

# If not Norway, then who?



Report from the Norwegian Expert Committee  
on Climate Finance, April 2023

PHOTO: Håvard Bjelland/Norwegian Church Aid

# Summary

## THE CHALLENGE

**Climate finance needs to be multiplied by 2030.** Approximately USD 2,400 (2,000-2,800) billion per year is needed to finance climate change mitigation and adaptation actions, as well as loss and damage in emerging economies and developing countries (excluding China).<sup>1</sup> Estimates indicate that developing countries can finance roughly half of what is needed themselves, while around USD 1,000 billion must be financed by developed countries.

**Climate change hits poor countries the hardest,** but they are the least responsible for it. It is, therefore, a moral imperative that the climate transition – and the financing of it – is fair and just and based on human rights.

**The private sector can largely finance emission reduction.** However, to ensure swift mobilisation of such funds, public finances are needed to facilitate coordination and reduce risk. Higher interest rates, increased inflation, growing debt burden and heightened political risk in many developing countries reinforce the need for public spending to be used wisely to reduce the risk for private sector investments.

**Climate adaptation requires substantial public funding,** not least through concessional loans from development banks. The financing needs to be structured so that developing countries avoid accumulating new debt problems. Certain adaptation solutions (e.g. in land, forest and ocean) may also have the potential for private sector investment.

**Loss and damage must be financed primarily by public funding,** preferably through global or regional funding mechanisms. Poor countries that are hit the hardest by climate change must be prioritised.

## THE OPPORTUNITY

**USD 1,000 billion is an achievable amount** to mobilise for private and public sectors. In comparison, this amounts to the combined wealth of the world's eight richest people. The world's health budget during the COVID-19 pandemic in 2020 was about nine times higher.<sup>2</sup> A coalition of willing contributors is needed to mobilise the necessary global financing of climate action.

**Norway should take the lead in establishing such a coalition.** The situation calls for leadership, and the current geopolitical situation specifically calls for leadership from a country with great credibility and great resources. No one is better placed to take the initiative to accelerate and streamline global climate transition and development than a surplus nation like Norway.

## THE LEADERSHIP

The committee aims to point out a direction for how Norway can take such leadership with high human rights, climate and environmental integrity.

**“Global Green Guarantees”.** Norway initiates a coalition of willing countries to trigger considerable private sector investments in renewable energy and natural capital: a global green guarantee initiative.

**“New Climate Deal”.** Norway proposes an increase in the capital of the World Bank, contingent on a commitment to strengthened climate actions and the implementation of efficiency reforms. Norway should also support the Bridgetown initiative and channel its Special Drawing Rights (SDR) into climate finance.

**Norwegian instruments.** Norway strengthens its current national instruments used for climate finance, including faster capitalisation of the Climate Investment Fund and moving the Government Pension Fund's mandate for investments in unlisted infrastructure for renewable energy to a separate fund – NBIM Renewable.

**European initiative for loss and damage.** Norway takes the initiative to improve the financing of global climate funds and proposes, among other things, linking Norwegian adherence to the European Carbon Border Adjustment Mechanism (CBAM) with a requirement that a share of the revenue should be earmarked for loss and damage.

Norway can finance these initiatives without compromising the principles of responsible and long-term management of the revenues of its oil and gas resources. No one is better placed to take on this leadership. If not Norway, then who?

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# Part 1: Background to the Committee's work

## 1. Introduction

Climate change is accelerating, with very dramatic consequences. Emissions of greenhouse gases are continuing to increase globally, exponentially exacerbating the climate crisis each year. In the words of the Intergovernmental Panel on Climate Change: the choices and actions implemented in this decade will have impacts for thousands of years<sup>3</sup>.

Two factors are crucial to avert the most catastrophic climate change: political will and money. The Paris Agreement commits developed countries to provide financial assistance to developing countries for both emissions reductions and climate adaptation in continuation of their existing obligations under the United Nations Framework Convention on Climate Change. In addition, all countries are required to make their financial flows consistent with the goal to keep the increase in the global average temperature well below 2°C<sup>4</sup>. Financing is needed for emission reductions; for necessary adaptations to climate change; and to deal with loss and damage caused by climate change.

The Intergovernmental Panel on Climate Change's Sixth Assessment Report states that the current investments in climate mitigation actions must be increased manifold.<sup>5</sup> The Independent High-Level Expert Group on Climate Finance (IHLEG) estimates that emerging economies and developing countries (excluding China) need approximately USD 2,400 (2,000–2,800) billion annually in climate investments by 2030, of which USD 1,000 billion must come as *external* financing<sup>6</sup>. Climate change – and the fact that it affects some geographical areas harder than others – is already creating a growing need for funding for climate adaptation and financing for loss and damage. At the same time, an increase in mitigation actions will reduce the need for climate change adaptation. Similarly, the costs of loss and damage can be reduced by investing in climate change mitigation and adaptation actions.

A key measure to cut emissions from energy production, industry and transport is to invest in renewable energy sources that replace fossil energy sources and provide green energy for more people. In order to reduce the massive emissions from land use and land use change, major investments are needed in sustainable food systems, among others. Capital for such investments exists, but some of the regions with the greatest potential also have the greatest difficulty attracting financing. For example, Africa has around 60% of the global potential for solar energy, but investments have declined in recent years, accounting for only 0.4% of the world's total solar investments in 2022<sup>7</sup>. A renewable energy project in sub-Saharan Africa has a capital cost that is several times greater than a similar project in the US, Europe or China, on grounds of political and economic risk – perceived or real. The massive support measures for green investments that has been introduced or are planned in the US, Europe and China will make it even more difficult for developing countries to attract the capital they need.<sup>8</sup>

The crux of the current global debate on climate finance can be summarised as follows: how can rich countries contribute to public climate finance

and trigger major private climate investments in Africa, Latin America and Asia (excluding China)? And how can they at the same time ensure that developing countries receive sufficient funding for climate adaptation and loss and damage as a result of climate change that has mainly been caused by rich countries?

The debate on how the global community can close the financing gap will dominate 2023, with the Climate Finance Summit in Paris in June, the UN Climate Summit in New York in September, and the UN Climate Change Conference in Dubai in December. However, if the year is to result in more than just talk, countries need to take the lead by proposing concrete solutions. All countries, including the wealthiest, need to speed up climate action.

If a "surplus nation" like Norway, in the current situation with enormous, extraordinary revenues, does not take the lead, then who will?

## 2. Background and the Committee's work

This report is the result of the work of an expert committee on innovative sources of climate finance appointed by Norwegian Church Aid, Save the Children Norway, the Norwegian Red Cross, Norwegian People's Aid, Caritas and the Norwegian Refugee Council (hereinafter collectively referred to as "6H").

The Committee consisted of Vidar Helgesen (chair), Karoline Andaur, Steffen Kallbekken, Snorre Kverndokk, Ottar Mæstad, Naja Møretrø, Julie Rødje, Thina Saltvedt, Roger Schjerva and Sigrun Aasland.

The report expresses the Committee's assessments and recommendations, based on the mandate given by 6H. The Committee has worked independently with support from a secretariat consisting of the following people from 6H: Håkon Grindheim (head), Mari Hasle Einang, Kari Eliassen, Anne Smeby Evjen and Ida Strømsø.

