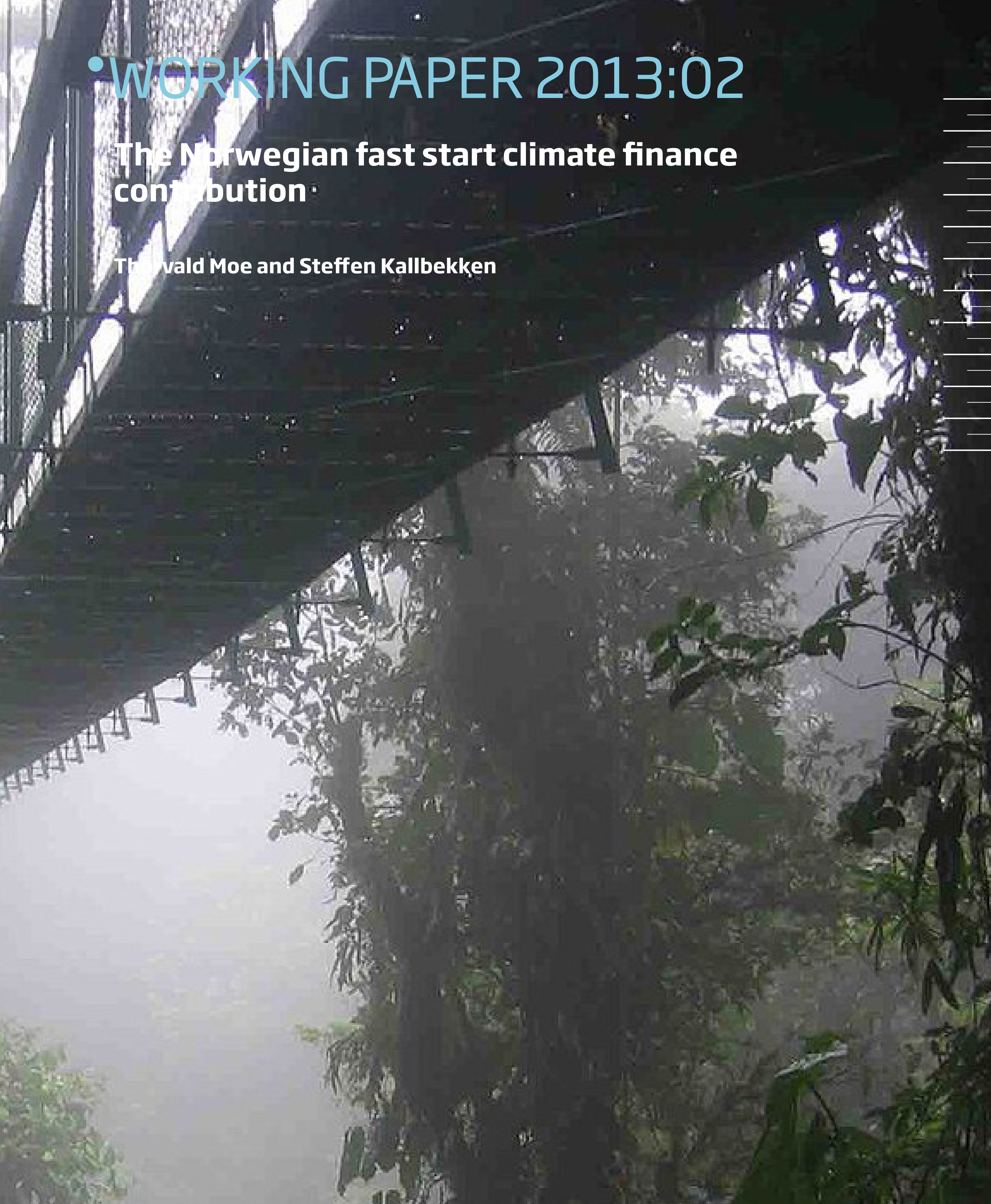

WORKING PAPER 2013:02

The Norwegian fast start climate finance contribution

Thorvald Moe and Steffen Kallbekken

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Thorvald Moe and Steffen Kallbekken

March 2013

CICERO Senter for klimaforskning
P.B. 1129 Blindern, 0318 Oslo
Telefon: 22 85 87 50
Faks: 22 85 87 51
E-post: admin@cicero.uio.no
Nett: www.cicero.uio.no

CICERO Center for International Climate and Environmental Research
P.O. Box 1129 Blindern
N-0318 Oslo, Norway
Phone: +47 22 85 87 50
Fax: +47 22 85 87 51
E-mail: admin@cicero.uio.no
Web: www.cicero.uio.no

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P.B. 1129 Blindern
0318 Oslo

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Executive summary

This report considers Norwegian efforts in the context of the pledge by developed countries to mobilize funds approaching 30 billion US dollars – hereafter USD - from 2010 to 2012 under the United Nations Framework Convention on Climate Change. It is part of a series of studies initiated by the Overseas Development Institute scrutinizing how developed countries are defining, delivering, and reporting on fast start finance (FSF).

