adaptation and mitigation was 22%, the latter being significantly higher in the Danish climate finance (where ‘cross-cutting’ finance constitutes 55% of total climate finance).

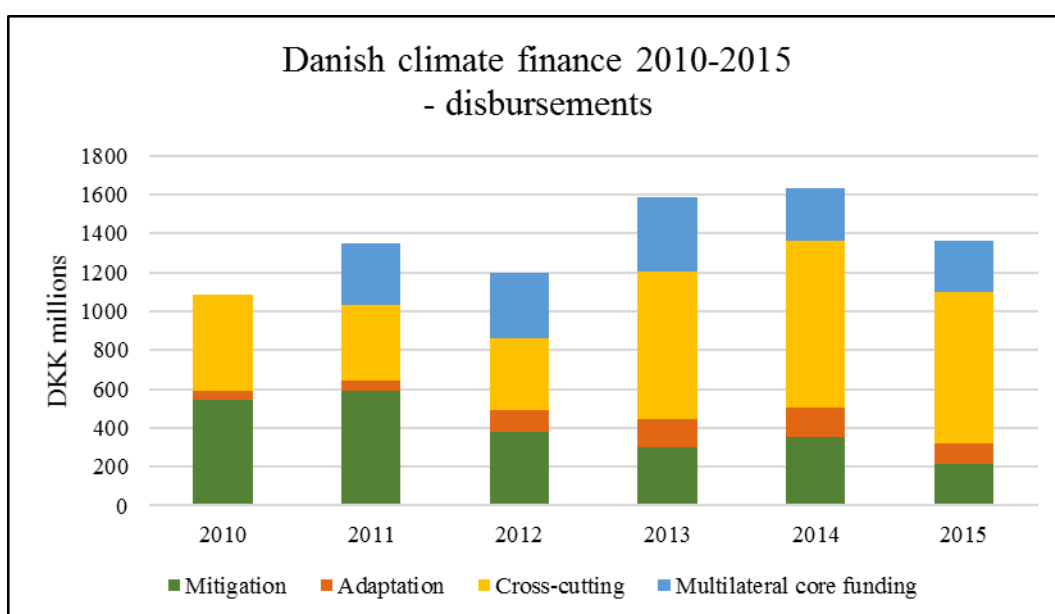


Figure 5.5-1: Disbursements of climate finance from Denmark between 2010 and 2015, based on calculated OECD-CRS data. Visual representation of the numbers found in Table 5.1-2.

As shown in the figure, support for adaptation has increased from 4% (2010 and 2011) to approx. 10% (2012 to 2015), while support for mitigation only has decreased from 50% in 2010 to 20% in 2015 respectively.

The tendency is for the support to increasingly be classified as ‘cross-cutting’. Cross-cutting projects increased from approx. 40% in 2010/2011 to 71% in 2015. This tendency makes it increasingly difficult to assess whether Danish climate finance is striking a good balance between adaptation and mitigation.

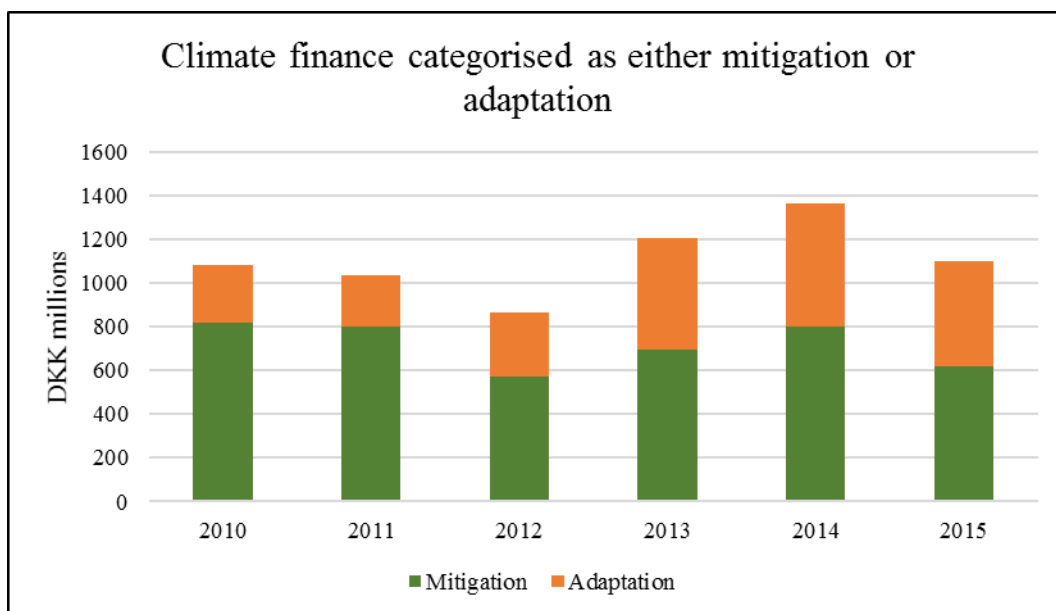


Figure 5.5-2: Disbursements of Danish climate finance 2010-2015, divided on only mitigation and adaptation. Only the 89% of disbursements reported with Rio markers in the CRS has been included.