In its work, the Committee has had meetings with Norwegian and international experts on climate finance, aid and development, loss and damage, adaptation and emissions reduction. The Committee has had meetings with: Tellef Thorleifsson from Norfund; Eirik Mofoss and Per Fredrik Pharo from Norad; Eric Nasby from KLP; Amar Bhattacharia from the Brookings Institute and the Independent High-Level Expert Group on Climate Finance; Baysa Naran from the Climate Policy Initiative; Pieter Pauw from Eindhoven University of Technology; Mattias Söderberg from DanChurchAid; Christa Clapp from CICERO Shades of Green; Sony Kapoor from the European University Institute and the Nordic Institute for Finance, Technology and Sustainability; Benito Mueller from Oxford University; Haakon Vennemo from Vista Analysis; Lars-Henrik Paarup Michelsen from the Norwegian Climate Foundation; Ole Jacob Sending, chair of the Norwegian expert group on financing for Sustainable Development Goals (SDGs); Jesse Hoffman, Carolien van Marwijk Kooij, Katherine Stodulka, Jeroen Huisman and Catharina Dyvik from the Blended Finance Taskforce; and Nisha Krishnan and Nate Warzawski from the World Resources Institute. The Committee has also benefited greatly from an analysis conducted by the

Blended Finance Taskforce, which is partly based on interviews with a number of representatives of Norwegian industry and the government administration.

### 3. Mandate

The Expert Committee has discussed how Norway can secure additional, innovative financing for climate action in line with international commitments and needs. The report presents the Committee's assessments of the questions and frameworks provided by the mandate and the Committee's recommendations.

The main challenge the Expert Committee has been asked to consider is:

- How can Norway secure additional, innovative financing for climate action in line with international commitments and needs that is in addition to and from sources other than the development aid budget, with a particular focus on mobilising investments and private capital?

The debate on the financing of climate change mitigation and adaptation initiatives, focuses on both where the money should come from and how it should be spent. The Committee has addressed both these issues. The possibilities for mobilising funds from different sources depend on how the funds will be used. It may be possible to mobilise more money by using the available funds in a catalytic manner; not least, certain government mechanisms can mobilise private investments.

The committee's understanding of the term "Climate finance" is financial support from developed countries for climate actions in developing countries and emerging economies in line with the UN Climate Convention and the Paris Agreement from both public, private or other sources.

The Committee does not understand "*innovative sources*" as ideas that no-one has ever come up with before. Over the years, there have been many proposals for sources of financing of climate action, in Norway and internationally. The Committee has attached greatest importance to proposing solutions that will enable Norway to optimise the global impact of its effort. This is largely a matter of political innovation, which in climate change work is far scarcer than technological and financial innovation.

As regards *additionality*, since the United Nations Framework Convention on Climate Change (UNFCCC) was established in 1992, there have been different interpretations of the requirement that climate finance must be additional to existing development aid. The Committee holds that the following considerations warrant a strict interpretation of the additionality requirement. Firstly, funding will have greater impact if it is clear whether the main goal is poverty reduction or climate action. Secondly, much of the global climate action must take place in countries other than the poorest, and its financing should therefore not be justified as poverty reduction. Thirdly, the poorest countries still need a high level of external financing to achieve other sustainable development goals than climate actions. And fourthly, the need for global climate finance – in developing countries and elsewhere – is far greater than both the current sources of

funding and the development aid budgets.

### 4. Key principles

The Committee has adopted a global perspective and considered how Norwegian climate finance can be optimised for global impact. This is in line with the international commitments Norway has assumed under the Paris Agreement and the UN Sustainable Development Goals and the fact that climate change is a global crisis. It is therefore crucial that Norwegian climate finance builds on the principles set out in these commitments and promotes environmental, economic, and social sustainability.

Norwegian climate financing must ensure open and inclusive processes. Support for democratic institutions and processes, the media and civil society are important prerequisites. This kind of support will also help promote the goals and principles set out in the Paris Agreement and the UN Sustainable Development Goals.

The Committee finds that human rights constitute the best and most concrete existing framework for ensuring climate justice and a just transition. Firstly, human rights impose specific obligations on states that in many cases are not fulfilled or are challenged as a result of climate change. Secondly, climate actions – public or private and for emissions reduction, climate adaptation, or loss and damage – can affect human rights. Today, human rights constitute established obligations not only for states; private companies are also increasingly being held accountable for the impact of their operations on human rights. The UN Guiding Principles on Business and Human Rights, which have largely been incorporated into Norwegian and European legislation, provide a starting point for verifying whether private companies are ensuring compliance with human rights both in their own operations and in the ripple effects their activities have<sup>9</sup>. In line with this, it must be ensured that Norwegian public funds do not directly or indirectly contribute to violations of human rights.

The "polluter pays" principle is central in both Norwegian and international climate policy. The purpose is twofold: to provide financial incentives to reduce polluting activities, and to ensure that the financial burden of climate mitigation and adaptation are carried by those responsible for emissions. In addition to the central principles of the Paris Agreement on historical emissions and economic capacity, this means that all countries have a responsibility to contribute to achieving the goals under the Agreement, but that some countries are more able than others and must therefore contribute more. As a country with high historical emissions and a very high economic capacity, Norway is one such country. Moreover, it is in our own interest to both avert the climate crisis and alleviate the consequences of climate change.

A number of low- and middle-income countries need to borrow in order to implement climate change measures. In this way, climate change and national debt burdens are intertwined, further limiting countries' ability to take action. Non-loan financing will therefore be particularly important for countries with the heaviest debt burden.

## 5. Climate finance – needs and status

### *The need for climate finance*

The need for public and private financing for climate change mitigation and adaptation actions is many times higher than the current level. Estimates from the Independent High-Level Expert Group on Climate Finance<sup>10</sup> (IHLEG) suggest that emerging economies and developing countries (excluding China) need approximately USD 2,400 (2,000–2,800) billion annually in climate investments by 2030. The IHLEG also estimates that these countries can finance roughly half of this, and that approximately USD 1,000 billion must therefore be provided as external financing.

These estimates show that the UNFCCC target of USD 100 billion in annual climate finance by 2020 covers only a fraction of the need. The fact that even this modest target has still not been met contributes to strong distrust in the international climate talks between developing countries and developed countries. Achieving this goal, which itself is only one small step, is therefore precarious. The process of setting a new target for climate finance is now underway in the UN and is scheduled to be completed by 2024<sup>11</sup>. The Committee holds that it will be important that this target reflects the actual need for climate finance.

### *Status*

#### *Norway*

Countries report to the UN on their contributions to climate finance every two years. Norway last reported on its contributions in December 2022. That report covered the years 2019 and 2020, the last years for which we have final figures. Norway's climate finance in 2020 amounted to USD 739 million (NOK 6,959 million).<sup>12</sup>

Norway's 2020 climate finance consisted of:

<b>Earmarked grants</b>  (including bilateral climate actions, earmarked funding to multilateral institutions and Norfund's investments)	<b>USD 489 million</b>  (NOK 4,607 million)
<b>Core support to multilateral organisations</b>  (estimated climate-specific share)	<b>USD 217 million</b>  (NOK 2,039 million)
<b>Mobilised private capital</b>  (all mobilised by Norfund)	<b>USD 33 million</b>  (NOK 313 million)

Preliminary figures from Norad indicate that Norway's climate financing increased to NOK 8.3 billion in 2021<sup>13</sup>. Of this, NOK 6.4 billion is for climate action within the development aid budget, while the remaining NOK 1.9 billion is Norfund's climate investments and private capital mobilised by Norfund. Virtually the entire increase from 2020 to 2021 can be attributed to Norfund's investments and mobilisation of private capital. In 2021, the Norwegian government set a goal of doubling Norway's climate financing from NOK 7 billion in 2020 to NOK 14 billion by 2026. Within this doubling, climate finance for adaptation is to be tripled.

### *Internationally*

The OECD's overview of international climate finance shows that donor countries reported climate finance of USD 83.3 billion in 2020<sup>14</sup>. This estimate is disputed. For example, Oxfam International points out that in many cases where a development aid project contains only a minor climate component, the entire project cost is reported as climate finance. Oxfam International estimates that the real figure might be as low as USD 21–24.5 billion.<sup>15</sup>

According to OECD, most of the climate finance is public support (USD 68.3 billion), while mobilised private capital accounted for USD 15 billion.

