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THE ROYAL MINISTRY OF CLIMATE AND ENVIRONMENT

The Minister

Office of the Auditor General
P.O. Box 8130 Dep
0032 OSLO

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Reply from the Minister of Climate and Environment to the Office of the Auditor General's investigation of Norway's International Climate and Forest Initiative

Reference is made to the Office of the Auditor General's report submitted on 20 March, and the results of the OAG's investigation of Norway's International Climate and Forest Initiative. The report provides several useful insights. I want to follow up the OAG's recommendations, and the Ministry of Climate and Environment will use the insights in the report in the further work to develop the initiative and to further improve its administration of the initiative.

However, I still believe that some items in the report provide an incomplete picture of the Initiative's work. I also want to point out that the Climate and Forest Initiative has achieved a number of very solid results, which I believe the OAG under-communicates. I will provide some additional comments regarding these topics in Item 2 below.

Initially, I want to call attention to the fact that the global framework conditions for the Climate and Forest Initiative have changed significantly over the course of the Initiative's 10-year lifetime. This also affects how the Initiative's goal achievement should be assessed. When the Initiative was established, the assumption was that a global incentive structure would be developed under the UN Climate Convention to reduce greenhouse gas emissions from developing countries, and that reduced emissions from deforestation and forest degradation (REDD+) would be included in the structure in a sound manner. At the beginning in 2008, the Climate and Forest Initiative's efforts were therefore largely aimed at facilitating such an incentive structure, which could potentially have mobilised tens of billions of dollars annually. The Copenhagen summit in 2009 did not deliver this, which is also pointed out in Report No. 21 to the Storting (2011-2012) Norwegian Climate Policy. In many ways, the Paris Agreement in 2015 was a breakthrough, as all countries committed to reducing their greenhouse gas emissions, including from deforestation and forest degradation. The positive consequences of this could potentially be considerable. But the original idea from 2007 involving major international transfers of funds to developing countries as payment for reductions in deforestation has not come up and is unlikely to be established in the scale that many pictured back then.

Of course, it would be our preference for the global community – forest nations as well as rich countries, the media, public opinion, civil society and private businesses – to devote more resources to tropical forests. However, the Climate and Forest Initiative must be assessed based on what the Initiative has achieved with the funding it was granted from the Storting <Norwegian parliament>. NOK 3 billion each year is a lot of money. But it is not a lot compared with the markets which we are attempting to influence, such as the palm oil market (NOK 515 billion), soy market (NOK 480 billion) or the market for paper pulp and paper (NOK 115 billion). Just as one cannot turn the world's energy production away from fossil energy or eliminate global poverty with NOK 3 billion a year – regardless of how strategically or catalytically the money is spent – such a sum cannot singlehandedly reverse deforestation in Brazil, Indonesia or Congo. Therefore, a broader political and financial analysis of the framework conditions that the Initiative works under is needed to measure the Initiative's role and results, as compared with the analysis conducted by the OAG.

Over the last decade, the climate crisis and deforestation crisis have become increasingly serious. Despite the breakthrough with the Paris Agreement, the global economy is far from adapting quickly enough to achieve the goals in the Paris Agreement. This applies in every sector, also forests. Recognised international research communities have clearly stated that we are unlikely to achieve the goals in the Paris Agreement without drastic reductions in tropical deforestation and large-scale growth of new forests. These measures are estimated to represent as much as thirty per cent of all measures that the world will need over the next couple of decades. In addition, forests are crucial for achieving many of the UN's sustainability goals. Rainforest preservation is perhaps the most important measure for stopping the earth's catastrophic loss of biological diversity and to ensure large agricultural areas have access to freshwater through precipitation and rivers. About 360 million indigenous people depend on the rainforests for their livelihood and their culture. The fight for the rainforests is more important than ever.

