Norwegian submission on strategies and approaches for scaling up climate finance

4 November 2016

1. Introduction

Decision 3. CP/19 requested developed country Parties to update their strategies and approaches for scaling up climate finance up to 2020. Since the last set of submissions were due in 2014, important milestones have passed. The Paris agreement recognizes that climate finance from public sources will be key to support action in developing countries in the years to come. The Green Climate Fund (GCF) is now fully operationalized and will be the key multilateral fund supporting NDC implementation in the years to come. In addition, the 2030 Sustainable Development agenda signifies the importance of addressing climate change co-benefits and the need for mainstreaming climate change concerns into all development policy.

Recently, industrialised countries have also issued a roadmap for how to achieve the goal of mobilising US$100 billion a year in climate finance to developing countries by 2020. The Roadmap aims to provide increased predictability and transparency, and build confidence about the actions developed countries are taking to meet the goal. With four years to go until 2020, the Roadmap shows that developed countries are well-placed to meet the US$100 billion goal.

Norway expects to maintain continuity of its climate finance at high levels in the years to come. Norway's climate finance is an integral part of our broader engagement for sustainable development, environment and poverty eradication. Norwegian total Official Development Assistance (ODA) has not only exceeded the international target of 0.7% of Gross National Income (GNI) for many years, but oscillated around 1% in the last few years – in 2015 it amounted to 1.05% of GNI. All our climate finance can be counted beyond the 0.7% threshold. Moreover, we have steadily increased the volume of our ODA budget, as the economy has been growing, meaning that the increase in climate finance has not reduced other ODA.

2. Information to increase clarity on the expected levels of climate finance mobilized from different sources

As the Norwegian public budget for climate finance to developing countries is subject to annual parliamentary approval, there is a challenge to provide clarity on the expected levels of climate finance beyond the yearly-approved budgets. Nevertheless, Norway has through the following announcements made a contribution to increased clarity:

- Norway intends to continue REDD+ finance at least at current levels until 2020 (Budget for 2016 is NOK 2,800 million).

- Norway has committed a total of NOK 1,600 million to the Green Climate Fund (GCF), paid out in the period in 2015-2018.
- Norway will double our contribution to the GCF by 2020 if the Fund secures verified emission reductions from deforestation and forest degradation in developing countries.
- At COP21 in Paris, Norway pledged to continue to provide finance for REDD+ until 2030.
- We have also committed NOK 108 million per year in 2016 and 2017 to the Global Environment Facility's (GEF) regular replenishment.

Historically Norway has been a major contributor of climate finance to developing countries. In 2015 our public support to climate change mitigation and climate adaptation was NOK 5,231 million. Out of the total sum, NOK 5,017 million is Official Development Aid (ODA), and NOK 214 million is Other Official flows (OOF). On top of this comes the imputed climate shares of our core support to Multilateral Development Banks (MDB) and other multilateral organizations. The numbers from 2015 is not available yet, but in 2014 the imputed shares amounted to NOK 833 million.

Tracking of mobilized climate private finance is in its infancy. A pilot study to estimate private climate finance flows from Norway to developing countries in 2014 has been conducted. The report examined public support for projects summing up to NOK 4,230 million, which was linked to an estimated NOK 1,234 million of mobilized private co-finance. These numbers are not complete, and likely to be a low estimate. However, they cover the largest flows and most available data. For 2015 we do not have the same overall picture, but the OECD DAC has carried out a survey on amounts mobilized from the private sector by official development finance interventions. Norway's development finance institution, Norfund, has participated in the study, but the numbers are not available yet.

The actual level of Norwegian climate finance for 2016 and 2017 will be available later. Norway’s public climate change finance is tracked by the Norwegian Agency for Development Cooperation (Norad), using Norwegian Aid Statistics. It is based on the OECD-DAC reporting system which uses markers for climate change mitigation and adaptation. The markers indicate degree of relevance only and, consequently, the figures should be interpreted with some caution. The reporting treats main and significant climate objectives as equal. This can lead to an overestimate of climate change funding. Hence, the figures should be interpreted as “total value of projects that fully, or to a certain degree, target climate change mitigation and adaptation”.