Of the public support, the majority was loans – USD 48.6 billion, i.e. more than 70%. USD 17.9 billion was grants, while USD 1.6 billion was investments.

Further, the OECD report shows that in the period 2016–2020, Asia was the region that received the most climate finance (42% of the total), followed by Africa (26%), the Americas (17%), Europe (5%) and Oceania (1%). Low-income countries received 8%, lower-middle-income countries 43%, higher-middle-income countries 27%, high-income countries 3%, and 19% are undefined.



PHOTO: Håvard Bjelland/Norwegian Church Aid

## Part 2: The Committee's assessments

### 6. Purpose, sources and mechanisms

#### EMISSIONS REDUCTIONS

In order to limit global warming in line with the Paris Agreement, anthropogenic emissions of CO<sub>2</sub> must be stopped, fossil fuels must be replaced by renewables, and the destruction of natural carbon sinks must be halted and reversed. The highest emissions are in the richest parts of the world, including some higher-middle-income countries, which is why the most drastic measures to reduce emissions must take place here.<sup>16</sup> At the same time, extreme poverty is to be eradicated, and the living conditions of the world's poorest must be improved in a sustainable way. Increased access to electricity in the poorest countries must therefore be based on renewable energy. Estimates of the financing needs for emissions reduction vary, but according to the IHLEG, some USD 500–600 billion will be needed annually for additional investments in energy transition in emerging economies and developing countries (excluding China) by 2030<sup>17</sup>.

Renewable energy is getting ever cheaper and will eventually outcompete fossil energy. However, in the short term renewable energy and the infrastructure still require large investments with uncertain returns. It is possible for private capital to finance the bulk of the investments in emissions reductions, but high financial risk is impeding the investments. There are several reasons for this, not least weak regulatory frameworks, inefficient tax systems, fossil fuel subsidies and political risk. As a result, there are few projects that are sufficiently well developed for investors, including those with a greater risk appetite and longer time horizon, to be able to assess them.

In order to realise sufficient investments in renewable energy and sustainable land use in emerging economies and developing countries, the focus is increasingly on using public funds to leverage private sector investments. The effect of these actions will be far greater if they are combined with green transition reforms. It is therefore important to link the actions to ongoing national reform processes, such as the Just Energy Transition Partnerships (JETP) and national energy transition processes.

#### ADAPTATION

Climate change adaptation means taking steps to reduce vulnerability to, protect against and prevent the harmful consequences of climate change. The need for climate change adaptation is closely linked to economic and social development, where poverty reduction is an effective strategy to reduce vulnerability and strengthen society's ability to adapt to climate change. The World Bank estimates that the impacts of climate change on extreme poverty can be halved through inclusive economic development.<sup>18</sup> This underlines the importance of ensuring that measures to adapt to climate change do not come at the expense of financing for development in a broader sense. On the contrary, investments must be strengthened on both fronts. UNEP<sup>19</sup> stresses that climate change adaptation measures must be adapted to the local context and build on real involvement of local communities and marginalised groups at all levels.

According to the IHLEG, the need for financing for adaptation in developing countries will be USD 200–250 billion per year by 2030<sup>20</sup>. Around 25% of the current climate finance for developing countries is geared towards adaptation, but it is unclear to what extent financing reported as adaptation actually addresses real needs<sup>21</sup>. Adaptation measures are largely financed by public funds. Since climate change adaptation is primarily about averting and reducing climate change-related risk, adaptation measures will tend not to be commercially profitable and are thus not as attractive to the private sector. Today, around 1.6% of adaptation financing is private capital<sup>22</sup>, but it is estimated that up to 20% could come from private sources<sup>23</sup>. Some private capital can be mobilised through insurance schemes.

Almost 50% of the international adaptation financing is market-based loans, while 25% is loans on more concessional terms and only 21% is grants<sup>24</sup>. The need for climate adaptation finance is huge in low-income countries, many of which have low capacity to take on more debt. A combination of grants and concessional loan financing is therefore needed, with mechanisms for mobilising private capital wherever feasible.

#### LOSS AND DAMAGE

In connection with climate change, "loss and damage" is the negative impacts of climate change that exceed what nature and humans can adapt to due to the physical limitations of adaptation, lack of access to resources, high vulnerability or the fact that the damage is permanent.<sup>25</sup> Poor and marginalised people in the Global South are particularly vulnerable to climate change-related loss and damage. According to the IPCC, 3.5 billion people's daily lives are highly vulnerable to climate change.<sup>26</sup>

Loss and damage measures can be implemented both before and after the loss and/or damage occurs. Loss and damage can be categorised along different dimensions: economic and non-economic; avoidable, unavoided and unavoidable; sudden onset (e.g. extreme weather events) and slow onset.<sup>27</sup> Due to a lack of political consensus, there is no official definition of loss and damage, and there are no official systems for reporting funding for loss and damage.<sup>28</sup> The need for financing is difficult to assess, partly because of uncertainty and lack of knowledge, especially regarding non-economic losses and damage caused by slow onset changes.<sup>29</sup> Estimates show that over the past two decades, the 55 countries in the V20 forum for climate-vulnerable economies have lost around 20% of their gross domestic product (GDP), equivalent to USD 525 billion, due to climate change.<sup>30</sup> This indicates unequivocally that some are already bearing the cost of climate change-related loss and damage. These figures are expected to increase dramatically, albeit depending on the level of emissions reductions and climate change adaptation, social and economic development, and natural variables. The IHLEG estimates that the need for loss and damage financing will be USD 150–300 billion annually by 2030,<sup>31</sup> but points out that these figures are uncertain.<sup>32</sup> There are particularly large shortfalls in financing losses and damages that has already occurred, non-economic loss and damage, and loss and damage due to slow onset changes, but also timely funding for poor and vulnerable communities.



If the costs of climate change-related loss and damage are not covered by international climate finance, it is the local population that bear the brunt. In view of this, and the limitations related to loan financing and mobilisation of private capital in this context, loss and damage financing must mainly be covered by public financing.<sup>33 34</sup>

#### WHAT SHOULD NORWAY'S CONTRIBUTION BE?

In the words of the current Norwegian prime minister, Norway is a "surplus nation".<sup>35</sup> Virtually no other country has greater relative economic room for maneuver. Much of Norway's wealth is because the world has failed to pursue a climate policy that would have benefited humanity and the planet. Norway has both high economic capacity and high per capita emissions – today and historically. The principle of responsibility in the Paris Agreement is based on national economic capacity and historical emissions. This indicates that countries like Norway must contribute more, both in terms in domestic emissions reductions and climate finance, than countries that are less able to contribute.

Norway has a responsibility to reduce domestic emissions and to contribute to climate finance. Norway's responsibility for global climate finance has previously been estimated at NOK 65 billion per year.<sup>36</sup> Another way of illustrating how Norway's contribution should be is to estimate Norway's share of the USD 1,000 billion climate finance gap.<sup>37</sup> If this gap is divided among high-income countries relative to gross national income (GNI), Norway's share will be 0.67%<sup>38</sup> or about USD 6.7 billion. The Committee wishes by this to illustrate the magnitude of what Norway's contribution should be, from both public and private funding.

#### 7. Norwegian global leadership is necessary – and possible

The huge gap in global climate finance is high on the international agenda in 2023, but there is currently no sign of any initiatives that are anywhere near proportionate to the challenge. Someone has to show leadership and take the initiative. The global economy is in turmoil. Inflation, high interest rates and political uncertainty have made capital considerably more expensive, not least in countries and regions with the least private investment in projects to address climate change. Aggressive measures are therefore required to mobilise private investment capital.

Public budgets are under pressure in many countries. Norway is part of a group of oil and gas-rich countries that have profited massively from Russia's war of aggression against Ukraine. However, most of the countries in this group do not have a tradition of taking global leadership on climate change. If Norway does not lead the way, it is hard to see who else will.