The Climate and Forest Initiative's approach has adapted to the changes in the framework conditions that are outlined above, of which the Storting has been informed through the annual budget propositions and which is broadly supported by all parties in the Storting. In addition to creating financial incentives for our selected partner countries, the efforts are increasingly being aimed at supporting a broader set of players and reformers that contribute to REDD+, and to combatting the global forces behind deforestation. Examples are contributions to increased transparency and improved data about forests and financial flows, efforts to protect the rights of indigenous people, support of private organisations' campaigns for production and trade without deforestation, as well as efforts to combat forest crime.

I will discuss this in more detail in Item 2 below.

1. The Office of the Auditor General's recommendations

The Office of the Auditor General's four specific recommendations will be followed up:

- *Measures to handle the need for permanent results in REDD+ through the work with the UN Climate Convention and in the bilateral partnerships* are already a priority for

the work under the Climate and Forest Initiative. I will further develop the measures through the climate negotiations and through the bilateral partnerships. Through systematic efforts, I will further reinforce public-private sector cooperation, the civil society programme and work for global transparency and against international forest crime. Continued emphasis on a national approach for the work, existing political willingness to change in the partner countries and the joint global effort to reduce greenhouse gas emissions from forests, which are, e.g., stipulated in the Paris Agreement and the UN's sustainability goals, are key in this work.

- *I will strengthen the Ministry's information basis on the safeguarding of social and environmental security mechanisms for payments for results.* It is important that the countries work systematically to implement the security mechanisms for the results to be sustainable, both socially and environmentally. Norway shall contribute to this important work, and stipulate requirements for those who receive payments from the Climate and Forest Initiative. Our knowledge about where the countries stand in this work can be improved further. We already have extensive support schemes for civil society that contribute to follow-up of social and environmental considerations at a national level.
- *I will strengthen the follow-up of the Norwegian contribution to REDD+ through a systematic acquisition and processing of information on progress and results in the Norwegian climate and forest effort.* The result framework that was developed for the effort lays a good foundation for seeing results of the efforts over time. I will continue the work on systemising the information that the Ministry receives. Various initiatives have been started to provide better knowledge about the results of the effort.
- *I will naturally follow the OAG's recommendation to ensure the Ministry has a responsible and active follow-up of risk and use of sanctions in the event of nonconformities and notices concerning potential financial misconduct.* Although I believe the Ministry's follow-up of risk is responsible today, this must be continuously followed and monitored. The Ministry of Climate and Environment otherwise uses the experiences and rules established for development aid in the handling of the risk of misconduct. The management of development aid is characterised by significant risk, which requires special follow-up and control of the funds being disbursed. I find it serious that the OAG believes it has found examples of this not being safeguarded sufficiently in the administration of the agreements in the Climate and Forest Initiative. I still want to emphasise that the examples noted by the OAG show risk in the management of the funds, not that this risk has materialised. The assessment of the risk scenario and scope of control measures is conducted continuously, and the OAG's findings will constitute a part of the backdrop for these assessments going forward.

2. Reply to the Office of the Auditor General's remarks and comments regarding main findings

2.1 Results of REDD+ so far are delayed and uncertain

The OAG's first question is "What is the result of the work under the UN Climate Convention to establish a mechanism for reduced greenhouse gas emissions from deforestation and forest degradation in developing countries?" For this item, I believe the OAG has drawn a conclusion that is not sufficiently founded in the main analysis report's factual basis, and which principally also cannot be drawn based on the limited scope of the investigation.

