Mainstreaming climate change into Danish development cooperation: Shifting towards green growth

Introduction

Development cooperation provides an important means of reducing climate risks in developing countries. It is therefore crucial to ensure that aid-funded projects and programmes be designed with full consideration of climate risks, so that they are robust to future climate changes and reduce both vulnerability, and greenhouse gas emissions.

Danish development policy has paid increasing attention to climate issues. Initially covered under "environmental" aid, climate change has become a political priority, especially since the early 2000s. In 2007, after agreeing to host the 15th UN Climate Change Conference in Copenhagen in 2009, Denmark made climate finance a pillar of its official development assistance. It also made a commitment to "climate-proofing" its ODA through a strategic framework for mainstreaming.

But what does this mean in practice? This policy brief, the second from a NORD-STAR project on mainstreaming climate change in Nordic countries' development cooperation explores this question.

Danish ODA priorities

Danish development assistance is overseen by the Ministry of Foreign Affairs, which coordinates policy-making through consultation with stakeholders such as the Parliament, embassies, multilateral organizations, partner countries and non-governmental organizations. Within the Ministry, bilateral and multilateral aid is planned and managed through the Danish aid agency Danida.

The central principle of Danish development assistance, as laid down in the 2011 *International Development Cooperation Act*, is to fight poverty and promote human rights, democracy, sustainable development, peace and stability

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Danida and partners are funding a programme to improve smallholder access to agricultural inputs in Zimbabwe.

Key findings

- Denmark has embedded climate change in its development activities through several policies, most notably the 2005 Climate and Development Action Programme. With a strong policy framework in place, the challenge now is integration in practice. The Ministry of Foreign Affairs has relevant expertise, but its capacity is limited and shrinking.
- The Danish government's latest development strategy paper emphasizes green growth and the need to create a business- and investment-friendly environment to support private-sector participation. This is reinforced by the integration of development cooperation with foreign policy, trade and security. These changes could favour mitigation activities at the expense of adaptation, where private-sector involvement is far less common.
- Funding pledges to climate change have steadily increased over the last few years, amounting to DKK 1.7 billion (~$255 million[1]) in 2010–2013. Although the Danish government has argued that these pledges are additional to existing official development assistance (ODA), Denmark's budget freeze in 2011–2013 raised concerns that other development activities were affected. There is still some ambiguity in Denmark's application of the concept of "new and additional" finance.

(Government of Denmark 2011). This message is reaffirmed in the government's main strategy paper, *The Right to a Better Life*. The paper identifies four interconnected priorities: human rights and democracy; green growth; social progress; and stability and protection (Government of Denmark 2012). To increase the predictability of aid, the Danish government releases an annual policy paper outlining its strategic policy priorities and budget for the next five years.

The Danish strategy calls for a shift from a short-term resource race to a long-term and sustainable resource cycle. It also highlights the growing role of new public and private actors in developing countries, and the challenges that arise when these actors value access to natural resources and trade over sustainable development.

The strategy paper addresses climate change under the heading of "green growth", and adopts a business- and investment-friendly approach: "Green growth should catalyse investments, innovation and job creation – both in Denmark and in recipient countries – which not only sustain continued growth, but also give rise to new economic opportunities" (Government of Denmark 2012, p.17). This approach was reinforced through the integration of develop-

1 The conversion rate used is US$1 = 6.65 DKK, the rate on 23 January 2015.

Table 1: Danish ODA over time

Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2012	2013
ODA (million USD)	1,748	2,037	2,109	2,236	2,562	2,803	2,810	2,871	2,931	2,718	2,693	2,927
% of GNI	0.84	0.85	0.81	0.8	0.81	0.82	0.88	0.91	0.85	0.84	0.85	0.84

Source: OECD (2013)

ment cooperation with other core areas for the MFA, such as foreign policy, trade and security, along with a newly designated post of Minister for Trade and Development Cooperation (OECD 2011).

Development aid enjoys widespread public support in Denmark. Denmark has consistently met the UN ODA target of 0.7% of gross national income (GNI) and has committed to keep its contribution above 0.8% (Table 1). In 2012, the aid budget was US$2.7 billion, with Tanzania, Ghana and Mozambique as the main recipients (OECD 2013).[2]

The majority of Danish aid (around 75% in 2011–2012) is bilateral assistance, focused on long-term partnerships with 22 countries. These partners have been selected on the basis of flexible criteria, including development needs, relevance, impacts and results, taking into account Danish interests (Government of Denmark 2010). Danish aid is divided between least-developed countries (LDCs) and other developing countries, with more than half of ODA allocated to LDCs.

ODA disbursed through multilateral channels makes up about 25% of the budget and consists of contributions to UN agencies, the European Union, the World Bank, and regional development banks. For each organization, strategies are prepared outlining the Danish government's objectives (Government of Denmark 2013).

What is climate change mainstreaming?

The idea of mainstreaming climate change in ODA has been widely embraced but is contested. A key concern for developing countries is that rather than providing climate finance that is "new and additional", as stipulated under the United Nations Framework Convention on Climate Change (UNFCCC), donor countries will divert funds from other development activities.