Norway can assume this leadership role without compromising on the principles for the management of our oil and gas wealth. Several of the recommended measures will not have major direct costs, but the Committee will highlight ways of maximising Norway's room for maneuver.

With a view to leveraging financial resources for climate finance, the Committee will highlight the following main sources:

- Mobilisation of private capital
- New and higher taxes on greenhouse gas emissions
- Making use of the room for maneuver within the framework for the Government Pension Fund Global (the Oil Fund)

Many of the investments needed to reduce greenhouse gas emissions can be financed using **private capital**. However, the risk premium that investors require to invest in middle- and low-income countries is often so high that otherwise profitable investments are not carried out. The public sector can help mobilise significant climate finance from private sources by reducing this risk. In particular, the Committee would highlight green guarantees as a promising instrument to realise this potential. This is discussed in more detail in section 8.1 – Norwegian-led global initiative for green guarantees.

Various forms of **taxes on greenhouse gas emissions**, including taxes on the sale of carbon credits, are another possible source of international climate finance. These kinds of levies are based on the polluter pays principle, whereby emitters must take on the costs of pollution, while the revenues from these levies provide opportunities to compensate those who are negatively affected. In view of international environmental problems, it will be particularly relevant to earmark revenues from these kinds of taxes to compensate people who suffer losses as a result of climate change. Some forms of carbon-related taxes have been discussed for several years, while others are relatively new. Although these taxes can finance a number of different measures, the Committee has viewed them in the context of financing the climate funds under the UN. This will be discussed in more detail in section 8.4 – Increased funding for the UN climate funds.

The third main source is to use the **room that exists within the framework for the management of the Oil Fund**. Norway has great potential to boost international climate finance within the established framework for the management of Norway's oil and gas revenues, and the Committee holds that this room for maneuver should be used to take leadership on international climate finance.

Norway currently transfers less from the Oil Fund than the fiscal rule allows for (see fact box on page 11). There has been considerable accumulated underspending since the fund was established, and the white paper "Long-term perspectives on the Norwegian economy" predicts that this trend will continue up until at least 2040. Norway's current extraordinary revenues as a result of war and high energy prices will contribute to substantial additional returns that will further increase Norway's financial room for maneuver.

In the interests of economic stability, there is a limit to how much of the increase can be used to boost public spending in Norway in the short term. However, it can be used internationally, as this will not impact the Norwegian economy. There are several good reasons for taking advantage of this opportunity:

Firstly, international efforts to combat climate change will benefit future generations. Instead of increased saving in the Oil Fund to ensure that even more money is transferred to future generations, the Committee finds it wiser to use it now to invest in actions that will reduce the likelihood of severe climate change.

Secondly, there are moral arguments for sharing the profits. The international attention and debate regarding Norway's extraordinary petroleum revenues as a result of the war in Ukraine have made it clear that the rest of the world expects Norway to assume greater international responsibility.

Norway is also benefiting from the absence of effective international action to tackle climate change. This has resulted in higher demand and higher prices for fossil fuels, thereby boosting the value of the Oil Fund, while at the same time resulting in climate change that has the greatest impact in poor countries. This gives us a moral responsibility to take action.

As illustrated below, the increased room for maneuver can be used in a variety of ways within the framework for the management of the Oil Fund.

**Transfers from the Oil Fund can be increased to 3% of the capital in the fund.**

In the National Budget for 2023, the Ministry of Finance estimates that the government will spend 2.5% of the fund's capital in 2023 and that the gap up to the 3% trajectory amounts to NOK 58.2 billion.<sup>39</sup>

**A share of the return on the Oil Fund can be allocated to international climate finance each year.**

The increased transfer from the fund is rooted in the argument that climate change is an existential threat to future generations whose interests the Oil Fund is supposed to safeguard. This can be done by earmarking a fixed share of the expected return for international climate finance each year, on top of what is otherwise transferred to the fiscal budget. This would also provide predictability. Examples of what this might constitute:

- 0.25 percent of the Oil Fund's capital in 2023: NOK 31.3 billion
- 0.5 percent of the Oil Fund's capital in 2023: NOK 62.5 billion

**The Committee recommends that:**

*Norway makes use of the room for maneuver within the limits set by the fiscal rule to strengthen Norway's role in international climate finance.*

**The EU solidarity contribution for fossil fuel sector**

The EU has introduced a temporary mandatory solidarity contribution on the profits of businesses active in the crude oil, natural gas, coal and refinery sectors. This solidarity contribution will be calculated on taxable profit that is 20% higher than their average annual taxable profit since 2018. The solidarity contribution will apply in addition to ordinary taxes in the member states.

The member states will use the revenues from the solidarity contribution to provide financial support to households and businesses and to mitigate the effects of high electricity prices for the end users.

## Room for maneuver within the framework for the Government Pension Fund Global (the Oil Fund)

Norway has considerable room for maneuver within the established framework for the management of Norway's oil and gas revenues.

The fiscal rule is the key principle for withdrawals from the Oil Fund. The rule states that over time the transfer from the fund to the central government budget shall not exceed the expected real return on the Oil Fund, estimated at 3% (4% before 2018). At the same time, transfers from the Oil Fund must not be higher than is consistent with stable economic development in the mainland economy.

Transfers from the Oil Fund have over time been lower than the fiscal rule trajectory allows for. In the period 2001–2022, transfer from the Oil Fund to the fiscal budget was more than NOK 500 billion (in current prices) below the fiscal rule trajectory, despite significant additional transfers during the pandemic.<sup>1</sup>

This trend looks set to continue. In the Fiscal budget for 2023, transfers from the Oil Fund amount to 2.5%. This is NOK 58 billion below the 3% trajectory. Even after the extra aid package to Ukraine, it is still below the 3% trajectory by NOK 38 billion.

In the white paper "Long-term perspectives on the Norwegian economy" from 2021, it is assumed that on average transfers from the Oil Fund will be lower than the 3% trajectory up until 2040. The enormous increase in Norway's petroleum revenues in recent years, mainly as a result of Russia's attack on Ukraine, will increase this gap further. Even though the war has led to a drop in share prices, the overall value of the Oil Fund has risen sharply. Estimates indicate that since the publication of "Long-term perspectives on the Norwegian economy" the room for maneuver has increased by around NOK 100 billion per year.<sup>2</sup> This may be even higher if petroleum prices remain high over the next few years. In the interests of ensuring a stable development of the Norwegian economy, this extra revenue should not be phased into the economy in the short term. The gap to the 3% trajectory is therefore likely to increase in the coming years.

However, ensuring a stable development of the Norwegian economy does not prevent Norway from using the excess revenue for climate finance. In this context, the Committee presumes that climate finance will be used internationally and that it will be designed in such a way that it does not pose an inflationary risk for the Norwegian economy.

One argument for staying below the 3% trajectory in normal years is that since the Oil Fund has grown so large, a sharp drop in the value of the fund might necessitate abrupt cuts in public expenditure or increases in taxes. However, this is not an argument against using the extra room for maneuver for international climate finance, which can be more easily adjusted from year to year.

<sup>1</sup> Report no. 1 to the Storting (2022–2023). The National Budget 2023. The Ministry of Finance. <https://www.regjeringen.no/no/no/dokumenter/meld.-st.-1-20222023/id2931224/>

<sup>2</sup> In the National Budget for 2023, the government describes two trajectories for the increased room for maneuver (Report no. 1 to the Storting (2022–2023), box 3.5): one trajectory with continued high gas prices and one trajectory with more normal gas prices. Within these trajectories, the room increases by 3.7% and 2.4% of trend GDP, respectively. According to the Committee's calculations, this corresponds to between NOK 80 and 130 billion. The white paper "Long-term perspectives on the Norwegian economy" was based on a Oil fund value of **NOK 10,400 billion**, while the current value of the fund (on **16 April 2023**) is **NOK 14,300 billion**. This entails an increase in the room for maneuver of **NOK 117 billion**.