As regards the findings made: The OAG's foremost objection is related to results achieved in Brazil. The OAG points out that deforestation in Brazil was cut in half from 2004 to 2008, and continued in 2009, but that it levelled off after 2009. The credit for Brazil's results naturally primarily belongs to Brazil, but Norway, through the Climate and Forest Initiative, has been an important contributor. However, the review of these results is both misleading and incomplete:

- It was decided under the UN Climate Convention that reduced deforestation is measured in the form of actual deforestation relative to a reference level. The reference level shall preferably be based on the historical deforestation level. This is the approach for disbursements from Norway for Brazil's results, and it is generally recognised that the reference level is ambitious and that emission reductions have been estimated conservatively. Relative to this reference level, Brazil has achieved extraordinary results, an estimated 3.8 billion tonnes of CO₂ reduced greenhouse gas emissions – or 70 times Norway's total annual emissions – during the period in which the partnership was in place (forest year 2009 to forest year 2017). Norway has paid for 220 million tonnes of this, i.e. about 6%. This method of measuring results is in line with established principles for REDD+ under the UN Climate Convention.
- The OAG chooses to disregard this, and instead claims that deforestation dropped during the first year of the Brazil-Norway partnership, and that reductions then levelled off. This is generally correct (the downward curve was less steep), but misleading nonetheless. Firstly because the OAG, instead of relating to the established incentive structure for the Amazon Fund, which was designed in line with generally recognised principles and the decisions under the UN Climate Convention, cf. the above paragraph, opts to make a comparison with a single year of their own choosing, which is problematic from a methodological standpoint. In addition, *even if* one chooses to take the OAG's point of departure seriously, the presentation is misleading. Here are a few illustrations of what happened during the years when the OAG claims that the development 'levelled off':
 - o During the first year of the partnership, deforestation declined by about 40 per cent from the previous year, an added reduction of 260 million tonnes of CO₂ – or about five times Norway's annual emissions – compared with the year before the partnership was established (the year chosen by the OAG as

its point of departure), and 590 million tonnes of CO₂ compared with the reference level in the Amazon Fund.

- Deforestation then declined further – at its lowest, deforestation was 77 per cent below the average for the period from 1996-2005, a reduction in emissions of 400 million tonnes of CO₂ compared with the year before the partnership was established (the year chosen by the OAG as its point of departure), and 580 million tonnes of CO₂ compared with the Amazon Fund's reduced (see paragraph below) reference level.
- For the final year for which we have measurements – forest year 2017 (July 2016 to June 2017) – deforestation was 66 per cent lower than during the period from 1996-2005, a decline in emissions of 304 million tonnes of CO₂ compared with the year before the partnership was established (the year chosen by the OAG as its point of departure), and 71 million tonnes of CO₂ compared with the further reduced Amazon Fund (see paragraph below) reference level.
- In total for the duration of the partnership (forest year 2009 to forest year 2017), total reductions relative to the year chosen by the OAG as the point of departure, amounted to 2.9 billion tonnes of CO₂, or 54 times Norway's annual greenhouse gas emissions. If we assess the subsequent years in light of the first year in the partnership, the period when the OAG believes that development 'levelled off', the reduction is still 510 million tonnes of CO₂, or nine times Norway's annual emissions.
- In other words, even with the OAG's randomly chosen basis year – which, methodologically speaking is the 'worst' year they could have chosen, and also violates internationally recognised principles for stipulating reference levels – Brazil's results are impressive. If one uses the agreed result regime, designed in accordance with internationally recognised principles, as a basis, the results are even more impressive.

In addition to these items, the method for stipulating reference levels under the Amazon Fund entail that the reference period is updated by moving it forward every five years. This makes the reference level increasingly tight, which has been taken into account in the figures presented above. Good results in one period make it more difficult to qualify for disbursements in the next period. In 2017, this tightening effect caused Norway, based on the verified figures for forest year 2016, to reduce disbursements by nearly sixty per cent relative to the previous years. When the partnership started, the reference level was 19 625 square kilometres each year – it is now 8 141 square kilometres each year. The level of deforestation the year before the Norway-Brazil partnership was established, would no longer qualify for disbursement today. The system works.

The results that Brazil has achieved in the form of reduced deforestation are – based on principles for result measurement that are generally accepted and also stipulated under the UN Climate Convention – among the most important global climate measures over the past decade. Although the OAG's finding that the *results of REDD+ so far are delayed and*

uncertain can be correct for some places in the world, Brazil is a solid example proving the opposite.