Norwegian climate finance, unlike the practice in the US and UK, is solely based on public grants. Thus Norwegian CDM projects, loan guarantees and private financial flows are not included in the official accounting, or in this report.

In 2006 the share of the bilateral climate finance in the overall Norwegian ODA budget was around 3 per cent. Over the five years to 2011 the overall ODA budget increased significantly, and the share of bilateral climate finance increased to some 23 per cent of total Norwegian ODA. Norwegian ODA was some 4.6 billion US dollars (USD) or around 1 per cent of Gross National Income in 2011, and an estimated 23 per cent went to climate finance according to official sources.

Norway's bilateral climate finance contribution was 676 million USD in 2010, and 734 million USD in 2011. No official accounting figures are available for 2012 as of March of 2013, but budget figures for 2012 indicate that these high levels have been maintained or even increased in real terms in 2012 compared to 2011.

Norwegian multilateral core support to organizations that have been classified as climate relevant increased from 332 million USD to 394 million USD in 2011. In 2010 Norwegian authorities conservatively estimated that 10 per cent was FSF relevant, but have since concluded that it is difficult to estimate this share. As the best available estimate, we will use this number in our report.

The total Norwegian grants-based contribution to climate finance adds up to USD 709 million for 2010, and USD 773 million for 2011.

The main share of Norwegian bilateral climate finance, USD 598 million in 2011, has gone to mitigation measures under a REDD+ program. The Norwegian International Climate and Forest Initiative (NICFI) was launched at the COP 13 at Bali in 2007.

The Norwegian financial support is large and has increased after the 2009 Copenhagen FSF pledge. There is no precise definition of "additional" financial support, and one cannot know with certainty what these grants would have been in the period 2010-2012 without the Copenhagen FSF pledge.

Further improvements in Norwegian procedures may be made regarding the use of result based financing, evaluating the cost-effectiveness of the Norwegian climate finance. One may also look for ways to enhance the share of Norwegian public climate finance going to adaptation measures, as there is relatively little private finance available for such measures.

Norwegian authorities reports according to decision 1/CP.16 (Cancun Agreements-AWGLCA outcome). These reports are public, transparent and readily available on the UNFCCC web page. The reports do not, however, provide information about the various projects and funds supported in any great detail.

1 Introduction

CICERO Center for International Climate and Environmental Research has been asked by The Overseas Development Institute, ODI, to report on The Norwegian so called "fast start finance" contribution – hereafter called FSF.

This assessment considers Norwegian efforts in the context of the pledge by developed countries to mobilize funds approaching 30 billion US dollars, USD, from 2010 to 2012 under the United Nations Framework Convention on Climate Change, UNFCCC. It is part of a series of studies initiated by ODI scrutinizing how developed countries are defining, delivering, and reporting on FSF.

The primary information source is the reports to the UNFCCC on Norwegian climate finance in 2010 and 2011 (10 and 11). We have in addition had meetings with, and received comments to a draft report from representatives from the Ministry of the Environment, The Ministry of Foreign Affairs, and the Ministry of Finance.

Where necessary values have been converted from NOK to USD using the exchange rate 6 NOK = 1 USD.

In section II we report on Norwegian fast start climate finance in 2010, 2011 and 2012. For the first two years there exist detailed accounting data, inter alia in the official Norwegian reports to UNFCCC. For 2012 there exists only budget data, see (13), and the information on climate finance is much less detailed.

Section III shows how the finance has be distributed across objectives and across regions.

In section IV we sum up.

For the convenience of the reader these sections are fairly brief, and some more numerical details are presented in tables in Annex I. In Annex II we give an overview of the broader picture of International Climate Finance to put the Norwegian contributions in perspective.

2 Norwegian climate finance

2.1 Norwegian climate finance in 2010

In decision 1/CP.16 (Cancun Agreements-AWGLCA outcome), relevant parties were invited to provide information on the resources provided for the fast start period (2010-2012). Norway submitted information on actual disbursement in (10).

Efforts have been made, where relevant, to integrate climate change assistance into broader Norwegian development efforts. Norwegian Development Assistance (ODA) has increased significantly since 2006, and according to OECD/DAC statistics exceeded 1 per cent of Norwegian Gross National Income in 2011 – the highest share recorded that year save Sweden.