## 8. Sources and mechanisms for climate finance

The Committee has four recommendations for Norwegian leadership.

1. Norway should lead the way in establishing a coalition of countries to mobilise private investment that reduces greenhouse gas emissions – a global green guarantee initiative.
2. Norway should lead the way in increasing and streamlining multilateral banks' climate investments.
3. Norway should strengthen its own national mechanisms for climate investments.
4. Norway should take the initiative to improve financing of global climate funds.

### 1. *Norwegian-led global initiative for green guarantees*

There has long been broad consensus that a substantial share of the global climate finance must be private capital<sup>40</sup>, especially in projects that can yield financial returns, such as green technologies and, not least, renewable energy. The mobilisation of private capital for these purposes has remained modest. It is therefore important to identify what is needed to mobilise significantly more private investment.

The OECD highlights guarantees as the most effective instrument for mobilising private capital, because payment will only occur if and when a debtor defaults (as opposed to, for example, subsidies).<sup>41</sup> Estimates show that the development banks' guarantees mobilise *5–6 times more private capital* for climate finance than other instruments such as loans, equity and concessional loans. Guarantees make up only 4% of the development banks' climate finance, and they account for more than 21% of mobilised private funding.<sup>42</sup> Government guarantees, such as

in Sweden, have had even higher leverage ratio than the development banks.<sup>43</sup>

Guarantees are thus an efficient use of public funds. Government guarantees, which are “unfunded guarantees”, are particularly effective because the government does not need to set aside capital in advance, but only needs to make payments if the guarantee is triggered. In theory, these kinds of guarantees can be entirely *self-financing*, in that the recipient of the guarantee must pay a guarantee premium corresponding to the expected loss and administrative expenses. A Norwegian government guarantee will be attractive even if there are other guarantee providers, as it will have lower capital requirements (capital reserves that must be set aside) and can therefore be offered at a lower cost than private guarantees. In addition, Norway has AAA rating, the highest possible credit rating, meaning a Norwegian guarantee is considered extremely strong, contributing to reduced borrowing costs for the recipient. Only 12 countries in the world and a few private providers have AAA rating.

Guarantees have a high degree of flexibility. Projects in any sector and in different phases of a project’s lifetime (construction, start-up, operation) can be guaranteed. Guarantees can also be tailored to cover the specific risks that are difficult or impossible for the private sector to take on alone (also risks such as being exposed to acts of war).

The Committee notes that there is significantly more private capital that must be invested to achieve the goals of the Paris Agreement and the UN Biodiversity Framework. Guarantees is a good instrument for mobilising capital, but there are currently insufficient national or multilateral guarantee mechanisms for investments in climate change actions. There are some international guarantee arrangements, such as the World Bank’s Multilateral Investment Guarantee Agency (MIGA). However, MIGA provides “funded guarantees”, meaning capital reserves is set aside with a high alternative cost. In addition, MIGA does not primarily provide guarantees for climate-related projects. A Norwegian guarantee initiative could be designed in such a way that it can be used by MIGA and other multilateral arrangements.

Norway has a strong financial position and has the political credibility to assume leadership. The Committee proposes that Norway take the lead in establishing a green global guarantee scheme to mobilise private investment in emerging markets and developing countries. Norway should not only make a substantial initial contribution but should also conduct a political and diplomatic campaign to invite other donor countries to cooperate, with the promise of a further and significantly larger Norwegian contribution if other countries participate. In this way, a Norwegian initiative will be able to mobilise far more than just Norway’s contribution. The initiative should offer guarantees, provide technical assistance for project development, and partner with other sources of catalytic capital to be a one-stop shop for investors. The initiative should target emerging markets and developing countries in sub-Saharan Africa, South- East Asia and Latin America, and primarily cover investments in energy and natural systems.

Estimates by Systemiq/Blended Finance Taskforce based on other, smaller guarantee schemes indicate

that a guarantee exposure of USD 13 billion with a subsidy of USD 1 billion will realistically be able to de-risk up to USD 18 billion and mobilise of up to US 30 billion. These kinds of calculations are always uncertain, but they are a good illustration of the point raised by the OECD among others that guarantees are the best instrument for mobilising private investment capital.

A major challenge in many markets is that even if capital is made available, regulatory barriers, lack of expertise or inadequate capacity impede investments. A new guarantee scheme should therefore be accompanied by political and diplomatic dialogue on creating good conditions for investments, through necessary regulatory and fiscal reforms, such as the abolition of fossil subsidies or subsidies that encourage tropical deforestation or excess use of fertiliser. These kinds of dialogues are most effective when they take place in multilateral channels or consortia, such as the Just Energy Transition Partnership that various actors including the US have entered into with South Africa and Indonesia. It will also be natural to link it to the new Norad programme “Renewable energy for development”. Good management of national and local revenues through capacity building among authorities, preparation of management legislation and strengthening of local ownership will be key elements of the programme.

Funds for technical assistance and project development should be set aside to ensure increased inflow of good investment-ready projects. This can be done in collaboration with other actors – for example in a Nordic partnership. Subsidised guarantee premiums will also help more projects become profitable.

It is important that government guarantees are issued within a framework that takes into account debt sustainability, human rights, protection of nature and food security. Furthermore, the guarantees in public-private investment agreements must be issued within financial limits set by the Norwegian Parliament with a fixed upper limit. The financial scope of issued guarantees must be reported annually to the Ministry of Finance to ensure that the total obligations do not exceed the ceiling. The Committee holds that this money should not be financed by the development aid budget of 1% of GNI, since the main purpose here will be to cut greenhouse gas emissions. More details on the organisation of such a global initiative needs to be further elaborated.

**The Committee recommends that:**

*Norway takes the initiative to establish a major global green guarantee scheme.*

## 2. *Strengthening the multilateral development banks' climate efforts: "New Climate Deal"*

The multilateral development banks – the World Bank and the regional development banks – are a suitable platform for scaling up climate finance, particularly for climate change adaptation. Development banks have a broad development mandate, and a substantial share of their funding is already focused on climate change projects. Increasing the capital in these banks will result in more funding for climate change actions and general economic development and poverty reduction.

These banks can blend concessional loans and grants. In this context, the Committee would point out that the loans for climate change actions should be on concessional terms and with interest rates lower than the market rates. It is also important to conduct robust debt sustainability analyses in advance. Disaster clauses would also be a good instrument, with an immediate payment moratorium and freeze on interest rates if a country is hit by a climate catastrophe. This will free up capital, enabling the country to respond immediately.

The sheer size of the development banks enables them to contribute to solutions at a system level and not just in individual projects. It is not only financing that is required for a successful transition; institutional and political framework conditions will often need to be changed to enable the necessary investments. Multilateral organisations are better equipped for this than individual donor countries or investors.

Discussions are currently underway about strengthening the World Bank's commitment to climate action. These discussions have intensified with the new president of the bank and have been partly characterised by disagreements over influence and voting rules. A general injection of funds to the World Bank by all donor countries is one possible way to boost climate action, but this is not realistic in the short term. Various proposals are therefore being discussed that could potentially boost the capital of the World Bank and the other development banks significantly at no cost to the owners. One of the proposals is that countries can increase their guarantees for the World Bank's capital, which would allow the bank to increase its *borrowing ratio*. A higher borrowing ratio means the bank can borrow more from the market per dollar of paid-in capital from the owners, which is then lent out to the banks' clients. An independent review initiated by the G20<sup>44</sup> concludes that this is possible without any deterioration in the banks' creditworthiness, and the potential for additional capital is estimated at several hundred billion US dollars.