To the extent that mainstreaming blurs the lines between climate finance and ODA, it could also make it more difficult to hold donor countries accountable for meeting their commitments on either front. Yet given the major role of development in reducing (or potentially increasing) climate risks, failing to mainstream would also be counterproductive. For donor countries, resolving this dilemma involves choices on two levels: policy design and funding.

On the design side, a country may choose to screen specific types of development interventions – e.g. in long-lived infrastructure – to ensure they are robust to future climate risks. Screening can be a first step in internalizing climate concerns in ODA, similar to how gender equality or environmental sustainability are often integrated into ODA. From this perspective, good development and reducing climate risks are seen as going hand in hand. Other design options include creating and applying specific tools and procedures to ensure that development officers take climate risks into account in their daily practice.

Funding choices can be more challenging: Should climate change mitigation and adaptation be financed via existing ODA budgets, or through separate programmes and budgets? If the former, should existing ODA budgets be scaled up by the full amount allocated to climate finance? And if a project serves both climate and development purposes, how much of its budget should be recorded as "climate finance"? Separate budgets make it easier to distinguish climate finance from ODA, and can enhance the visibility of a donor country's contribution to climate finance. But there is a significant trade-off, as this may artificially separate two goals that are closely intertwined.

Both types of choices are important, but one is far more politically charged than the other. Design choices are made mostly at the operational level and tend not to be very controversial, focusing on technocratic issues such as the merits of different approaches, and assigning responsibilities. Funding choices, by contrast, directly relate to international policy debates on climate finance and ODA, and can be more contentious.

Danish ODA and climate change mainstreaming

Design choices

Denmark began mainstreaming climate in its ODA with the *Climate and Development Action Programme* (Government of Denmark 2005), drafted in response to a 2004 EU action plan. For bilateral cooperation, embassies in programme countries were tasked with including climate issues in the development of country strategies. They could apply climate screening tools, undertake vulnerability assessments, and pursue mitigation options.

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Danida has sponsored a health-focused community development programme in Tsangano, in rural northern Mozambique.

2 Note that here and in Table 1, US$ figures are taken directly from OECD (2013), not converted from DKK.

Embassies also became responsible for incorporating climate change in existing and planned sector programmes. However, climate expertise at the embassies was not expanded accordingly. This was not a problem unique to climate-related aid: evaluations of Denmark's decentralization of ODA have highlighted the need for a different set of competences at the embassies, as well as sufficient staffing. The politicization of aid in the government is another concern cited (Engberg-Pedersen 2014).

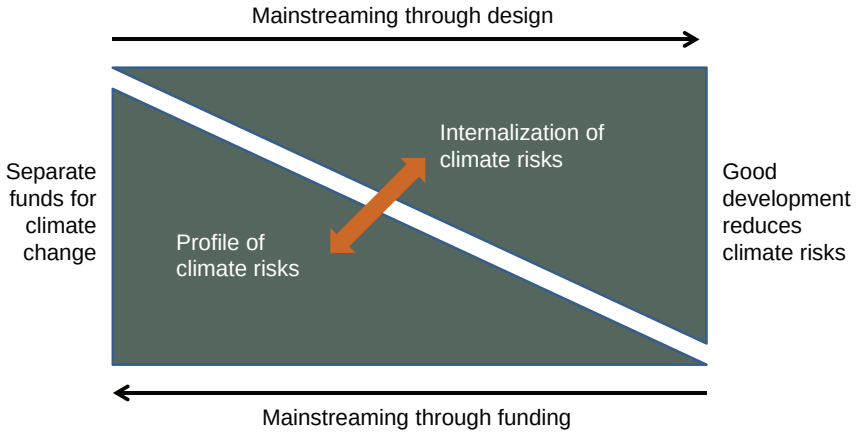

Figure 1: Mainstreaming choices for donors.

As a follow up to the implementation of the 2005 Danish Climate and Development Action Programme, Danida launched an environmental screening process for ODA investments above 35 million DKK (US$5.5 million). If the screening note shows the activities are climate-related, a separate climate change and green growth screening note needs to be written. The system provides a basic checklist to help Danida officials identify relevant climate change and green growth policies, as well as the risks and opportunities for the programme.

In addition, Danida prepared overall climate change screening reports for 17 partner countries in 2005–2008, covering the countries' (and individual sectors') vulnerability to climate impacts, mitigation opportunities, and existing and planned policies. The reports also identify possible risks for Danish aid activities.

The first three reports focused on identifying and designing climate-related projects, but later reports aimed at a comprehensive climate screening of sector programmes. They showed that the Danida portfolio was not directly at risk from climate impacts, but that there was a strong case for addressing climate change in the design of new programmes through climate-proofing. The reports also stressed that mainstreaming tools should be simple and easy to use for development professionals, and that risks should be communicated to stakeholders in partner countries in concrete, understandable terms. The Danish government allocated 5 million DKK (~$0.75 million) to implement the reports' recommendations. This funding led to new climate-related projects, reflecting a political need to allocate new and additional resources to projects labelled as climate-relevant.

