The Reality of Canada's International Climate Finance, 2019

Towards a Fair Share Climate Finance Portfolio for Canada

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AidWatch Canada
Promoting Social Justice

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AidWatch Canada is a Canadian not-for-profit social justice organization, producing and disseminating independent research and analysis on aid and development cooperation trends, policies and practices. Brian Tomlinson is the Executive Director of AidWatch Canada. He can be contacted at brian.t.tomlinson@gmail.com.

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Table of Contents

Annexes

The Reality of Canada's International Climate Finance, 2019
A Report Summary

1. An increased Canadian ambition in the face of an accelerating climate crisis?

The global climate crisis is accelerating rapidly with deepening and irreversible impacts on people, nature and ecosystems. Severe climate change will worsen poverty and exacerbate inequalities, particularly for those already disadvantaged and marginalized. Already parts of the world are experiencing climate impacts on food and water security, health conditions, livelihood loss, migration, and loss of species and habitat. The International Red Cross estimates that 108 million people were affected by climate-related humanitarian emergencies in 2018, which is set to increase by more than 50% in the next decade.[1]

In June 2019, Philip Alston, the UN Special Rapporteur on Poverty and Human Rights, pointed to the multiple implications of the climate crisis for the rights of poor and vulnerable people. Climate impacts are distributed in highly unequal way affecting those who have contributed least to the climate crisis. In this context, Alston drew urgent attention to the potential for 'climate apartheid' where the wealthy can pay to avoid the worst impacts for themselves, leaving the poorest populations to bear the consequences.

In this context, Canada has an obligation to significantly enlarge its ambitions for climate commitments for the coming decade, at both the domestic and international levels. Canadian governments at all levels must shift their policies and actions towards transforming energy systems that reflect the Paris 1.5°C target. At the international level, Canada must step forward with substantially increased international financing that targets the most vulnerable in mitigation, adaptation as well as compensatory loss and damage measures.

The Government's *Feminist International Assistance Policy* (FIAP), released in June 2017, sets out priorities for Canada's international climate finance.[2] A June 2019 follow-up *Action Area Policy: Environment and Climate Action* highlights a human rights-based approach to environment and climate action.[3]

In this *Action Plan*, the Government intends to empower and support leadership with Indigenous, youth and women-led groups, taking account their knowledge and experiences, and provide concessional financing for clean growth and adaptation to climate change. While providing many important policy orientations, the *Action Plan* is silent on Canada's overall ambition for climate finance, an equal balance between adaptation and mitigation finance, and specific approaches for prioritizing the poorest countries and most vulnerable peoples.

This Report continues a series of annual reports for C4D focusing on the trends in Canada's 2015 Paris UNFCCC Conference of the Parties (COP21) pledge of $2.65 billion in international climate finance.[1] Against this backdrop, the 2019 Report proposes some directions for a major expansion in Canada's international climate finance for the 2021/22 to 2025/26 period, in a Fair Share Climate Finance Portfolio. In other words, the Report aims to outline how the Government of Canada's future international climate finance can be increased to its fair share of the $100 billion global commitment, and be allocated in ways that are consistent with its climate finance policies and international commitments.

2. Analyzing international climate finance: Setting the rules

Any analysis of international climate finance is fraught with methodological issues, different practices in counting climate finance by different providers, and by the proliferation of different channels for the allocation of this finance. The trust of developing countries in the UNFCCC process has been undermined by a lack of agreement among providers about what to include in the promised US$100 billion in annual climate finance by 2020, how to count it, and which countries should be obliged to report.

The Paris Rulebook was intended to settle these difficult methodological issues at the December 2018 UNFCCC COP24.[4] The final text did establish greater transparency, specificity and detail on climate finance, with reporting mandatory for developed countries (encouraged and voluntary for other countries). While the new rules will be implemented after 2021, much is still left to the discretion of the reporting party, with a high level of flexibility and interpretation in implementing the rules. Assessing climate finance against targets and comparing the performance of provider countries consequently will continue to remain very problematic.

Canada has been transparent in its most recent (2017) biennial report to the UNFCCC in identifying finance that relates to its $2.65 billion Paris commitment (Canada's official finance share of the US$100 billion provider pledge for Annex A [developed] countries).

In its climate reporting going forward, Canada must maintain a high level of clarity and transparency for both its next biennial reports to the UNFCCC and for future climate finance commitments. The latter should only involve concessional public financing where the full purpose is climate adaptation/mitigation or loss and damage (related to climate change). All concessional loans should be reported at the grant equivalency value. Canada should clearly distinguish in its reporting to the UNFCCC the rationale and details of all modalities of eligible climate finance. But export credits, loan and investment guarantees should not be included in Canada's post-2020 commitment. There

[1] This 2019 C4D Report builds directly from the author's 2018 analysis of climate finance for C4D, which covered the broader period from Fast Start climate finance (2010/11 to 2012/13), up to June 2018.

should be clear accountability to poor and vulnerable countries and populations for these commitments.

The methodology for determining climate finance in this Report (see **Annex One**) follows Canada's current reporting practices.

3. How did Canada allocate its $2.65 billion in international climate finance?

As of August 2019, the Government has committed $1.7 billion in 25 projects and initiatives related to its $2.65 billion Paris commitment. Including all dedicated climate finance projects (principal purpose Rio Marker projects), a total of $2 billion has been committed since 2015/16. An examination of these projects reveals the following characteristics:

1. Multilateral channels account for 97% of the $2.65 billion commitments, with only 3% through bilateral channels (including CSOs).
2. Adaptation's share is currently 32% of project commitments (taking account some AidWatch Canada adjustments to MDB fund coding – see **Annex One**). Including all dedicated climate finance projects ($2 billion commitments), 33% has been allocated to adaptation.;
3. Five special allocations to Multilateral Development Banks (MDBs) make up 66% of all multilateral commitments, and 64% of all allocations for the $2.65 billion.
4. Canada's allocations are highly concentrated. Commitments to the Green Climate Fund (GCF) and the MDB funds accounts for more than 80% of the $2.65 billion.
5. Overall, Canada allocates only 26% of its dedicated climate finance commitments, including those relating to the $2.65 billion pledge, to Least Developed Countries (LDCs), with an additional 19% to Lower Middle-Income Countries. Regional allocations account for 29% and Upper Middle Income Countries, 26%.
6. Canada allocated 32% of its bilateral climate finance commitments (all dedicated climate finance projects) to Small Island Developing States (SIDS). It is not possible to determine the share of Canadian multilateral climate finance devoted to SIDS, which is the largest share (see point 1 above).
7. A similar pattern for all dedicated climate finance projects is apparent in the geographic allocations – 19% to Africa, 4% to the Pacific, 23% to the Americas, 38% to global or multiple countries across regions, and 15% to Asia.
8. Disbursements for the $2.65 billion commitment increased in 2016/17 and 2017/18 (the last year with data), but did not yet exceed annual disbursements during the Fast Track period. The $2.65 billion is to be fully disbursed by March 31, 2021.

9. In the 2016/17 and 2017/18 period, gender equality has been mainstreamed in 92% of climate finance disbursements (gender is one objective among several other project objectives), compared to 58% in the earlier Fast Track period (2010/11 to 2012/13). But there were virtually no allocations for climate-related projects where gender equality / women's empowerment is the principal objective.

On several of these dimensions, there has been an improved performance in allocations compared to the earlier Fast Track period (increased adaptation, emphasis on low-income countries, priority to Africa and the Pacific). But current performance still remains far from CSO-proposed objectives reflecting equal allocations for adaptation, priority to low-income countries, Small Island Developing States (SIDSs), and countries with large populations of vulnerable people.

4. A policy framework for assessing private sector blending in Canadian climate finance?

Blended finance mechanisms with the private sector are a pre-dominant modality for delivering Canada's international climate finance. These mainly occur through the special funds at the MDBs and the Green Climate Fund. It is expected also that at least 60% of Canada's $2.65 billion pledge will be delivered through loans and other non-grant modalities through these financing mechanisms. Beyond the MDBs, in the past year, FinDev Canada, Canada's Development Finance Institution, has financed three blended climate projects to date (out of seven projects in total)..

CSOs have raised several concerns related to blended finance in general. These include: its coherence with development effectiveness principles, its additionally in private sector finance, the lack of transparency around blended finance disbursements, and limited analysis of blended finance's actual impact for development outcomes. Blended climate finance projects have similar concerns.

Canada has supported vague principles to guide its practices in blended finance derived from the OECD DAC (*Blended Finance Principles for Unlocking Commercial Finance for Sustainable Development Goals)*. CSOs have been calling for greater rigour in assessing the relevance and impact of blended finance for Agenda 2030 and its overarching goals for leaving no one behind. Consideration should be given to abiding by the 2019 *Kampala Principles on Effective Private Sector Engagement*, which elaborate a normative set of guidance for assessing private sector engagement in development cooperation, including adaptation and mitigation finance.[5] These *Principles,* with a strong development effectiveness orientation, have been agreed through the Global Partnership for Effective Development Cooperation in which CSOs are equal stakeholders.

5. Towards a Fair Share Climate Finance Portfolio for Canada, 2020 to 2025

Canada's $2.65 billion commitment will be completed in 2020/21. Globally, the international community has agreed to keep the level of commitment for developed countries to an annual

US$100 billion in climate finance to 2025. How ambitious will Canada be in establishing its own contribution targets for the 2020 to 2025 period?

The Report argues that Canada's post-2020 climate finance should aim towards the following objectives:

Providing its fair share: Based on its relative Gross National Income (comparing DAC providers' GNI) Canada's fair share of the US$100 billion target is 3.8% or Cdn$1.8 billion in annual climate finance. Canada's current commitment of $800 million in annual international climate finance by 2020/21 is less than half this fair share. Canada should allocate $6.76 billion in principal purpose climate finance as its fair share in the five-year period between 2021/22 and 2025/26.

Ensuring funds are additional to development assistance: At the 2009 COP15 in Copenhagen, providers agreed to "scaled-up, new and additional, predictable … funding" for developing countries. Without a firm target for Official Development Assistance (ODA), however, it is difficult to determine what is additional climate finance. It is therefore important for Canada to establish a specific and transparent line item for principal purpose climate finance in the annual budgetary International Assistance Envelope (IAE) and to increase the IAE proportionate to the amount of climate finance being considered.

Scaling up climate finance: Canada can well afford to achieve its fair share of $1.8 billion in annual climate finance by 2025/26. Starting with $800 million in 2020/21, climate finance would be increased by 18% per year. A five-year commitment of $6.76 billion is required, compared to $4 billion at $800 million per year.

6. A Portfolio for Canada's fair share climate finance, 2021/22 to 2025/26

A Fair Share Climate Finance Portfolio for allocating $6.76 billion over five years has been suggested (See **Table Eight**, page 38). Allocations have been made consistent with Canadian CSO proposals for international finance that effectively address the climate crisis:

a) Contributing a fair share of developed countries' financing obligations;

b) Addressing climate finance additionality, while meeting the 0.7% UN target for ODA;

c) Increasing priority to adaptation, with a 50% target, with loss and damages additional to that target as a distinct commitment;

d) Giving priority to gender equality, aligned to the FIAP, demonstrating a commitment to reach the goal 15% of climate finance with gender equality as its principal purpose;

e) Supporting a pathway to low greenhouse gas emissions;

f) Targeting the most vulnerable countries and people; and

g) Establishing appropriate balance in financing modalities (e.g. share of loans, grants, blended finance), based on full consultations with stakeholders, taking into account learning from the 2015 – 2020 climate finance experience.

The Fair Share Portfolio has the following characteristics (See **Section 6.4** and **Table Eight** for details):

1. $4.31 billion (64%) is channelled through multilateral organizations, and $2.45 billion (36%) through bilateral channels.
2. Adaptation finance makes up 50% ($2.38 billion) of the total $6.76 billion, with an additional $880 million (13%) devoted to loss and damage commitments.
3. Within multilateral allocations, $1.8 billion (42%) is allocated through Multilateral Development Banks (MDBs) with most directed to mitigation. MDBs make up 27% of the total $6.76 billion.
4. A new commitment to the Green Climate Fund of $600 million, in effect increasing the 2019 Canadian replenishment to $900 million for the 2021 – 2025 period.
5. Allocations to bilateral initiatives tend to be smaller in scale and can directly support Canadian government priorities (SIDS, Sub-Saharan Africa, gender equality, youth and engaging Canadians).
6. A total of $1.6 billion is not directed to specific initiatives. These funds can cover the extension of existing projects and/or new initiatives.
7. $250 million (3.7%) has been specifically identified as support to <u>dedicated</u> gender equality initiatives. Canada will reach a 15% target for principal purpose gender equality in this portfolio by giving priority to projects / initiatives where gender equality is the principal purpose in other multilateral and bilateral programming (particularly adaptation finance).
8. $1.83 billion (27%) of the $6.76 billion is allocated to initiatives <u>specifically</u> targeting LDCs, Sub-Saharan African and/or SIDSs, but this share will be substantially augmented with individual project choices in other funds.

Recommendations

Several recommendations follow from the analysis of current allocations of the $2.65 billion pledge as well as the proposals for Canada's post-2020 climate finance commitment and priorities.

Recommendation 1: Concessional Climate Finance Canada's commitment of official resources in support of its bilateral effort towards the US$100 billion annually should only involve concessional public financing where the full purpose is climate adaptation/mitigation or loss and damage related to climate change. All loans should be reported at the grant equivalency value. Canada should clearly distinguish in its reporting to the UNFCCC the rationale and details of all modalities of eligible climate finance. But export credits, loan and investment guarantees should not be included in Canada's post-2020 climate finance commitment of official resources in order to maintain clear accountability to poor and vulnerable countries and populations for these commitments.

