

# **The Reality of Canada's International Climate Finance, 2020**



## **Setting the Stage for Canada's Post-2020 Climate Finance**

**Prepared for  
The Canadian Coalition on Climate Change and Development (C4D)  
September 2020**



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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](mailto:brian.t.tomlinson@gmail.com).

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## A Profile of Canada's Climate Finance: A Summary Table

Scale of Climate Finance	
Metric	Amount
(1) \$2.65 billion Commitment (March 2020)	\$2.03 billion committed
(2) Total GAC Principal Purpose Finance Commitments (March 2020)	\$2.3 billion including \$205.2 million in principal purpose bilateral projects not included in the \$2.65 billion commitment.
(3) Total Climate Finance, All Channels and Modalities (Cumulative commitments from 2016 to 2018)	<p>\$2.50 billion,</p> <ul style="list-style-type: none"> <li>• Of which \$946 million relates to the \$2.65B commitment;</li> <li>• Including \$819.5 million from EDC / FinDev Canada;</li> <li>• Including \$441.2 million in core multilateral support imputed to Canada.</li> <li>• Including \$858.9 million bilateral principal purpose and significant purpose (@30%) projects</li> </ul>
Meeting Canada's Fair Share of US\$100 Billion by 2025/26	
Metric	Amount
(4) Bilateral Aid Fair Share (Relating to the \$2.65B commitment) @3.8% based on Canada's average GNI	\$1.8 billion per year
(5) 2015 Bilateral Canadian Commitment	\$2.65 billion over five years and \$800 million per year in 2020/21
(6) Total five-year cumulative finance needed to reach Canada's bilateral fair share by 2025/26, including the \$800 million in 2020/21 carrying forward	\$6.76 billion, compared to \$2.65 billion for current commitment (this target does not include EDC/FinDev Canada climate finance)
(7) Total <u>new</u> resources needed to meet Canada's bilateral fair share, assuming annual contributions of \$800 million from 2020/21-2025/26	\$2.76 billion (this target does not include EDC/FinDev Canada climate finance)

<b>Adaptation / Mitigation Balance</b>	
<b>Metric</b>	<b>Amount</b>
(8) GAC Principal Purpose Climate Finance (\$2.65 billion projects and bilateral projects) (March 2020)	28% Adaptation / 72% Mitigation 25% Adaptation / 75% Mitigation (\$2.65 billion projects only)
(9) Total Climate Finance, All Channels and All Modalities (#3 above)	29% adaptation / 71% mitigation
<b>Support to the Vulnerable<sup>1</sup></b>	
<b>Metric</b>	<b>Amount</b>
(10) LDCs/LICs	21%
LMICs	19%
UMICs	19%
Global Unallocated	45%
(11) Africa	17%
Pacific	1%
Asia	16%
Americas	20%
Middle East / Europe	6%
Global (Unallocated)	40%
<b>Gender Equality and Women's Empowerment<sup>2</sup></b>	
<b>Metric</b>	<b>Amount</b>
(12) Significant Purpose Gender Equality (one gender equality objective among other project objectives)	93.3%
(13) Principal Purpose Gender Equality (gender equality main objectives for project)	0.2%
(14) No Gender Equality Objective	6.5%
(15) Support for Women's Rights Organizations	0.1%
<b>Loans and Grants<sup>3</sup></b>	
<b>Metric</b>	<b>Amount</b>
(16) Share of loans (March 2020)	62% (68% of \$2.65 billion commitment)

<sup>1</sup> Based on principal purpose project commitments - \$2.65 billion projects and bilateral projects, March 2020.

<sup>2</sup> Based on GAC principal / significant purpose climate project disbursements, cumulative 2016/17 to 2018/19.

<sup>3</sup> Based on project commitments for \$2.65 billion and principal purpose bilateral projects.

<b>Channels of Delivery<sup>4</sup></b>	
<b>Metric</b>	<b>Amount</b>
(17) Multilateral Development Banks	37.7%
Other Multilateral	31.6%
Green Climate Fund	18.6%
Government	2.5%
Civil Society	7.2%
<b>Sector Allocation of Canada's Climate Finance<sup>5</sup></b>	
<b>Metric</b>	<b>Amount</b>
(18) Renewable Energy	26.8%
Other Energy	12.6%
Environmental Policy and Activities	32.5%
Agriculture and Forestry	10.5%
All Other Sectors	17.6%
<b>Canada in Comparison with Other DAC Donors<sup>6</sup></b>	
<b>Metric</b>	<b>Amount</b>
(19) Ranking in terms of Total Climate Finance (cumulative commitments 2016 to 2018)	9 <sup>th</sup> among 24 donors 8 <sup>th</sup> for adaptation only 8 <sup>th</sup> for mitigation only
(20) Ranking in terms of Climate Finance as Share of GNI (2018 only)	14 <sup>th</sup> among 21 donors (0.04% of Canada's GNI)
(21) Ranking in terms of share to adaptation	4 <sup>th</sup> (49%) 7 <sup>th</sup> if coding for Canada's support to MDBs is adjusted to reflect actual projects