There are also discussions about making Special Drawing Rights (SDRs) available to the development banks. SDRs is an international reserve asset allocated to the IMF member countries, often in connection with serious global financial crises, that can be exchanged for hard currency. In response to the COVID-19 pandemic, a general SDR allocation was implemented. Much of the reserves ended up in countries with relatively limited needs, and several countries have since offered to make some of their SDRs available so that they can be recycled to developing countries. The IMF has established a new fund – the Resilience and Sustainability Trust Fund (RSTF) – to provide loans for climate

change actions, among other things. The IMF has encouraged countries to channel their SDRs to this fund. The African Development Bank is developing a mechanism to enable SDRs to be transferred directly to them.<sup>45</sup> Change in the use of SDRs is also part of the much talked about Bridgetown initiative, where a new investment fund, the "Climate Mitigation Trust" has been proposed, which can take out loans guaranteed by SDRs<sup>46</sup>. Norway has a reserve of 5.5 billion SDRs<sup>47</sup>. Of this, 3.6 billion SDRs were allocated to Norway in response to the pandemic.

This is part of a major international debate. The issue is complicated, but the Committee nevertheless holds that Norway is in a good position to make constructive contributions, and that Norway should actively support the processes to increase the capital of the development banks, both by making use of existing capital and through injections of new equity.

### **Individual capital increase**

Norway can take the initiative to increase the World Bank's capital without requiring changes to the voting rules, while encouraging other countries to do the same. This will send a powerful signal from Norway that has the potential to gain momentum and inspire other donors. Increasing the capital of the World Bank by USD 9 billion (approximately NOK 90 billion) would double the Bank's capital and significantly boost the Bank's lending power. The current lending rules at the World Bank limit the Bank's opportunities to make transformational contributions to major economies. The contribution from the World Bank's core institutions (IDA/IBRD) to climate finance should primarily be for climate change adaptation. As part of its broader development agenda, the Bank should also support the development of renewable energy in areas where it is otherwise difficult to attract private capital. Norway should not support demands from other member countries to shift the Bank's focus more towards financing emissions reductions in middle-income countries. As many poorer countries have pointed out, this will come at the expense of more direct action to reduce poverty and inequality.

### **Returning SDRs**

Norway can commit to making a large portion of its SDRs available so that they can benefit developing countries. With its substantial wealth, Norway is among the countries least in need of these kinds of reserves. Countries must work together to put this into practice. Norway should seek to collaborate with the UK and other countries that are now considering this option. This would provide completely new opportunities for the use of SDRs through the development banks. Alternatively, Norway can channel its SDRs via the IMF's Resilience and Sustainability Trust Fund.

### **Guarantee the World Bank's capital**

Norway can issue guarantees for the Bank's general capital or for specific parts of it. This would enable the Bank to do more. Not least, it would be able to take greater risks, thereby increasing its efforts in the least developed countries where it is difficult and often very expensive to raise capital.

### **The Committee recommends that:**

*Norway should be a driving force for strengthening the multilateral development banks' climate change and development actions by increasing borrowing ratios, by*

providing extended guarantees and providing additional funding, including by making Norway's Special Drawing Rights available, where possible.

### 3. Stronger national instruments for climate investments

The Norwegian Government Pension Fund Global (the Oil Fund) is one of the world's largest sovereign wealth funds and has therefore an impact on the wider global investments.

The Oil Fund is used as a standard and reference for other funds around the world, particularly with regard to its ethical standard. The purpose of the fund is to safeguard and build financial wealth for future generations, and the Committee holds that this also includes promoting investments that steers the world in the right direction.

The Oil Fund does not invest in coal, it follows strict ethical guidelines, and up to 2% of the fund can be invested in unlisted renewable energy infrastructure in OECD countries. The Oil Fund was granted permission to invest directly in renewable energy infrastructure in 2020, and the first investment was made in 2021. The management mandate contains an upper limit for these investments, set at 2% of the fund's investments. At the close of last year, actual investments in renewable energy infrastructure amounted to NOK 12.4 billion, which is well below the ceiling for infrastructure investments. In other words, there is potential for considerable further investment under the current mandate. There is an ongoing discussion about raising this ceiling and extending the geographical distribution of this mandate to Asia and Africa, which is not possible under the current mandate. The Committee is of the view that it is necessary to revise the mandate for the fund, while retaining the current management practices and expectations regarding return. The Committee will propose changes that can ensure increased investments in renewable energy infrastructure, without affecting transfers from the Oil Fund.

#### Establish a dedicated fund for climate investments: "NBIM Renewable"

The Committee proposes the establishment of a separate fund within NBIM (Norges Bank Investment Management): NBIM Renewable. Investments are influenced by the organisation and expertise of the investor. The Committee therefor finds that it may be

appropriate for the funding for climate investments to be managed by a separate unit within NBIM, which is to invest exclusively in projects that have a positive climate impact. The mandate for NBIM Renewable should define the investment universe and risk limits for the new fund, including limits for investments in renewable energy infrastructure also in emerging markets. Giving NBIM Renewable a separate mandate will provide it with greater freedom to take slightly higher risks within the same risk-adjusted return requirement that applies to the Oil Fund. This will also ensure that the Oil Fund's usual risk profile is not impacted.

An alternative to a separate fund could be to raise the ceiling for the Oil Fund's investments in unlisted renewable energy infrastructure from 2% to 5%, to allow for investments in Africa and Asia, and to set a lower limit of, for example, 1%, which at the current value of the Oil Fund would mean that investments should amount to at least NOK 140 billion. The Committee is nevertheless of the view that it would be more efficient to establish a separate fund in the range of 2–5%, thereby ensuring clearer assignments and building up relevant expertise. Assigning NBIM to manage NBIM Renewable will enable prompter start-up, and the ensuing economies of scale will keep the costs low.

NBIM Renewable can also develop a team of transaction advisers who can help build expertise, give advice and bridge the gap between different public and private sources of capital, thereby contributing to better utilisation of different types of capital, guarantees and projects.

#### The Committee recommends that:

*It should be assessed how the Government Pension Fund can boost investments in projects and businesses with a clear positive climate impact by establishing a special fund for investments in renewables, called NBIM Renewable, which will have its own mandate.*

#### Increasing the capital of the Climate Investment Fund

The Climate Investment Fund, which invests in renewable energy in developing countries, started operating in 2022 and has to date invested in projects in India and South Africa. Managed by Norfund, the Climate Investment Fund is planned to be scaled to NOK 10 billion over five years, through an annual allocation of NOK 1 billion from Norfund's equity and NOK 1 billion from the fiscal budget.

The table below shows how different sources of financing for renewable energy and emissions reductions can supplement each other.

Purpose	High development impact, high additionality, lower climate impact	High climate impact, high additionality, lower development impact	High climate impact, more mature projects
Type	Access to electricity through renewable energy that does not replace fossil fuels	Replace fossil energy sources with renewables, project development in the early phase	Invest in more mature or existing renewable energy projects with a long horizon, freeing up capital from more risk-tolerant players
Organisation	Norfund	Climate Investment Fund	NBIM Renewable
Risk	High	Moderate/high	Moderate

The Climate Investment Fund has a clear mandate to contribute to reducing or avoiding greenhouse gas emissions, by “investing in renewable energy in developing countries where greenhouse gas emissions are or are expected to be large, and where climate investments can contribute to moving away from coal and other fossil fuel energy production”. The goal of the Climate Investment Fund is to help activate investments “that would otherwise not be made” i.e. support additional investments. For smaller-scale projects with a high development impact and greater focus on energy access, Norfund’s energy investments have a clear development mandate. The Climate Investment Fund builds on Norfund’s existing expertise and organisation, and is a structure that has already been vetted and is well established. The scope for more projects is currently limited by the fund’s capital and prospects for injection of new capital. With a larger capital base, the Climate Investment Fund could have invested more heavily in national energy transition processes and expanded more rapidly to other countries. For example, an increase from NOK 10 billion to NOK 100 billion would enable the Climate Investment Fund to take a much stronger position in countries with large potential for emissions reductions and where projects are framed by national energy transition processes such as the Just Energy Transition Plans (JETP), but are still too immature for purely commercial investments.