Recommendation 2: Green Climate Fund Given Canada's commitment on the GCF Board, the centrality of the Fund as the pre-eminent financing instrument for the UNFCCC and the Paris Agreement, and the strong inclusion of developing country partners on the Board, Canada's modest pledge for the first replenishment is difficult to understand and should be reviewed and substantially increased.

Recommendation 3: Gender Equality in Climate Finance GAC should enhance its FIAP *Action Area Policy* by examining current climate projects in which gender equality is mainstreamed in order to assess and learn critical success factors for gender transformative climate adaptation and mitigation. GAC should give priority to initiatives in which gender equality is the principal entry point and purpose.

Recommendation 4: **Blended and Innovative Finance** Global Affairs Canada should establish a review mechanism to assess the relevance and impact of Canada's blended and innovative finance for climate mitigation and adaptation goals, utilizing the Kampala Principles and the *Tri Hita Karana Roadmap* as the framework. It should involve all relevant stakeholders in this review, which should inform future blended finance initiatives in its climate finance portfolio.

Recommendation 5: Principles to Guide a Fair-Share Climate Finance Portfolio In summary Canada's post-2020 climate finance should aim towards,

a) <u>Making a fair share contribution</u>: New targets, at a minimum, should respect Canada's fair share of developed countries' financing obligations;

b) <u>Addressing climate finance additionality</u>: Climate finance targets should be additional and take into account the need to grow Canadian Official Development Assistance (ODA) to meet the UN target for ODA of 0.7% of GNI;

c) Giving priority to adaptation: At a minimum, targets should aim to provide a 50/50 allocation between principal-purpose adaptation and mitigation. Loss and damage allocations would be included as adaptation, but beyond this 50% target for adaptation;

d) Giving priority to gender equality, aligned to the FIAP: Financing modalities, with a clear strategy, should integrate and assess gender equality objectives in climate finance, including demonstrating a commitment to reach 15% of climate finance with gender equality as its principal purpose;

e) Supporting a pathway to low greenhouse gas emissions: Ensuring that all climate finance is consistent with a low greenhouse gas emissions pathway and climate resilient development;

f) Targeting the most vulnerable countries and people: All climate finance modalities, but particularly those related to adaptation, should take into account and respond to the urgent needs of the most vulnerable (LDCs, SIDSs, poor and marginalized populations), consistent with development effectiveness principles; and

g) Establishing appropriate balance in financing modalities: The choice of financing modalities should follow from these principles, based on full consultations with stakeholders, taking into account learning from the 2015 – 2020 climate finance experience.

Recommendation 6: Canada's Fair Share Canada must ramp up its annual bilateral climate finance from $800 million in 2020/21 to $1.8 billion, which is Canada's fair-share of bilateral contributions to US$100 annual climate finance, based on its wealth relative to other developed countries.

Recommendation 7: New and Additional Finance The Government should create a specific line item for principal purpose climate finance within the International Assistance Envelope so that new and additional climate finance is fully transparent and distinct from allocations for ODA for other development purposes. It is acknowledged that climate finance that is eligible under OECD DAC rules would continue to be included in Canada's ODA as reported to the DAC.

Recommendation 8: A Five-Year Plan to Achieve Canada's Fair Share The Government commits to reach its fair-share of $1.8 billion in annual climate finance by 2025/26 through commensurate annual increases in the International Assistance Envelope (IAE). A five-year plan will require a commitment $6.76 billion between 2021/22 and 2025/26.

Recommendation 9: **A Costed Plan for Allocating the $6.76 billion Pledge** The Government should set out a fully costed plan for its climate finance commitment of $6.76 billion, consistent with the principles set out in Recommendation 5. This Report creates an example of such a plan.

The Reality of Canada's International Climate Finance, 2019
Key Trends in Allocating Canada's $2.65 billion Paris Commitment

1. Introduction

1.1 A deepening climate crisis, particularly for poor and vulnerable people

The global climate crisis is accelerating rapidly with deepening and irreversible impacts on people, nature and ecosystems. In October 2018, the UN Intergovernmental Panel on Climate Change (IPCC) issued a landmark report with a clarion call for transformative and unprecedented shifts in energy systems and use. Without deep cuts in greenhouse gas emissions in the next decade (45% by 2030 over 2010 levels) the planet is likely to fail to live within the Paris Agreement pledge to keep temperature increases between 1.5°C and 2°C. The Report concludes "with very high confidence" that severe climate change and instability "will worsen existing poverty and exacerbate inequalities, especially for those disadvantaged by gender, age, race, class, caste, indigeneity and (dis)ability." (p. 451)[6]

Already parts of the world have experienced climate impacts on food and water security, health conditions, livelihood loss, migration, and loss of species and habitat. At a 1.5°C increase, the Report estimates that 122 million additional people could experience extreme poverty, with substantial income losses for the poorest 20% in 92 countries, and with significant impacts on poor countries, regions, and places where poor people live and work. An increase of 450 million flood-prone people will be vulnerable to a doubling in flood frequency. Depending on development scenarios, between 62 and 457 million additional people will be exposed to climate risks and vulnerability to poverty with a 2°C increase compared to 1.5°C.[7]

In June 2019, Philip Alston, the UN Special Rapporteur on Poverty and Human Rights, suggested that the climate crisis has multiple implications for the rights of poor and vulnerable people. "We risk a 'climate apartheid' scenario where the wealthy pay to escape overheating, hunger and conflict, while the rest of the world is left to suffer."[8] He noted that developing countries would bear an estimated 75% of the cost of the climate crisis, despite the fact that the poorest half of the world's population, mainly residing in these countries, are responsible for just 10% of historical carbon emissions. He issued a worrying prognosis for the future of human rights:

> "Democracy and the rule of law, as well as a wide range of civil and political rights are every bit at risk. … The risk of community discontent, of growing inequality, and even greater levels of deprivation among some groups, will likely stimulate nationalist, xenophobic, racist and other responses. Maintaining a balanced approach to civil and political rights will be extremely complex."[9]

With a 1.5°C target being politically ambitious for most developed countries, the consequences of missing this target for vulnerable populations in the Global South are profound. The ambition of Agenda 2030 and the SDGs are seriously undermined without renewed political commitments to transformative action on the climate crisis at the highest level.

In this context, Canada has an obligation to heighten its ambition for climate commitments for the coming decade, at both the domestic and international levels. Canadian governments, at all levels, must align all policies and actions towards transformed energy systems that reflect Canada's commitment to the Paris 1.5°C target and a pathway to carbon neutrality by 2050. Canada must continue to fully support the United Nations Framework Convention on Climate Change (UNFCCC) process and propose new initiatives that give priority to those countries and people most vulnerable to the evolving climate crisis.

In the current geo-political realities affecting climate action, Canada must step forward with bold and substantially increased international financing targeting the most vulnerable in mitigation, adaptation and compensatory loss and damage measures. It is encouraging that at the December 2018 COP24, Canada joined the EU, the UK, Germany, France, Argentina, and Mexico to pledge to step up their ambition by 2020.[10] Ambition under the UNFCCC must be reflected both in lower emission targets as well as in international climate finance.

This Report continues a series of annual reports for C4D focusing on the trends in Canada's 2015 Paris UNFCCC Conference of the Parties (COP21) pledge of $2.65 billion in international climate finance.[2] Against this backdrop, the 2019 Report proposes some directions for a major expansion in Canada's international climate finance for the 2021/22 to 2025/26 period, in a Fair Share Climate Finance Portfolio. In other words, the Report aims to outline how the Government of Canada's future international climate finance can be increased to its fair share of the $100 billion global commitment, and be allocated in ways that are consistent with its climate finance policies and international commitments.

[2] This 2019 C4D Report builds directly from the author's 2018 analysis of climate finance for C4D, which covered the broader period from Fast Start climate finance (2010/11 to 2012/13), up to June 2018. See Brian Tomlinson, 2018. The Reality of Canada's International Climate Finance, 2018: A Report on key trends in allocating Canada's $2.65 billion Paris commitment," prepared for the Canadian Coalition on Climate Change and Development (C4D), October 2018, accessed at http://aidwatchcanada.ca/wp-content/uploads/2018/10/Final-October-Climate-Report.pdf, with annexes available on www.aidwatchcanada.ca.

1.2 Canada's international climate finance and the FIAP

This 2019 Report focuses on the allocations to date of Canada's $2.65 billion commitment made at the 2015 Paris UNFCCC Conference of the Parties (COP21). This pledge is Canada's commitment to the mobilization of US$100 billion by 2020 by developed countries for the Global South. It does not include other channels of Canadian international finance for climate mitigation or adaptation from the private sector or other non-state actors.

The Prime Minister made the $2.65 billion commitment in 2015, "to support the efforts and actions of the poorest and most vulnerable countries to adapt to the adverse effects of climate change."[11] This support "will be delivered through a variety of channels and instruments for critical efforts, such as helping developing countries adapt to climate change, deploying renewable energy technologies, and managing risks related to severe weather events." Finally, the Government of Canada committed to disbursing at least $800 million per year in public international climate finance by 2020/21.[3] All disbursements for the $2.65 billion commitment are to be completed by March 31st, 2021.[12]

An essential reference point for the priorities in Canada's climate finance is the Government's *Feminist International Assistance Policy* (FIAP) released in June 2017. This Policy, in acknowledging the $2.65 billion commitment, identifies the increased vulnerability of women to the impacts of climate change in relation to their unequal access to productive resources, gendered division of labour (food and water) and more limited mobility. It appreciates that women can be powerful agents of change if given access and capacities in relation to environmental resources.

In June 2019 the Government published a series of Action Plans intended to guide the implementation of the six action areas identified within the FIAP. The *Action Area Policy: Environment and Climate Action* highlights a commitment to **a human rights-based approach** to environment and climate action.[13] It commits, *inter alia* [see relevant extracts from the Plan in **Annex Six**],

- to **align with Nationally Determined Contributions** and National Adaptation Plans;
- to **work with women-led groups** and ensure that their specific needs and interests are taken into account;
- to support the **training and empowerment of local, Indigenous, youth and women-led groups** to ensure that their knowledge and experiences are taken into account;
- to **engage private-sector players** through innovative approaches to climate finance, such as leveraging private investment in mitigation and adaptation activities;

[3] Please note that all dollar amounts are in Canadian dollars unless otherwise stated.

- to provide **concessional financing** for clean growth and adaptation to climate change, which includes low-interest or long-term loans;
- to **support the leadership and ownership of women, youth and vulnerable groups** in developing local practices and technologies, such as climate-smart agriculture and food systems, sustainable agriculture and forestry, and comprehensive land and water management, that equip them to plan, prepare and respond to sustainability challenges; and
- to support developing countries, particularly **coastal and small island developing nations**, to implement climate change adaptation measures and undertake disaster preparation, recovery and reconstruction.

This *Action Plan* establishes a useful and important framework (human rights, gender equality and women's empowerment) for situating and analyzing current and future climate finance commitments by Canada. But it is not clear how much priority will be given to the different dimensions of the Action Plan, or how progress in these areas will be assessed.

There are also several important policy orientations for civil society and C4D that seem to be missing from the *Action Plan*. There is no overall acknowledgement of the need for increased ambition, with a fully costed plan, to address an accelerating climate crisis. There is no explicit commitment to achieving balance in Canada's finance for mitigation and adaptation, nor an acknowledgement that an emphasis on adaptation is critical to strengthen the capacities of vulnerable women and girls in the face of climate change impacts. While there is mention of Small Island Developing States (SIDS), there is also no specific plans or even a stated priority to channel disproportionate support to LDCs and most vulnerable populations.

2. The Paris Rulebook and Accountability for Climate Finance

Any analysis of international climate finance is fraught with methodological issues, different practices in counting climate finance by different providers, and by the proliferation of different channels for the allocation of this finance.[14] Developed countries pledged at Copenhagen in 2009 to provide US$100 billion annually in climate finance by 2020 to developing countries. Keeping this commitment alive was critical in establishing the trust that allowed for the adoption of the Paris Agreement. Yet over the past decade, this trust has been undermined by a lack of agreement among providers about what to include in climate finance, how to count it, and which countries should be obliged to report. The focus for COP24 in December 2018 was to achieve agreement on a 'Paris Rulebook' for guiding the implementation of the 2015 Paris Agreement. Among the rules were those intended to resolve and bring order and transparency to both the measurement and the reporting of climate finance under the UNFCCC.

2.1 The Paris Rulebook

Reaching agreement at COP24 on the Rulebook for backward- and forward-looking measurement of climate finance was challenging.[15] The compromise reached establishes greater transparency, specificity and detail on climate finance, with reporting mandatory for developed countries (encouraged and voluntary for other countries). However, much is still left to the discretion of the reporting party, with a high level of flexibility and interpretation in implementing the rules. Assessing climate finance against targets and comparing the performance of provider countries consequently remains problematic.