The cross-cutting category can be split between mitigation and adaptation, as described in Table 4.2-1 (and chapter 4.2). The result is shown in figure 5.5-2 above (only includes the 89% reported in the CRS; the core funding to multilateral institutions has not been split)³⁴. Using this calculation method, adaptation increases from approx. 25% in 2010 to approx. 45% in 2015³⁵. It is hard to assess the accuracy of dividing up the cross-cutting category into mitigation and adaptation, since most of the cross-cutting projects are split 50-50 between the two categories, which is clearly a crude measure. This springs from the large number of projects categorised with Rio markers either 1-1 or 2-2, that is, the same score for both mitigation and adaptation, as indicated for 2015 projects in Table 4.2-1.

5.6. Project Database on Climate Finance 2014

In order to provide more detailed information on Danish climate finance, a database has been made (attached to this report as an Excel file) covering individual climate projects in 2014. The database includes project names and reference numbers, recipient country, Rio markers and disbursements according to OpenAid, OECD/CRS reporting and UNFCCC reporting. Since all database inputs come from the UNFCCC and CRS reporting, the database does *not* include information on core funding given to multilateral institutions.

³⁴ The majority of projects in the cross-cutting category are split 50-50 between mitigation and adaptation, but in total a slightly larger share of funds goes to mitigation, due to more projects featuring mitigation as a ‘principal’ objective and adaptation as a ‘significant’ objective than vice versa (see also Table 4.2-1).

³⁵ Projects scoring Rio marker 2 (Principal) in one category (either mitigation or adaptation) and Rio marker 1 (Significant) in the other have been split with 2/3 going to the principal category and 1/3 going to the significant category. Other approaches to splitting projects marked 2-1 or 1-2 have been tried, including giving the full amount to principal category and splitting them 50%-50%, but due to the small number of projects with this kind of scoring (see Table 4.2-1), this has a very slight effect on the total figures.

5.7. Examples of Projects included in Danish Climate Finance

To illustrate what type of ODA is included in Danish climate finance, this section presents examples of two sectors/types of projects, both of which contribute significantly to Danish climate finance. The types of projects are (1) large bilateral sector support for water and sanitation, and (2) framework agreements with Danish NGOs.

5.7.1. Water and Sanitation Sector

Danida has a considerable history of supporting water and sanitation, and several such programmes are being implemented in various Danida priority countries. These programmes also constitute a significant proportion of Danish climate finance (approx. 10% in 2014 and 2015)³⁶.

Table 5.7-1 below summarises the seven large programmes with disbursements in 2014 and 2015, including information on the amount of climate finance in each one of them. The percentage of the programme budget that is calculated as climate finance varies between the programmes depending on the Rio markers ascribed to different subparts in the CRS. Since a programme can be divided into different sub-programmes with different Rio marker scores, the percentage going to climate activities can vary between programmes. It is notable that, in some programmes, specific parts/components are *not* given any Rio markers for climate, which suggests that each component has been evaluated for its climate relevance.

As indicated by the level of climate finance, five of the programmes have a score of ‘significant’ (1) for the main part of their disbursements. Only Burkina Faso, where the majority of the disbursed funds are classified as ‘not relevant’ (0) to climate objectives, and Uganda, where all disbursements are rated as ‘principal’ (2), stand out. The Water and Sanitation Programme in Uganda constitutes a significant part of total climate finance to that country, as illustrated by the orange bar in Figure 5.4-2.

Considering the high overall percentage of the programmes that are reported as climate finance (47%), it is interesting that only two of the seven programme descriptions available in OpenAid mention climate change explicitly (Burkina Faso and Uganda), while another uses the term “sustainable management” (Niger). None of the programmes refer to climate change in their overall objectives, which were also found on OpenAid.

With the limited information currently available in OpenAid, it is hard to assess if the Rio markers used, and thus the indicated level of climate finance involved in these programmes, truly reflect activities on the ground. Nonetheless, it is certainly noticeable that a programme such as the one in Uganda is reported as 100% climate finance, when none of the overall objectives and only one of the six supported activities refers to climate change.

The high average level of climate finance that these programmes consist of (47%), the significant portion of total Danish climate finance that they represent, contrasted by the scant mention of climate change in the relevant documentation, suggests that the climate finance component of these programmes is *overstated* by at least DKK 69 million in 2014-2015. This would be the equivalent of changing the overall score of Uganda’s Water and Sanitation Programme from climate concerns being a ‘principal’ to merely being a ‘significant’ objective³⁷.