Furthermore, there is an inherent uncertainty about the mobilized private climate finance flows, that both relates to the fact there is no agreed methodology for tracking private climate finance mobilized, and there is a challenge to provide assumptions about future level as it will depend on what mobilisation that actually occur. Similarly, there is also an uncertainty surrounding our climate finance channelled through MDBs and other multilateral entities, where imputed climate shares are only calculated in the aftermath.

Further quantitative information and details of our climate finance is presented in section 3 below.

3. Information on policies, programmes and priorities

Norway's main actors providing climate-related international public finance are the Norwegian Ministry of Foreign Affairs (MFA), Norwegian embassies, the Norwegian Ministry of Climate and Environment (KLD), Norfund and Norad. Funding takes place through bilateral channels – which may include civil society and the private sector – through multi-bilateral projects, or through multilateral channels.

Norwegian climate finance is mainly concentrated in three areas; reducing emissions from deforestation and forest degradation, sustainable energy and climate adaptation. Below is a brief summary of financial support and future priorities for these three areas.

3.1 Norway's International Climate and Forest Initiative

Norway's International Climate and Forest Initiative (NICFI) aims at supporting efforts to reduce greenhouse gas emissions from deforestation and forest degradation in developing countries (REDD+). Reducing such emissions could deliver a quarter of the climate change mitigation the world needs in order to stay on a two degrees warming pathway towards 2030. NICFI constitutes by far the largest part of Norway`s mitigation assistance. NICFI has so far disbursed NOK 17 billion to REDD+ activities (by end of 2015). In 2015 NOK 2,820 million was disbursed from NICFI. In 2016 the total budget for NICFI is approx. NOK 2,800 million. The Government has confirmed Norway's intent to continue to finance REDD+ annually at least at current levels until 2020. At COP21 in Paris, Norway pledged to continue to provide finance for REDD+ until 2030. The exact level of the financing will depend on a number of things, including the level of results achieved and the contributions of others – both forest countries and their partner countries.

NICFI has the following key objectives, adopted by the Norwegian parliament:

1. To contribute to the new climate regime being an effective instrument for reducing emissions.

2. To contribute to early actions for measurable emission reductions from deforestation and forest degradation.

3. To promote the conservation of primary forests, due to their particular importance as carbon stores and for their biological diversity.

As an overarching goal, all these efforts should promote sustainable development and the reduction of poverty. The climate change mitigation potential of tropical forests will never be realized unless it offers a more attractive and viable development option than the destructive uses of the forests.

In order the reach these goals and objective, the program builds close collaboration with tropical forest countries that have potential for significant emissions reductions from deforestation and forest degradation. Payments is to a large degree based on results achieved in the forms of verified emissions reductions, but also sometimes include start-up financing, e.g. for the establishment of the necessary institutions and reforms, development of national REDD+ strategy or support to pilot projects.

Since its inception in April 2008, NICFI has established a series of ground-breaking partnerships with key forest countries and contributed to significant advances in the development of a REDD+ framework under the UN Framework Convention on Climate Change (UNFCCC). Brazil is the largest recipient of NICFI's international REDD+ funding. NICFI has supported Brazil in reducing deforestation in the Amazon by 70 per cent. This is the largest cut in greenhouse gas emissions the world has witnessed over the past decade. Other partners include Colombia, Indonesia, Guyana, Ethiopia, Liberia, Peru, Tanzania, Mexico, Vietnam, Congo Basin and a number of Multilateral Channels (UN-REDD, FCPF, FIP) and Civil Society.

A comprehensive evaluation of the initiative was published in 2014, and concluded that Norway's work in this field has given satisfactory results in a number of areas. Good progress has been made in reducing deforestation in several important forest countries, and the initiative has also resulted in important sustainable development benefits.

Having established partnerships with central tropical forest countries in the three big rainforest basins, NICFI will now focus on implementation of REDD+ in the partner countries, and on paying for performance. NICFI has recently undertaken a review of partnerships with other donors and the multilateral organisations, with a view towards optimising the multilaterals' activities. We are in the process of developing a common approach with other donors to leverage greater efficiency and effectiveness from the multilateral institutions.