Some of the highlights of the Rulebook in relation to financing[16] include the following:

- **Party-determined approach maintained** Parties have to consider more than 20 different parameters in reporting climate finance in a common format at the country and activity level. Parties will report on their effort taken to avoid double counting among multi-parties reporting on the same activity. But it is still up to each party to determine their own approach to the common format (which may still result in double counting) as well as how to measure support provided and mobilized (e.g. how to count "mainstreamed climate finance" where a climate objective is only one of several project objectives).
- **Transparency on definitions used for climate finance** While there is no common definition agreed, parties must provide their definition of public and private finance for climate change. Civil society commentators at COP24 raised concerns about the resulting potential for "watering down" climate finance reported to meet the US$100 billion target. Different definitions may also result in incompatibility in making cross-provider comparisons of effort.
- **Support for fossil fuel as climate finance** There are no requirements for parties to distinguish whether and by what means support for fossil fuel energy is part of their climate finance (e.g. "clean" coal). Canada does not report these investments as climate finance (even though Canada continues to support fossil fuel development through its international finance).[17] The OECD also does not include these investments when making their calculations of donor effort towards the US$100 billion. But other parties can report them to the UNFCCC in their biennial reports.
- **Qualifiers may limit reporting** Rules for reporting financing are accompanied by qualified reporting requirements such as "to the extent possible" or "as applicable," with the potential for mixed ambition and scope in reporting.
- **Extensive range of financing instruments permitted** A party must specify the financial instruments used, but these can include not only grants and concessional loans, but also non-concessional loans, equity, guarantees, insurance and others. The rationale is the notion that climate finance must be broadly mobilized and capture increased levels of private finance, for which public finance can leverage or incentivize.

- **No net reporting of finance** There is no requirement to report net financing (taking into account loan repayments, the sale of equities or the amount of guarantees actually expended). Canada to date has reported on a net basis, including flows that have returned to Canada on previous contributions.
- **Grant equivalency for loans voluntary** Parties must provide the face value of all loans and other means of support, but will only report on a voluntary basis the grant-equivalency of concessional loans (i.e. the grant-value of the extent of concessionality in a loan that is provided below market rates). With more climate finance also provided as loans at market rates, debt implications of these loans are a major concern for many low-income countries facing mounting issues of debt sustainability.
- **Reporting mobilized private sector finance** Parties are encouraged to report mobilized private sector finance. But they must also indicate a clear causal link between the public finance and mobilized private finance – i.e. demonstrating that the activity would not have gone forward without the public finance. To date there has been no robust methodology for tracking such finance, consistent with the goals of the Paris Agreement and principles to assure its developmental effectiveness.
- **'New and additional' reporting flexible** Parties must include an indication of what is "new and additional finance," but are free to determine how they approach what is new and additional. The way of determining new and additional must be reported. Canada defines new and additional as any finance beyond the level planned prior to the 2009 Copenhagen Accord. In contrast, CSOs have called for climate finance that is additional to providers' ODA intended to meet general development needs, such as education, healthcare, agricultural development or democracy support.
- **Country ownership** Parties must report how public finance addresses the needs and priorities of developing country strategies and instruments.
- **Predictability of public finance** Forward-looking indicative public finance for climate purposes will be reported and posted on an online portal on a biennial basis and the UNFCCC Secretariat will compile periodic synthesis reports.

When fully implemented in the 2024 round of reporting to the UNFCCC, the new rules will provide a higher degree of transparency, but will also clearly require close scrutiny to be assured that climate finance is being reported fairly and consistently by all providers.

2.2 Canada's reporting on climate finance

Canada has been transparent in its most recent biennial report (2017) to the UNFCCC. This report identifies finance that relates to the $2.65 billion commitment (Canada's share of the US$100 billion DAC provider pledge).[18] Against this commitment, Canada lists only projects where the full purpose and total budget is devoted to climate adaptation and/or mitigation, with the one exception of Canada's contribution to the Global Environment Fund (GEF).

As part of the $2.65 billion commitment, to date, Canada has not included the climate finance share of core contributions to the Multilateral Development Banks (MDBs), export credits, loan and investment guarantees, or finance by Canada's Development Finance Institution, FinDev Canada. However, it has included these areas as line items in its report to the UNFCCC in its comprehensive picture of Canadian climate finance. Canada's 2017 report to the UNFCCC therefore includes climate related core contributions to MDBs at Cdn$95.6 million (2015) and Cdn$88.9 million (2016) and also referenced Cdn$273 million from the Export Development Corporation (EDC) attributable by the EDC to climate finance (without providing project details of this finance).[19] This climate finance picture in the UNFCCC report also included GAC projects in which adaptation and/or mitigation is one of several objectives of the project. The Government discounted these latter projects to 30% of the total budget.

In the context of the Paris Rulebook on finance, it will be essential that Canada maintain this level of clarity and transparency for both its next biennial reports to the UNFCCC and any future Canadian Paris Agreement climate finance commitments.

Recommendation 1: Canada's commitment of official resources in support of its bilateral effort towards the US$100 billion annually should only involve concessional public financing where the full purpose is climate adaptation/mitigation or loss and damage related to climate change. All loans should be reported at the grant equivalency value. Canada should clearly distinguish in its reporting to the UNFCCC the rationale and details of all modalities of eligible climate finance. But export credits, loan and investment guarantees should not be included in Canada's post-2020 climate finance commitment of official resources in order to maintain clear accountability to poor and vulnerable countries and populations for these commitments.

The *Reality of Canada's International Climate Finance, 2019* Report follows the current Canadian reporting practices. When making international comparisons with other providers, it adjusts finance from these providers accordingly (based on information that is available). For a detailed discussion of the data sources and the methodologies for the analysis that follows see **Annex One**.

3. How did Canada allocate its $2.65 billion in international climate finance?

3.1 Project commitments to date for the $2.65 billion pledge

The Government has committed (up to August 2019) just over $1.7 billion in 25 approved projects and initiatives as part of its $2.65 billion Paris commitment for climate finance between 2015 and 2020. Just over $900 million remains to be allocated. Since the intention is to fully disburse this commitment by March 31, 2021, it is likely that these remaining funds are currently in the project pipeline, but not yet announced. **Annex Two** sets out all known project approvals for the $2.65 billion with their total committed budget. It also includes climate finance projects not included in the $2.65 billion pledge, but whose budgets are totally dedicated to climate finance purposes.

Table One: Allocation of Reported Project Commitments relating to the $2.65 Billion Pledge (2016/17 to 2019/20)

Millions of Canadian Dollars, December 2019

	Adaptation	Mitigation	Total / Share of Climate Finance Total
Multilateral	$515.3	$1,158.0	$1,673.3
Share of Multilateral	30.8%	69.2%	97.1%
Bilateral	$29.75	$20.75	$50.5
Share of Bilateral	58.9%	41.1%	2.9%
Total Climate Finance Commitment ($2.65 billion)	**$ 545.1**	**$1,178.75**	**$1,723.8**
Share of Total Climate Finance	31.6%	68.4%	100 %
Other Principal Purpose Climate Project Commitments	$108.45	$170.25	$278.7
Total of $2.65 billion and Dedicated Climate Finance Commitments	**$ 653.55**	**$1,349.0**	**$2,002,55**
Share of Total Climate Finance	33%	67%	100%

For methodology and sources see Annex One and Annex Two

The vast majority of Canada's 2015 pledge has been allocated through multilateral channels (97%), with only 3% through bilateral channels (including CSOs) (**Table One**). Adaptation purposes account for less than a third of project commitments to date (33% when all dedicated climate finance projects are included). A number of projects for adaptation have been approved through bilateral channels but are not included by GAC for the purposes of accountability to the $2.65 billion pledge. These overall priorities have been consistent in project allocations since 2015.

3.2 An overview of project commitments

3.2.1 Multilateral commitments

The Multilateral Development Banks The multilateral focus in Canada's climate finance has been centered on several special Canadian trust funds at Multilateral Development Banks, which are structured as blended finance initiatives with the private sector. They build upon earlier Canadian special funds established under the COP22 Copenhagen Fast Track Initiative (2009 – 2012) at the Asia Development Bank, the Inter-American Development Bank and the World Bank.

Since 2015, the allocations to the special MDB funds total $1,098 million or 66% of all multilateral commitments towards the $2.65 billion pledge. All of these MDB funds deliver their projects through loans or other non-grant instruments. Only 15% of the resources for these Funds are designated for adaptation (based on the qualifications for each Fund noted below). The Green Climate Fund (GCF) make up an addition $300 million or 18% of multilateral commitments. Together these six initiatives account for more than 80% of the multilateral initiatives to date from the $2.65 billion pledge.

At the MDBs Canada has established:

- Asia Development Bank (ADB): Canada Climate Fund for the Private Sector II, $200 million, allocated 10% adaptation and 90% mitigation – based on actual project allocations from the earlier Canada Climate Fund for the Private Sector with the ADB.[20]
- World Bank, International Finance Corporation (IFC): Canada IFC Renewable Energy Program for Africa, $150 million, allocated 100% to mitigation.
- World Bank, International Finance Corporation (IFC): Canada- IFC Blended Climate Finance Program, $250 million, allocated 50% adaptation and 50% mitigation.
- World Bank: Energy Transition and Coal Phase Out, $275 million, 100% mitigation.
- Inter-American Development Bank (IADB): Canadian Climate Fund for the Private Sector in the Americas (C2F), $223 million, allocated 10% adaptation and 90% mitigation – based on actual project allocations from the earlier Canada Fund for the Private Sector in the Americas at the IADB.

Beyond these MDB Funds, there have been an additional large multilateral allocation:

- Green Climate Fund (GCF), $300 million, reported as allocated 50% adaptation and 50% mitigation. The current allocation of GCF projects is 39% adaptation and 61% mitigation (see below).

Canada's MDB Funds have a relatively long start-up period, with only a few projects approved to date for the ADB Private Sector II Fund and the ICF Blended Climate Finance Fund. All of the ADB

projects have been designed for mitigation, while two small projects through the IFC Fund were directed to agricultural adaptation in Sri Lanka. See **Annex Three** for a list of these projects.

The Green Climate Fund[4] The Green Climate Fund (GCF) is the pre-eminent financing instrument for the UNFCCC in addressing the climate crisis. Canada committed Cdn$300 million in the initial resource mobilization for the Fund in 2015. But Cdn$110 million of this commitment was in the form of a loan, which in its US dollar grant-equivalency (the calculation of concessionality of a loan) was valued at only US$20 million by the Fund.[21] At the G7 meeting in August 2019 Canada announced a similar pledge of $300 million for the first replenishment of the Green Climate Fund (but less than the 2015 pledge if exchange rate differences and inflation are taken into account).

Canada has been a pro-active member of the Board of the GCF in strengthening its policies and decision-making processes. But when Canada hosted a replenishment review meeting at the end of August 2018, this new pledge is deeply disappointing, far from what is required, and is inconsistent with Canada's stated objectives for climate finance. With the US withdrawing from the Paris Agreement and the GCF, other providers must step up to replace its share (which was almost 30% of the initial pledges of US$10.7 billion in 2015). To date (September 2019), eight countries (including Germany, France, the UK and Norway) have announced that they were doubling their contributions. Based on the programming capacity of the GCF, CSOs have put forward a target of US$15.3 billion for the first replenishment. Canada's contribution not only did not double its pledge, at 1.8% of this target, its $300 million fell far short of its 'fair share' of 3.8% (approximately Cdn$750 million), based on its GNI wealth, relative to other provider countries.

The GCF's core objectives and guiding principles are strongly aligned with Canada's FIAP Climate and Environment Action Plan. Canada has played a leading role on the GCF Board to strengthen the Fund's gender policies, which seek to place "gender as a key element of its programming architecture, [and commit to] … gender-responsive climate action programmes and projects that benefit women and men."[22] There has been progress in implementing these policies. The Fund reported that 84% of all approved funding proposals contain an initial gender assessment and 67% contain a project-level gender and social inclusion action plan. The GCF's projects dashboard, however, gives no indication of the degree to which mainstreaming is actually achieved, and it does not break down beneficiary populations by gender.[23]

[4] This section is drawn from a more detailed analysis of the Green Climate Fund and its current process of replenishment, which can be found in **Annex Eight**.

A review of 113 projects with US$5.5 billion in GCF funding commitments suggests some worrying trends in other dimensions of climate policies (See **Annex Eight** for details). The GCF is still a long way from achieving a balance in allocations to adaptation and mitigation, with the former currently at 38.6% of committed funding. This balance has not been improving in recent project approvals. Least Developed (LDCs) and Small Island Developing States (SIDSs) receive only 24% of project funds, and Sub-Saharan Africa, 21% of all project finance. But LDCs and SIDSs did receive 50% of project funds explicitly devoted to adaptation. Country ownership is strong and positively reflected in the process for submitting projects for consideration by the Fund. Yet for all projects, 50% of the resources are delivered as loans (23% for LDCs).

Recommendation 2: Given Canada's commitment on the GCF Board, the centrality of the Fund as the pre-eminent financing instrument for the UNFCCC and the Paris Agreement, and the strong inclusion of developing country partners on the Board, Canada's modest pledge for the first replenishment is difficult to understand and should be reviewed and substantially increased.

3.2.2 Bilateral commitments

On the bilateral side, 7 projects account for $50.5 million in commitments. An additional 14 bilateral projects totally dedicated to climate finance purposes (but not included as commitments against the $2.65 billion pledge) account for $183.8 million in bilateral climate finance commitments (see **Annex Two**), within which five projects (totalling $63 million) are located in Haiti. About 20% of total bilateral dedicated climate finance commitments or $43 million has been allocated through CSOs. It is also notable that more than half the dedicated climate finance bilateral projects (56% by budget) are directed to adaptation purposes (including those allocated to the $2.65 billion pledge).

3.2.3 Allocation to country income groups (Rio Marker Principal Purpose and $2.65 billion Projects)

Canada focuses on mitigation of greenhouse gas (GHG) emissions in multilateral initiatives where the emphasis is on higher income countries that produce more GHG. Canada's priority for multilateral channels has diverted Canadian climate finance away from the Least Developed (LDCs) and Lower Middle Income Countries (LMICs). More than a quarter (26%) of the multilateral programs) are focused on Upper Middle Income Countries (UMICs) in the Global South. An additional 32% have a regional or global focus. (**Table Three** and **Annex One** on methodology)

The allocations by income groups from Canada's MDB funds have been consistent with the overall distribution of MDB climate finance, with 36% focused on UMICs and only 12% on LDCs.[24]

Unlike multilateral initiatives, 70% of Canada's bilateral climate projects (including all projects dedicated to climate finance) are concentrated in Least Developed Countries, with an additional quarter (26%) in Upper Middle Income Countries.