#### **Notes on Metric Source in Paper:**

- |  |  |
|--|--|
| (1) Annex Three, Table A                       | (12) Section 4 (d)                               |
| (2) Annex Three, Tables A and B                | (13) Section 4 (d)                               |
| (3) Annex Two, Table 1                         | (14) Section 4 (d)                               |
| (4) Section 6 (a)                              | (15) Section 4 (d)                               |
| (5) Section 6                                  | (16) Annex Three, Tables A and B & Section 3 (a) |
| (6) Section 6 (a) and Annex 12, Table 1        | (17) Section 4 (c) and Annex 9                   |
| (7) Section 6 (a) and Annex 12, Table 1        | (18) Annex 8, Table All Climate Finance          |
| (8) Annex Three, Tables A and B                | (19) Section 5 and Annex 11                      |
| (9) Annex Two, Table 1                         | (20) Section 5 and Annex 11                      |
| (10) Annex Three Tables A and B; Section 3 (c) | (21) Section 5 and Annex 11                      |
| (11) Annex Three Tables A and B; Section 3 (c) |  |

<sup>4</sup> Based on GAC principal / significant purpose climate project disbursements, cumulative 2016/17 to 2018/19.

<sup>5</sup> Based on GAC principal / significant purpose climate project disbursements, cumulative 2016/17 to 2018/19

<sup>6</sup> All donors adjusted with significant purpose climate finance included at 30% of commitment/disbursement.



## Recommendations

Several recommendations follow from the analysis of current allocations of Canada's climate finance as well as the proposals for Canada's post-2020 climate finance commitment and priorities.<sup>7</sup>

**Recommendation 1: Concessional Climate Finance** Canada's commitment of official resources in support of its bilateral effort towards the US\$100 billion annually, where the full purpose is climate adaptation/mitigation or loss and damage related to climate change, should only involve concessional public financing. 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** Canada should review its first replenishment and increase its contribution to the Green Climate Fund to a minimum of \$600 million in line with the ambition shown by its peers.

**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, as well as gender equality and women's empowerment, 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** Canada's post-2020 climate finance should not only set a finance target, but should include a commitment to essential qualities for this finance, including,

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

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<sup>7</sup> These recommendations follow very closely those made in the 2019 Report. See Brian Tomlinson, *The Reality of Canada's International Climate Finance, 2019: Towards a fair share climate finance portfolio for Canada*, A report by AidWatch Canada for C4D, September 2019, accessed at <http://climatechangeanddev.ca/wp-content/uploads/2019/11/Final-October-2019-Climate-Report.pdf>.

- 2) **Addressing climate finance additionality:** Climate finance targets should ensure additionality 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 and its international development obligations to the poorest and most vulnerable countries. Canada should establish a line item for principal purpose climate finance in the International Assistance Envelope and increase the Envelope each year minimally by at least the planned level for these disbursements.
- 3) **Giving priority to adaptation:** Canada should aim to allocate a minimum of 50% of its principal purpose climate finance commitments to adaptation. Loss and damage allocations would be included as adaptation, but beyond this 50% target for adaptation;
- 4) **Giving priority to gender equality, aligned to the FIAP:** Financing modalities should integrate and assess gender equality objectives in all climate finance project commitments, including explicit gender strategies for each project, and allocating at least 15% of climate finance to projects with gender equality as its principal purpose;
- 5) **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;
- 6) **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
- 7) **Establishing appropriate balance in financing modalities:** The choice of financing modalities should follow from these principles, based on full consultation 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 billion annual climate finance, based on its wealth relative to other developed countries.

- The Government commits to reach this 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 of \$6.76 billion between 2021/22 and 2025/26, including the 2020/21 target of \$800 million going forward.

**Recommendation 7: 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 provides an example of such a plan.

## The Reality of Canada's International Climate Finance, 2020

### 1. Introduction

The devastating impact and relentless spread of the Covid-19 pandemic since the early months of 2020 have starkly exposed the risks that humanity face, with profound consequences for peoples' health, well-being and livelihoods across the globe. At the July High Level Political Forum, with a mandate to assess progress for the Sustainable Development Goals (SDGs), UN Secretary General Antonio Guterres pointed to the convergence of Covid-19 with systemic global crises, not least the ignoring of warnings about the fallout from a severely damaged natural environment and an irreversible climate emergency. According to the UN General Assembly President Tijjani Muhammad-Bande, "the coronavirus pandemic has exacerbated pre-existing systemic and structural inequalities in all countries," requiring "responses [that] must focus on the two-thirds of the world's population at risk of being left behind."<sup>8</sup>

In the last decade, the most vulnerable populations – women, children, the elderly and Indigenous communities – have been hit hard by the climate crisis. More frequent and extreme storms, droughts, and heat waves, food crises, and new disease patterns are impacting more and more people. The world's poorest people are the first and most affected by climate shocks: almost half of those living in extreme poverty are found in countries most vulnerable to climate change.<sup>9</sup> Climate change compounds the deeply embedded injustice of gender inequalities in all societies.<sup>10</sup>

More than 1.3 billion people, or 22% of the population of developing countries, live in conditions of multi-dimensional poverty: 91% of these people lack clean energy; four out of five live in houses with substandard materials to shield them from the elements; and over half lack access to electricity. At least 84% live in rural settings highly vulnerable to environmental degradation and other climate induced impacts.<sup>11</sup> The Global Climate Risk Index has documented more than 12,000 extreme weather events worldwide over the past two decades, killing approximately 495,000 people and causing economic losses equivalent to approximately US\$3.5 trillion.<sup>12</sup>

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<sup>8</sup> See <https://enb.iisd.org/hlpf/2020/14jul.html> and "A Decade of Action Has Become a Decade of Recovery, HLPF Focuses on Pandemic Response," IISD, July 21, 2020, accessed at <https://sdg.iisd.org/news/as-decade-of-action-has-become-a-decade-of-recovery-hlpf-focuses-on-pandemic-response/>.