Norway has pledged to pay for verified emission reductions from forests in Brazil (up to NOK 1,000 million a year), Guyana (up to NOK 1,500 million in total, of which 1,000 million is disbursed), Colombia (up to NOK 1,800 million) and Peru (up to NOK 1,800 million). All disbursements depend on the size of verified emission reductions. In addition Norway has pledged phase II REDD+-financing to Indonesia (NOK 6,000 million, of which 500 million is disbursed. 80% of the pledge depend on emission reductions), Ethiopia (up to USD 20 million a year) and Liberia (up to NOK 1,000 million, of which 600 million for verified emission reductions).

3.2. Norwegian assistance to Sustainable Energy

Norway has been supporting sustainable energy projects in developing countries for many years. The funds are primarily used to support the generation of renewable energy, access to energy, building of transmission and distribution systems and strengthening of institutions and increased capacity in the energy sector.

The funding is managed by Norwegian Embassies, the Ministry of Foreign Affairs, Norfund and Norad. In 2015, Norway channelled NOK 806 million to sustainable energy. Out of this, Africa received 55%, Asia 18%, Latin America 1%, whereas 27% where distributed globally amongst others to multilateral and regional organisations and initiatives, civil society and commercial development. More than half of the support for sustainable energy went to renewable energy generation, transmission, distribution and capacity development. Furthermore, Norfund – which serves as the commercial investment instrument of Norway's development policy – invested NOK 328 million in clean energy in 2015, and supported the completion of the construction of new power plants with a total of 340 MW production capacity with hydropower, solar and wind in Guatemala, Honduras, Peru, Panama and South Africa. According to Norfund this represents 7.4 million tonnes of CO_2 avoided emissions.

In 2016 the budget for Norwegian support to sustainable energy is approximately NOK 470 million. In addition, Norfund received a capital increase of NOK 1,500 million NOK where at least half should be invested in renewable energy. The proposed budget for 2017 for sustainable energy as well as to Norfund, is at the same level as in 2016, subject to Parliamentary approval. Norway has wanted to turn efforts in renewable energy more towards private and commercial investments, and subsequently capital flow to Norfund's investments in renewable energy has been increased over the last years.

To contribute more effectively to the Sustainable Development Goals (SDGs), the Paris Agreement, commercial and economic development, new guidelines for sustainable energy cooperation has been developed. The main focus will be measures that facilitate private and commercial investments, especially in generation of renewable energy. Key areas will be policy dialogue and cooperation on reform, legislation, institution-building, planning and regional cooperation. Development assistance and Norfund's investments in renewable energy will be considered together with instruments from the Norwegian Export Credit Guarantee Agency (GIEK), Export Credit Norway and Innovation Norway, which are the Norwegian Government's most important instruments for innovation and development of Norwegian enterprises and industry. Increased access to electricity will be supported through increased emphasis on off-grid and mini-grids distribution, while support to capital-intensive transmission projects will be scaled down. Norfund will be the primary vehicle to support larger scale projects for generation of renewable energy.

Norway will continue supporting sustainable energy to countries classified as being in vulnerable conditions, as part of the new strategy to support such countries. Sub-Saharan Africa will also in 2017 be the main cooperation region, with Liberia, Mozambique, Tanzania and Uganda as the most important countries, but support will also be provided to selected countries in Asia, including Myanmar and Nepal, as well as to Haiti in Latin-America. Norfund will prioritize investments in Sub-Saharan Africa and to least developed countries.

Funding will also be channelled through multilateral channels (e.g. Climate Investment Fund), both multilateral development banks and the UN system, as well as international organizations, initiatives and fund created for development of renewable energy in developing countries, as well as through the Green Climate Fund.

Norway together with UNEP launched the “1 Gigaton Coalition” at COP 20 in Lima which is a voluntary international framework to support efforts to measure and report reduced GHG emissions resulting from renewable energy and energy efficiency initiatives and programs in developing countries. A methodology for effective measurement and reporting of greenhouse effect of Norwegian official development support to sustainable energy will be developed. Norway also participates actively in following up the UN Secretary General's initiative for sustainable energy for all (SE4All), and contributed to the adoption of a dedicated sustainable development goal for energy (SDG 7).

3.3 Norwegian assistance to Climate Adaptation

Norway's funding to climate adaptation is partly directed through bilateral support including climate smart agriculture and food security, strengthening resilience and early warning systems. The major part of Norway's support for adaptation is, however, channelled through multilateral institutions, including the GCF.