Overall, the poorest countries (LDCs and LMICs) make up only 45% of the allocations to date for Canada's $2.65 billion commitment, with 26% directed to LDCs.

Table Three: Allocation of $2.65 billion Projects and Principal Purpose Rio Marker Project Commitments by Income Group
Source: Annex Two; Millions of Canadian dollars (August 2019)

	LDCs	LMICs	UMICs	Regional/Unknown
Multilateral	$381	$384	$479	$576
Share of Multilateral	21%	21%	26%	32%
Bilateral	$153	Nil	$ 55	$ 11
Share of Bilateral	70%	0%	25%	5%
Total Climate Finance	**$534**	**$384**	**$534**	**$587**
Share of Total Climate Finance	26%	19%	26%	29%
Share of Total without Regional	31%	31%	39%	

3.2.4 Geographic allocations of the $2.65 billion and principal purpose Rio Marker commitments

According to **Table Four,** allocations to countries in the Americas account for the largest share (23%) of current commitments (38%, when global and regional allocations are discounted). This regional emphasis is true for both multilateral and bilateral allocations. With 23% to Africa and the Pacific, which tend to be regions where there are a high number of countries vulnerable to climate change, they account for less than a quarter of allocations (38%, when global and regional allocations are discounted).

Table Four: Allocation of $2.65 billion Projects and Principal Purpose Rio Marker Project Commitments by Geographic Region
Source: Annex Two; Millions of Canadian dollars (August 2019)

	Africa	Asia	Pacific	Americas	Global / Unknown
Multilateral	$331	$269	$85	$381	$754
Bilateral	$ 61	$ 30	$ 2	$ 98	$ 30
Total Climate Finance	**$394**	**$299**	**$87**	**$479**	**$784**
Share of Total	19%	15%	4%	23%	38%
Share of Total without Global	31%	24%	7%	38%	

Because of the difficulty in disaggregating multilateral funds and projects by country, it is not possible to give an overall estimate of the degree to which Canada's $2.65 billion/Rio Marker

projects are allocated to **Small Island Development States** (SIDS). As noted, 97% of Canada's $2.65 billion pledge is allocated through multilateral channels. On the bilateral side, Canada allocated 32% of its bilateral projects dedicated to climate finance purposes to Small Island Developing States (SIDS), with almost the full amount going to Haiti. Overall, the Pacific Region as SIDS received 4% of these commitments to date (7%, when global and regional allocations are discounted).

3.3 Comparison with the Fast Track commitment

In a comparison of the $2.65 billion allocations (based on known projects up to August 2019) and the Fast Track $1.2 billion commitment disbursements (2010/11 to 2012/13), there has been a significant continuity in delivery channels.[25] There has been no change in the use of multilateral channels for the delivery of Canada's climate finance. But while not meeting CSO targets, there has been notable improvement in allocations to date for the $2.65 billion commitments for 1) finance devoted to adaptation, 3) finance directed to LDCs (with less to UMICs), and 3) finance with more priority to Sub-Saharan Africa and Pacific countries (less to Asia).

Delivery channels

Fast Track: 90% through multilateral channels, with three MDB initiatives making up 51% of the commitment.

$2.65 Billion: 97% through multilateral channels, with five MDB initiatives making up 64% of the commitment.

Adaptation

Fast Track: An estimated 19% of climate finance was devoted to adaptation.

$2.65 Billion: An estimated 32% of climate finance is devoted to adaptation.

Income Groups

Fast Track: Principal purpose climate finance -- 19% to LDCs; 31% to LMICs; and 50% to UMICs (excluding global and regional projects).

$2.65 Billion and Principal Purpose Projects: Principal purpose climate finance -- 31% to LDCs; 31% to LMICs and 39% to UMICs (excluding global and regional projects).

Geography

Fast Track: 25% of climate finance (principal purpose) directed to Sub-Saharan Africa, 4% to Pacific, 32% to Asia, and 40% to the Americas.

$2.65 Billion and Principal Purpose Projects: 31% of climate finance (principal purpose) directed to Sub-Saharan Africa, 7% to the Pacific, 24% to Asia, and 38% to the Americas.

4. Canada's Disbursements for Climate Finance, 2016/17 to 2017/18

Data sources, unfortunately, do not permit a direct comparison of Canada's 2015 Paris pledge project commitments and the actual disbursements for these commitments. GAC disbursements for 2016/17 and 2017/18 not only include projects approved prior to 2015/16, but can also be missing some projects financed through other government departments. Nevertheless, the GAC disbursement data for these years provides a proxy for Paris pledge disbursements (including a disbursement of $168 million for the Green Climate Fund in 2015/16).

GAC disbursements for climate finance are identified through the OECD DAC Rio Marker (see Methodology Notes in **Annex One**). This marker identifies donor projects for which climate adaptation or mitigation are either the principal purpose or one objective among several project objectives. The latter projects are not included in Canada's $2.65 billion pledge, but are analyzed below as Canada does report them to the UNFCCC (with budget/disbursements discounted to 30% to capture only the climate share).

4.1 GAC principal purpose disbursement trends and the $2.65 billion commitment

Up to 2017/18 (the last year for disbursement data) $750 million in principal purpose climate finance, broadly related to the $2.65 billion pledge, had been disbursed against a total budget of $1,245 million for these projects (or 60% of project budgets). Disbursements, however, include $168 million for the Green Climate Fund, $148 million for the ADB Canada Climate Fund for the Private Sector II, and $193 million for the Canada – IFC Blended Climate Finance Program. These Funds make up two-thirds of total disbursements for these two years, but as noted above, have been slow to disburse loans and grants to recipient partners.

Charts One and **Chart Two** provide a perspective on overall trends in principal purpose climate finance disbursements from 2010/11 to 2017/18 for adaptation and mitigation purposes respectively. The Charts plot two-year running averages, which smooth out the timing of disbursements in any given year and highlight longer-term trends. They also allow comparison between Canada's Copenhagen Fast Track commitment (2010/11 to 2012/13) and the current $2.65 billion commitment (2016/17 to 2017/18).[26]

Chart One

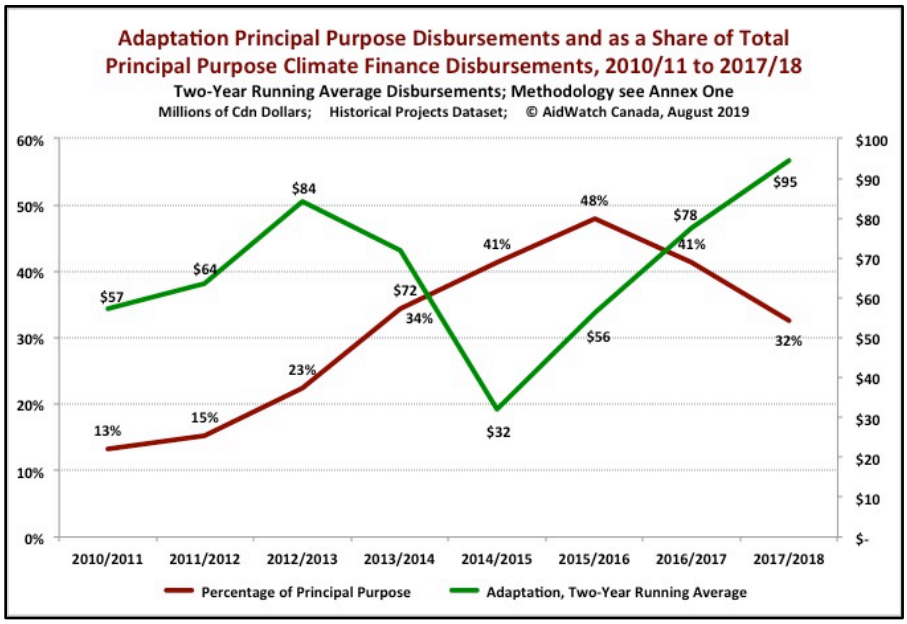
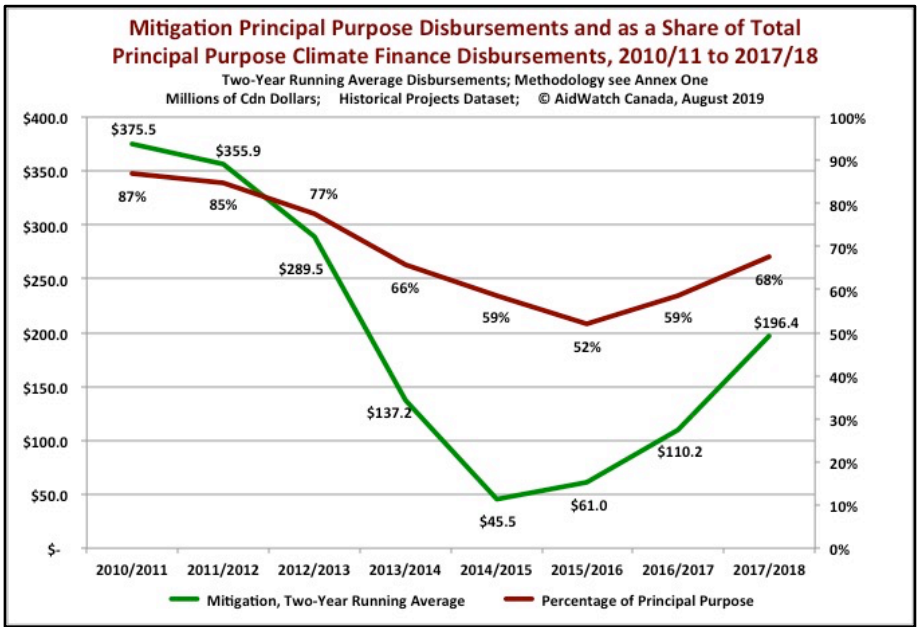


Chart Two



While the levels of annual disbursements for adaptation and mitigation in the current period are increasing, they have not yet exceeded annual disbursements for the Fast Track period.[5] Adaptation disbursements, however, have an increased profile in the current period (see above). At $95 million (two-year average) in 2017/18, adaptation expenditures are at their highest level since 2012/13.

[5] All disbursements for the $2.65 billion commitment are to be completed by March 31, 2021.

Although adaptation is down in terms of the share of disbursed finance, this performance is consistent with the overall allocation of the $2.65 billion commitment (see **Table One** in Section 3.1).

4.2 Trends in GAC significant purpose climate finance disbursements

The DAC Rio Marker includes projects where a climate adaptation or mitigation objective is only one of several project objectives. These are identified as "significant purpose" projects. All providers of climate finance, including Canada, incorporate significant purpose climate finance in their reports to the UNFCCC, although to date Canada has not included such finance as part of its international finance commitments (Fast Track or the 2.65 billion pledge). In the period 2016/17 to 2017/18 (including the Green Climate Fund), significant purpose climate finance made up 19% of Canada's total climate finance identified in GAC's HPDS (**Annex Four**).

Chart Three sets out year-by-year trends for significant purpose climate finance (two-year running average). Significant purpose finance is a large part of Canada's climate finance in years when there is no specific international commitment (i.e. the years between Fast Track and the Paris commitments).

As a share of project disbursements where climate finance has been integrated within the project's purpose, significant purpose finance has been growing gradually over the decade. At $88 million in 2017/18 (two-year average), it is a third higher than 2010/11 at $64 million. As development cooperation takes into account the implications of the climate crisis, increasing numbers of projects should build into their objectives resilience to climate change. Its relative slow growth over this decade could be considered a worrying trend, particularly for adaptation finance (see **Chart Four**).