This report covers Norwegian bilateral and multilateral support for climate change action in developing countries, including REDD+ (Reducing Emissions from Deforestation and Degradation) contributions. Total Norwegian climate change assistance in 2010 amounted to approximately US dollars (USD) 709 million.

Bilateral assistance directed at climate change was approximately USD 676 million with the lion's share going to mitigation measures.

The Government of Norway`s International Climate and Forest Initiative (NICFI) launched at the Bali COP in 2007 constitute by far the largest part of Norway`s mitigation assistance. It aims to support the development of an international REDD+ architecture and simultaneously achieve cost-effective and verifiable reductions of greenhouse gases (GHGs) from deforestation and forest degradation in developing countries in all types of tropical forests.

In 2010 Norway dispersed approximately 450 million USD for REDD+ activities. NICFI worked closely with committed developing forest countries and multilateral REDD+ institutions, such as the Forest Carbon Partnership Facility (disbursed USD 9 million), the UN-REDD Program (USD 33 million), the Forest Investment Program (USD 48 million), and the Congo Basin Forest Fund (USD 26.6 million). Norway also supported civil society actors that address REDD+ (USD 27 million). Brazil received, by far, the largest amount – USD 236 million in 2010 alone (including promissory notes). Indonesia follows with USD 31 million, Guyana received USD 29 million, and Tanzania USD 7 million.

In addition to the REDD+ activities, Norway also reports contributions through some multilateral channels as part of its bilateral climate financing. This includes contributions to the Climate Investments Funds (SREP, PPCR and FIP), the Global Energy Efficiency and Renewable Energy Fund (GEEREF), and the Renewable Energy and Energy Efficiency Partnership (REEEP).

Norway's core support to multilateral institutions classified as climate relevant was USD 332 million in 2010. This support includes for example:

-In the Norwegian program agreement with the United Nations Environment Programme (UNEP) it was specified that 17 per cent of the Norwegian contribution of USD 16.7 million should be earmarked for climate change work;

-As for the Global Environment Facility (GEF), it is estimated that one third of the Norwegian ODA contribution of USD 9 million, i.e. USD 3 million, went to climate change mitigation;

-A voluntary contribution to the United Nations Framework Convention on Climate Change (outside the biennial budget) of USD 6.7 million.

Since these are estimates, the numbers are somewhat less certain than the accounting numbers for bilateral climate assistance.

2.2 Norwegian climate finance in 2011

Total Norwegian climate change assistance in 2011 amounted to approximately USD 773 million. Bilateral climate finance was 734 million USD in 2011, up from 676 million USD in 2010 as reported in (11). According to accounting figures in (13), total Norwegian ODA was some USD 4.6 billion this year.

As underlined, the main Norwegian focus is on the REDD+ program and renewable energy. Thus, the main share, USD 598 million in 2011, of Norwegian bilateral climate finance is going to mitigation activities.

However, efforts are being made to scale up Norwegian efforts for financial assistance to adaptation measures. Such financing increased from 64 million USD in 2010 to 76 million USD in 2011. Support for measures classified as both mitigation and adaption increased from 27 million USD in 2010 to 60 million USD in 2011.

The total amount disbursed through NICFI was USD 336 million in 2011, as compared to USD 450 million in 2010. Much of this reduction can be explained by reduced disbursement to Brazil (USD 69 million), Indonesia (USD 30 million) and the Congo Basin Forest Fund (USD 27 million).

In assessing these numbers it should be kept in mind that for example funds paid to multilateral organizations may be given in a particular calendar year, but are then expected to be utilized over several years – hence reducing the need to distribute funds to the same multilateral organization the following year.

With regard to bilateral distribution of funds, agreements may contain different phases with some phases requiring different amounts of funding. Furthermore, as in the case of the portions of the payment to Brazil in 2010, funds which were supposed to be paid in one calendar year may have been delayed and are thus disbursed in the following calendar year – leading to a higher figure for a particular year while actually being payments for results obtained over two years.

Norwegian multilateral core support to multilateral institutions that have been classified as climate relevant increased to USD 394 million in 2011.

2.3 Norwegian climate finance in 2012

The figures for 2012 below refer to budget figures as adopted by the Parliament in December 2011. Thus, these are not directly comparable with the more detailed and complete accounting figures for 2010 and 2011.