Support has been given to the strengthening of climate services, capacity building and technology as well as disaster risk reduction. In 2015, the total amount allocated to climate adaptation *only* was 608 million NOK. In addition, 840 million NOK has been marked as cross-cutting, targeting both climate adaptation and climate mitigation. This includes both ODA and OOF. In 2015, the four largest areas for our bilateral climate adaptation support was Agriculture (NOK 514 mill.), General environmental protection (NOK 449 mill.), Disaster prevention and preparedness (NOK 132 mill.) og Other multisector (NOK 113 mill.) For 2016 and 2017 the figures are not yet available.

Future funding will continue to prioritize support to least developed countries as described above; reducing vulnerability and developing robust societies, in line with the countries nationally determined contributions (NDCs) under the Paris Agreement. The Global Framework for Climate Services (GFCS) is central in this context. It provides basic data on climate and hydrology that are important both to avert immediate loss and damage, but it is also an important planning tool for infrastructure investment, agriculture and energy. Water resources management and access to safe water and sanitation services is one of the new sustainable development goals (SDG 6), and the right to clean drinking water and sanitation has been recognized as a basic human right. Norway will support this thematic area within priority sectors for Norwegian development assistance, including food security, humanitarian efforts, education, health and targeted climate adaptation projects.

In line with the mandate of GCF, about half of Norway's support to the GCF, totalling 1.6 bill. NOK in the period 2015-2018, will go to adaptation to climate change in developing countries. Support to the GEF and United Nations Environment Programme (UNEP) also includes adaptation to climate change.

4. Information on actions and plans to mobilize additional finance

Mobilizing private finance

Many of the efforts undertaken by Norway in the field of climate change are directed at undertaking reforms, phasing out harmful subsidies (e.g. fossil fuels), strengthening technical and institutional capacity to support private sector and commercial investments, often in cooperation with other donors or through programs or funds in multilateral development institutions. As an example, Norway works with private partners to reduce emissions from the forest and land sector. Norway takes an active part in the public-private partnership Tropical Forest Alliance 2020. In this initiative, supply chain companies, tropical forest countries, investors, development partners and civil society come together to address the gap between commitment and action. Another important partner is the World Bank

Group’s private sector arm, the International Finance Corporation (IFC), with its expertise in mobilizing private capital into energy and climate relevant investments. Mobilizing private finance is also an important feature of projects and programs supported by the GCF, in particular for mitigation projects.

Norfund remains, however, the key commercial investment instrument of Norway’s development policy and, by co-investing with others, Norfund leverages additional capital from industrial partners and ensures the industrial and local knowledge needed for each investment. One example of how this is done, is the Lake Turkana Wind Project in Kenya. The Lake Turkana Wind Power Project (LTWP) aims to provide 300MW of reliable, low cost wind power to the Kenya national grid, equivalent to approximately 20% of the current installed electricity generating capacity. The Project is of significant strategic benefit to Kenya, and at more than €620 million it will be the largest single private investment in Kenya’s history. The LTWP Investor Group consists of KP&P Africa B.V., Aldwych International, Vestas Wind Systems A/S, the Finnish and Danish DFIs, (Finnfund and IFU), and Norfund. In 2015, Google announced that it will invest Sh4 billion (USD 40 million) in the project. Among the project's lenders are the African Development Bank, the European Investment Bank and the Dutch and German DFIs (FMO og DEB).

Alternative sources

Norway is supporting the development of carbon markets, and has been an active participant in the Clean Development Mechanism (CDM) since 2008. CDM has so far catalysed implementation of 7,800 projects and programmes in 107 developing countries, and has led to substantial emission reductions. CDM has been particularly successful in mobilizing private investment in developing countries. UNFCCC has estimated that CDM has leveraged private investment 10 times the public funds allocated. CDM has also played a catalytic role in the transfer of technology and knowledge, and has contributed to capacity building and sustainable development in developing countries.

Norway is also supporting the development of new market mechanisms under the Paris Agreement. Pilot initiatives can play a critical role in testing and implementing at scale new mechanisms, inform the discussions within the UNFCCC, and contribute to increased global ambition. We would specifically refer to the Transformative Carbon Asset Facility (TCAF). TCAF will work to assist countries in raising their ambition and to implement economy-wide or sectoral policies and programs that create conditions for private sector investments in low-carbon technologies.