Chart Three

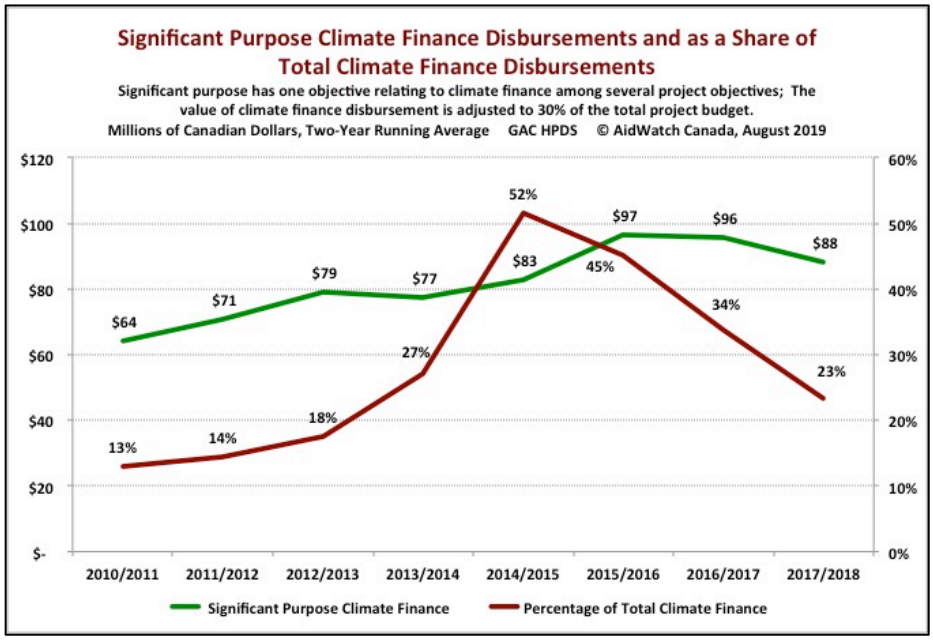
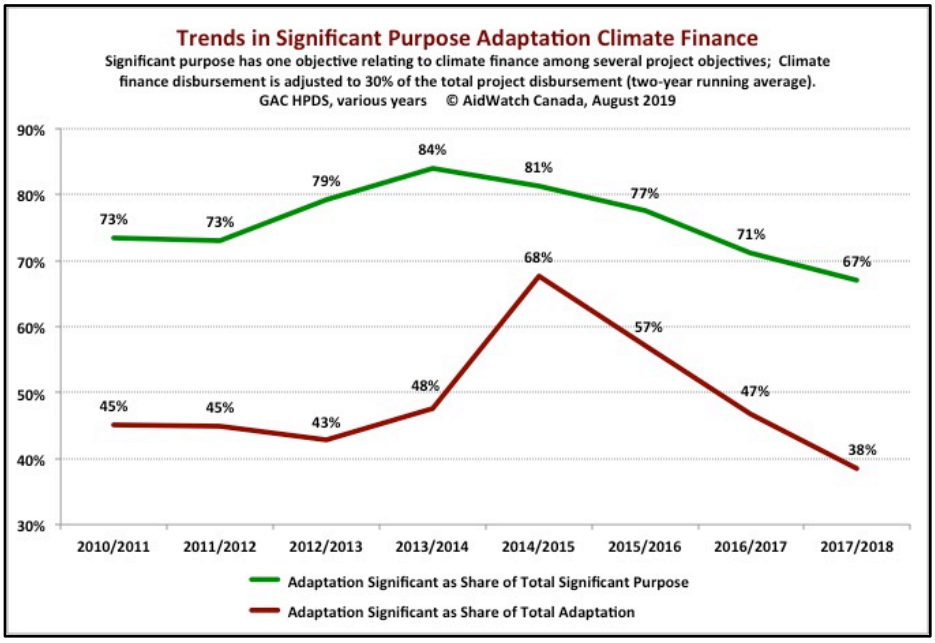


Chart Four



As might be expected, **Chart Four** demonstrates that significant purpose climate finance has been predominant in adaptation projects. While declining modestly since 2014/15, significant purpose adaptation still makes up more than two-third (67%) of total significant purpose finance. As a share of total adaptation finance, this form of climate finance has been declining as Canada makes more investments in projects where adaptation is the primary objective. In 2017/18 (two-year running average), significant purpose climate finance made up 38% of total adaptation finance, lower than 45% in 2010/11. By contrast, significant purpose mitigation made up only 14% of total mitigation finance disbursements in 2017/18.

4.3 Total GAC climate finance disbursements in the $2.65 billion commitment period

Annex Four sets out year-by-year climate finance disbursements for 2016/17 and 2017/18 (including a disbursement for the Green Climate Fund in late 2015/16). Total climate finance, including significant purpose, for these two years was $930.3 million. Since significant purpose finance is mainly focused on adaptation, the proportion of this finance devoted to adaptation increased to 42%, up from 37% if principal purpose finance alone is considered.

Multilateral channels still predominate, accounting for 86% of all GAC climate finance disbursements, with bilateral channels (including CSOs) accounting for only 14%. However, as noted

above, bilateral projects are more likely over multilateral projects to be marked significant purpose climate finance.

4.4 Gender equality objectives in Canada's climate finance disbursements

The Government's Feminist International Assistance Policy (FIAP) *Action Area Policy: Environment and Climate Action* acknowledges that "in many contexts, women are more vulnerable to the impacts of climate change, due to unequal access to productive resources, gendered divisions of labour (e.g. greater responsibility to obtain water, fuel and food), gender gaps in employment and education, and more limited mobility."[27]

Annex Six extracts several aspects of this Plan that highlight the different ways in which the Government intends to implement feminist approaches in all aspects of climate finance:

- Working with and empowering women's organizations;
- Training and ensuring women's knowledge and experience is taken into account;
- Supporting women's leadership in "climate-smart agriculture and food systems, sustainable agriculture and forestry, and comprehensive land and water management, that equip them to plan, prepare and respond to sustainability challenges."

As noted in the introductory section on FIAP above, these are commendable action goals; however, the *Action Area Policy* provides no guidance on measures that will be put in place to assess their realization in climate projects. Such measures are essential as the Government relies on only the OECD DAC's gender marker[6] to determine the degree to which a development project focuses on gender equality and women's empowerment. There is little if any verification in assigning a gender marker to a project (see footnote six below).

Annex Five provides a breakdown of the allocation of gender markers in GAC disbursements for the $2.65 billion commitment (2016/17 and 2017/18 including the Green Climate Fund disbursement) and the Fast Track commitment period (2010/11 to 2012/13). **Table Five** sets out a summary of this data. In the most recent period of climate finance, gender equality has been "mainstreamed" in 92% of project disbursements (one explicit objective among several), compared to 58% for the Fast Track period. Only 8% of project disbursements did not have any gender equality objectives.

[6] The OECD DAC purpose marker for gender equality and women's empowerment assess each project in relation to a) there are no gender equality objectives – marker 0; b) a gender equality objective is one among several other project objectives and there has been a gender equality analysis and reporting on the gender equality objective – marker 1; and c) gender equality is the principal objective of the project, whatever the sector focus, including climate adaptation or mitigation – marker 2. See Annex Nine and the gender equality section of *The Reality of Canada's International Climate Finance, 2018, op. cit*., for more detail.

However, in the Fast Track period, 8% of disbursements were seemingly directed to projects in which gender equality was the principal objective, compared to less than 1% for disbursement to date relating to the $2.65 billion commitment.[7]

Table Five

	$2.65B Commitment			**Fast Track Commitment**	
DAC Marker	**Amount**	**Share of Total**		**Amount**	**Share of Total**
0 (No Gender Objectives)	$ 74.4	8.0%		$ 462.5	33.1%
1 (Significant)	$853.1	91.8%		$ 811.5	58.1%
2 (Principal)	$ 2.3	0.2%		$ 123.4	8.8%
Total	$929.8			$1,397.4	

Source: GAC HPDS, various years: Climate Finance includes both principal purpose and significant purpose finance. $2.65B commitment includes climate GAC disbursements for 2016/17, 2017/18 and the Green Climate Fund and the Fast Track commitment includes climate GAC disbursements for 2010/11, 2011/12 and 2012/13 including one project disbursement for the Department of Finance for the World Bank IFC.

Mainstreaming gender equality in Canadian climate finance is a critical dimension that will ensure an inclusive and potentially transformative impact for both adaptation and mitigation projects. However, merely placing an objective for this purpose within a project's many objectives will not accomplish this goal. A recent CARE analysis of gender-transformative adaptation, based on case studies, concluded that such projects must carry out climate vulnerability analysis that addresses the power dynamics, priorities and preferences of women.[28] They must devote specific budget to activities that will drive gender transformation on the ground. In many cases they must be accompanied by actions that also address structural barriers to gender equality, such as land ownership, division of labour and roles of women in decision-making.

Recommendation 3: GAC should enhance its FIAP *Action Area Policy* by examining current climate projects in which gender equality is mainstreamed in order to assess and learn critical success factors for gender transformative climate adaptation and mitigation. GAC should give priority to initiatives in which gender equality is the principal entry point and purpose.

[7] The data for gender equality Marker 2 for the Fast Start period is questionable. A random check in GAC's project browser for five projects demonstrated only one for which gender equality was clearly the primary objective. Many of the larger amounts were for institutional support for the UNDP and other multilateral organizations, for example, which would not normally qualify for a primary focus on gender equality (Marker 2). Many of these projects should likely have been coded Marker 1.

4.5 Sectoral allocations in Canada's climate finance disbursements

Climate projects are highly concentrated in a number of sectors, closely resembling the purposes of climate mitigation and/or adaptation. Energy (renewable, hydro power and non-renewable waste fire electric power) accounts for 40% of GAC climate finance multi-year disbursements related to the $2.65 billion commitment. This sector is followed by environment (31%), agriculture and forestry (10%), humanitarian reconstruction and rehabilitation (3.1%) and multi-sectors (3.9%). Together they account for 88% of these disbursements. A more detailed breakdown of sectors by adaptation and mitigation can be found in **Annex Seven**.

5. New modalities in Canadian climate finance – loans and blended finance

5.1 An overview of blended finance for Canadian climate investments

Canada's allocation of its $2.65 billion pledge relies very heavily on blended finance mechanisms with the private sector, mainly through the multilateral development banks (MDBs). This form of finance constituted more than 50% of Canada's Fast Track finance (2010 to 2012), and at least 54% of the current pledge will be delivered through such mechanisms.[29] In addition the Green Climate Fund (GCF) has a quickly evolving blended finance Private Sector Facility for clean energy and climate resilient projects. The use of blended finance mechanisms with the private sector is strongly focused on mitigation projects, which as noted above have received a disproportionate share of Canada's climate commitment.

Almost all of this MDB finance is through concessional and non-concessional loans, equity and investment guarantees. In addition to the MDB funds, a review of GCF projects reveals that 50% of these projects have been financed as loans.[30] Together, therefore, it is likely that at least 60% of Canada's $2.65 billion pledge will be delivered as loans or other non-grant modalities.

It is a worrying trend that grants continue to make up substantially less than half of Canada's climate finance, given Canada's stated priority to address climate adaptation and mitigation conditions in LDCs, SIDSs and for the most vulnerable people. There is increasing concern over the financial sustainability of debt in low-income countries and some middle-income countries. The wide-spread use of loans to the private sector in developing countries for climate projects may seriously exacerbate debt distress for many of these countries.[31] As a basic principle of climate justice, developing countries should not be responsible for paying developed countries (principal and interest on loans) for measures to adapt or mitigate the impacts of climate change, for which developed countries are largely responsible.

FinDev Canada and the Export Development Corporation While currently not included in its $2.65 billion pledge, the Government launched FinDev Canada in 2018 as a Canadian bilateral

Development Finance Institution (DFI) in which climate finance will figure prominently.[32] FinDev Canada is housed within the Export Development Corporation, but is governed by its own board and operations policies. As noted in our *2018 Reality of Canada's International Climate Finance Report*, one of FinDev Canada's three priorities is climate finance, with an emphasis on

> "green growth, e.g. renewable energy, energy infrastructure, energy efficiency, water supply, water management, waste management, waste water management, bio-refinery products, green industrial production, and climate solutions focused on mitigation or adaptation."[33]

FinDev Canada has reported three projects (out of seven financed to date) that relate to climate change mitigation:

- Climate Investor One (CIO) – US$20 million (Cdn$24.4 million): An investment facility with the Dutch Development Bank which will focus on renewable energy projects in emerging markets across Africa, Asia and Latin America (solar, wind, geo-thermal, energy from waste), with at least 70% of investments in low-income or lower-middle income countries.
- M-KOPA (Kenya) – US$10 million (Cdn$12.8 million): A supplier of "pay-as-you-go" ("PAYG") off-grid solar home systems and consumer products for low-income households that have historically relied on kerosene and other traditional fuels.
- Brisa de la Costa S.A., Parques Eolicos Pampeanos S.A., Lomas de los Vientos S.A., and Univento S.A (Argentina) – Up to US$20 million: Construction, operation and maintenance of a 185MW wind turbine power plant in Argentina.

The Government reported to the UNFCCC $273 million in climate finance in 2016 by the Canadian Export Development Corporation (EDC), but provided no details.[34] The EDC has been challenged by civil society groups to become much more transparent. In January 2019, the EDC announced a revised Climate Change Policy.[35] The Policy commits the EDC to greater transparency on the carbon intensity and climate-related risks in its lending portfolio, including "no new financing for coal-fired power plants, thermal coal mines or dedicated thermal coal-related infrastructure—regardless of geographic location". But there is no specific reporting requirement identifying EDC financing for climate mitigation or adaptation, nor is there an accounting for its current support for the fossil fuel sector.[36]

Over the past five years, EDC has issued five sets of Green Bonds, with the fifth in August 2019 valued at $500 million. The EDC states that more than $2 billion in Bonds have financed approximately 30 transactions through loans to companies "active in fields of preservation, protection or remediation of air, water and or soil, creation of renewable energy, and mitigation of climate change."[37] While certified by an independent research centre at the University of Oslo, the

EDC has not provided any details on the nature of these investments through these Green Bond issues.

5.2 Issues in Blended Finance: A policy framework for assessing its development / climate change impacts

FinDev Canada is part of a widespread emphasis among donors on ramping up blended finance with the private sector. These donors, including Canada, argue that the use of public resources to catalyze private finance is essential to make up the massive shortfall in capital (hundreds of billions of dollars) required to finance the transition to a non-carbon economy in the Global South.

Research by the OECD highlights some of the challenges in measuring private sector finance mobilized by the public sector through blended finance and other mechanisms. Their best estimate is that a modest US$21.3 billion in private finance was mobilized for climate projects by public sector instruments (such as DFIs) between 2012 and 2015 (about US$5 billion a year). Of this amount, 87% was directed to mitigation and 13% to adaptation (dividing the 16% allocated to both purposes equally between the two). Almost half (41%) was in the form of guarantees (i.e. no actual public financial transaction), 27% in syndicated loans, 15% in special investment funds, 9% for credit lines, and 8% as direct investment.[38] It seems that the expectations for the mobilization of significant private capital for SDGs by blended finance are unrealistic – on average blending institutions have mobilized only 75 cents in private sector finance for every dollar of public investment, which dropped to 37 cents for low-income countries.[39]

The 2018 *Reality of Canada's International Climate Finance Report* highlighted a number of critical issues in the expanding role of DFIs in development cooperation (see page 30-31 of that Report).[40] Among these challenges are

a) The question of the additionality of private finance or public subsidy of an existing private sector initiative;
b) The need for much improved transparency at the transaction level;
c) Consistency with development effectiveness principles (strengthening country ownership, promoting inclusive partnerships, focus on developing country-determined results, meeting accountability and transparency standards);
d) The re-emergence of tied aid;
e) The lack of impact analysis of development outcomes; and
f) An exacerbation of a debt crisis through increased loans in development cooperation.