<sup>9</sup> Jordan Beecher, "Climate Finance and Poverty," Development Initiatives, November 2016, accessed at <http://devinit.org/wp-content/uploads/2016/11/Development-Initiatives-Climate-Finance-report.pdf>.

<sup>10</sup> CARE Canada, #SheLeadsInCrisis, February 2020, accessed at <https://care.ca/2020/02/she-leads-in-crisis/>.

<sup>11</sup> Oxford Poverty and Human Development Initiative and UNDP, "Charting pathways out of multidimensional poverty: Achieving the SDGs," July 2020, p. 27 ff, accessible at [https://ophi.org.uk/wp-content/uploads/G-MPI\\_Report\\_2020\\_Charting\\_Pathways.pdf](https://ophi.org.uk/wp-content/uploads/G-MPI_Report_2020_Charting_Pathways.pdf).

<sup>12</sup> Eckstein, et. al, *Global Climate Risk Index, 2020*, GermanWatch, December 2019, accessed at <https://germanwatch.org/en/17307>. The ten most affected countries were Puerto Rico, Myanmar, Haiti, Philippines, Pakistan, Vietnam, Bangladesh, Thailand, Nepal, and Dominica. Of these ten, seven are least developed or lower middle-income countries.

The number of food insecure people has also been growing over the past three years, partly due to climate shocks, with 250 million people in Africa (19% of the population) who regularly do not have access to safe, affordable and nutritious food. The International Panel on Climate Change (IPCC) have estimated that globally up to 180 million additional people are at risk of hunger by 2050.<sup>13</sup> Peoples' vulnerability is readily apparent with the FAO estimating that between 83 and 132 million additional people could be pushed into hunger in the next few months due to Covid-19 because of job loss and lockdown measures.<sup>14</sup> Up to 70% of countries most vulnerable to climate change are also listed as having the highest risk of experiencing Covid-19-related food insecurity.<sup>15</sup>

A complex nexus between poverty, food insecurity, gender and other forms of inequalities, alongside increasing climate change hazards, creates a dangerous potential for growing impoverishment across countries, to which the pandemic adds layers of complexity. All of these compounding crises will deeply impact millions of peoples lives in Africa and Asia, demanding urgent and transformative actions, including a ramping up of international cooperation measures by Canada and other donors.<sup>16</sup> Canada's ODA performance in 2019 at 0.28% of our Gross National Income (GNI) falls far short of the UN target of 0.7%.

2020 was to be a critical year for decisive action addressing the climate emergency. The year was to host several global meetings towards renewed negotiations at COP26, the annual gathering of the UN Framework Convention on Climate Change (UNFCCC), at which countries were expected to come forward with their highest-ambition plans for tackling climate change. It is also the year by which developed countries agreed to mobilize US\$100 billion in international climate finance – a critical measure for restoring trust in an international climate policy regime that has consistently fallen short of expectations.

All of these measures remain critical in response to growing political pressure as millions have taken to the streets in the past two years, mobilized by youth and other grassroots peoples' movements, convinced by the urgent need for profound changes in the face of a planet in peril.

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<sup>13</sup> IPCC, *Special Report on Climate Change and Land*, Chapter Five, Food Security, January 2020, accessible at <https://www.ipcc.ch/srccl/chapter/chapter-5/>.

<sup>14</sup> FAO, IFAD, UNICEF, WFP and WHO., *The State of Food Security and Nutrition in the World, 2020*, Rome, July 2020, accessed at <https://sustainabledevelopment.un.org/index.php?page=view&type=20000&nr=6909&menu=2993>.

<sup>15</sup> This calculation is made by comparing the ND-GAIN Country Index summarizes a country's vulnerability to climate change (<https://gain.nd.edu/our-work/country-index/rankings/>) and the INFORM COVID-19 Risk Index (<https://data.humdata.org/dataset/inform-covid-19-risk-index-version-0-1-2>). Thanks to Shaughn McArthur at CARE Canada for making this link.

<sup>16</sup> Antony Charles, et al., "Avoiding Maladaptation by Coordinating Responses to Climate and Poverty," 2000, forthcoming, derived from Charles, A., et al., 2020. *Addressing the Climate Change and Poverty Nexus: A coordinated approach in the context of the 2030 Agenda and the Paris Agreement.*, FAO, Rome 2019, accessible at <http://www.fao.org/3/ca6968en/ca6968en.pdf>.

As countries and communities around the world continue to respond to the impacts of the Covid-19 health and economic crises and reopen different sectors of the economy, a new opportunity has emerged to use this moment rebuild the broken social and economic systems back and better. The pandemic may open up new opportunities for a 'just and green recovery'.

The paths for a green recovery are far from certain. Will governments build back with measures that radically accelerate shifts towards affordable renewable energy production and use? Will they allocate much needed finance for adaptation projects that lessen unavoidable impacts from climate change? Or will the likelihood of an ever-deepening global economic crisis weaken resolve and push back expectations for transformative policy changes to truly address a climate emergency and ecological crisis?