For the Climate Investment Fund, Norfund’s local knowledge and affiliation with the Norwegian government are in themselves risk-reducing, as well as helping to reduce *perceived* risk. When the Climate Investment Fund was established, Norfund’s practice in respect of provisions for loss was followed, such that 25% of the annual NOK 1 billion allocated via the fiscal budget was recorded as expenditure in the fiscal budget, while 75% was recorded as an investment. Originally it was envisaged that only the provision for loss would be counted as development aid within 1% of Norway’s GNI, while in the final allocation the entire amount of NOK 1 billion was recorded as development aid and within the framework of 1%. On average over time, Norfund has not recorded a loss. The Parliament’s budget

regulations probably require that some funds must be set aside to cover potential loss, but the size of the provision for loss needs to be reviewed, or whether the risk of loss can be managed in some other way.

The Committee finds it important that this type of capital is available to the least mature renewable energy projects. The Climate Investment Fund is a useful tool in this respect.

**The Committee recommends that:**

*The capital in the Climate Investment Fund should be increased substantially. This capital should be entered as a capital transaction.*<sup>48</sup>

*Of the capital transferred to the Climate Investment Fund from the fiscal budget, only the provision for losses should be counted as development aid. The Committee also proposes to appoint an independent expert committee to assess whether there are grounds for changing the size of the provision for losses and whether more efficient mechanisms can be used to safeguard the considerations covered by the current provision for losses.*

4. *Increased funding for the UN climate funds*

Within the considerable financial room for maneuver Norway has to increase its investments in climate change-related projects, priority should be given to support for the funds under the United Nations Framework Convention on Climate Change (UNFCCC): the Green Climate Fund (GCF), the Adaptation Fund and the newly established Loss and Damage Fund. As multilateral mechanisms, these funds are important in principle by boosting confidence and ensuring progress in global climate negotiations. Increased Norwegian support should be contingent on the funds also proving cost-effective in practice, ensuring a high degree of transparency and safeguarding human rights.

In addition to obtaining funding from individual countries, a system should be established to ensure efficient, stable and predictable global funding

### *Relevant funds under the United Nations Framework Convention on Climate Change (UNFCCC)*

*The Adaptation Fund* is particularly important for ensuring direct access to finance for small-scale climate change adaptation projects in the least developed countries. This fund is thus an effective mechanism in areas where there is a severe shortage of climate finance. The financing of the Adaptation Fund has been rather unpredictable, and there have long been discussions about innovative ways of ensuring more stable and adequate sources of income for the fund.

*The UN Loss and Damage Fund* was established at the 2022 UN Climate Summit (COP27) under the agreement to create a “mosaic” of funding arrangements for responding to loss and damage in developing countries. The operationalisation of the new funding arrangements is still to be ironed out, and a transition committee has been appointed, which will make its recommendations at the climate summit in 2023. The transition committee has been tasked with identifying and expanding the sources of funding for the new Loss and Damage Fund and the “mosaic”, as well as considering innovative sources of funding.

*The Green Climate Fund (GCF)* is the largest channel for climate finance under the United Nations Framework Convention on Climate Change (UNFCCC). The GCF aims to balance financing of adaptation measures and emission reduction 50/50, and has a strategy to increase mobilisation of private capital.

mechanisms for these funds, based on the polluter pays principle. This has been – and still is – the point of departure for the funding of the Adaptation Fund, with plans to base it on a share of the carbon credits from the Kyoto Protocol and the market mechanisms of the Paris Agreement (see box).

The Committee would particularly stress that in the ongoing talks on loss and damage, Norway should attach importance to sources that are based on international consensus and promote multilateralisation of loss and damage finance. Finance from such sources cannot easily be linked to an admission of responsibility and a duty to compensate. This will be in Norway's interest as a country that obviously will be facing litigation risk because of historical contributions to global climate change.

The Committee notes that it is both very difficult and very time-consuming to develop new, effective solutions for global climate finance. There may be greater potential in developing models for regional financing of climate initiatives, like the WCI emissions trading market in California and Quebec. As a participant in the EU Emissions Trading System (EU-ETS), Norway can initiate a discussion in Europe on channeling proceeds from the EU ETS to global climate finance.

An even more relevant source of global climate finance in Europe would be the EU's new Carbon Border Adjustment Mechanism (CBAM), which is intended to ensure that goods imported into the EU are subject to a carbon tariff corresponding to the price of EU ETS allowances. The mechanism is intended to prevent it from becoming profitable to import goods from countries with laxer climate policies, or to move carbon-intensive production out of the EU area. Initially, the mechanism will cover particularly carbon-intensive goods that have the greatest risk of causing carbon leakage. The mechanism will be phased in gradually.

The CBAM will in practice obtain financing from global greenhouse gas emissions. As the leading driver of global climate efforts, it would not be unthinkable for the EU to allocate a share of the CBAM revenues to global climate initiatives, not least to compensation for loss and damage caused by the global activities covered by the CBAM. This kind of permanent allocation would also be a good response to the criticism the CBAM has received from developing countries, which hold that their exports to the EU market will be unfairly penalised.<sup>59</sup>

The revenues from the CBAM are currently to be allocated to the EU Recovery Fund. The revenue from the CBAM will constitute a very modest portion of this fund. By contrast, the CBAM could make a very significant contribution to global climate finance. The CBAM is expected to generate revenues of almost NOK 110 billion per year.<sup>60</sup>

The Norwegian government has not yet decided whether it regards the CBAM as EEA relevant. There are strong climate-political reasons why Norway should join the CBAM. Adopting the CBAM could be linked to a proposal that a portion of the CBAM revenues be allocated to global efforts to compensate for loss and damage caused by climate change.

**The Committee recommends that:**

*Norway should take active steps to ensure that the Paris Agreement's market mechanism becomes an effective source of funding for the Adaptation Fund. Norway should also work to ensure that a similar solution exists for the new Loss and Damage Fund: building on existing models is quicker and easier than negotiating entirely new models.*

*Norway should lobby for faster and more ambitious targets for, and implementation of carbon pricing in, international shipping and aviation, and for the revenues generated to be used to finance global funds.*

*Norway should initiate pan-European solutions for financing global climate action, as work on global financing mechanisms is disproportionately slow. Firstly, Norway should join the EU Carbon Border Adjustment Mechanism (CBAM) and propose that a share of CBAM revenues be earmarked for loss and damage. Norway should also require that an amount equal to Norway's share of the CBAM revenues be used to finance loss and damage. Secondly, Norway should propose that proceeds from the EU emissions trading system be allocated to financing global climate initiatives.*

*Norway should be willing to increase its contributions to the funds under the United Nations Framework Convention on Climate Change (UNFCCC), provided that the funds prove to be cost-effective in achieving their objectives of emissions reduction, adaptation, and compensation for loss and damage.*



PHOTO: Håvard Bjelland /Norwegian Church Aid



## DISCUSSIONS ON GLOBAL FUNDING SOURCES

A number of ideas for innovative, global climate finance mechanisms have been launched over the years. To date, very few have resulted in concrete solutions. Below is an overview of some of the most discussed proposals.

### Tax on extreme wealth

Like climate change, economic inequality is a major global challenge. There is also growing focus on the huge differences in per capita emissions between people with high and low incomes. The richest 10% of the world's population account for 48% of all emissions, while the poorest 50% account for only 12% of emissions<sup>49</sup>. Economic vulnerability and poverty are key drivers of vulnerability to climate change, and a redistribution of wealth could therefore strengthen climate change adaptation and reduce the risk of loss and damage. Against this backdrop, there have been calls for taxation on extreme wealth. A group of internationally renowned scholars in Earth4All proposes taxation of the wealthiest 10%,<sup>50</sup> while the World Inequality Lab (WIL) proposes taxation of "centimillionaires" through a "1.5% wealth tax for 1.5 degrees".<sup>51</sup> According to WIL, a progressive global tax of this nature could generate around USD 300 billion a year. While these proposals highlight real injustices and illustrate the potential inherent in better economic distribution, there are no global bodies or processes that realistically can or will implement these kinds of proposals.