With respect to climate finance, these instruments have a very heavy bias towards mitigation purposes, and therefore a focus on middle-income countries. As noted in the 2018 *Report* for C4D,

the track record of some MDBs, such as the ADB and the IFC, on gender equality in their programming has been very weak.

In responding to some of these challenges, all donors through the OECD Development Assistance Committee (DAC) have agreed to a set of principles to guide the practices of DFIs. DAC donors, including Canada, adopted a set of very broad *Blended Finance Principles for Unlocking Commercial Finance for the Sustainable Development Goals* in October 2017.[41] The OECD is currently developing a set of guidelines for implementing these *Principles* through a two-year consultative process that was to begin in January 2019. In parallel, Canada has supported the *Tri Hita Karana Roadmap* (October 2018), which sets out a shared value system (bringing together the DAC guiding principles and the DFIs principles) and identifies five key areas for action.[42]

The OECD *Blended Finance Principles* are exceptionally general and largely uncritical of documented pitfalls for blended finance. They include 1) ensuring blended finance has a "development rationale"; 2) designing blended finance to increase mobilized commercial finance; 3) tailoring projects to local context; 4) focusing on "effective partnering"; and 5) monitoring blended finance for accountability and transparency.

The *Tri Hita Karana Roadmap*, led by Indonesia and supported by Canada and several other donors, takes these *Principles* and somewhat more firmly embeds them in shared values of development practice. The *Roadmap* calls for action towards 1) anchoring blended finance specifically in the SDGs; 2) mobilizing additional commercial finance; 3) designing blended finance to move towards commercial sustainability (i.e. less public subsidy); 4) structuring blended finance to build inclusive markets; and 5) promoting transparency when engaging in blended finance. On the fifth point, in both the *Principles* and *Roadmap*, CSOs have noted very little progress in basic transparency, although FinDev Canada has published basic information on the seven projects supported to date.[43]

In August 2019, the Canadian Government published its "Canadian Approach to Innovative Finance for Sustainable Development," including blended finance.[44] According to the document, the FIAP "emphasizes Canada's commitment to better leverage its Official Development Assistance (ODA) to mobilize new streams of public and private finance for sustainable development, and to expand its partnerships towards this end." The *Approach* explicitly endorses the general OECD *Principles* as a guide to its innovative finance, but not the *Tri Hita Karana Roadmap.* Supporting "Climate Action and Resilience" is one of four "pathways" identified through which it will pursue "gender-smart approach to innovative finance." The document points to the four Canadian special funds at the MDBs, supported by the $2.65 billion pledge, as examples of innovative finance for climate action along this pathway.

While establishing broad principles to guide blended finance is important, creating a framework for assessing actual contributions of blended finance to development and the SDGs, including climate

adaptation and mitigation, will be essential to their credibility. In July 2019 at its Senior Level Meeting, the Global Partnership for Effective Development Cooperation (GPEDC), in which CSOs participate as full and equal stakeholders, endorsed the *Kampala Principles on Effective Private Sector Engagement in Development Cooperation*.[45] The *Kampala Principles* were developed with significant CSO input and will serve as a framework for monitoring private sector engagement, including blended finance, through the GPEDC biannual country-led monitoring process.

The *Kampala Principles* acknowledge "a number of challenges with private sector engagement [PSE] … [including] lack of safeguards on the use of public resources; insufficient attention to concrete results and outcomes (particularly for the benefit of those furthest behind); and limited transparency, accountability and evaluation of PSE projects [page 4]." Five principles are fully elaborated and provide normative guidance for assessing private sector engagement in development cooperation.

a) Inclusive country ownership – Define national private sector engagement (PSE) strategies through inclusive processes, which should be aligned with national priorities and strategies;

b) Results and targeted impact – Focus on maximizing sustainable development results while engaging in partnerships according to agreed international standards, including the International Labour Organisation labour standards, the United Nations Principles on Business and Human Rights, and the OECD guidelines for multinational enterprises.

c) Inclusive partnerships – Support institutional inclusive dialogue on PSE and promote bottom-up innovative partnerships "in the spirit of leaving no one behind".

d) Transparency and accountability – Measure and disseminate results, towards remaining "accountable to the partners involved, beneficiary communities and citizens at large."

e) Leave no one behind – Targeting those furthest behind means recognizing, sharing and mitigating risks for all partners. Ensure that a private sector solution is the most appropriate way to reach those furthest behind. Carry out a joint assessment of the potential risks for the beneficiaries of the partnership as part of due diligence.

Recommendation 4: Global Affairs Canada should establish a review mechanism to assess the relevance and impact of Canada's blended and innovative finance for climate mitigation and adaptation goals, utilizing the Kampala Principles and the *Tri Hita Karana Roadmap* as the framework. It should involve all relevant stakeholders in this review, which should inform future blended finance initiatives in its climate finance portfolio.

6. Establishing a Framework for Canada's Post-2020 Climate Finance Priorities

Ahead of the 2015 Paris Conference, Canada committed $2.65 billion in climate finance between 2015 and 2020 towards the 2009 Copenhagen commitment to mobilize by 2020 US$100 billion

annually, from a variety of sources. All commitments and disbursements for the $2.65 billion are to be completed by March 31, 2021. As part of its Paris commitment, Canada also agreed to scale up annual climate finance to at least $800 million by 2020/21.[46]

The 2015 commitment was to reach US$100 billion annually by 2020 and to keep it to that level until the year 2025. In Katowice, countries agreed to start discussion on the post-2025 collective finance goal in 2020 "from a floor of USD 100 billion per year" [Paris Agreement, §54]. At the 2018 COP24, parties agreed that these deliberations "aim to strengthen the global response to the threat of climate change in the context of sustainable development and efforts to eradicate poverty, including by making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development."[47]

How ambitious will Canada be in establishing its own contribution targets for the 2020 to 2025 period, and for the post-2025 deliberations? **Recommendation 5** lays out some basic principles that should guide these decisions.

Recommendation 5: In summary Canada's post-2020 climate finance should aim towards,

a) Making a fair share contribution: New targets, at a minimum, should respect Canada's fair share of developed countries' financing obligations;

b) Addressing climate finance additionality: Climate finance targets should be additional and take into account the need to grow Canadian Official Development Assistance (ODA) to meet the UN target for ODA of 0.7% of GNI;

c) Giving priority to adaptation: At a minimum, targets should aim to provide a 50/50 allocation between principal-purpose adaptation and mitigation. Loss and damage allocations would be included as adaptation, but beyond this 50% target for adaptation;

d) Giving priority to gender equality, aligned to the FIAP: Financing modalities, with a clear strategy, should integrate and assess gender equality objectives in climate finance, including demonstrating a commitment to reach 15% of climate finance with gender equality as its principal purpose;

e) Supporting a pathway to low greenhouse gas emissions: Ensuring that all climate finance is consistent with a low greenhouse gas emissions pathway and climate resilient development;

f) Targeting the most vulnerable countries and people: All climate finance modalities, but particularly those related to adaptation, should take into account and respond to the urgent needs of the most vulnerable (LDCs, SIDSs, poor and marginalized populations), consistent with development effectiveness principles; and

g) Establishing appropriate balance in financing modalities: The choice of financing modalities should follow from these principles, based on full consultations with stakeholders, taking into account learning from the 2015 – 2020 climate finance experience.

Based on these principles, a framework for Canadian international climate finance portfolio is proposed, which would be consistent with Canada's fair share and Canadian leadership in responding to a deepening climate crisis.

6.1 Canada's fair share of US$100 billion annual target

While there are no specific developed country provider targets for public finance in support of **6.1** US$100 billion by 2020, a number of providers were mandated by the Paris Agreement to produce a Roadmap for achieving this target by 2020.[48] According to this Roadmap, developed countries are expected to contribute US$66.8 billion annually, with US$37.3 billion being bilateral provider funds and US$29.5 billion being multilaterals' own resources attributed to developed country providers. The balance of US$33.2 billion is to be mobilized from the private sector.

But what is Canada's fair share of this bilateral target of US$37.3 billion? A common practice is to attribute a provider's "fair share" according to the relative weight of its Gross National Income (GNI) in relation to the total GNI of all developed country providers. On this basis, Canada's fair share is approximately 3.8%.[49] Canada's fair share of US$37.3 billion is therefore US$1.4 billion or Cdn$1.8 billion.[50] Canada's current commitment of $800 million in climate finance annually by 2020 is less than half of this fair share.

Recommendation 6: Canada must ramp up its annual bilateral climate finance from $800 million in 2020/21 to $1.8 billion, which is Canada's fair-share of bilateral contributions to US$100 annual climate finance, based on its wealth relative to other developed countries.

6.2 Additionality in Canada's Climate Finance

In 2009, developed country providers agreed in the COP15 *Copenhagen Accord* to, "scaled-up, new and additional, predictable and adequate funding … to developing countries [emphasis added, §9]."[51] But what constitutes "new and additional" climate finance? Almost all providers' climate finance has been included in their ODA, as they are allowed to do so under ODA criteria (agreed at the OECD DAC) if these resources are concessional and target developing countries.

Climate finance, under the original intent, dating back to COP 13 in Bali and the UNFCCC itself, was to be "new and additional" to existing ODA. However, the 2015 *Paris Agreement* defined new and additional as "a progression beyond previous efforts [Annex, Article 9]." The Canadian Government has consistently applied this latter definition, with its baseline for additional effort being the level of climate finance prior to the 2009 *Copenhagen Accord*. All current Canadian climate finance therefore is considered "new and additional" by the Government.[52]

CSOs have insisted that the original commitment that climate finance be new and additional to existing ODA is a critical condition for developing country parties. From a climate justice point of view, developing countries should not be paying for the impacts of climate change they had little part in creating; from a development finance perspective, increased development cooperation for

all development goals (meeting the ODA target of 0.7% of GNI) will be crucial if developing countries are to achieve the SDGs. In this regard, the performance of Canadian ODA for 2019/20 is projected to be only 0.26% of its GNI. It is therefore essential that new Canadian commitments for climate finance for 2021/22 and beyond be additional to current projections for ODA in the International Assistance Envelope (IAE).[8]

Since all providers report eligible climate finance as ODA and the Government has not established any future targets for Canadian ODA, it is very difficult to determine additionality for climate finance in any given year. A rough proxy for new and additional in previous Reports for C4D has been the use of Supplementary Estimates to account for major new expenditures for climate finance. Supplementary Estimates are additions to government departments' original annual budgets and are approved three times during a fiscal year by Parliament.

In the past, Supplementary Estimates have been used to approve new climate finance expenditures, but this practice has declined in more recent years (with no Supplementary Estimates for climate finance in 2018/19). Up to 2017/18, this share was 64%. As is apparent in **Table Six**, when 2018/19 disbursements are eventually taken into account, it is very likely that less than 60% of principal purpose climate finance disbursements for the $2.65 billion commitment will be allocated through Supplementary Estimates. Using this proxy, Canada only partially meet the expectations that climate finance was to be new and additional to its current levels of ODA.

Table Six
Supplementary Estimates relating to the $2.65 billion commitment

Fiscal Year	Total Principal Purpose Climate Disbursements	Annual Total Sup Estimates for Climate Finance	Department	Sup A	Sup B	Sup C
2015/16	$168.0	$168.0	Global Affairs			$168.0
2016/17	$211.9	$130.4	Global Affairs		$0.4	$130.0
2017/18	$354.5	$169.7	Global Affairs			$169.7
Total	**$734.4**	**$468.1**				
		63.7%				
2018/19	N/A	0		0	0	0

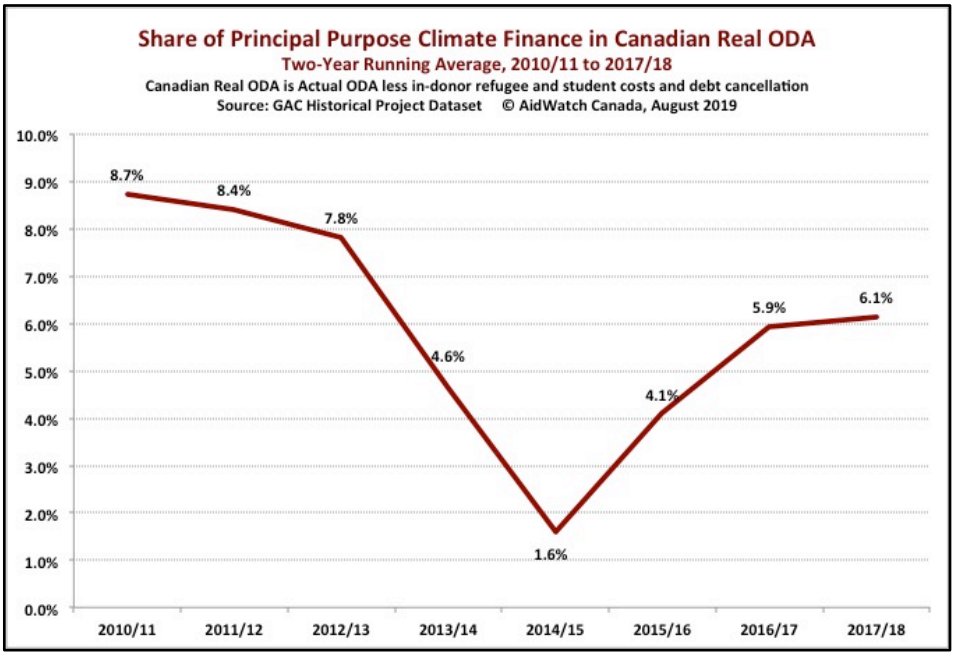
Another perspective on climate finance as "new and additional" is the actual impact of principal purpose climate finance on the level of Canadian ODA in a given year. **Chart Five** highlights the impact that climate finance disbursements have had on Real Canadian ODA during the years where

[8] The International Assistance Envelope is the budgetary framework from which all ODA is derived and it currently includes all Canadian climate finance, almost all of which is reported as ODA to the OECD DAC.