Furthermore, an international price on carbon would give a clear signal to investors that it is less profitable to invest in activities with high CO2 emissions, and more profitable to invest in renewables. Norway acknowledges the need to make this happen, for both climate and development reasons. Subsidies on fossil fuels are the opposite of a price on emissions. Norway therefore takes active part in international initiatives to phase out fossil fuel subsidies. Norway has been the largest donor to the Global Subsidies Initiative of the International Institute of Sustainable Development during 2008-2014.

5. Information on how Parties are ensuring the balance between adaptation and mitigation

Norwegian assistance to climate change adaptation has been scaled up in recent years. The total amount in 2010 was NOK 582 million, out of this NOK 184 mill was marked as cross-cutting, covering both climate adaptation and climate mitigation. In 2015 the total amount was NOK 1,448 million, where NOK 840 million has been marked as cross-cutting. The GCF will be the primary mechanism to channel support. As the GCF has decided to aim for a balance of 50:50 allocation to mitigation and adaptation, support through the GCF will contribute to the balance between adaptation and mitigation.

Regarding Norwegian REDD+ finance, all is directed at mitigation, however, recognizing that forest management and protection may make significant positive contributions to adaptation.

6. Information on steps taken to enhance enabling environments

Enabling environments for Norwegian climate finance

Norway's government bases its policy on the responsibility to help safeguard the planet and on the precautionary principle. There is broad Parliamentary support for pursuing an ambitious climate policy, both nationally and internationally.

Enabling market conditions and creating market readiness is essential for private and commercial investments to be scaled up. Effective and predictable investment and climate policies are key. The most effective instrument governments can use to encourage low-emission investments is to put a price on carbon, which Norway has advocated for at national and international level for many years. Norway will continue to work to identify measures that can reduce investors' risk and make it more attractive for private sector investments in climate change investments. In the white paper *Working together: Private sector development in Norwegian development cooperation from 2015*, the Government sets out how it will intensify its efforts to create an enabling environment for private sector investments in developing countries, and establish new schemes for public–private cooperation. The Government has also proposed to create a new investment company that will mainly invest in new technology in the transition from technology development to commercialization, and to prioritize low- and zero-emission solutions. The company, *Renewable AS*, will invest in companies and funds with activities in or outside Norway. Projects with renewable energy production in other countries could be considered.

The Norwegian Government Pension Fund Global (GPFG) is a financial investor, with a mandate to aim for good financial returns for future generations within moderate risk. At the same time, we aim for best practice in responsible investing.

A significant portion of the Fund can be characterized as environmentally friendly. At the end of 2015, NOK 53.8 billion were invested through the Fund's environment-related mandates. This includes investments in low-emission energy and alternative fuels companies, energy efficiency technology and natural resource management. About 60% of the Fund is invested in global equities. 6% of the companies in the Fund's equities index derive more than 20% of their revenues from environment-related activities.

Two climate-relevant criteria for observation or exclusion of companies in the Fund's portfolio were adopted in 2015 and introduced at the beginning of 2016. The first is conduct-based and aimed at "acts and omissions that, on an aggregate company level, to an unacceptable degree entail greenhouse gas emissions". The second is product-based and entails divestment from companies which base 30% or more of their activities on coal, and/or derive 30% of their revenue from coal. In 2015, the Fund divested from 73 companies based on risks mostly associated with climate change, deforestation and water. The next White Paper on the management of the Fund due in the spring 2017 will look at the overall management of climate risk.

Enabling environments in developing countries

Norway is pleased that there is growing recognition that enabling policy frameworks and credible long-term planning in developing countries are a critical “pull-factor” to attract climate finance from various sources. Technical assistance and capacity building are important means to help developing countries create enabling environments. Norway has made this as important element of our ODA, recognizing that enabling conditions, fuelled by national self-interest, will stimulate increasing flows of private and public investment to a climate-friendly, low-emission and inclusive economy. In particular we expect the Green Climate Fund to continue to play an important role in this regard. Norway also supports demand-driven assistance to countries interested in taking advantage of climate-friendly development opportunities, like the UN Poverty and Environment Initiative (PEI), the broad UN Partnership for Action on Green Economy (PAGE) and Global Green Growth Institute (3GI).

In order for countries to benefit from technical assistance and capacity building, we also expect developing countries to provide resources for domestic climate action in line with their national capabilities and circumstances.