We have therefore used the latest official information given in the latest Budget Proposition of The Norwegian Ministry of Foreign Affairs to the Parliament, see (13), and looked at the most important programs. These are under chapter 166 in the budget:

- International Environmental Processes and Sustainable Development (budget post 72). This includes budget grants to e.g. The Least Developed Country Fund under GEF, The Global Framework for Climate Services (GFCS), The Himalaya Climate Change Adaption Program (HICAP), and the Renewable Energy Efficiency and renewable Energy Fund (GEEREF).

- Climate – and Deforestation (budget post 73). This is where the Norwegian REDD+ initiative is funded. It has established a number of bilateral country initiatives in Brazil, Indonesia, Guyana and Ethiopia. Support for relevant multilateral programs, especially UN REDD, the World Bank (FCPF and FIP) and the African bank (CBFF) continued in 2012. Support for preliminary efforts and limited investment programs in the Congo basin, Tanzania, Vietnam, Mexico, Myamar and the Amazon basin are also included.

- Renewable Energy (budget post 74). The Norwegian government announced its new energy – and climate initiative at the Energy – and Poverty Conference in Oslo in 2011. The objectives of this initiative are increased supply of renewable energy to the world`s poorest, and reduced emissions of GHGs through increased shares of renewable energy and increased energy efficiency.

For more details on the 2012 budget, see (13), pages 180-194.

	2011	2012	2013
Int. Env. processes and sustainable development (72)	40.5	39.2	28
Climate and deforestation (73)	336.2	471.5	488.8
Renewable energy (74)			234.5
Total	*376.7*	*510.7*	*751.3*

Table 1. Budgeted climate finance in 2012 (and 2013), USD million.

As underlined above, the 2012 (and 2013) figures refers to numbers in adopted budgets while the 2011 figures in table 1 are more detailed and complete accounting figures. While incomplete, these figures nevertheless indicate that Norwegian FSF was maintained at a high level in 2012, probably increasing in real terms compared to 2011.

While outside the scope of this report, we find it of relevance to note that there is a very large increase in grants to renewable energy in the budget for 2013.

3 Distribution of the Norwegian contribution to climate finance

Figure 1 clearly shows that the lion's share of Norwegian climate finance goes to mitigation. Considering the total bilateral climate finance for 2010 and 2011 (for which we have official accounting numbers), about 84% was allocated to initiatives with "mitigation only" objectives. This might be considered a somewhat unbalanced allocation, for instance in light of the call for a "balanced allocation between adaptation and mitigation" in the Cancun agreements (Decision 1/CP.16).

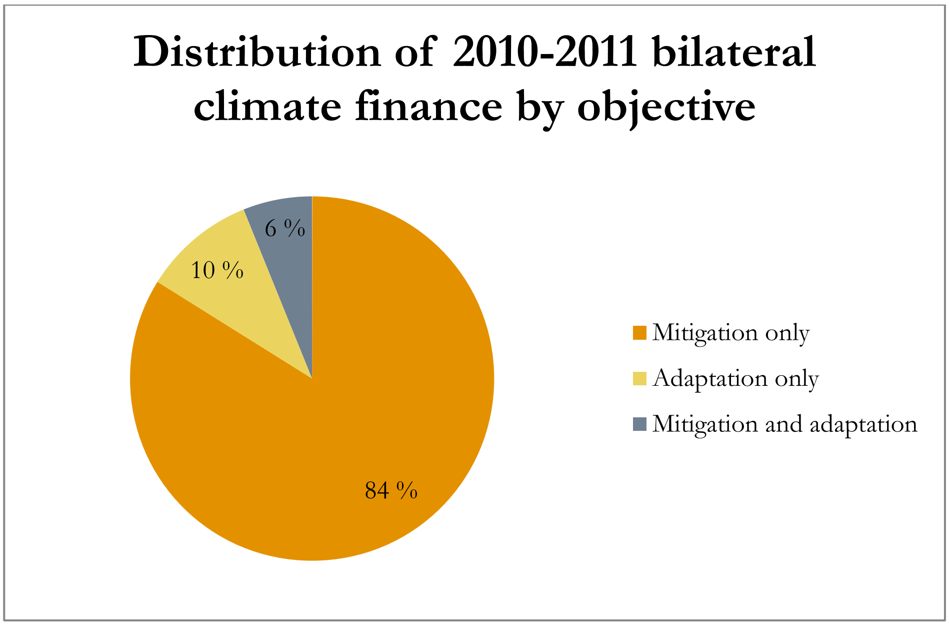

Figure 1. Distribution of climate finance by objective.

In terms of the geographical distribution, America (with Brazil being the dominant recipient) received 42% of the bilateral climate finance during 2010-2011, and Africa received 18%.