In this context of opportunity and uncertainty what might be the implications for Canada's international assistance and climate finance? Internationally, Canada has invested in the global effort to develop a vaccine for Covid-19 and to alleviate immediate needs in developing countries. But a broader strategy for systemic change is not apparent mid-2020.

At the end of May, Prime Minister Trudeau (with the UN Secretary General and the Prime Minister of Jamaica) co-convened world leaders to accelerate global responses to the pandemic. This joint initiative acknowledged that "we cannot wish away systemic risks, from the climate crisis to high and persistent inequalities." It affirmed that "everyone will benefit if we address these risks by investing up front." Yet the Prime Minister is only quoted with a vague response, supporting "collective and individual actions to enable a recovery that leads to more inclusive, sustainable and resilient economies, where no one is left behind."<sup>17</sup>

The Minister for International Development, Karina Gould, has also highlighted the importance of urgent action: In the context of the pandemic's stress on food systems, the need "to protect our planet and take climate action seriously" she said must be a key priority.<sup>18</sup> But the policy parameters for this priority remain largely unanswered.

Only a massive coordinated global green recovery package, with major contributions from Canada and other donor countries, can transform systemic inequalities at the national and international levels and come forward with the needed resources to recover and achieve the UN Agenda 2030 and its Sustainable Development Goals (SDGs). According to IMF analysts, without such support, for low income and least developed countries "permanent scars [from the health and economic impacts of the virus] are likely to harm development prospects, exacerbate inequality, and threaten to wipe out a decade of progress

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<sup>17</sup> "Government and international organizations come together to address economic challenges and sustainability," May 28, 2020, accessible at <https://pm.gc.ca/en/news/news-releases/2020/05/28/governments-and-international-organizations-come-together-address>.

<sup>18</sup> Karina Gould, "Opinion: Rebuilding a more resilient planet," Thomson Reuters Foundation, May 1, 2020, accessible at <https://news.trust.org/item/20200501102506-sxegy/>.

reducing poverty.”<sup>19</sup>

The government was to announce a new climate financing five-year package for the years 2021 to 2025 in the lead up to the now postponed COP26. This report for the Canadian Coalition on Climate Change and Development (C4D) examines in detail Canada’s allocations of the current five-year \$2.65 billion commitment, which is to be completed by March 2021. It affirms the need for a new package that realizes Canada’s fair share of the Paris (COP21) US\$100 billion commitment for annual climate finance to 2025.

More specifically this report aims to:

- Track and assess the trends apparent in the allocation of Canada’s \$2.65 billion current commitment with the latest available data, measured against stated objectives, the goals of Canada’s Feminist International Assistance Policy and Canadian CSO priorities for this finance;
- Provide a comparison with other donor countries’ performance in climate finance, including an analysis of Canada’s share of the US\$100 billion to developing countries; and
- Reaffirm a Canadian roadmap for new financing with the aim to reach our fair share of the US\$100 billion by 2025.

In focusing on these areas, the report will pay particular attention to 1) the various channels through which Canada allocates international finance to address the climate emergency; 2) the use of the multilateral system and the deployment of loans in Canada’s climate finance; 3) the intersection of women’s rights, agriculture, and climate change; and 4) the degree to which there is / can be private sector partnerships for adaptation.

This report is one of a series of annual reports for C4D on these themes. It builds upon the finding of [\*The Reality of Canada’s International Climate Finance, 2019: Towards a fair share climate finance portfolio for Canada\*](#), and in particular this 2019 report’s proposals for a new Canadian climate finance commitment, 2021/22 to 2025/26.<sup>20</sup>

*The Reality of Canadian International Climate Finance 2020* report assesses a comprehensive picture of Canada’s commitments to adaptation and mitigation. It starts with Section 2 by examining the latest official information on Canada’s climate, which is presented in its Fourth Biennial Report to the UNFCCC for the years 2017 and 2018, and in the Third Biennial Report for 2016. The Biennial Reports highlight a complex structure for this climate finance with its different channels for its allocation. These different channels go well beyond the GAC allocations made to fulfil Canada’s 2015 \$2.65 billion commitment.

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<sup>19</sup> Gurara, D., Frabrizio, S., and Johannes Wiegand, “COVID-19: Without Help, Low-Income Developing Countries Risk a Lost Decade,” IMF Blog, August 27, 2020, accessed at <https://blogs.imf.org/2020/08/27/covid-19-without-help-low-income-developing-countries-risk-a-lost-decade/>.

<sup>20</sup> See Brian Tomlinson, *The Reality of Canada’s International Climate Finance, 2019: Towards a fair share climate finance portfolio for Canada*, A report by AidWatch Canada for C4D, September 2019, accessed at <http://climatechangeanddev.ca/wp-content/uploads/2019/11/Final-October-2019-Climate-Report.pdf>.

Section 3 continues this analysis by analyzing separately these various climate finance components and channels. For several components, such as those projects that make up the \$2.65 billion commitment, the analysis brings together detailed data on known project commitments, up to March 2020, beyond the cut-off at 2018 for the UNFCCC Report.

Section 3 concludes by collating all of the different channels to calculate a very approximate estimate of Canada's total climate finance contributions for the three years, 2016 to 2018, the years since the 2015 Paris Agreement. This estimate adds together 1) Canada's bilateral climate finance (including Canada's \$2.65 billion commitment projects), 2) multilateral climate finance imputed back to Canada based on its core contributions to these institutions, and 3) mobilized private sector finance (through official contributions).