The OAG has also investigated the Norwegian forest partnership with Ethiopia, and they have looked at global REDD+ financing. I have no major objections to the presentation of these points. I agree that the progress in Ethiopia has been slower than we wanted. We have therefore also disbursed less funding. I also agree with the assessment that the world should obtain more financing for REDD+. Although Norway has a close and strategic cooperation with Germany and the UK in the field, I wish there was more financing available from both public and private sources. We will continue to work toward this.

As regards the scope of the investigation: The OAG's ambition to speak about the results of the Climate and Forest Initiative work as a whole stands in contrast to the limited focus of the report. A number of key focus areas for the Climate and Forest Initiative are omitted, including:

- *Public-private cooperation.* The initiative has contributed to a shift in private businesses. More than half of deforestation is driven by the production of agricultural products such as soy, palm oil, meat, rubber and paper. The Climate and Forest Initiative has been a key driving force resulting in nearly 500 of the world's largest companies pledging to reduce or eliminate deforestation in their value chains. Ten years ago, the private sector in most forest nations, and partly also globally, was either passive or even actively hostile when it came to reforms for reduced deforestation. Today, a significant percentage of the most important companies are active initiators.
- *Indigenous people:* Through close cooperation with indigenous rights organisations, civil society and multilateral agencies, the Climate and Forest Initiative has contributed to strengthening the rights and voice of indigenous people both in the international climate negotiations and in national processes in the forest nations with which we work. Indigenous people have been given control over large new rainforest areas in Brazil, Colombia, Indonesia and Peru.
- *Forest monitoring and transparency.* The Climate and Forest Initiative has provided key contributions to a technological revolution within forest monitoring that few would have believed possible 10 years ago. The forest sector in many central tropical forest nations has largely been closed to effective access to information. Current deforestation data for all forest nations are now available free of charge through the Norwegian-supported Global Forest Watch. The information monopoly has thus been broken.
- *The fight against forest crime:* More than half of the global deforestation is illegal. Access to information and holding players accountable are effective tools to increase the efforts against forest crime and human rights' violations. The Climate and Forest

Initiative supports organisations such as Interpol and several environmental organisations that uncover forest crime.

- *Efforts for green growth.* Through supporting development and dissemination of knowledge, the Climate and Forest Initiative has made significant contributions towards demonstrating that efficient sustainability and climate policies are not just compatible, but are actually two sides of the same coin. The most high-profile initiative within this area is The New Climate Economy project and The Business and Sustainable Development Commission.
- *Cooperation with Indonesia.* Indonesia is among the countries with the highest emissions due to vast emissions from forests and peat moors. The forces fighting against reform are powerful, both financially and politically. Despite this, Indonesia, with Norwegian support and as a direct consequence of the partnership agreement with Norway from 2010, has now introduced several important regulations. The decision from 2016 to declare all deforestation on peat moors illegal could singlehandedly, according to calculations from the World Resources Institute, lead to annual emission reductions that correspond to as much as 10 times Norway's annual emissions. Indonesia has not yet reduced deforestation, but the agreement, and Norwegian contributions since then, have undeniably contributed to a completely new political willingness to seriously address deforestation, and numerous concrete reforms to ensure better law enforcement and stronger rights for indigenous people.
- *Cooperation with Colombia.* Together with Germany and the UK, Norway has paid for emission reductions in the Columbian Amazon. Despite unique challenges following the peace deal, Colombia has actively integrated sustainable environmental management and peace efforts.
- *The World Bank's Carbon Fund.* Following several years of negotiations, rule design and preparations, we have now developed a multilateral system to pay for emission reductions. The Fund is now preparing to enter into purchase agreements with 13 countries in the near future.

Significant progress has in fact been achieved – despite delays and challenges – within all of these areas.