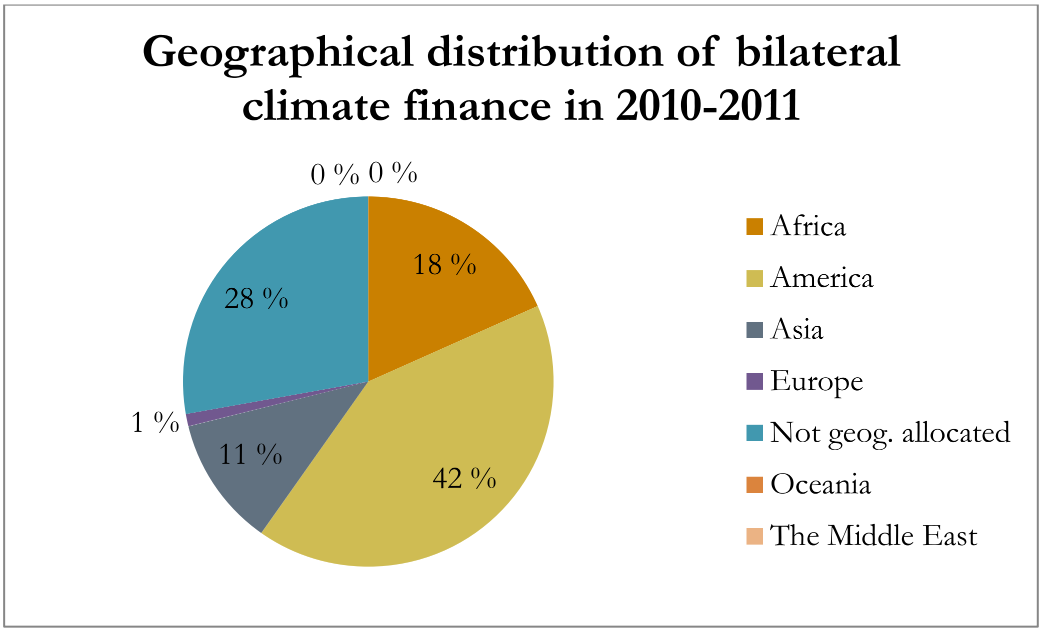

Figure 2. Geographical distribution of bilateral climate finance.

The figure looks rather different if we look at the distribution of the funding by objective first, and then by region. Figure 3 shows the geographical distribution of adaptation funding. Africa received half of the funding, and America only 5% (compared to 49% of the mitigation funding; see Appendix 1 for further details).

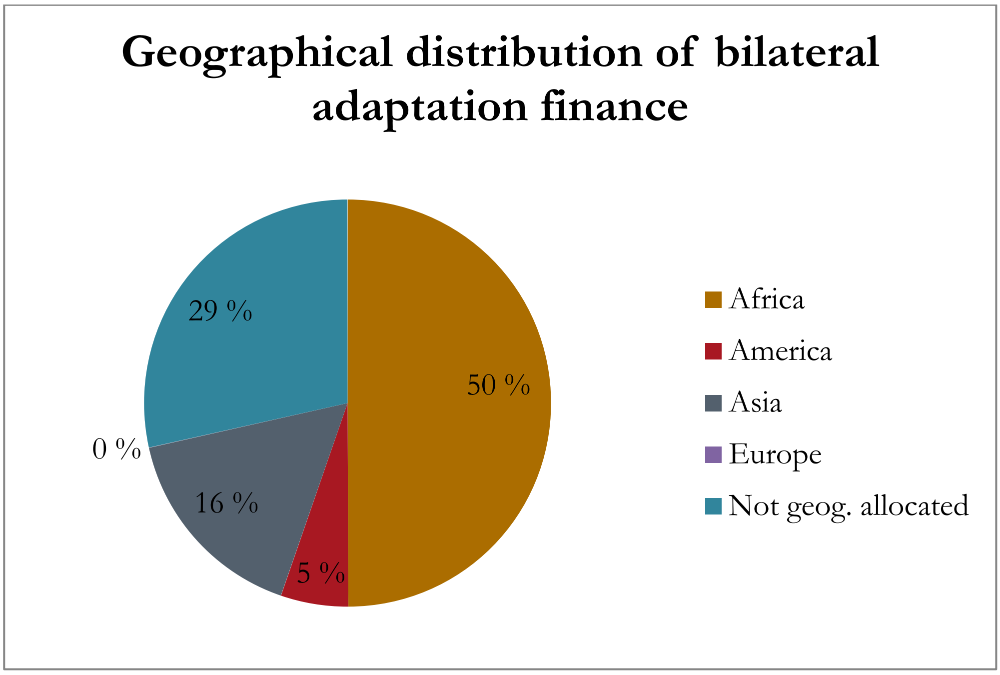

Figure 3. Geographical distribution of bilateral climate finance with adaptation only objectives.