³⁶ It should be noted that the climate finance referred to here is the finance calculated on the basis of figures in CRS. Denmark has not yet reported climate finance to UNFCCC for 2015, and this figure might therefore change following later evaluations by the MFA.

³⁷ Again, it should be noted that reporting of climate finance to the UNFCCC for 2015 has yet to taken place, and the MFA might change the level of reported climate finance based on later evaluations of the programmes.

Country	Project name	MFA project no.	Rio marker classification	Disbursements 2014-2015 (DKK millions)	Climate finance 2014-2015 (DKK millions)	Climate finance %
Bangladesh	Support to Water Supply and Sanitation Sector, Phase III	104.Bangladesh.814-300-	Adaptation	108.58	54.29	50.0%
Burkina Faso	Appui au Secteur Eau et Assainissement	104.BKF.814-300	Mitigation	176.89	10.42	5.9%
Mali	Programme "Appui dano-suedois au PROSEA"	104.Mali.814-200	Mitigation	148.19	65.16	44.0%
Niger	Programme d'Appui au Secteur Eau, Hygiène et Assainissement au Niger/PASEHA2	104.Niger.814-200-X.NIM	Cross-cutting	94.44	47.14	49.9%
Uganda	Joint Water and Environment Sector Support Programme	104.Uganda.814.500	Cross-cutting	137.36	137.36	100.0%
Vietnam	Water and Sanitation programme support in Vietnam	104.Vietnam.814-300	Cross-cutting	18.28	9.14	50.0%
Zambia	Water Sector Support Programme, Phase II	104.Zambia.814-200	Cross-cutting	5.58	2.47	44.2%
Total				689.47	325.97	47.3%

Table 5.7-1: Large Danish bilateral support programmes in the Water and Sanitation sector in 2014 and 2015. The table shows total disbursements to each programme as well as the calculated amount of climate finance based on reporting of Rio markers in the CRS.

5.7.2. NGO Framework Agreements

Another aid modality that constitutes a considerable part of Danish climate finance is the framework agreements between Danida and various Danish NGOs. In 2014 and 2015, 17 Danish NGOs³⁸ received a total of DKK 1.59 billion through framework agreements. Disbursements for eight of the framework agreements (Caritas, Danmission³⁹, DanChurchAid, Oxfam IBIS, Save the Children, Sustainable Energy, Forests of the World, and World Wildlife Fund) were rated with Rio markers, and will presumably be included in Danish climate finance reporting for 2014 and 2015 (they were already included in the 2014 reporting in BR2). These eight framework agreements involve disbursements of DKK 358 million or approx. 12% of Danish climate finance for 2014 and 2015.

Most of the framework agreements were given the Rio marker 'significant' (meaning that 50% of the funds are counted as climate finance). Only Sustainable Energy was marked as 'principal' in 2015, counting 100% of this as mitigation finance.

³⁸ ADRA, CARE, Caritas, Danmission, Disabled People's Organisation Denmark, DanChurchAid, Ghana Friendship, Oxfam IBIS, ActionAid Denmark, Save the Children, Danish Red Cross, Danish Family Planning Association, 3F, The LO/FTF Council, Sustainable Energy, Forests of the World, and WWF.

³⁹ The funds disbursed to Caritas and Danmission are only included as climate finance in 2014. The disbursements to these two organisations in 2015 are *not* scored with Rio markers, and will presumably not be included in the 2015 climate finance reporting to the UNFCCC.

Six of the eight framework agreements included in the climate finance were scored as ‘cross-cutting’, with the last two (Sustainable Energy and World Wildlife Fund) counted as ‘mitigation’.

According to Danida⁴⁰, the NGOs whose framework grants were counted as climate finance are the ones whose general description provided to Danida included activities related to climate change. Nevertheless, to the consultant team Danida has expressed a wish to improve its understanding of NGO interventions to be able to produce more detailed information on the level of activities in different areas.

It is difficult to state to what degree the climate finance counted in the NGO agreements reflects actual climate-related projects funded by the framework grants. But considering the broad scope of activities conducted by the eight NGOs, an estimate of 50% climate-related activities appear to be an overstatement.

The examples of Danish water and sanitation programmes and NGO framework agreements suggest that Danish accounting of climate relevant activities in wider programmes and projects might be inadequate. The mechanical use of Rio markers to classify the spending on a crude scale of only three levels of climate relevance (0%, 50% or 100%) not only limits the precision of the accounting, but in some cases also tends to overestimate the total amount of climate finance.

