

Norwegian Submission on Strategies and Approaches for Scaling up Climate Finance

29 November 2018

1. Introduction

Decision 3. CP/19 requested developed country Parties to update their strategies and approaches for scaling up climate finance up to 2020.

Norway expects to maintain continuity of its climate finance at high levels in the years to come. In the budget for 2019, the Government proposes to scale up financing for the climate and forest initiative, renewable energy and for food security, including climate smart agriculture. Norway's climate finance is an integral part of our broader engagement for sustainable development, environment and poverty eradication. It is grant finance, except finance from Norway's development finance institution, Norfund. 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 – This was also the case in 2017.

The Norwegian Government's White Paper to Parliament "Common Responsibility for Common Future" (April 2017) establishes that Norway will continue to be at the forefront of efforts to safeguard climate and environment in line with developing countries' own plans.

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 2018 is NOK 3,000 million).
- 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.
- Norway has also committed NOK 520 million for the period 2018 - 2021 to the Global Environment Facility's (GEF) regular replenishment.
- Norway plans to double ODA funds for renewable energy in the period 2017-2019.

The actual level of Norwegian climate finance for 2018, 2019 and 2020 will only be available when it has been accounted for after the end of each year, but it is expected to increase compared to 2017 level. 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. For projects marked as significant, we report only 40% as climate finance. For projects marked as principal, we report 100% as climate finance.

The OECD Development assistance committee (DAC) has been working over the last years to establish an international standard for measuring the volume of private finance mobilised by official development finance interventions. This work is carried out jointly with the OECD-led Research Collaborative on Tracking Private Climate Finance. We expect our tracking of mobilized private climate finance flows to be improved in the years to come, but don't have a projected level for these flows, as it will depend on what mobilisation that actually occur.

Further quantitative and qualitative 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, renewable energy and climate adaptation, including risk reduction. 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 23,000 million to REDD+ activities (by end of 2017). In 2018 the total budget for NICFI is approx. NOK 3,000 million. The 2019 budget is NOK 3,200 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 from deforestation and forest degradation in developing countries.
2. To contribute to cost-efficient and verifiable reductions in greenhouse gas emissions from deforestation and forest degradation in developing countries
3. To promote the conservation of natural forests in developing countries to maintain the forests' carbon storage capacity.

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 to reach these goals and objectives, the program builds close collaboration with tropical forest countries that have potential for significant emissions reductions from deforestation and forest degradation. Payments are 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. Norway aims to support forest countries' strategies for reducing emissions from forests and their efforts to increase ambitions in implementing the Paris Agreement (NDCs). NICFI has also 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%. 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. Through initiatives like the Forest Carbon Partnership Facility (FCPF) and the UN-REDD programme, NICFI has supported countries in their REDD+ efforts including informed and meaningful involvement of all stakeholders such as indigenous peoples and other forest-dependent communities, in national and international REDD+ implementation.

3.1.1 Evaluation of the initiative and further plans

Evaluation of the initiative has been conducted, 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.

The Norwegian Office of the Auditor General (OAG) submitted a report in 2018 containing an investigation of NICFI. The investigation gives examples of progress and results of REDD+ being delayed and current measures being uncertain in terms of their feasibility and effect.

The recommendations from the OAG are used to enhance the efforts to ensure permanent conservation of rainforests. NICFI works to achieve lasting emission reductions from deforestation through climate negotiations and bilateral cooperation, supporting civil society in their efforts to protect the forest, as well as working with global business to transform the global agricultural economy in a direction where forests are protected and restored at massive scale. This strategy will remain. With the aim of increasing knowledge of the effect of current measures, NICFI will follow-up even better on results and lessons learnt.

Norway has pledged to pay for verified emission reductions from forests in Brazil (up to NOK 1,000 million a year, depending on results), Guyana (up to NOK 1,500 million in total, of which 1,000 million is disbursed), Colombia (up to NOK 1,800 million, of which 340 million is disbursed) and Peru (up to NOK 1,800 million, of which 100 million is disbursed). 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 1,120 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 268 million is disbursed).

Regarding multilateral channels, Norway has pledged and disbursed NOK 690 million to Tranche 3 of the BioCarbon Fund's Initiative for Sustainable Forest Landscapes to pay for emission reductions from the land use sector. Norway has also pledged NOK 2,069 million to the Carbon Fund of the Forest Carbon Partnership Facility (FCPF) to pay for emission reductions from the forest sector in selected jurisdictions. The UN-REDD program will during the period 2011-2020 receive a total of NOK 1,065 million from Norway. Norway is the largest donor to UN-REDD.

NICFI is also contributing to the Central African Forest Initiative (CAFI). CAFI is financing REDD+ activities in 6 Central African countries: DR Congo, Republic of Congo, Gabon, Cameroon, Equatorial-Guinea and Central African Republic. In the agreement period 2015 – 2020 NICFI is expecting to contribute a total of up to NOK 2,080 million to CAFI.

From 2018 NICFI has entered into an agreement with UNDP to a global initiative to support jurisdictional transformation on the sub-national level called the Governor's Climate and Task Force's state and provinces. The agreement will support the Governor's Climate and Task Force in meeting the commitments of the Rio Branco Declaration of reducing deforestation in the jurisdictions by 80% by 2020 by developing or updating jurisdictional strategies and investment plans for REDD+ and low emission development and catalysing transformative financing opportunities. In the agreement NICFI will provide support of up to NOK 193 million in the period 2018-2020. In addition NICFI has agreed to support the secretariat of the Governors Climate and Task Force in its efforts to facilitate the work of GCF member states and provinces in achieving the objectives of the Rio Branco Declaration by up to more than NOK 50 million in the period 2016-2020.