Regarding the Office of the Auditor General's comments in each paragraph under Item 2.1:

2.1.1 Challenging to stimulate reduction in deforestation

The OAG's comment stating that Norwegian authorities pay for emission reductions where the duration of the results is uncertain is apt. The strategy of the Climate and Forest Initiative was designed with the goal of reducing this uncertainty. A key element in this is that the Climate and Forest Initiative aims to contribute to sustainable development. To permanently prevent or reduce deforestation in a developing country it is crucial to achieve

a financial development that leaves the forest alone. Another key element of the strategy was to incorporate REDD+ as a part of the climate agreement, a goal that was achieved in 2015 when the Paris Agreement was signed.

The OAG notes that considerable amounts from Norway are left unused by recipients. The fact that amounts transferred from Norway are left unused for a period is largely caused by the funds supported by Norway having extensive quality assurance systems, including social and environmental security measures. These control and quality assurance systems mean that the disbursement of funds takes time. This is not unique for forests, but applies to aid in general. This is a known challenge that we are continuously working on. This will often be a consequence of ensuring the funds are used correctly, and to reduce the risk of improper use. I want to emphasise that the amounts in funds with bilateral partners were all disbursed due to achievement of concrete results, in the form of completed emission reductions, or the achievement of agreed milestones such as political reforms or the establishment of institutions for improved forest administration. In addition, management structures have been established for multilateral funds which shall safeguard all donors' requirements relating to follow-up and control of funds. This has taken time, and the Storting has received extensive information about this.

The Amazon Fund in Brazil is an example of a fund with strict requirements relating to application processing and follow-up of disbursed amounts. In a country with a high risk of corruption, I consider this to be positive, although it means that disbursements from the Fund take time. The progress in disbursements and approval of new projects has also increased gradually and positively since the Fund was established. The Amazon Fund's support through various institutions and organisations, with a particular focus on sustainable development and poverty reduction in the Amazon region, contributes to reducing the uncertainty linked to the duration of the results from REDD+ in Brazil.

I want to emphasise that none of the Climate and Forest Initiative's partner countries assign low priority to REDD+. In the report, Brazil is used as an example of a country that does not prioritise REDD+. Since 2004, and after entering into the cooperation with Norway, Brazil has designed and implemented policies, plans and measures for reduced deforestation, and this has yielded results, cf. above discussion. This shows a continued strong commitment to and prioritisation of REDD+ in Brazil, despite the political and financial crisis that has affected the country over the past 2-3 years. For all our partner countries, the fact remains that they must pay more themselves than what Norway can contribute as regards financing in order to complete the reforms required to reduce deforestation. This entails that the countries must add a significant own cost (financial and political) when making contractual commitments relating to reforms and efforts for green development in the partnership with Norway. Such an agreement requires political ownership and priority. A drastic change in a nation's agricultural policies, which is what we are talking about in Brazil and most other countries, will engage an opposition, be subject to often heated debates and political fights, and attempts to reverse the development. This is a reality that we do our best to manage, but which it is impossible to completely protect against. The fact that Brazil has gone through

such a deep financial and political crisis without bigger setbacks for the forest, is worth applauding.

2.1.2 Facilitation for emission reductions shows weak progress

The OAG notes that the progress in the facilitation work for emission reductions has been too weak. I cannot disagree with this. After the first ten years of REDD+, we have also experienced that results-based financing is not a large enough incentive to carry out the major reforms that are required by the developing countries to reduce deforestation. These often require a shift within land use, where agriculture must be channelled to deforested areas and be made more efficient within the existing land that is dedicated to agriculture, and that the remaining forest must be protected. This is challenging in countries where different ministries may have overlapping jurisdictions and maps, and ownership is highly unclear, and the capacity to enforce the law may be virtually absent. It takes time to achieve this, and it requires significant resources from the countries. When REDD+ was established in 2008, the idea was that global financing would constitute a significant financial incentive in the form of results-based disbursements, to carry out such reforms. The financing has not materialised at a high enough level. The incentive for reform has thus become impaired. That is why I will continue working for initiatives – within and outside the global climate regime – which contribute to large-scale financing of REDD+ in developing countries.