Canada is meeting its international climate commitments.[9] It demonstrates that climate finance share in ODA is growing in recent years to 6.1% in 2017/18 (two-year running average), but is still less than the trend in earlier years.

A significant difference between the 2010-2012 period (Fast Track commitment) and the 2015 – 2017 period ($2.65 billion commitment) is that climate finance disbursements grew by an average of 25% in these earlier years, while Real ODA grew by only an average of 2%. The conclusion is that only significant growth in the IAE (which includes ODA) can both protect ODA for other development purposes and make available larger amounts of principal purpose climate finance. If Canada had disbursed its fair share of climate finance ($1.8 billion) in 2017/18, without any corresponding increase in the IAE, it would have taken up 37% of Real ODA for that year.

Chart Five



Recommendation 7: The Government should create a specific line item for principal purpose climate finance within the International Assistance Envelope so that new and additional climate finance is fully transparent and distinct from allocations for ODA for other development purposes. It is acknowledged that climate finance that is eligible under OECD DAC rules would continue to be included in Canada's ODA as reported to the DAC.

[9] Real ODA is Actual ODA less support for refugees for their first year in Canada, less imputed student costs for studies in Canada and debt cancellation. It is a reflection of the amount of ODA that can be devoted to development cooperation with developing country partners.

6.3 Achieving the $1.8 billion fair-share target by 2025/26

Building on Canada's current commitments, it is assumed that the Government reaches its goal of $800 million in climate finance by 2020/21. The line item for climate finance in the International Assistance Envelope is then increased each year over five years, so as to achieve its fair share of $1.8 billion by 2025/26.

Table Seven sets out a possible pathway to do so and compares such increases to a scenario whereby Canada only sustains the 2020/21 $800 million pledge over these five years.

Table Seven: A pathway to reach Canada's fair share by 2015

Percentage Increase (millions of Canadian dollars)

2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	Five Year Total
$800 (no change scenario)	$800	$800	$800	$800	$800	**$4,000**
$800 (fair-share scenario)	$945	$1,115	$1,315	$1,550	$1,830	**$6,755**
Fair Share Increase	18%	18%	18%	18%	18%	

If Canada were to continue its $800 million annual commitment for 2020/21 until 2025/26, the cost would be $4.0 billion in climate finance over these five years. A five-year scenario to achieve its fair share of $1.8 billion in international climate finance by 2025/26 would require a total investment of $6.76 billion, compared to the current $2.65 billion commitment for the 2015/16 to 2020/21 period.

Increasing Canada's climate finance along these lines could not proceed without a commensurate increase in the International Assistance Envelope (IAE). Canadian CSOs have long argued that Canada could achieve, and well afford to reach, the UN ODA target of 0.7% of its GNI in 10 years (from 2020/21 to 2030/31). In order to reach this target, an overall IAE increase of at least 14% is required each year. Increases in this range for the IAE would require an additional $16 billion in the Envelope, cumulative between 2020/21 and 2025/26.

These IAE increases toward the 0.7% target could easily accommodate a commitment of $6.76 billion for climate finance. At a minimum, the IAE would have to grow by at least 6% per year starting in 2020/21, so that increases to a fair share climate finance commitment post-2020 does not have an impact on the level of Canadian ODA, currently expected for 2020/21. The Government has announced no plans for the IAE beyond the current fiscal year, 2019/20.

Recommendation 8: The Government commits to reach its fair-share of $1.8 billion in annual climate finance by 2025/26 through commensurate annual increases in the International Assistance Envelope (IAE). A five-year plan will require a commitment $6.76 billion between 2021/22 and 2025/26.

6.4 A Portfolio for Canada's Fair Share Climate Finance

How might Canada allocate a five-year climate finance commitment of $6.76 billion?

It is essential to acknowledge up front that there is not one "ideal" Canadian bilateral climate-financing portfolio for achieving the principles set out in **Recommendation 5**. The purpose in presenting a detailed portfolio below is not to propose one direction for Canada's 2021/22 to 2025/26 climate finance, but rather to demonstrate that meeting these principles is both feasible and demonstrates leadership. Several different approaches to allocations and levels of finance can be legitimately rationalized against the main principles. There are several reasons for this important disclaimer, which should inform the actual choices by Government in allocating $6.67 billion.

- First, there are many different institutional options for climate investment. Any particular investment requires due diligence with respect to operational effectiveness and capacities to deliver increased amounts of finance as well as an analysis of current practice and results. Such analysis is essential but beyond the scope of this Report, which is largely statistical research, with very limited analysis of institutional effectiveness.
- Second, the portfolio below is based mainly on enhancing investment in current institutional channels for Canadian climate finance. While some core multilateral climate finance channels have now been well-established, future efforts for greater coordination among providers and multilateral institutions in ramping up the financing of transformative renewable energy pathways and carbon sinks could redirect Canadian resources from current institutional channels.
- Third, effective adaptation finance is sector and country specific. Canadian initiatives in adaptation could rely on the country responsiveness and effectiveness of existing multilateral channels and/or could be based on direct bilateral allocations in countries where Canada has had long-standing development cooperation programs. Again, due diligence along these lines is beyond the scope of the statistical research in this Report
- Fourth, financing commitments and modalities to address loss and damage resulting from changing climate patterns and extreme climate events are unresolved to date within the UNFCCC. Canada has invested small amounts in loss and damage initiatives in the current period. But the assumption is that all providers will ramp up loss and damage financing mechanisms in the 2021/22 to 2025/26 period. But the level of finance expected and the

modalities for the delivery of this finance is largely unknown. The portfolio treats loss and damage finance separate from adaptation finance.

Recommendation 9: The Government should set out a fully costed plan for its climate finance commitment of $6.76 billion, consistent with the principles set out in Recommendation 5. This Report creates an example of such a plan.

The following portfolio assumes a total commitment of $6.76 billion for the period, 2021/22 to 2025/26. It sets out some specific investments for mitigation, adaptation and loss and damage, largely based on current Canadian experience with climate finance for adaptation and mitigation. The allocations are consistent with the seven principles above, but as noted above, clearly there are several ways in which allocations can be distributed and be true to these principles.

The portfolio assumes that the IAE will have grown in these years to accommodate these allocations. Given the global scale of the climate crisis and taking into account GAC's likely management capacities in administering finance, multilateral channels will continue to be very important for delivering climate finance at scale for Canada. The portfolio allocations assume that grants will be the primary modality for delivery, but also recognize that loans and blended finance may be appropriate for certain mitigation initiatives (based on a review of current practice – see **Recommendation 4** above). Given the level of increase contemplated and future unknowns about effective mechanisms, the portfolio leaves substantial amounts of finance to be programmed to enable flexibility to respond to opportunity and the importance of innovation.

Overall, the Fair Share Portfolio set out in **Table Eight** has the following characteristics in relation to the principles set out in **Recommendation 5**:

Channels of Delivery

- Multilateral / Bilateral allocations: $4.3 billion (64%) channelled through multilateral organizations and $2.45 billion (36%) through bilateral channels. This balance increases the bilateral share from 11% in the current period, but also recognizes the importance of multilateral channels in addressing the climate crisis.

- Multilateral channels and adaptation: Within multilateral allocations, adaptation allocations have increased to 39%, compared to 31% in the $2.65 billion pledge period.

- Allocations to MDBs: Within multilateral allocations, $1.73 billion (40%) is allocated through Multilateral Development Banks (compared to 61% in the $2.65 billion pledge period). The MDB allocations are directed to existing Canada initiatives at the MDBs

and most of this finance is directed to mitigation through blended finance. There are no proposals for new funds at the MDBs.

- Green Climate Fund: The allocation for the Green Climate Fund is $600 million. But the assumption is that the $300 million for the GCF announced at the 2019 G7 meeting is for post-2020 replenishment. The proposal is for Canada to augment this initial pledge which will make an overall contribution of $900 million to the GCF for the 2021 – 2025 period, as proposed by Canadian CSOs.

- Multilateral unallocated: A total of $1.025 billion (24%) within the multilateral allocation is not directed to specific initiatives. These funds can cover the extension of existing multilateral projects in this period and/or new initiatives. More than half of this unallocated ($600 million) is for adaptation.

- Priorities for bilateral allocations: Allocations to bilateral initiatives tend to be smaller in scale and can directly support Canadian government priorities. The proposals in the portfolio for bilateral climate finance therefore tend to be focused on particular purposes (geographic, SIDS, Sub-Saharan Africa, gender equality, youth and engaging Canadians). The portfolio highlights a Women's Climate Adaptation Fund ($150 million) as proposed by Canadian CSOs. It also invests significant resources in youth engagement ($100 million) and in engaging Canadians in international climate change ($100 million) with education of the Canadian public being a critical element.

- Unallocated bilateral: A total of $450 million (18%) within the bilateral allocation is not directed to specific initiatives.

Adaptation Finance

- Adaptation/Mitigation balance: Adaptation finance makes up 50% of the portfolio, with loss and damage support making up an additional 13%. This allocation improves Canada's commitment to adaptation while respecting that allocations for loss and damage should be additional to adaptation.

Gender Equality

- Gender equality in the Portfolio: $250 million (3.7% of the portfolio) has been specifically identified as support to gender equality initiatives ($100 million support through UN Women and a $150 million bilateral Women's Climate Adaptation Fund for CSO initiatives). But it is assumed that Canada will give priority to initiatives where gender equality is the principal purpose in other areas of bilateral programming (particularly

adaptation finance). In choosing the delivery channels for the $6.76 billion, the Government should give strong priority, with a goal of $1 billion (15%), for such projects. Other projects will continue to have gender equality objectives among other objectives (significant purpose gender equality).

Least Developed Countries, Sub-Saharan Africa and SIDS

- Priority to vulnerable countries and people: $1.83 billion (27%) of the $6.76 billion is allocated to initiatives specifically targeting LDCs, Sub-Saharan African and/or SIDSs, but this share will be substantially augmented with individual project choices in other funds. Increased allocations for adaptation will drive increased funding to LDCs, Sub-Saharan Africa and SIDS.

Table Eight

A Climate Finance Portfolio for Canada's Fair Share ($6.76 billion), 2021/22 to 2025/26

(Note: The combination of individual allocations in the Table respects the principles in Recommendation 5. But it is also acknowledged that there are many ways to distribute this finance among individual allocations to meet these principles. These individual allocations are intended to be indicative only and actual allocations would require due diligence and an assessment of current performance.)

MULTILATERAL

Millions of Cdn Dollars

Highlight colours indicate changes from 2015-2020 period to 2021-2025 period:

Double or more	Increase but less than double	No change	New	Unallocated

Fund/Program	2021 - 2025 Period*	2015 - 2020 Period	2021 - 2025 Adaptation	2021 - 2025 Mitigation	2021 - 2025 Loss & Damages
Green Climate Fund**	$600.0	$300 (likely $600 with 2019 announcement)	$300.0	$300.0	
Adaptation Fund	$100.0	Nil (US$20M in Fast Track)	$100.0		
GEF Least Developed Country Fund	$125.0	$37.5	$125.0		
Climate Related GEF Replenishment	$100.0	Approx. $90.0	$50.0	$50.0	
UN REDD Program	$20.0	Nil		$20.0	
IFAD / Adaptation for Smallholder Agriculture Program	$65.0		$65.0		
Asia Development Bank - Private Sector Fund	$400.0	$200.0		$400.0	

Fund/Program	2021 - 2025 Period	2015 - 2020 Period	2021 - 2025 Adaptation	2021 - 2025 Mitigation	2021 - 2025 Loss & Damages
IFC Blended Finance Fund	$400.0	$250.0	$200.0	$200.0	
Canada IFC Renewable Energy for Africa	$250.0	$150.0		$250.0	
World Bank Coal Phase Out	$275.0	$275.0		$275.0	
IADB Private Sector Fund	$400.0	$223.0		$400.0	
World Meteorological Organization	$25.0	$10.0	$25.0		
Climate Smart Agriculture in Central America / IADB	$75.0	$13.0	$75.0		
Climate Risk Insurance (Caribbean and Pacific States)	$250.0	$100.0			$250.0
WFP Climate Risk Management in Africa	$100.0	$40.0	$100.0		
UN Women Climate Change Initiatives	$100.0		$40.0	$30.0	$30.0
Miscellaneous Adaptation	$600.0		$600.0		
Miscellaneous Mitigation	$225.0			$225.0	
Miscellaneous Loss and Damages	$200.0				$200.0
Total Multilateral	**$4,310.0**		**$1,680.0**	**$2,150.0**	**$480.0**

BILATERAL

Millions of Canadian dollars

Double or more	Increase but less than double	No change	New	Unallocated

Fund/Program	2021 – 2025 Period	2015 – 2020 Period	2021 – 2025 Adaptation	2021 – 2025 Mitigation	2021 – 2025 Loss & Damages
Women's Climate Adaptation Fund /CSOs	$150.0		$150.0		
Risk Assessment / Support of Insurance Funds	$400.0				$400.0
Ramping up Bilateral Climate Finance in SS Africa	$750.0		$600.0	$150.0	
Ramping up Bilateral Support for SIDS	$500.0		$500.0		
Youth Engagement Climate Fund	$100.0		$100.0		
Engaging Canadians in International Climate Change	$100.0		$50.0	$50.0	
Miscellaneous Bilateral Climate Support	$450.0		$300.0	$150.0	
Bilateral for $2.65		$220.0			
Total Bilateral	**$2,450.0**	**$220.0**	**$1,700.0**	**$350.0**	**$400.0**
TOTAL INVESTMENTS	**$6,760.0**		**$3,380.0**	**$2,500.0**	**$880.0**
			50%	**37%**	**13%**

** The total for the Green Climate Fund for the 2021-2025 period will total $900 million, including Canada's promised replenishment of $300 million, announced at the 2019 G7 meeting.