3.2. Norwegian assistance to Renewable Energy

Norway has been supporting renewable energy projects in developing countries for decades. The objective for Norway's cooperation on renewable energy is twofold; access to

modern energy services and reduced emissions of CO₂. The funds are primarily used catalytic in order to mobilize private investments in renewable energy. As the private sector asks for predictable investment conditions, a key activity is assistance for reforms, legislation, strengthening of institutions and increased capacity in the energy sector. Furthermore, support will be provided for building of transmission and distribution systems, as well as off grid electricity services, all aiming at access to electricity. Norway's policy is based on the generation of power being developed by private sector on commercial basis. Different instruments for risk reduction underpin this strategy.

As mentioned above, Norway plans to double our ODA funds for renewable energy in the period 2017-2019. In 2018 the budget for Norwegian support to sustainable energy is approximately NOK 570 million. The proposed budget for 2019 for renewable energy is NOK 1,122 million. In addition, Norfund received a capital increase of NOK 1,500 million in 2018 where at least half should be invested in renewable energy. The Government further proposes to allocate NOK 1,875 million to Norfund for 2019. Approximately half of Norfund's investments are in clean energy. Both the budget for renewable energy and for Norfund are subject to Parliamentary approval. As Norway is promoting private and commercial investments in partner countries, the capital flow to Norfund's investments in renewable energy has been increased over the last years.

Sub-Saharan Africa will also in 2019 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 more limited support to i.e. Haiti in Latin-America. Norfund will prioritize investments in Sub-Saharan Africa and to least developed countries. In Tanzania, Norway will fund electrification by the Rural Electrification Fund with more than NOK 100 million annually from 2019 to 2021. In Mozambique Norway supports a multi-donor Trust Fund for electrification with NOK 165 million from 2018 to 2024.

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 funds created for development of renewable energy in developing countries and through the Green Climate Fund.

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.

Support to early warning systems is expected to be approx. NOK 32 million in 2019, including support to the work of the Global Framework for Climate Services in Africa

Norway is planning to scale up support for improved food security, including climate smart agriculture, from 2019. Proposed budget for 2019 is NOK 1,092 million and part of this will be for agricultural adaptation to climate change. The support will be provided through bilateral as well as multilateral channels.

A substantial part of Norway's support for adaptation is core support to multilateral institutions, including the GCF. Support to the GEF and United Nations Environment Programme (UNEP) also includes adaptation to climate change. Norway supports agricultural research through CGIAR (consortium of research institutions), which to a large extent contribute to climate adaptation knowledge and strategies, working closely with national agricultural research centres. NOK 80 million has been committed to this for 2019. Support will also be channelled through the UN Office for Disaster Risk Reduction (UNISDR) and the Global Facility for Disaster Risk Reduction (GFDRR).

Future funding will continue to prioritize support to least developed countries, including small island developing states, as described above; reducing vulnerability and developing robust societies, in line with the countries nationally determined contributions (NDCs) under the Paris Agreement.

Water resources management and access to safe water and sanitation services is one of the 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.

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 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 to halt commodity driven deforestation. To further leverage private investments in deforestation free agriculture, Norway has supported the incorporation and capitalization of the &Green fund. &Green offers concessional loans and risk reduction for co-finance in projects that combines efficient and socially inclusive production with forest protection. 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. Norfund has developed strategic partnership with industrial partners on hydropower, wind and solar, and contributes with equity capital in renewable energy

projects. Norfund is instructed to invest half of its investment capital, currently more than NOK 20,000 million, in clean energy.

Norway intend to have a closer look at mobilisation beyond Norfund in the years to come. The OECD DAC is working on approaches for measuring the mobilisation effect of official standard grants and loans in co-financing arrangements with the private sector. Second, In addition to mobilisation by official development finance, work is in progress to gather information on the mobilisation effect of other types of public finance, e.g. the Norwegian Export Credit Guarantee Agency (GIEK) and Export Credit Norway, which facilitate export financing through guarantees and loans for exporters, buyers and banks.

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 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), where Norway has committed USD 80 million. TCAF will work to assist countries in raising their ambition through implementation of economy-wide or sectoral policies and programs that create conditions for private sector investments in low-emission solutions.

Through our participation in TCAF, the Partnership for Market Readiness (PMR) and some other initiatives, Norway supports carbon pricing whereby the polluters pay and investments in low-emission technologies are incentivised. Successful carbon pricing policies are part of a suite of measures that ensure equal opportunities for low-emission alternatives, and interact with a broader set of climate and non-climate policies. Carbon pricing should contribute to distributing costs and benefits equitably, avoiding disproportionate burdens on vulnerable groups.

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 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. Support to risk reduction through UNISDR and the GFDRR, early warning systems and building resilience through regional and national programmes will also 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 climate 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. 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 established a new investment company that will invest in new technology in the transition from technology development to commercialization, and to prioritize low- and zero-emission solutions. The company, *Nysnø*, will invest NOK 20,000 million in companies and funds with activities in Norway and abroad.

The Norwegian Government Pension Fund Global (GPF), with increasing attention to potential climate impacts and climate risk by its management, plays a signalling role to many other financial players. The GPF 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 2017, NOK 75,000 million 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.

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. Since 2015 the Fund has divested from 71 companies based on their activities on coal.

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 critical “pull-factors” 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 an 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. We expect the Green Climate Fund to continue to play an important role in this regard. Norway will continue to support demand-driven assistance to countries interested in taking advantage of climate-friendly development opportunities. We would in particular highlight that we have bilateral agreements in the field of the environment with China, India and South Africa where we cooperate, amongst others, on climate change projects . We would also highlight Norway's support to the broad UN Partnership for Action on Green Economy (PAGE) (NOK 36.9 million 2017-2020) and Global Green Growth Institute (3GI) (NOK 50 million 2018-2020).

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.