4 Main findings

Norwegian climate finance, unlike the practice in the US and UK, is solely based on public ODA in the form of grants. Thus, in the figures reported Norwegian CDM projects, loan guarantees and private financial flows are not included.

Delivery is mainly bilateral in the forms of grants and MOUs with partner developing countries, but also through a number of multilateral organizations.

Reporting is through official reports, in accordance with decision 1/CP. 16. The reports can be found on the UNFCCC web page.

Table 2 gives an overview of Norwegian bilateral and multilateral climate financing in 2010 and 2011. For more details, see Appendix 1 as well as (10) and (11).

	2010	2011
Total Bilateral Assistance*	676	734
- Of which mitigation measures	585	598
Core support to climate relevant multilateral institutions	32	394
Assuming 10% is climate relevant	33	39
Total assistance	*709*	*773*

* The figure includes some multilateral support that is earmarked for climate change issues.

Table 2: Norwegian bilateral and multilateral climate finance 2010 and 2011, million USD

It seems clear that Norway fulfilled its role, both as a strong contributor of overall climate financial support from a country of some 5 million people, and as a contributor to the Copenhagen pledge of FSF of some 30 billion USD from 2010 to 2012.

There has been a large increase in bilateral Norwegian bilateral and multilateral climate finance since 2006, and a significant increase from 2010 to 2011. There are no official accounting figures for 2012 as of February 2013, but budget figures for 2012 indicate that the high levels of 2011 have been maintained in 2012. Norwegian financial contributions to international climate measures – mostly to mitigation –are now at a high level.

The Norwegian climate – and forest initiative as mentioned was launched at Bali in 2007, i.e. two years before COP 15 in Copenhagen. The initiative also formed a part of the parliamentary settlement on climate policy in 2008, where six of the seven parties in the Norwegian parliament (Stortinget) agreed to increase the level of support to USD 500 million per year. Norwegian FSF has increased significantly also after COP 15 in Copenhagen in 2009, and has thus provided a large contribution from a population of 5 million people to the pledge of 30 billion USD in FSF for the period 2010-2012.

The official reports from the Ministries of Environment and Foreign Affairs are transparent and easily available, and the responsible officials in these ministries are helpful and open to frank discussions regarding Norwegian grants to climate measures in developing countries.

Given the very large size of Norwegian ODA compared to the size of the economy and its population in general, and support for climate measures in developing countries in particular, there seem to be a number of challenges and possibilities for further improvements.

The first regards evaluating the results of the measures and the cost-efficiency of mitigation and adaptation measures. Result based financing implies that the money is actually distributed when verified results can be presented. This should be pursued further, and when credible and verifiable results are presented, no additional bureaucratic routines need to be used in order to actually receive the grants.

Recently apparent misuse of funds was disclosed in Norwegian REDD projects in an African country. There are, of course, always risks connected with ODA. Nevertheless, recent experiences indicate that the relevant Norwegian authorities should look carefully at ways and means to further improve routines and procedures for allocating bilateral climate finance in developing countries in order to avoid misuse of funds as far as possible. This is particularly important with respect to the perceived legitimacy of and public support for the funding.

Only public grants, mostly for mitigation measures, have been reported as Norwegian FSF finance. Since there are little private flows towards adaptation measures, Norwegian authorities may look for ways and means to increase the share that goes to adaptation measures in coming years.

Detailed and verified accounting information on the use of funds in 2012 is not available in March 2013. Thus, it would have been useful if the budget figures for 2012 – and future budget figures – were more detailed and climate specific.

Annex 1. Tables on Norwegian fast start climate finance

The data in the tables are from the official Norwegian reports (10 and 11) to the UNFCCC.

Total FSF	2010	2011
Bilateral	676.0	734.0
- thereof REDD+	450.0	336.0
10% of core support to climate-relevant multilateral institutions	33.2	39.4
Total	709.2	773.4

Table A1. Total Norwegian FSF contributions in 2010 and 2011 (USD million)

Objective	2010	2011
Mitigation only*	585.0	598.0
Adaptation only*	64.0	76.0
Mitigation and adaptation	27.0	60.0
Total	676.0	734.0

* Classified as "main objective" or "significant objective"

Table A2. Distribution of FSF contributions by objective (USD million)