In addition, it does not look like international climate financing will ever become a sufficient incentive by itself to carry out reforms that there is no local ownership of anyway. We will therefore continue working to promote the local and national advantages of REDD+, and focus on measures that have other important development effects than reduced emissions. We do this through both knowledge development and communication, particularly related to the forest's broader significance for financial, environmental and socially sustainable development, through efforts aimed at illegal deforestation, and through support to civil society and cooperation with private businesses.

2.1.3 Carbon leakage, the movement of logging, can reduce the climate effect of the Norwegian contribution to REDD+

I consider the OAG's assessment that "leakage can reduce the Norwegian contribution" to merely be a statement of fact. The risk of carbon leakage has been known and recognised since the Climate and Forest Initiative was established. It is also a known challenge in climate policy in general, and the reason why Norway, for example, compensates companies that are bound by a high Norwegian carbon price so that they do not offshore their production.

The risk is reduced through the initiative's national approach strategy, efforts in several countries within a region, and through global efforts to reduce pressure on forests, e.g. from raw material producers. The leakage problem must also be viewed in light of the size of the area in which the REDD+ work is taking place. Efforts within a large area reduce the risk of major leaks (as a percentage of emission reductions), while efforts in small areas increase the risk of one-to-one leak of emissions.

The Amazon region is a good example of efforts that are aimed at multiple countries in the same region to prevent leaks. In Brazil, the Brazilian Amazon covers an area of nearly 4 million km². It is the world's largest rainforest. This entire area is covered by REDD+ measures, and by the agreement between Norway and Brazil. As the OAG points out, the cooperation agreement between Norway and Brazil also stipulates that the Cerrado area shall be included in the calculation basis for emission reductions from 2019. However, I want to emphasise that the potential for emission reductions in Cerrado is lower than it has been in the Amazon. Document 3 shows that emissions in Cerrado are as high as in the Amazon. It is important to note that this is the case *after* the emissions in the Amazon were reduced by nearly 70 per cent. Before the efforts against deforestation started in the Amazon, emissions there were much higher than in Cerrado (also after the most recent increases in that biome).

Leaks are also relevant globally due to global markets for many of the raw materials that drive deforestation (particularly soy, palm oil and paper pulp). A potential reduction in raw material production in one country – and thus less pressure on the forest – can lead to increased production somewhere else in the world – with the potential consequence that deforestation will increase there. Efforts aimed at major global companies within the different raw material chains have been one way that the Climate and Forest Initiative has been successful in tackling this problem. The New York Declaration on Forests which was entered into in 2014 is an example of major private players also pledging to stop deforestation. At the same time, it is important that production is increased on existing agricultural land or other already deforested land, and as a step in this work, the Initiative has established the &Green Fund, which contributes reduced risk to companies that invest in this type of productivity increase, particularly small farmers, and that also pledge to leave the forest alone.

One cannot solve the entire global deforestation problem at the same time. Although it will be possible to reduce deforestation in many countries without reducing raw material production (e.g. due to access to new land areas without forest), it will in some cases affect global supply and demand. Such effects can also be seen in global raw material markets. Also when we exert international buying pressure, whether through consumer campaigns or rules for public procurements, there is a risk of the development of a split global market where deforestation-free products are sold to companies in Europe and the US, while other countries import a larger percentage of products produced through deforestation. This does not mean that it is wrong to stipulate high requirements for demand in, e.g., Norway, but it means that we must also work to change the demand from other markets.

At a global level, the international climate regime and the countries' own efforts under the Paris Agreement to reduce emissions, can contribute to reduced leaks.