All three areas make up the Copenhagen global commitment to US\$100 billion in annual climate finance to be achieved by all donors by 2020. Because this estimate of total Canadian climate finance cumulates all three areas, including mobilized private sector finance, it is a larger amount than the government's public finance alone. The analysis in Section 3 paints a mixed picture of not only the \$2.65 billion commitment, but also the other components, in relation to CSO goals to focus concessional grant-based climate finance on the conditions for the most vulnerable, with significant resources to adaptation.

Section 4 updates trends in Canada's climate finance for sector priorities, channels of delivery, and its emphasis on gender equality goals. Data for this analysis is only available for project disbursements (not commitments) through GAC's Historical Project Dataset (HPDS) for the fiscal years, 2016/17 to 2018/19.<sup>21</sup> The HPDS identifies principal purpose climate finance projects (including the \$2.65 billion project commitments) as well as significant purpose climate projects (where a climate change objective is one among several other project objectives). While a different entry point (disbursements, not multi-year project commitments), the trends over these years is a good proxy for overall trends in these areas for the commitments identified in Section 3.

Section 5 compares Canada's climate finance with other DAC donors. In final Section 6, the report builds on the proposed framework from the 2019 report for Canada's post-2020 five-year climate finance commitment. All of the report's sections are substantiated by twelve annexes that provide much more detail to document projects and trends, including an analysis of the Green Climate Fund allocations (updated from the 2019 report).

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<sup>21</sup> It is important to note that the report, where possible, presents annual project finance data as commitments. A project commitment is the total amount allocated to that project, which may in turn be disbursed by the government to the project implementer over a number of years. Where this analysis is not possible because of a lack of data for project commitments, the report relies on GAC's Historical Project Dataset of annual project disbursements for these projects. The latter allows for an analysis of specific trends for sector allocation, the use of different channels and for an assessment of gender equality. While the overall trend will be the same for both, the exact totals for annual project disbursements will be different from the annual total of project commitments. Section 4 must rely on project disbursements for its analysis.

## 2. Canada's Biennial UNFCCC Reports on Climate Finance

### Canada's Reports to the UNFCCC - Key Points

1. Canada reported to the UNFCCC a total of \$2.5 billion in climate action for developing countries between 2016 and 2018, including all modalities and channels (Annex Two, Table 1).
2. Only \$946 million of this \$2.5 billion (38%) related to Canada's \$2.65 billion pledge (see Figure Two).
3. Canada reported to the UNFCCC \$820 million (33%) in climate finance through Export Development Canada and FinDev Canada for mobilizing private sector finance for climate purposes, but provided no detail on EDC commitments (Annex Two, Table 1).
4. Of the total climate finance reported (\$2.5 billion), less than half (47%) was provided in the form of grants. The remaining 53% was in the form of loans and other guarantees (including EDC and FinDev Canada).
5. Canada's Fourth Report to the UNFCCC suggests that repayable loan financing seems to be Canada's default choice for developing countries, with grants only used "where cost-effective market-based financing is not viable." Developing country partners must pay back Canada for efforts to mitigate global climate impacts, where they bear little if any historical responsibility for the climate emergency.
6. Despite the UNFCCC report's recognition of the urgent need to scale up climate finance, its sole focus is on mobilizing investment opportunities for the private sector.
7. The Fourth Biennial Report estimates that approximately US\$309 million in private sector finance was mobilized via an investment of US\$213 million in Canadian public finance in 2017 and 2018.

Canada Third and Fourth Biennial Reports to the UNFCCC together provides considerable detail on the various components of Canada's climate finance disbursements between 2016 and 2018.<sup>22</sup> This Section first examines the most recent Fourth Report in detail. It then combines data from the Third and Fourth Report for an analysis of Canada's reported climate finance to the UNFCCC for the three years since the 2015 Paris Agreement.

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<sup>22</sup> See Government of Canada, *Canada's Fourth Biennial Report on Climate Change*, December 2019, Chapter 6, accessible at [https://www4.unfccc.int/sites/SubmissionsStaging/NationalReports/Documents/1687459\\_Canada-BR4-1-Canada%E2%80%99s%20Fourth%20Biennial%20Report%20on%20Climate%20Change%202019.pdf](https://www4.unfccc.int/sites/SubmissionsStaging/NationalReports/Documents/1687459_Canada-BR4-1-Canada%E2%80%99s%20Fourth%20Biennial%20Report%20on%20Climate%20Change%202019.pdf). Details of Canada's climate finance for 2017 and 2018 is set out in Tables 7 and 7a, accessible at [https://unfccc.int/sites/default/files/resource/can\\_2020\\_v1.0.xlsx](https://unfccc.int/sites/default/files/resource/can_2020_v1.0.xlsx). For the Third Biennial Report, see Government of Canada, *Canada's 7<sup>th</sup> Communication and Third Biennial Report*, 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](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).