Mitigation only	**2010**	**2011**
Africa	66.5	77.9
America	286.6	290.1
Asia	77.1	47.5
Europe	7.2	6.9
Not geographically allocated	147.2	175.3
Oceania	0.2	0.1
The Middle East	0.0	0.1
Total	584.8	597.9
Adaptation only		
Africa	22.1	48.1
America	3.7	3.8
Asia	11.9	10.9
Europe	0.0	0.0
Not geographically allocated	26.3	13.7
Total	**64.0**	**76.5**
Mitigation and adaptation		
Africa	4.3	39.6
America	0.0	0.1
Asia	5.7	6.7
Europe	1.1	0.0
Not geographically allocated	15.7	13.4
The Middle East	0.0	0.0
Total	**26.8**	**59.8**

Table A3. Regional distribution of FSF by objective (USD million)

Annex II. International climate finance: brief overview

What do we know?

In December 2009, at COP 15 in Copenhagen, industrialized countries set a goal of mobilizing USD 100 billion per year by 2020 for climate policy measures in developing countries.

According to a recent paper by Clapp, Ellis, Benn and Corfee-Morlot: "Tracing Climate Finance: What and How?" (IEA/OECD 2012), total climate-specific North-South financial flows were estimated to be in the range of 70 to 119 billion USD per year in 2009-2010, see (6):

-Public-Bilateral sources: 15 to 23 billion USD;

-Public-Multilateral Special Funds: 15 to 20 billion USD;

-Export Credits: 0,7 billion USD;

-The Clean Development Mechanism (CDM) 2,2 to 2,3 billion USD;

-Private philantropy: 0,4 billion USD ;

-Private Investment: 37 to 72 billion USD.

If these estimates can be verified as yearly and climate specific flows, at least 70 billion USD were flowing into developing countries in 2009 – one year after the global financial crisis of 2008. However, the authors do not claim that these are additional climate finance flows.

Furthermore, the wide differences between the lower and upper bounds for these estimates illustrate the very broad uncertainties. They depend upon a simple methodology, which "adds" the different types of climate finance listed above, from grants to other types of public development finance and private capital. Especially the estimated range for flows of private investment capital seems very large, and therefore especially uncertain.

The present key gaps in the data and the methodology for tracking international climate financial flows are further discussed and elaborated on in a recent paper by Clapp (7), and improvements in data sources and methods for compilation are called for. In this connection The Development Assistant Committee in the OECD is now focusing on ODA marker improvements and expansion, and a OECD-led research group is looking more broadly at other financial flows including the private sector.

Some existing and emerging multilateral funds

The Global Environmental Facility

The Global Environmental facility (GEF) is the world`s largest multilateral environmental financial fund. It is a financial mechanism for a number of conventions like the ones for climate, biodiversity, environmental toxins and deforestation.

Since its establishment some 20 years ago, GEF has spent 10.5 billion USD which in turn has released 51 billion USD in co-financing for 2700 larger and 14000 smaller projects. The board has 14 representatives from developed countries, 2 from emerging economies, and 16 representing developing economies. Norway is now represented on the board.

Under the GEF umbrella one finds, inter alia:

-A Forest Fund, financing some 200 deforestation projects, contributing US 1.5 billion of own resources complemented by more than USD 4.5 billion in co-financing;

-A Facility for Sustainable Urban Transport financing 37 projects worldwide, with USD 201 million in own resources and USD 2.47 billion in leveraged co-financing from private sources;

-A Technology Transfer Fund to implement the so called Poznan Strategic Program in this area with USD 50 million in financing so far;

-The Least Developed Countries Fund (LDCF) was established in 2001. As of August 2009, voluntary contributions of some USD 180 million had been mobilized for the LDCF, and its main objective so far has been to finance National Adaption Programs for Action (NAPAs) in LDCS.

The Climate Investment Fund

In 2008, on the initiative of some major players like the US, UK and Japan, a new Climate Investment Fund (CIF) was set up in order to demonstrate how developing countries can apply innovative strategies to initiate climate-smart transformation of policies, institutions and markets. Norway is represented on its board, and is actively supporting CIF politically and financially.

CIF consist of:

-The Clean Technology Fund (CTF) for demonstration, deployment and transfer of low-emission technologies for the reduction of GHG-emissions. Pledged funding as of December 2012 is USD 5.2 billion, and the program is structured through investment plans;

-The Strategic Climate Fund (SCF) consists of:

1. A Forest Investment Program (FIB) with pledged funding of USD 639 million;

2. A Pilot Program for Climate resilience (PPCR) with pledged funding of USD 1.3 billion;

-3. A Scaling Up Renewable Energy program in Low-Income Countries (SREP) with pledged funding of USD 505 million.