### Tax on fossil energy production

Civil society actors have proposed a "Climate Damages Tax" to finance primarily loss and damage. This tax could be imposed on the production of fossil energy. It is estimated that with an initial CO<sub>2</sub> price of USD 5 per tonne and an annual increase of USD 5 up to 2030 and of USD 10 up to 2050, this tax would generate globally around USD 300 billion a year in the period 2021–2050<sup>52</sup>. In Norway, a commission (Klimaomstillingutvalget) has proposed a levy on petroleum production, but without earmarking the revenues.<sup>53</sup>

### An international air passenger tax

An international air passenger tax has been discussed many times at the annual UN Climate Change Conference, with proceeds supposed going to the Adaptation Fund. The proposed "International Air Passenger Adaptation Levy" (IAPAL) has been spearheaded by the Least Developed Countries Group (LDC Group). A levy of USD 6 on economy class flights and USD 62 on business and first class flights has been estimated to generate USD 8–10 billion annually<sup>54</sup>. National and regional levies of this nature have already been introduced in many places, and there are proposals for a voluntary solidarity fee, aimed at corporate air travel. Although this proposal has been in circulation for many years, there are no formal multilateral discussions on this kind of levy. The International Civil Aviation Organization (ICAO) has adopted a market-based offset mechanism (CORSIA), but with a very low price on emissions and without any centralised revenues. Flights within the EU is covered by the European Union Emissions Trading System (EU-ETS). The EU has decided to assess the results of CORSIA in 2026, and if it is found to be inefficient, the EU will allow flights departing from and landing in the EU to be included in EU-ETS.

### An international carbon tax on maritime fuel

Like the air passenger levy, a carbon tax on international shipping has been on the table for some time. This is a sector that has not previously been covered by national and regional taxes. The proposal has been discussed in the International Monetary Fund (IMF), among others.<sup>55</sup>

Estimates indicate that a tax of USD 75 per tonne of CO<sub>2</sub> in 2030 and USD 150 per tonne of CO<sub>2</sub> in 2040 would generate around USD 75 billion in 2030 and USD 150 billion in 2040<sup>56</sup>. In 2022, a working group within the International Maritime Organization (IMO) agreed to impose a tax on emissions from shipping by 2030. The next step is to discuss the level of this tax and how the revenues will be used. Regardless, this is not an immediate source of funding for the UN Climate Funds. In view of the slow progress in the IMO, the EU has decided to include the European maritime sector in the EU ETS.

### Proceeds from carbon market

Under the Kyoto Protocol, the Adaptation Fund received a share of the proceeds from the protocol's market mechanisms, but for various reasons this did not lead to stable and adequate funding of the Adaptation Fund. A new market mechanism has now been adopted under the Paris Agreement, whereby 5% of the credits issued from projects under Article 6.4 shall be transferred to the Adaptation Fund. The mechanism will also make a direct financial contribution to the Adaptation Fund<sup>57</sup>. Although the new market mechanism is expected to function as intended, it is currently uncertain exactly how much the fund will receive.

There are also examples of regional emissions trading systems contributing to climate actions in developing countries. The Western Climate Initiative (WCI), a shared emissions trading market for Quebec and California, has previously provided CAD 6 million to the Least Developed Countries Fund (LDCF). The European Capacity Building Initiative proposes a system where proceeds from the voluntary emissions trading market go to the new Loss and Damage Fund<sup>58</sup>.

### Different sources and mechanisms serve different purposes

Most measures for loss and damage, adaptation and emissions reduction in developing countries need public and grant-based climate finance, but for some projects much or part of the need can be met by private capital, investments and loans. Since the private sector requires profitability, it is easier to mobilise private capital for renewable energy projects than for climate change adaptation actions. Measures to compensate for loss and damage will almost exclusively be financed through public funding. Furthermore, projects in low-income countries and fragile states and projects aimed at poor local communities attract little or no private funding. The need for public funding and the scope for private capital can be regarded as a scale, where the use of public funds to mobilise private capital can increase the scope for private investment to a certain extent, albeit with clear limits for the relevance of private capital.

The table below presents a simplified overview of the purposes that the various mechanisms discussed in chapters 7 and 8 *can* serve, based on the design of the mechanism and its use of private capital.

Different sources, mechanisms and channels, and the purposes the Committee think they should serve.

Sources, mechanisms and channels	Loss and damage	Adaptation	Emissions cuts
<i>Sources</i>			
Private capital	Red	Red	Green
Carbon taxes of various kinds	Green	Green	Red
The Government Pensions Fund (part of the return that is within the limit set by the fiscal rule)	Green	Green	Green
The Government Pension Fund (share of the fund for green investments)	Red	Red	Green
Special Drawing Rights	Red	Green	Yellow
<i>Mechanisms</i>			
International guarantee scheme for private investments	Red	Red	Green
Increased borrowing ratio in development banks	Red	Green	Yellow
Increasing the capital of the World Bank	Red	Green	Yellow
<i>Channels</i>			
The Development banks	Red	Green	Yellow
The Loss and Damage Fund (UNFCCC)	Green	Red	Red
The Adaptation Fund (UNFCCC)	Red	Green	Red
The Green Climate Fund (UNFCCC)	Red	Green	Green
Climate Investment Fund (Norfund)	Red	Red	Green
NBIM Renewable	Red	Red	Green

## 9. The Expert Committee's recommendations

### **The Committee recommends that:**

- *Norway makes use of the room for maneuver within the limits set by the fiscal rule to strengthen Norway's role in international climate finance.*
- *Norway takes the initiative to establish a major global green guarantee scheme.*
- *Norway should be a driving force for strengthening the multilateral development banks' climate change and development actions by increasing borrowing ratios, by providing extended guarantees and providing additional funding, including by making Norway's Special Drawing Rights available, where possible*
- *It should be assessed how the Government Pension Fund can boost investments in projects and businesses with a clear positive climate impact by establishing a special fund for investments in renewables, called NBIM Renewable, which will have its own mandate.*
- *The capital in the Climate Investment Fund should be increased substantially. This capital should be entered as a capital transaction.<sup>48</sup>*
- *Of the capital transferred to the Climate Investment Fund from the fiscal budget, only the provision for losses should be counted as development aid. The Committee also proposes to appoint an independent expert committee to assess whether there are grounds for changing the size of the provision for losses and whether more efficient mechanisms can be used to safeguard the considerations covered by the current provision for losses.*
- *Norway should take active steps to ensure that the Paris Agreement's market mechanism becomes an effective source of funding for the Adaptation Fund. Norway should also work to ensure that a similar solution exists for the new Loss and Damage Fund: building on existing models is quicker and easier than negotiating entirely new models.*
- *Norway should lobby for faster and more ambitious targets for, and implementation of carbon pricing in, international shipping and aviation, and for the revenues generated to be used to finance global funds.*
- *Norway should initiate pan-European solutions for financing global climate action, as work on global financing mechanisms is disproportionately slow. Firstly, Norway should join the EU Carbon Border Adjustment Mechanism (CBAM) and propose that a share of CBAM revenues be earmarked for loss and damage. Norway should also require that an amount equal to Norway's share of the CBAM revenues be used to finance loss and damage. Secondly, Norway should propose that proceeds from the EU emissions trading system be allocated to financing global climate initiatives.*
- *Norway should be willing to increase its contributions to the funds under the United Nations Framework Convention on Climate Change (UNFCCC), provided that the funds prove to be cost-effective in achieving their objectives of emissions reduction, adaptation, and compensation for loss and damage.*



FOTO: Håvard Bjelland/Kirkens Nødhjelp

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