Funding choices

Danish climate finance is part of its ODA. The policy priority assigned to climate change has resulted in increased funding pledges (Table 2). The Danish Climate Envelope is divided into two parts. The first part is the responsibility of Danida and is specifically tied to poverty alleviation (the "poverty frame"); it covers primarily adaptation activities in low-income countries. The other part (the "global frame") is managed by the Danish Ministry of Climate, Energy and Building. It mainly funds mitigation activities in emerging economies, where the cost of emission reductions is lower than in low-income countries. In addition, there are activities that are jointly financed under both the poverty and global frames, including 100 million DKK (US$67 million) that Denmark pledged to the Green Climate Fund in September 2014.

Table 2. Danish climate-related ODA

Year	2009	2010	2011	2012	2013
DKK (million)	200	300	400	500	500
USD (million)	29.9	44.8	59.8	74.8	74.8

Still, it remains unclear precisely what should count as a climate-related activity under Danish development aid. The Climate Envelope takes the widely used "Rio Markers" developed by the Organisation for Economic Co-operation and Development (OECD) as a guide, but the Rio Markers are open to different interpretations (Wingqvist et al. 2011). Aside from climate-specific finance, Danida's ODA budget for the more generic "environment" sector amounted to 150 million DKK (US$22 million) in 2011 and 122.5 million DKK (US$18 million) in 2012, accounting for 8.1% and 7.3%, respectively, of the total bilateral budget (Government of Denmark 2013a). However, these amounts do not include ODA specifically targeting sectors relevant for climate change, such as agriculture, forestry, fisheries and energy.

The Danish government has argued that the amounts for 2009 and 2010 are "new and additional" in the context of the UNFCCC, as they did not affect allocations to other ODA sectors. As there is currently no agreed-upon definition of "new and additional", it is difficult to distinguish how much climate-related aid was delivered, and how much of this counts as climate finance. However, the OECD (2011) has noted that given Denmark's budget freeze in 2011–2013, other development activities might be affected, and welcomed further clarification on how Denmark perceives additionality. Indeed, Table 1 indicates that despite the increase in climate activities, the share of GNI that Denmark has allocated to ODA overall has remained the same.

Climate mainstreaming within Danida has hitherto mostly focused on adaptation, whereas mitigation was primarily the domain of the Ministry of Climate, Energy and Building. With the MFA's new Green Growth Strategy, this is starting to change. Under the strategy, two frameworks for "natural resources, energy and climate" and "growth and employment" (Government of Denmark 2011; 2013b) have adopted to pursue greener growth pathways.

These frameworks will provide the main context for mainstreaming the environment in Danish development coop-

Policy considerations

- Denmark has taken ambitious steps to mainstream climate change activities into development cooperation are, such as by requiring climate change and green growth screening notes for ODA. But to realize the full benefits of these policies, Denmark needs to ensure that development officials – including in the embassies – have sufficient technical support to understand and act upon the opportunities and risks presented by climate change.
- The decentralization of the management of bilateral aid from Danida to the embassies in partner countries has helped raise the profile of climate change in developing countries. However, the delegation of responsibilities as well as the political context of aid management may undermine mainstreaming efforts. The implementation of activities needs to be followed up, including identification of possible capacity gaps within implementing institutions.
- The stronger focus on mitigation activities and private sector-driven growth in Denmark's new Green Growth Strategy could open up new pathways to poverty alleviation, but care needs to be taken to ensure that it does not detract from Danida's successful work on adaptation.
- Denmark's climate finance contribution for 2009 and 2010 is claimed to be "new and additional". However, the overall ODA contribution from Denmark has remained the same, in spite of increasing amounts of climate finance. This calls for greater transparency as to how and why Denmark meets the criterion of "new and additional" climate finance.

eration. This means that the allocation of Danish ODA will reflect a balance between mitigation and adaptation in developing countries through a focus on integrating climate change concerns into national strategies and local development and planning processes. One new criterion for "success" under the Green Growth Strategy will be specifically related to the accounting of emission reductions.

The Green Growth Strategy also includes a focus on private sector-driven growth and job creation to reduce poverty. It encourages the private sector to help develop innovative solutions and aims to mobilize private finance, including through a new Danish Climate Investment Fund.

So far, about 1.3 billion DKK (US$195 million) of public and private finance has been committed to the fund: 525 million DKK (US$79 million) have been provided by the public sector, and 774 million DKK (US$116 million) from institutional investors. The fund will invest in projects to reduce greenhouse gas emissions, as well as in projects that promote the transfer of Danish technologies to developing countries and emerging markets.

The shift towards emphasising emission reductions and the role of private sector in Danish ODA has been celebrated by Danida as a framework for success in achieving green growth. However, Danish NGOs have raised the question of whether the increased emphasis on mainstreaming mitigation activities will come at the expense of Danida's work on adaptation.

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