A large number of countries – including Norway – have recently pledged funding. For an update on CIF from January 2013, see (5).

The Green Climate Fund

In a report to The UN Secretary General by A High-Level Advisory Group on Climate Change Financing (November 2010), potential sources of climate financing for yet another new fund - The Green Climate Fund (GCF) – was discussed and estimated.

The Group emphasized the need for the importance of reasonable high carbon prices, and estimated possible sources of finance using high, medium and low ranges for carbon prices. They pointed out that the higher the carbon price, the steeper the rise in available revenues for the financing of climate policy measures, and the stronger the reinforcement of abatement potentials and different measures.

The Group listed the following possible sources of financing mitigation and adaption measures:

-Public carbon-market revenues;

-Taxes on international transport;

-Revenues from carbon markets;

-Taxes on financial transactions (A Tobin tax);

-Direct budget contributions.

The Group made estimates of possible revenues from these sources under different assumptions for the level of carbon prices. Since then it seems reasonably clear that taxes on international transport and financial transactions are off the table – at least in the near term.

At COP 16 it was decided to establish a Green Climate Fund (GCF), and at COP 17 it was decided to establish a board for GCF. Recently it was decided to establish a secretariat in South Korea, and the board has met twice. At COP 18 in Doha a number of questions, including the relations of the GCF to GEF and CIF, were discussed.

A key question is how much private capital may be leveraged by the GCF through the established Private Sector Facility, see Sierra (15).

GCF is still not operational, and it is uncertain when it will be.

Some Preliminary Questions and Observations

To finance climate policy measures in developing countries one has multilateral funds like GEF, CIF and the recently established GCF. They cover a large range of measures from mitigation and adaption measures to technology transfers, clean energy, deforestation measures and urban transport. However, GCF is not yet operational while there is increasing support for and pledges of funds to CIF.

In addition one has large bilateral public (ODA) funds – e.g. from Norway - and private financial flows, either as co-financing of public money, or as financing private projects. How to mobilize private finance for climate measures is an important area for further research.

According to Clapp et.al. (6), North-South yearly climate-related financial flows from private sources in 2009-2010 were estimated between 37 and 72 billion USD. And including public funds the total was estimated between 70 and 119 billion USD. One obvious area of surveillance and further research is to improve the methods and data sources for such estimates – especially regarding private investment flows – and to what extent these resources add up (or represent double counting), and to what extent they are additional.

As to the multilateral financing funds and institutions, and as GCF is not as mentioned not operational, one could ask questions like:

-How may GCF best add value to the established and operating funds GEF and CIF?

-And since these funds attempt to leverage private finance, how may that best be done in the present decade up to 2020?

For further details, see some issues raised in: "CIF and the Emerging Financial Architecture for Climate Change" (4).

Development of carbon markets and carbon prices will be key to climate polices, including the international financing of such measures, during the present decade and beyond. This is another area of surveillance and research.

And to arrive at more complete overviews of global climate financial flows, one would like to have statistics of such flows for developed countries and some of the most important BRICs – e.g. Brazil, China and India. And also climate specific financial flows from the Regional Development Banks (in Asia, Africa and Latin America). Reference is also made to the work carried out by DAC and the OECD-led research group on tracking climate finance.

Clapp in her recent paper (7) recommends several possible courses of action:

-Agee upon a common definition of "climate change finance", with applicable project types and financial flows;

-Determine the indicators and data needed to measure the success and cost-effectiveness of financial flows in terms of climate impacts;

-Adapt private-sector investment information for public use.

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CICERO (Center for International Climate and Environmental Research - Oslo)
CICERO (Center for International Climate and Environmental Research - Oslo) was established by the Norwegian government in 1990 as a policy research foundation associated with the University of Oslo. CICERO's research and information helps to keep the Norwegian public informed about developments in climate change and climate policy.

The complexity of climate and environment problems requires global solutions and international cooperation. CICERO's multi-disciplinary research in the areas of the natural sciences, economics and politics is needed to give policy-makers the best possible information on which to base decisions affecting the Earth's climate.

The research at CICERO concentrates on:

- Chemical processes in the atmosphere
- Impacts of climate change on human society and the natural environment caused by emissions of greenhouse gases
- Domestic and international climate policy instruments
- International negotiations on environmental agreements

CICERO (Center for International Climate and Environmental Research - Oslo)
P.O.Box 1129 Blindern, N-0318 Oslo, Norway
Visiting address: CIENS, Gaustadalléen 21, 0349 Oslo
Telephone: +47 22 85 87 50 Fax: +47 22 85 87 51
E-mail: admin@cicero.oslo.no www.cicero.uio.no