***Recommendation 4:** Danida should consider methods to improve the precision of its accounting of Danish climate finance. This includes reassessing the exact proportion to be counted as climate finance in the funding of various aid modalities, such as water programmes and NGO framework agreements. Furthermore, Rio markers and the amount of climate-related finance should be on the agenda in the ongoing revision of AMG guidelines, which are expected to change the concept of NGO ‘framework agreements’ into ‘strategic partnerships’.*

5.8. General Conclusions on Danish Climate Finance

a) Using the methods described in Chapter 4 for calculating the amount of Danish climate finance, a number of conclusions can be drawn about Danish climate finance between 2010 and 2015. They are based on the information available from the Danish reporting to the OECD's CRS database. However, the crude scale of specific project/programme budgets being either 0%, 50% or 100% climate finance do *not* provide accurate data to underpin the total figures.

b) In the period between 2010 and 2015, Denmark disbursed, as an annual average, DKK 1.42 billion in climate finance, with slightly higher levels of commitments (DKK 1.55 billion). A large decrease in climate commitments can be observed in 2015 due to the new government making significant cuts in total Danish ODA as well as considerable expenditure on refugee reception in Denmark reported as ODA to the OECD (from DKK 650 million in 2011 to DKK 2.66 billion in 2015).

Nevertheless, even when taking out the spending on refugees⁴¹, climate finance commitments as a percentage of total ODA fell from 12-13% between 2012 and 2014 to only 7.4% in 2015 (a reduction in climate finance from DKK 1.6-1.9 billion between 2012 and 2014 to DKK 1.0 billion in 2015). The conclusion is that there has been a significant reduction in Danish climate finance in recent years.

c) The above figures are based on the OECD-DAC database, and are considerably lower than what Denmark has reported to the UNFCCC, due the OECD taking a different, more accurate, approach to calculating the climate relevant parts of core funding to multilateral institutions.

d) The Climate Envelope was, for some years, only a minor part of overall Danish climate finance, constituting 29% of committed funds on average. With the massive cuts in Danish ODA since 2015, the relative size of the Climate Envelope has increased to about 36% of total Danish climate finance in

⁴⁰ Information acquired from interviews and questions presented to Danida.

⁴¹ This only refers to the expenses identified as ‘Refugees in donor country’ in the CRS reporting.

2015 (although the Climate Envelope has, in absolute terms, been drastically reduced from DKK 475 to DKK 275 million per year).

e) The implementation of climate finance follows the same overall channels as general ODA, and in similar proportions, with bilateral partners receiving 35-40%, multilateral partners receiving 35-40%, and NGOs receiving less than 20% of climate finance.

f) A large share of Danish climate finance (on average 55% between 2010 and 2015) goes to Least Developed Countries. Of the funds going to LDCs, a significant part is allocated to adaptation (42%), significantly more than what is spent on adaptation in middle-income countries (only approx. 20%).

If all official Danish climate funds must be divided between two categories only, namely mitigation and adaptation, approximately 50% of Danish climate finance spent on 'cross-cutting' purposes, i.e. an unspecified mix of supporting both mitigation and adaptation, needs to be split between the two categories. If this is done evenly, as in the calculations presented in this report, it is possible to suggest that 65% is spent on mitigation and 35% on adaptation, though with the clear proviso that the all-important 'cross-cutting' category in many ways defies such narrow categorisation. Furthermore, the money might well provide higher value when it contributes to both mitigation and adaptation at the same time.

g) If we take a closer look at some of the individual projects that make up Danish climate finance, it is hard to understand the precise reasoning behind why some projects are assigned high levels of climate finance and others either low levels or no climate finance. As demonstrated with examples from the water sector and NGO framework agreements, the method used to define the proportion of climate finance in each project/programme budget is a somewhat crude estimate, which makes the aggregate data rather inaccurate. This primarily derives from the mechanical use of Rio markers to decide on the level of climate relevance, which has resulted in an overestimation of total Danish climate finance within the NGO and water sector. However, this study does *not* have sufficient samples or evidence in all sectors to conclude that there is a general overestimation of Danish climate finance in official reporting.

h) The Danish reporting of climate finance applies an overall methodology similar to what is used by many other donor countries, i.e. one based on the internationally agreed definitions and methodology from the UNFCCC and the OECD. In general, the Danish reporting is transparent with access to detailed data on project and programme levels. A general conclusion of this study is that most of the challenges identified in the accounting of Danish climate finance spring from weaknesses in the UNFCCC methodology, which are described further in the next chapter.

6. DANISH CLIMATE ACCOUNTING PRACTICE FROM AN INTERNATIONAL PERSPECTIVE

In this chapter, the team summarises observations about the current international practice as applied in reports from the OECD, the Climate Policy Initiative and AdaptationWatch.⁴² Many of the aspects of Danish reporting practice analysed in previous chapters are related to constraints and weaknesses in the international reporting system on climate finance.

The chapter points to a need for the UNFCCC to adopt clear and well-defined climate finance accounting modalities (determining what counts as climate finance, how to count it, etc.).