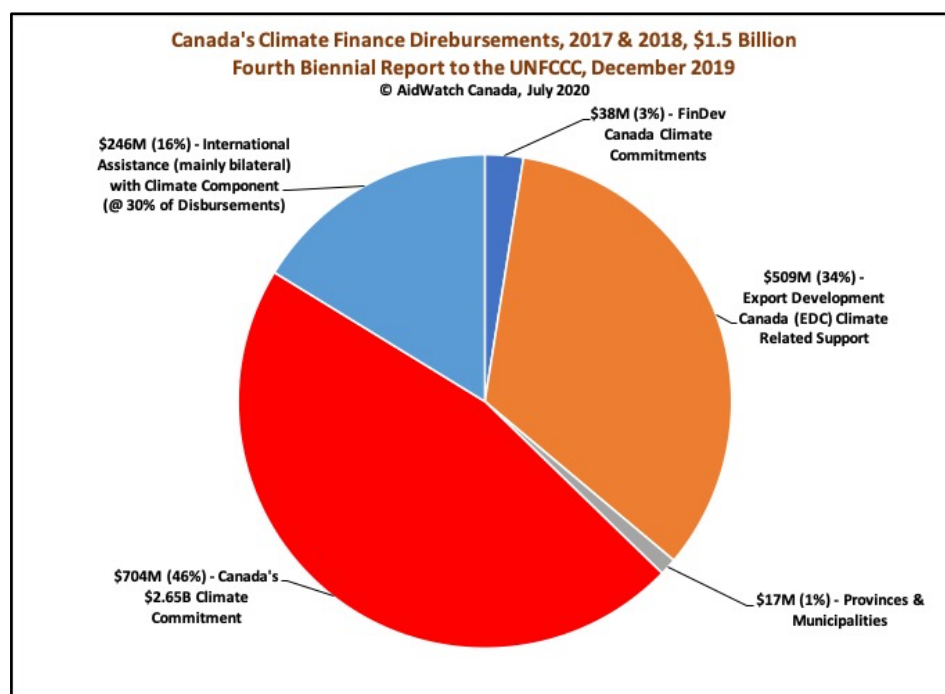
### a) Canada's Fourth Biennial UNFCCC Report for 2017 and 2018

In January 2020 Canada submitted its *Fourth Biennial Report on Climate Change* to the UNFCCC, including a chapter on the "Provision of Financial, Technological and Capacity-Building Support to Developing Country Parties [for the years 2017 and 2018]." For these two years, Canada disbursed approximately \$1.5 billion to developing countries for climate action, up from \$625 million reported in the Third Biennial Report. These 2017/2018 disbursements were made up of several components (see **Figure One**), including \$704 million relating to Canada's \$2.65 billion five-year commitment established in 2015 just prior to COP21 Paris Agreement.

#### Observations on Components of Canada's Fourth Biennial Report to the UNFCCC (Figure One):

- Only 46% of Canada's climate finance for these two years related to disbursements under the \$2.65 billion (See section 3 (a) for more detail on this commitment).
- The \$2.65 billion-related disbursements and other international assistance (mainly bilateral projects with some climate objectives) [\$967 million) made up just under two-thirds (63%) of climate finance. (See section 3 (b) and 3 (d) for more details on bilateral climate disbursements.)
- Canada reported that it provided \$547 million (36%) in climate finance through Export Development Canada and FinDev Canada for mobilizing private sector finance for climate purposes. EDC contributed \$278 million in 2017 and \$231 million in 2018. The report provides no details on these climate finance activities.
- Provinces and municipalities provided \$17 million in climate finance in 2017 and 2018, with the Province of Quebec making up 70% of this amount.

**Figure One: Canada's Climate Finance Disbursements, Fourth UNFCCC Report, 2017 and 2018**



Canada's latest report to the UNFCCC highlights increasing support for adaptation; it affirms the important roles of the institutions and mechanisms of the UNFCCC (e.g. support for the Green Climate Fund); and it stresses the inter-linkages between climate and development in many of its climate financed activities (i.e. the importance of aligning development cooperation with the Paris Agreement).<sup>23</sup>

The report emphasizes the government's strong focus in its climate finance on the empowerment of women and girls and gender equality in line with the FIAP: "Canada works with a wide range of partners, including international organizations, government institutions, businesses and civil society to advance gender mainstreaming and ensure women and girls play a leadership role in designing, developing and implementing climate change adaptation and mitigation strategies" (page 42).

Of the \$967 million reported as multilateral and bilateral climate finance to the UNFCCC in 2017 and 2018, more than half (51% or \$492 million) was provided as a concessional loan, through special Canadian funds for partnerships with the private sector established at the World Bank's International Finance Corporation (IFC), the Asia Development Bank and the Inter-American Development Bank. The report provides the following rationalization of its choice of grant or loan funding modalities:

"Canada uses grant financing where cost-effective market-based financing is not viable, such as for most adaptation projects in the poorest and most vulnerable countries. Alternatively, non-grant financing, including on concessional terms, is the primary choice when viable market-based financing is constrained by factors such as capital availability, market failures, and perceived risk." (page 42)

According to this rationale, repayable loan financing seems to be Canada's default choice for developing countries, who seemingly must pay back Canada for efforts to mitigate global climate impacts, where they bear little if any historical responsibility for the climate emergency. (See section 3 (a) and 3 (g) for more on Canada's climate finance loans.) The report also estimates that approximately \$47 million has been repaid to Canada in 2017 and 2018 from prior climate finance loans, likely from the Fast Start period (page 44). This amount was not deducted from the report's total climate finance.