Endnotes

[1] International Federation of the Red Cross and Red Crescent Societies, *The Cost of Doing Northing: The humanitarian price of climate change and how it can be avoided*, Geneva, 2019, accessed September 2019 at https://media.ifrc.org/ifrc/wp-content/uploads/sites/5/2019/09/2019-IFRC-CODN-EN.pdf

[2] See Canada's Feminist International Assistance Policy, accessed August 2017 at http://international.gc.ca/world-monde/issues_development-enjeux_developpement/priorities-priorites/policy-politique.aspx?lang=eng.

[3] See Action Area Policy: Environment and Climate Action at https://www.international.gc.ca/world-monde/issues_development-enjeux_developpement/priorities-priorites/fiap_environment-paif_environnement.aspx?lang=eng.

[4] See Section VIII, paragraph 48 and following in https://unfccc.int/sites/default/files/resource/sbi2019_9a1_advance.pdf

[5] See the *Kampala Principles* at https://effectivecooperation.org/wp-content/uploads/2019/06/Kampala-Principles-final.pdf.

[6] IPCC, 2018. "Global Warming of 1.5°C. An IPCC Special Report on the impacts of global warming of 1.5°C above pre-industrial levels and related global greenhouse gas emission pathways, in the context of strengthening the global response to the threat of climate change, sustainable development, and efforts to eradicate poverty," October 2018, accessed August 2019 at https://www.ipcc.ch/sr15/.

[7] Ibid, p. 452.

[8] Philip Alston, "Climate change and poverty: Report of the Special Rapporteur on extreme poverty and human rights", A/HRC/41/39, June 25, 2019, page 14, accessed August 2019 at https://www.ohchr.org/Documents/Issues/Poverty/A_HRC_41_39.pdf.

[9] Ibid, p. 17.

[10] See Press Release from High Ambition Coalition at https://ec.europa.eu/clima/sites/clima/files/news/20181211_statement_en.pdf

[11] Government of Canada, 2015. "Prime Minister announces investment in Global Climate Change Action," Press Release, November 27, 2015, accessed August 2017 at http://pm.gc.ca/eng/news/2015/11/27/prime-minister-announces-investment-global-climate-change-action and http://pm.gc.ca/eng/news/2015/11/27/canadas-climate-finance-commitment.

[12] It should be noted that Canada has funded a number of special facilities for climate finance (particularly for initiatives with the private sector) at the Asia Development Bank, the World Bank's International Finance Corporation and several other multilateral bodies. These funds are fully disbursed by Canada but may not be fully disbursed by these respective special funds.

[13] See the Environment and Climate Action Plan at https://www.international.gc.ca/world-monde/issues_development-enjeux_developpement/priorities-priorites/fiap_environment-paif_environnement.aspx?lang=eng.

[14] For a discussion of some of these issues on methodology and accountability in climate finance, see Tomlinson, The Reality of Canada's International Climate Finance, 2018, accessed at http://aidwatchcanada.ca/wp-content/uploads/2018/10/Final-October-Climate-Report.pdf and **Annex One** of this 2019 Report on the methodological approaches taken in measuring Canada's climate finance.

[15] These rules relate to the implementation of Article 9 of the Paris Agreement on financing as well as Article 2.1 (c) on "making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development." There are also ongoing discussions on financing relating to Article 8 on "averting, minimizing and addressing loss and damage associated with the adverse effects of climate change".

[16] These points are drawn from a webinar organized by the World Resources Institute, March 7, 2019, on the details of the Rulebook for climate finance (https://www.youtube.com/watch?v=4oxljOrWjeU&list=PLGZtDpjQpaqN1aEVtDrX6RTVmM5HmH-Jq&index=14) and a written response by Minister McKenna to a series of written parliamentary questions on these issues by MP Elizabeth May, dated January 24, 2019. See also UNFCCC, "Report of the Subsidiary Body for Implementation on its fiftieth session, held in Bonn from 17 to 27 June 2019, Addendum, Draft decisions forwarded for consideration and adoption by the Conference of the Parties and the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol," FCCC/SBI/2019/9/Add.1, August 5, 2019, pages 20 – 26, access August 2019 at https://unfccc.int/sites/default/files/resource/sbi2019_9a1_advance.pdf.

[17] It is estimated that the OECD developed countries continue to subsidize fossil fuel at approximately US$82 billion in aggregate per year of direct budget support and tax relief measures. This amount does not include credit and loan guarantees by government agencies. (See "OECD Companion to the Inventory of Support Measures for Fossil Fuels 2018" at https://read.oecd-ilibrary.org/energy/oecd-companion-to-the-inventory-of-support-measures-for-fossil-fuels-2018_9789264286061-en#page1). The Canadian CSO, Above Ground, reports that the EDC provided almost Cdn$18 billion in support for the fossil fuel sector in 2018 (see https://aboveground.ngo/issues/edc-environment/). See also Oil Change International, "Risking it All: How Export Development Canada's Support for Fossil Fuel Drives Climate Change," November 2018, accessed September 2019 at http://priceofoil.org/2018/11/22/risking-it-all-export-development-canada/.

[18] Government of Canada, *Canada's Seventh National Communication and 3rd Biennial Report,* A report prepared for the UNFCCC, 2017, Chapter 7, accessible at https://unfccc.int/files/national_reports/national_communications_and_biennial_reports/application/pdf/82051493_canada-nc7-br3-1-5108_eccc_can7thncomm3rdbi-report_en_04_web.pdf.

[19] For an overview of issues relating to the Export Development Corporation and the climate crisis see the work of Above Ground at https://aboveground.ngo/issues/edc-environment/

[20] See the Addendum attached to *The Reality of Canada's International Climate Finance, 2018*, for a breakdown of projects financed through the earlier special Canadian trust funds at the ADB and the IADB.

[21] See Green Climate Fund, Status of Pledges, op. cit. Since 37% of this pledge was in the form of a loan (US$101.6), when calculated at its grant equivalency of only US$20 million, the pledge was valued by the GCF at US$195.5 million or 70% of its nominal value. Among all providers, only Canada and France provided a portion of their pledge in the form of a loan. In August 2019 there is no additional information on the terms of the new Canadian pledge of $300 million.

[22] See the policies and approaches for gender equality at https://www.greenclimate.fund/how-we-work/mainstreaming-gender and https://www.greenclimate.fund/how-we-work/mainstreaming-gender/gender-action-in-practice.

[23] See https://www.greenclimate.fund/what-we-do/projects-programmes.

[24] 2018 Joint Report on Multilateral Development Bank's Climate Finance, June 2019, accessed August 2019 at https://publications.iadb.org/en/2018-joint-report-multilateral-development-banks-climate-finance. See page 15. The allocations of US$38.8 billion in climate finance for all MDBs for 2018 was UMICs – 36%; LMICs – 45%; LDCs – 12% and Global – 6%.

[25] Fast Start data is from tables and calculations made by the author for *The Reality of Canada's International Climate Finance, 2018, op. cit*.

[26] For more detailed analysis of these longer-term trends in Canada's climate finance, including the allocations for the Copenhagen Fast Start commitment, see *The Reality of Canada's International Climate Finance, 2018*, *op.cit.*

[27] See the Action Plan at https://www.international.gc.ca/world-monde/issues_development-enjeux_developpement/priorities-priorites/fiap_environment-paif_environnement.aspx?lang=eng (Accessed August 2019).

[28] Karl Deering, "Gender Transformative Adaptation: From good practice to better policy," CARE, June 2019, accessed August 2019 at https://insights.careinternational.org.uk/publications/gender-transformative-adaptation-from-good-practice-to-better-policy.

[29] The calculation includes the four Canadian MDB special funds ($823.5 million) and the $275 million through the World Bank for the Energy Transition and Coal Phase Out program.

[30] Unlike most donors to the GCF, Canada provided more than a third of its initial pledge of $300 million in the form of a repayable loan ($110 million). Canada announced a similar amount of $300 million for the first replenishment of the GCF in August 2019 at the French G7 meeting, but did not state whether this full amount would be provided as a grant.

[31] See UNCTAD, "Growing concern on debt sustainability in some developing countries and LDCs," June 2019, accessed August 2019 at https://sdgpulse.unctad.org/issues-debt-sustainability/. This note highlights the concern for increasing private sector debt in developing countries: "By 2017, non-financial corporate debt in emerging market economies had risen to over US$30 trillion, almost 95 per cent of their combined GDP, surpassing comparable levels for developed markets (*Financial Times*, 2018). It is difficult for large corporations in developing countries to sufficiently hedge their foreign-currency debt exposure. Their liabilities are, therefore, ultimately backed by foreign currency reserves in their domestic economy. If private sector external debt becomes unsustainable, governments often have no choice but to transfer the bulk of this debt onto public balance sheets."

[32] See https://www.findevcanada.ca/.

[33] See https://www.findevcanada.ca/en/what-we-do/our-approach.

[34] See https://unfccc.int/files/national_reports/national_communications_and_biennial_reports/application/pdf/82051493_canada-nc7-br3-1-5108_eccc_can7thncomm3rdbi-report_en_04_web.pdf.

[35] See https://www.edc.ca/content/dam/edc/en/non-premium/climate_change_policy_board_final_en.pdf.

[36] See the reports by Oil Change International and Above Ground referenced in footnote 17.

[37] EDC, "Export Development Canada prices its fifth Green Bond at CAD$500 million as global interest in climate financing continues to rise," August 15, 2019, accessed August 2019 at https://www.newswire.ca/news-releases/export-development-canada-prices-its-fifth-green-bond-at-cad-500-million-as-global-interest-in-climate-financing-continues-to-rise-860874255.html.

[38] See OECD, "Private Finance for Climate Action: Estimating the effects of public interventions," Research collaboration tracking private climate finance, November 2017, accessed August 2019 at http://www.oecd.org/env/researchcollaborative/WEB%20private-finance-for-climate-action-policy-perspectives.pdf.

[39] S. Attridge and L. Engen, "Blended Finance in the Poorest Countries: The need for a better approach," ODI, April 2019, accessed August 2019 at https://www.odi.org/sites/odi.org.uk/files/resource-documents/12666.pdf.

[40] See Brian Tomlinson, 2018. The Reality of Canada's International Climate Finance, 2018: A Report on key trends in allocating Canada's $2.65 billion Paris commitment," accessed at http://aidwatchcanada.ca/wp-content/uploads/2018/10/Final-October-Climate-Report.pdf.

[41] See https://www.oecd.org/dac/financing-sustainable-development/development-finance-topics/OECD-Blended-Finance-Principles.pdf.

[42] See http://www.oecd.org/dac/financing-sustainable-development/development-finance-topics/Tri-Hita-Karana-Roadmap-for-Blended-Finance.pdf.

[43] For details on DevFin projects see https://www.findevcanada.ca/en/what-guides-us/transparency-policy-and-approach. While important, the level of detail and project documentation is missing for several of the seven projects listed (August 2019).

[44] See https://www.international.gc.ca/world-monde/issues_development-enjeux_developpement/priorities-priorites/fiap_fsd-paif_fdd.aspx?lang=eng#gp. Quotations are from the document.

[45] Accessed August 2019 at https://effectivecooperation.org/wp-content/uploads/2019/06/Kampala-Principles-final.pdf.

[46] "Prime Minister announces investment in Global Climate Change Action," November 27, 2015, accessed August 2019 at https://pm.gc.ca/en/news/news-releases/2015/11/27/prime-minister-announces-investment-global-climate-change-action. See also page 211 of *Canada's 7th Communication and 3rd Biennial Report to the UNFCCC*, 2017, accessed August 2019 at http://publications.gc.ca/collections/collection_2018/eccc/En4-73-2017-eng.pdf.

[47] FCCC/PA/CMA/2018/L.3, December 14, 2018 and Article 2.1(c) of the Paris Agreement.

[48] *Roadmap to US$100 billion*, 2016, Figure 1, page 8, accessed September 2017 at http://www4.unfccc.int/Submissions/Lists/OSPSubmissionUpload/261_295_131233554162587561-Roadmap%20to%20the%20US$100bn%20(UNFCCC).pdf.

[49] This calculation is based on a most recent six-year average of Canada's GNI relative to the DAC donors total GNI for these six years. The share varies from year to year depending on the relative growth in GNI for the respective donor countries.

[50] The calculation uses the average exchange rate for 2015. 2016 and 2017 as reported by the OECD DAC in Table 37 (http://www.oecd.org/development/stats/statisticsonresourceflowstodevelopingcountries.htm), which is $1.30. This exchange rate produces a Canadian dollar equivalent of $1,843 million.

[51] See https://unfccc.int/resource/docs/2009/cop15/eng/11a01.pdf.

[52] See page 246 of the 2017 *3rd Biennial Report to the UNFCCC, op. cit.*