6.1 List of International Constraints

6.1.1. Lack of Standardised Reporting

Reporting on climate finance under the UNFCCC has developed in recent years, particularly for Annex II Parties, since the Biennial Reports (BR) were submitted for the first time in January 2014. However, the existing reporting guidelines and Common Tabular Format (CTF) developed in 2012 provide *no* internationally-agreed definitions or methodology for basic financial reporting, or for the term 'climate-specific' finance. Parties are required to explain in their reports how this is defined and describe their approach to tracking financial support, including how much is 'new and additional' funds. The lack of common standards hinders consistent reporting and comparison. Reviews of the Biennial Reports have shown that the guidelines leave room for interpretation and for a range of reporting approaches.

This has led to self-made approaches, where donor countries get to decide what they count as climate finance. This trend is observable in their Second Biennial Reports, which were to be submitted to the UNFCCC Secretariat in January 2016. For example, some developed countries, like Australia or Denmark, provided climate finance exclusively in the form of grants, while other countries mainly provided their climate finance through loans, guarantees, equity and export credits.

There seems to be some degree of political interest in the way in which these numbers are calculated. Accordingly, it is difficult to reach an internationally agreed standard for reporting. At the COP22 in Morocco, the UNFCCC Standing Committee on Finance (SCF) presented the second 'Biennial Assessment and Overview of Climate Finance Flows' drawn up by the SCF. One of its sections presents challenges that were "*encountered in collecting, aggregating and analysing information from diverse sources. The limited clarity with regards to the use of different definition of climate finance limits comparability of data.*" (p. 1).

According to the SCF, further improvements in reporting guidelines and formats are needed to enhance the transparency of the approaches used by individual Parties and to enable greater comparability across reporting by different Parties. Therefore, the SCF is recommending that developed countries:

- a) Provide additional information on their underlying definitions, methodologies and assumptions used, including how they have identified finance as being 'climate-specific', while making these data more accessible to the public and recipient Parties, thereby enhancing consistency and transparency.

⁴² 2016 Adaptation Finance Transparency Gap Report. Published by AdaptationWatch partners, among them the Stockholm Environment Institute, Oxford Climate Policy (UK), Brown University's Climate and Development Lab (USA), International Centre for Climate Change and Development (Bangladesh) and Pan African Climate Justice Alliance (Kenya).

- b) Improve guidance on application of the Rio markers for adaptation and mitigation and adjust the Rio markers' definition of adaptation.

6.1.2. Weaknesses of Rio Markers

Donors reporting to the OECD-DAC's Creditor Reporting System (CRS) seems to be the most reliable source of comparable data on the OECD countries' development assistance today. The limitation stems from the use of the Rio markers methodology, which was *not* originally designed to monitor financial pledges, but was intended to produce descriptive data to track the mainstreaming of Rio Conventions considerations into development cooperation practices. The Rio markers system conveys qualitative rather than quantitative information. This is problematic, since nowadays the demand for reliable quantitative data is great. In general, there is *no* international consensus as to what the best accounting practices are, and accounting systems vary widely from one country to another.

In its 2012 Development Co-operation Report, the OECD highlights two of the main weaknesses of the Rio markers methodology in this regard: (i) *"the Rio markers do not allow the identification of 'new and additional resources' as stipulated in the conventions"*; and (ii) *"[... if] the marker data are quite well-suited for describing individual donors various activities [...], a problem arises from the moment donor reports are summarized and compared to one another, or when the data are used for pledge-monitoring purposes."*

Given the many problems associated with using Rio markers data for their financial reporting to the UNFCCC, some donors have modified the methodology for their own reporting. The result of this is a variety of poorly harmonised monitoring and reporting practices, and a serious lack of transparency. This is demonstrated in table 2 in the OECD-CPI report (October 2015), which shows how practices differ between Annex II Parties regarding a number of important accounting and reporting parameters.

6.1.3. 'Coefficients' to Mark the Level of Climate Finance in a Proportional Way

Transparency has already been boosted considerably over the past few years, but more headway can be made if a harmonised 'reduction factor' is applied when transforming the Rio markers into quantified information for the Biennial Reports. A minimum requirement for improving transparency is to make countries transparent about the reduction factors used by their agencies. A harmonised 'reduction factor' refers to a consensus on the approach to calculating different types of climate finance, e.g. by agreed-upon percentage levels used for Rio markers.

The volume of finance associated with the Rio markers is often scaled down by using 'coefficients' to mark the level of climate finance – reflecting that these activities have other principal objectives. These coefficients differ across DAC members and range from 0 to 100 per cent. As the OECD itself acknowledges, *"there is no common reporting standard and to date there has been limited transparency regarding these practices"* (p. 35 in OECD-CPI report).