The chapter also discusses the urgent need to scale up climate finance, but its sole focus is on mobilizing investment opportunities for the private sector. Somewhat ironically, later in the UNFCCC report, Canada acknowledges "the barriers and challenges that developing countries face in accessing climate finance support" and its support for "international initiatives with the aim of making finance more accessible." (page 43)

Despite the statement that "addressing climate change requires all actors, public and private, to engage in climate action" towards low-carbon and resilient paths (page 43), there are no indications of directions for scaling up Canada's public international finance for its fair share in addressing the climate emergency in developing countries.

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<sup>23</sup> See a discussion of alignment of ODA with the Paris Agreement in section 3 (d).

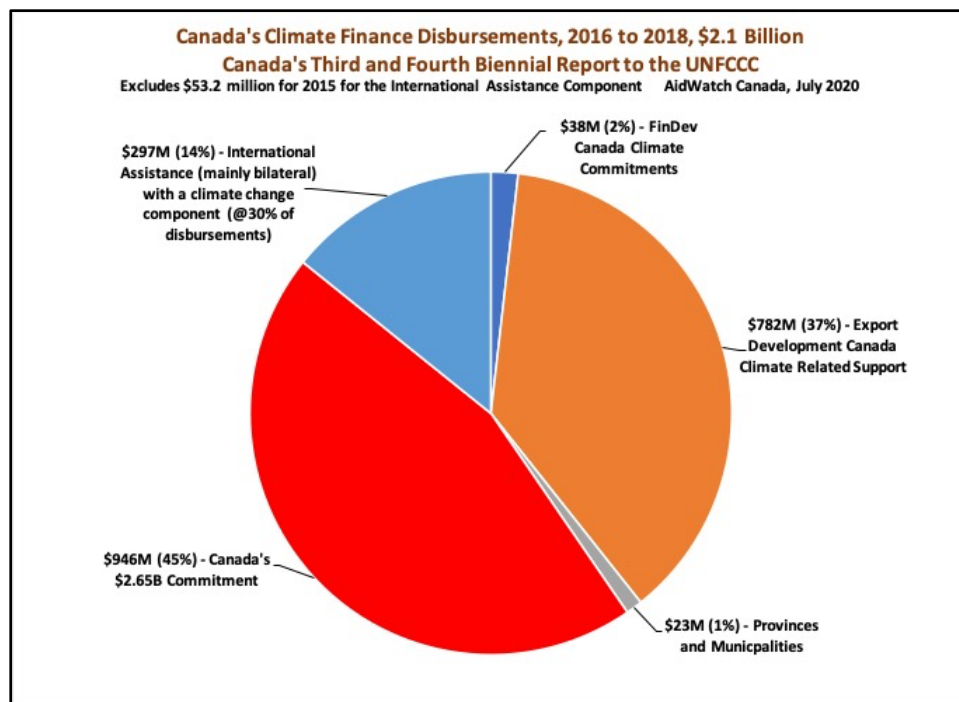
## b) An overview of Canada's climate finance reported to the UNFCCC, 2016 to 2018

By combining data from Canada's Third and Fourth UNFCCC Reports, it is possible to have a snapshot of total climate finance disbursements, for the period 2016 to 2018. This is the period relevant to Canada's \$2.65 billion five-year commitment. These disbursements are set out in **Figure Two**. They have trends that are very similar to those for **Figure One** above (which looks only at the Fourth Biennial Report for 2017 / 2018).

Observations on components of Canada's UNFCCC reported climate finance, 2016 to 2018 (Figure Two):

- Canada identifies a total of \$2.1 billion in climate-related activities in its reports to the UNFCCC for the years, 2016 to 2018.
- Up to 2018, Canada reported to the UNFCCC a total of \$946 million in climate disbursements related to its \$2.65 billion commitment, which make up less than half (45%) of all climate-related activities reported to the UNFCCC.
- Canada references a total of \$782 million in climate-related support activities by Export Development Canada, but does not detail these activities, which presumably include loans to the private sector as well as various forms of guarantees (for loans, trade and investment).

**Figure Two: Canada's Climate Finance Disbursements, UNFCC Reports, 2016 to 2018**



Source: Pie charts on pages 212 and 41 respectively from Canada's Third and Fourth Biennial Reports to the UNFCCC

Canada's Third and Fourth Biennial Reports also provide tables detailing all climate related project disbursements for the period 2015 to 2018. **Annex Two, Table 1**, extracts a summary of these detailed

climate related project activities, cumulated for the years 2016 to 2018. These tables in the UNFCCC reports differentiate between multilateral and bilateral channels, allocated to adaptation or mitigation.<sup>24</sup>

Observations on details of climate finance reported to UNFCCC for 2016 to 2018 (Annex Two, Table 1):