2.2 Control of implementation and results of REDD+ do not function well enough

2.2.1 *Social and environmental security mechanisms are not sufficiently followed up*

I agree with the OAG's comment that we can do more to ensure good information about compliance with the security mechanisms and how they are reported. I will follow up on this.

At the same time, I want to point out that we have numerous measures, both to ensure compliance with security mechanisms, and that they are reported. All agreements entered into by my Ministry, Norad (Norwegian Agency for Development Cooperation) or our embassies regarding disbursements from the Climate and Forest Initiative contain social, environmental and financial security measures that the contractual parties must comply with and report annually or more frequently. This is in line with the rules for Norwegian development aid. The OAG's report also refers to security mechanisms as a part of the Climate Convention. The countries' reporting of these security mechanisms is important, and Norway is working actively to ensure this system is efficient. However, the reporting takes place from the forest nation to the UN Climate Convention, and is not something over which the Climate and Forest Initiative has direct control. However, I will assess whether it would be expedient to more clearly link Norwegian disbursements for emission reductions to the countries' reporting on security mechanisms to the Climate Convention.

2.2.2 Measurement, reporting and verification of emission reductions are only partly in place

I support the OAG's comment that the Ministry, also going forward, should emphasise the significance of solid MRV systems in the work on the Climate and Forest Initiative and follow up partner countries with clear requirements related to improvements in the measurement, reporting and verification of emission reductions. Norway has been among the most important global contributors to this work. It is also one of the Climate and Forest Initiative's priorities going forward, as reported to the Storting. It should be clarified that this is considered a strategic effort to provide a number of players with a better overview of what drives deforestation, and that this goes far beyond measuring results that countries will be paid for.

2.3 The Norwegian contribution to REDD+ has not triggered enough financing from other donors

I fully agree with the OAG's comment that the global transfers to REDD+ are not as large as would be desirable, or predictable, and that the Norwegian contribution, compared with financing from other donors, constitutes a larger portion than presumed. However, I want to emphasise that the development, particularly with regard to the contributions from Germany and the UK, has been positive, and I will continue to work internationally, also through the climate negotiations, to find better solutions for increased financing of climate measures and international cooperation linked to tropical forests. A "pilot" of USD 500 million with results-based payment for REDD+ under the UN's Green Climate Fund is an example of a very promising development.

2.4 The Ministry of Climate and Environment is not sufficiently systematic with regard to acquisition and use of information about results from the Norwegian climate and forest efforts

The OAG believes that the Ministry is not sufficiently systematic with regard to acquisition and analysis of data on results, and that this is censurable. There has been a development in the use of the strategic framework for the Climate and Forest Initiative, which e.g. the

budget propositions to the Ministry of Climate and Environment for recent years show. My Ministry also uses the framework systematically in the formal reporting from underlying/coordinating agencies that manage funds for the Climate and Forest Initiative. My goal is for this to be used even better going forward, and to provide a basis for more systematic reporting, and improved analysis of the results achieved. I agree with the OAG's statements concerning the importance of this in order to achieve the best possible learning effect from the efforts. We want to learn from experience, and have since day one spent relatively considerable resources each year on evaluations of the work under the Climate and Forest Initiative. Since the very beginning of the Climate and Forest Initiative, this has made important contributions towards further developing and improving the initiative. I want to clarify that the Climate and Forest Initiative is a global project, with special delegates at several embassies and with numerous global partners. My Ministry has daily contact with global experts within the areas in which we work. This information sharing influences strategic decisions in the initiative. However, I see that the information sharing could be made more formal and related to the result framework in a more systematic manner.