Comment about Danish practice: Denmark scales projects with climate matters being a 'significant' objective as 50%, i.e. half their total budget counts as climate finance, and 100% when climate matters are a 'principal' objective. Danida could consider using a 'range of coefficients' as Finland and Belgium (instead of only the three possibilities: 0%, 50%, 100%). A further development of this, could be to assess coefficients for the mitigation and adaptation component of each project individually (assigning separate scores for each and making sure *not* to double count). This would improve the assessments and eliminate the need for using the cross-cutting category.

Recommendation 5: *Danida should make individual assessments of projects by using a 'range of coefficients' (0-100%) to indicate the degree of climate finance in each project/programme. It could also be considered to assign coefficients for both adaptation and mitigation individually, which would reduce the use of the 'cross-cutting' category, which is diluting the value of information about the distribution between spending on adaption and on mitigation.*

Recommendation 6: *Danida should explore the possibilities of using the ‘Imputed multilateral contributions’ method for calculating the climate finance component in core funding given to multilateral institutions when reporting to the UNFCCC. This would improve the accuracy of the reporting and of data on Danish climate finance donated to third parties.*

6.1.4. Possible ‘Over-reporting’ of Climate Finance

Governments are under pressure to show that they are taking action on climate change, and this fairly lax system has allowed such pressure to result in ‘over-reporting’ of climate finance. This problem has also been evident in studies conducted by Oxfam, GermanWatch and Brown University’s Climate and Development Lab, each of which showed major over-reporting. The entire system relies exclusively on self-categorization, and there is *no* process for recipient countries or watchdog groups to dispute how projects are counted.

Several countries count 100% of the overall costs of projects marked with a ‘significant’ and a ‘principal’ adaptation objective. This is a problem, when figures are compared between different countries, some of which apply stricter and others more lenient criteria for making project spending eligible as climate-specific.

The UNFCCC Standing Committee on Finance recently observed that, “*There is scope for interpretation in how the markers are applied. This provides flexibility, but can lead to non-comparable data submissions from donors*” (UNFCCC SCF 2014a).

Comment about Danish practice: In Chapter 5, it was suggested that Danida reassess the share counted as climate finance in its support for water programmes, Danish NGO framework agreements and possibly in other areas.

6.1.5. Staff making categorisation

Another flaw of the Rio markers system is that different OECD member countries have been using different types of staff, in a variety of positions and applying disparate methods to categorize projects. For example, some member states have assigned project managers or regional or country directors out in the field to complete that part of their contributions to the OECD DAC database. Others have ordered someone in the central aid agency or foreign affairs ministry in the nation’s capital to do so, while yet others have drawn upon a mix of staff categories, especially when project or regional managers sent in reports with incomplete data. Most have some centralised staff or an office to check and clean the data, and some call in experts to help. These problems lie not directly with the OECD’s system of categorization, but with the differing ways in which it is interpreted and carried out in individual OECD countries.

Comment about Danish practice: As suggested in Chapter 3, it would be an advantage to include the Rio markers in the Aid Management Guidelines and the screening note, since that would benefit from the insights of embassy staff and consultants involved in the planning of each new programme.

6.2. Recommendations

The analysis in this and in the previous chapter has led the consultant team to propose that the Danish MFA draw up a **strategy** for Danish climate finance, which could serve to substantiate a dialogue between the Danish government, Danish NGOs and the private sector about the levels, use and accounting of Danish climate finance.

Recommendation 7: *The Danish government should adopt a **strategy** for Danish climate finance, including principles and rules for allocations, accounting and reporting, based on the commitments made in UNFCCC.*

The Danish 92 Group’s sub-group on climate and development finance is primarily tasked with discussing and fostering NGO cooperation about climate finance and its accounting. The group

collaborates internationally with the Climate Action Network (CAN), and has influenced the Danish government on climate finance for several years. Members of the group also work through their own international alliances, such as ACT Alliance (DCA), Oxfam (Oxfam Ibis) and CARE international (CARE Denmark).

Below are a number of recommendations for continued work within the Danish NGOs, including in the Danish 92 Group:

Recommendation 8: *The Danish NGOs should focus more on the large share of Danish climate finance that is not part of the Danish Climate Envelope. Furthermore, the Danish NGOs should engage with the Danish government on how to quantitatively assess the climate-specific part of various types of programmes and other aid modalities, including bilateral sector programmes, NGO framework agreements and core funding to multilateral institutions.*

As described above, several international actors, including AdaptationWatch and the UNFCCC Standing Committee on Finance, have identified weaknesses in climate finance accounting, and specifically in the use of Rio markers as a basis for identifying climate-specific ODA. The consultant team agrees with the strong analysis and well-founded conclusions in the report from AdaptationWatch, and has identified many of the same weaknesses in Danish climate finance accounting.

Recommendation 9: *The Danish NGOs should, through their work in CAN, ACT Alliance, CARE, Oxfam, and other worldwide alliances, continue to promote improved climate finance accounting practices. Among other sources, the Adaptation Watch 2015 and 2016 reports provide valuable analysis and recommendations for new climate finance accounting modalities to be agreed at COP 23 in 2018.*

Recommendation 10: *Danish NGOs should promote studies similar to this one, which can be carried out by CAN members in other countries, including Norway and Sweden, in order to get a more detailed picture of differences in climate finance and accounting practices between countries.*

7. REPORTING ON PRIVATE CLIMATE FINANCE

Developed country officials often state that most climate finance will have to come from private sources. However, there is no agreement under the UNFCCC on what should count as ‘private finance’ raised towards meeting the USD 100 billion goal. So far, most developed countries have *not* reported on private climate finance to the UNFCCC Secretariat.

The OECD secretariat is currently undertaking major research efforts to track private climate finance, which is necessary as the developed Parties are increasingly planning to rely on private climate finance.

In its 2015 report⁴³, the OECD makes the preliminary estimate that USD 14.7 billion was mobilised as private finance per year (average estimate for 2013-14), which is equivalent to 26% of total climate finance from developed countries. This is the figure for how much private finance it has been possible to mobilise by means of public finance (based on ‘co-financing’, i.e. directly associated with public finance instruments).⁴⁴ According to the OECD, the extent to which mobilisation of private finance happens depends on many factors, including enabling conditions and sector-specific policies in the recipient country, the institution providing the finance, the type of instrument, and the purpose for which public finance is being made available.

At the COP22 in Morocco, the Standing Committee on Finance (SCF) presented its second Biennial Assessment and Overview of Climate Finance Flows. As noted by UNFCCC Executive Secretary, Patricia Espinosa: *"Much has happened in 2015 and 2016 including shifts in investments by banks and pension funds – things that we had not seen before – up to commitments by companies and pledges made before and at Paris by developed nations to, for example, the Green Climate Fund."*

7.1. Accounting for Private Danish Climate Finance

The OECD-DAC statistical system is making efforts towards developing instrument-specific methodologies and collecting data on amounts mobilised from the private sector by bilateral and multilateral official development finance interventions. Denmark is part of a group of 19 bilateral climate finance providers, which is supporting the OECD-hosted Research Collaborative on Tracking Private Climate Finance. Examples of key decisions include defining public and private finance, scoping private finance accounting boundaries, assessing causality (between public interventions and private finance) and deciding on an attribution method (when multiple public actors are involved).

During 2017, OECD will be collecting 2016 data, where the Rio markers are also applied to private amounts mobilised. In Denmark, the Danish Investment Fund for Developing Countries (IFU) submits an annual report to Danida, which informs the OECD. IFU has *not* yet calculated the figures for 2016.

For 2015, IFU has developed a pilot test report, showing that, based on current commitments, a total of approx. **DKK 1.3 billion** is expected to be mobilised in private capital for climate projects, of which the lion’s share has been raised through contributions to the Climate Investment Fund’s (KIF) projects. See table 7.1-2 at the end of the chapter.

This significant level corresponds well with the Nordic governments’ declaration made during COP21, calling for promotion of private climate investments in developing countries. The declaration was also signed by pension funds (PKA, PBU, ATP and PensionDanmark), IFU and Denmark’s Export Credit Agency (EKF).

⁴³ The report *"Climate Finance in 2013-14 and the USD 100 billion goal"*, which the OECD prepared in collaboration with Climate Policy Initiative (October 2015).

⁴⁴ OECD has only included export credits (accounts for 3% of total climate finance) that relate to renewable energy generation in developing countries. Apart from this sector, it is *not* currently possible to identify what is climate-related, given that there are no climate markers or definitions within the database for export credits.

According to Niels Gravgaard Laursen, CFO in IFU, OECD / DAC's current system requires IFU's share of the annual development assistance to be calculated as actual payments (cash flow) to and from the investment projects in respect of share capital and equity-like investments. Furthermore, it includes a share of IFU's administrative expenditure. The amount of DKK 1.3 billion for 2015 has been calculated based on the time of IFU/KIF declaring their commitments, thus expressing the level expected after the investments have been carried out.

Denmark has concrete experiences of public-private partnership from the Danish Climate Investment Fund (KIF), which is managed by IFU. KIF can invest in all countries on OECD's DAC list, offering venture capital and advice to climate investors. The fund has procured EUR 174 million of public and private funds. The public funds have been provided by the Danish government and the IFU, while Danish pension funds have contributed the major part (EUR 104 million). The fund provides part of its project finance by partnering up with private co-investors, who must contribute the bulk of funds. It is estimated that the fund will generate total investments of EUR 1-1.2 billion.

The largest investment project so far is the Lake Turkana wind farm, which is Kenya's largest private investment to date, due to provide as much as 17% of Kenya's annual energy needs. Here KIF's investment of DKK 88 million contributes to mobilise a total investment of about DKK 5.1 billion, of which approximately 1 billion is private capital, spent on installing 367 Vestas wind turbine generators, each producing 850kW.