2.5 The Ministry's follow-up of the risk of misconduct is not good enough

I take the OAG's criticism under this item very seriously. However, I do not believe that the examples discussed in the report provide a good enough basis for the conclusion that the Ministry's follow-up is not "good enough". I have specific comments regarding the three examples provided in the report:

- The embassy in Brasília manages the agreement with the Brazilian development bank BNDES, which administers the Amazon Fund. The Ministry finds that the embassy follows up the agreement in a sound manner. When the bank was investigated for potential financial misconduct, the embassy was engaged in a dialogue with both BNDES and other partners, including the World Bank, concerning the internal control systems in the bank. They were considered satisfactory as regards the bank's administration of the Amazon Fund. So far, misconduct has not been proven in connection with the Norwegian funds.
- As regards the partner organisation that is referenced in the report that was registered as a brass plate company, an expanded partner assessment was implemented as a result of the Panama Papers leaks. The Ministry has followed up the issue with the concrete case vis-à-vis Norad. In line with its procedures, Norad does not approve new contributions before the necessary clarifications are completed. Norad has received reporting from the organisation in line with the previous contribution agreement, and disbursed funds have been followed up in the same manner as for other contribution recipients. Two external assessments of the organisation, conducted by consulting firms with special expertise in the area, in connection with a new application for contributions, reveal that there has been no misconduct related to the organisation's use of funds. In other words, no rules or procedures for the administration of development aid were broken in this case.

- The final example refers to a whistleblowing case and agreement for which the Ministry assumed responsibility from the Ministry of Foreign Affairs in 2014. Investigations and a follow-up were initiated under the Ministry's control officer. Due to a lack of results from the fund's various projects and suspected misconduct, a decision was made to stop financing of new projects through the fund. Emphasis was placed on securing remaining amounts in the fund and ensuring only implemented projects were carried out in accordance with commitments that had been made. The African Development Bank has been responsible for following up the results of the investigation that was implemented and financed by the Ministry. The fund in question is undergoing controlled liquidation. Unused funds shall be repaid proportionately to the respective donor countries.

Nevertheless, I will still ensure that the OAG's comments within this field are followed up. However, I still find that the administration has established good routines for following up risk of misconduct for the contribution to the Climate and Forest Initiative. Norwegian development aid has always operated in a landscape with significant risk. The Ministry of Climate and Environment actively uses the experience that this has yielded. We manage less than 10% of the development aid budget, and therefore benefit greatly from cooperating with the Ministry of Foreign Affairs and Norad on good administration practices. We follow the rest of the development aid administration's routines and guidelines for handling the risk of misconduct. Among other things, stricter requirements for transparency and access to partners' cash flows were introduced in recent years. This contributes to ensuring sound financial control and compliance with contractual obligations.

The Ministry of Climate and Environment has established a number of control measures that help reduce risk in the administration of the Climate and Forest Initiative's funds, and we have clear routines for follow-up when risk materialises. The systems are being continuously improved. The follow-up of the whistleblowing cases in the initiative's portfolio in recent years also shows that the Ministry acts in accordance with these guidelines. All reports of financial misconduct are followed up by the Ministry's control officer. The cases relating to Norad are followed up by Norad's control unit. An external whistleblowing channel has been established for all Norwegian development administration.

The OAG points out that applicable guidelines state that the partners' internal control and other systems and routines for handling misconduct shall be assessed before entering into an agreement. This is followed up by the Ministry, by Norad, as well as by the ambassador that manages funds under the Climate and Forest Initiative. I cannot see that the OAG's examples indicate otherwise.

I will use the OAG's findings within this area as part of the continuous work on becoming even better in our handling of the risk of misconduct. What constitutes "good enough" follow-up of the risk of misconduct must be based on a continuous assessment of the risk scenario. Within a high-risk field, which applies to the management of development aid, one could use unlimited resources on follow-up and control. The resource use will need to be balanced following a cost-benefit assessment considering the risk of misconduct. Norway has zero tolerance for misconduct relating to development aid. The Ministry of Climate and

Environment follows this up through preventive measures such as regulations and solid partners, and it is followed up through control of administration, partners and spending.

Best regards,

Ola Elvestuen<sign.>

Ola Elvestuen