In its efforts to realise this vast combined investment, IFU has cooperated with a range of other institutions of development finance. In view of the OECD's methodology thus far, the mobilisation of finance for this project will have to be widely shared. At the latest count of commitments, about DKK 1 billion was expected to be raised from private investors.

7.2. Affecting the Balance between Adaptation and Mitigation

The DKK 1.3 billion estimated to have been raised as climate finance from private sources is approximately the same amount as what was calculated as Danish climate finance disbursements from ODA in 2015 (DKK 1.36 billion, table 5.1-2). It should be highlighted that private climate finance is technically counted as disbursements according to OECD/DAC rules, even though the money is mostly provided as a loan or as equity that has to be paid back with interest or dividends. This type of finance is therefore very different from normal grant aid.

Considering the types of investment known from KIF/IFU, it can be assumed that most privately mobilised climate finance will go to projects focused on mitigation. Table 7.1-1 shows the changes in the 2015 climate finance figures, if privately mobilised funds are added to ODA and it is assumed that all went to mitigation projects. This translates into a significant change in the distribution between mitigation and adaptation spending, from 44% of official climate finance to only 20% of total Danish climate finance being spent on adaptation in 2015.

Private climate financing is often provided in the form of loans or equity to profitable projects run by companies. However, adaptation measures tend to pertain to areas that rarely offer favourable business conditions. This puts more pressure on the Danish government to increase the use of development aid for adaptation projects in LDCs.

***Recommendation 11:** Danish NGOs should continue a dialogue aimed at getting the Danish government to increase its future public and private climate finance commitments/disbursements, in particular to be spent on adaptation projects.*

Danish climate finance 2015	Total funds (DKK millions)	Mitigation share	Adaptation share
ODA only (without core funding to multilateral institutions)	1,100	56%	44%
Privately mobilised	1,300	100% (assumed)	-
TOTAL ODA + privately mobilised	2,400	80%	20%

Table 7.1-1: Breakdown of Danish climate finance disbursements in 2015 by mitigation and adaptation. The distribution of ODA between mitigation and adaptation is based on same method as in figure 5.5-2. It is assumed that 100% of privately mobilised funds are for mitigation.

Table 7.1-2: An overview of spending of the DKK 1.3 billion as reported by IFU to the OECD. When zero self-financing has been reported for the four investments channelled through KIF (called DCIF in the spreadsheet), this is because the capital, including the private capital, from the fund itself was invested in 2014, and has hence not been included again in 2015 (to avoid double counting).

DIRECT INVESTMENT IN COMPANIES														
Please note that amounts are considered mobilised at the time of the private investment in a company only in the first <u>two</u> years after the investment of your institution in a company														
Amounts are in thousands														
General Information														
Reporting year	Reporting country/organisation	Extending agency	Project number	Beneficiary country	Project title	Commitment date DD-MM-YYYY	Type of leveraging mechanism and role/position	Currency	Commitment	Amount mobilised from the private partner	Origin of funds mobilised	Purpose code	Climate change mitigation: Rio marker or component	Climate change adaptation: Rio marker or component
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
2015	Denmark	IFU	12937	China	Fiberline China	08-12-2015	7-Direct investment in companies, Equity	DKK	2800	5.322	1-Provider country	23240 - Wind	1=Significant contribution	0=Not targeted
2015	Denmark	IFU	12937	China	Fiberline China	08-12-2015	8-Direct investment in companies, Mezzanine or Senior Debt	DKK	5300	2.588	1-Provider country	23240 - Wind	1=Significant contribution	0=Not targeted
2015	Denmark	IFU	13233	India	LM Windpower Blades India	25-09-2015	8-Direct investment in companies, Mezzanine or Senior Debt	DKK	52200	127.000	1-Provider country	23240 - Wind	2=Principal contribution	0=Not targeted
2015	Denmark	DCIF	14438	Malaysia	DEEP	18-06-2015	7-Direct investment in companies, Equity	DKK	0	11.904	1-Provider country	23110 - Energy	2=Principal contribution	0=Not targeted
2015	Denmark	DCIF	14784	Chile	Parque Solar Sol/Luna del No	16-04-2015	7-Direct investment in companies, Equity	DKK	0	51.800	1-Provider country	23230 - Solar	2=Principal contribution	0=Not targeted
2015	Denmark	DCIF	14824	Chile	Pampa Elvira Solar SPA	22-07-2015	7-Direct investment in companies, Equity	DKK	0	126.500	1-Provider country	23230 - Solar	2=Principal contribution	0=Not targeted
2015	Denmark	DCIF	14945	Chile	Solar South Investment	21-10-2015	7-Direct investment in companies, Equity	DKK	0	972.100	1-Provider country	23230 - Solar	2=Principal contribution	0=Not targeted