- Including all channels, a total of \$2.5 billion in climate finance was reported by Canada to the UNFCCC for the years 2016 to 2018, the years relevant for Canada's Paris Agreement commitment to ramp up climate finance alongside other donors. This amount incorporates all modalities through which Canada provided official climate finance, including core climate disbursements from multilateral organizations imputed back to Canada.<sup>25</sup>
- Over these three years, a total of \$1,236.7 million in non-core multilateral and bilateral climate finance disbursements were reported by Canada to the UNFCCC.<sup>26</sup> However, only \$946 million of this finance corresponds to the \$2.65 billion commitment (**Figure 2**). The remaining 24% of these disbursements were for bilateral climate finance projects and projects where climate finance is one objective among several. Disbursements in support of the \$2.65 billion commitment made up only 38% of the total climate finance (\$2,497 million) reported to the UNFCCC.
- A third of the overall total (\$820 million) were for support of climate related activities by the Export Development Canada and FinDev Canada [see section 3 (e)].
- \$441 million in multilateral climate finance (18% of the overall total) was attributed to Canada with respect to Canada's core support for multilateral institutions and banks. These amounts were Canada's share of climate finance originating from these institutions from their core financing and own resources based on donor coefficients determined by the Development Assistance Committee (DAC).<sup>27</sup>
- Of the \$1.2 billion in multilateral and bilateral climate finance reported to the UNFCCC, 47% was reported to be for adaptation and 53% for mitigation (with cross-cutting purposes distributed equally to these two purposes). See section 3(g) for an alternative view on the adaptation/mitigation breakdown in Canada's climate finance (29% for adaptation and 71% for mitigation taking account all channels).<sup>28</sup>

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<sup>24</sup> Note that the total for non-core multilateral (including support for the GEF) and bilateral project disbursements in this Annex Two, Table 1 (\$1,236.7 million) differs slightly from the total for International Assistance and Canada's \$2.65 billion commitment (\$1,243 million) in Figure Two. It is not possible to reconcile the detailed project activities listed in the tables in these Biennial Reports with the Pie Charts in the same Reports (page 212 in 3<sup>rd</sup> Biennial Report and page 41 in 4<sup>th</sup> Biennial Report). The pie charts are the sources for Figure Two as pie charts seem to be aggregated differently. The difference is \$6 million.

<sup>25</sup> It does not include private sector mobilized climate finance. See Section 3(g) below.

<sup>26</sup> Core contributions to multilateral organizations are based on Canada's negotiated obligations for these organizations. Non-core support is directed to specific initiatives.

<sup>27</sup> These imputed multilateral disbursements relate to the US\$29.5 billion share of the US\$100 billion target, which is core multilateral climate finance attributed to developing country providers.

<sup>28</sup> The difference is mainly the treatment of several Canada's special funds for the private sector at multilateral development banks. The smaller percentage for adaptation is based on the actual experience of these funds in allocating loans to the private sector for climate purposes.

- Of the total climate finance reported (\$2.5 billion) less than half (47%) was provided in the form of grants. The remaining 53% was in the form of loans and other guarantees (including EDC and FinDev Canada). See sections 3 (a), 3 (e) and 3 (g) for more detailed assessments of loans in the different components of Canada's climate finance, including the commitment of \$2.65 billion.
- The Fourth Biennial Report estimates that approximately US\$309 million in private sector finance was mobilized via an investment of US\$213 million in Canadian public finance in 2017 and 2018, an average of US\$155 million a year for these two years (page 43).<sup>29</sup> Each US dollar mobilized required at least US\$0.69 in Canadian official funds.

### c) Is Canada's UNFCCC reporting coherent with Paris Rulebook?

COP24 in 2018 reached agreement on the Rulebook for backward- and forward-looking measurement of climate finance.<sup>30</sup> While this agreement calls for greater transparency, specificity and detail on climate finance, with mandatory reporting for developed countries, it leaves much to the discretion of the reporting parties.

Developed countries pledged at Copenhagen in 2009 to provide US\$100 billion in annual climate finance for developing countries by 2020. While a very important target, it is important to note that this amount is a political target, not one derived from an analysis of actual needs of developing countries.<sup>31</sup> However, trust in even this political commitment has been undermined by a lack of UNFCCC agreement for rules about what to include in climate finance (e.g. coal related investments), what financing instruments to include and on what basis (e.g. grant equivalency for concessional loans), what is new and additional in relation to already planned ODA, and predictability of this finance. Unfortunately, the current Rulebook only calls for improved provider transparency on these outstanding issues, not an agreed rule.

How do Canada's latest biennial reports (2015/2016 and 2017/2018) to the UNFCCC measure up against good reporting practices?

**Transparency** Canada provides a high degree of transparency in climate finance data in its reports to the UNFCCC.

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<sup>29</sup> Canada uses an international standard developed by the OECD DAC for measuring and attributing the volume of private finance mobilized by official development finance interventions, including for climate action. See Annex F in <http://www.oecd.org/env/cc/OECD-CPI-Climate-Finance-Report.pdf>.

<sup>30</sup> See Tomlinson, *The Reality of Canada's International Climate Finance, 2019*, op. cit. pages 18 – 20 and World Resources Institute, *Explaining the Paris Agreement Rulebook*, pages 10 – 13, accessible at <https://wriorg.s3.amazonaws.com/s3fs-public/unpacking-paris-agreement-rulebook.pdf>.

<sup>31</sup> For example, US\$100 billion does not begin to address the estimated the financing gap for adaptation. According to the 2016 UNEP Adaptation Finance Gap Report, by 2030, adaptation costs are likely to range from US\$140 to 300 billion per annum and that, by 2050, these costs could rise to between US\$280 and 500 billion per annum. See <https://unepdtu.org/publications/the-adaptation-finance-gap-report/>.

- Canada has published project-level detail on its climate finance in the last two reports, which includes for each project the amount (in Canadian and US dollars), a short description, the funding source (ODA etc.), financial instrument (grant or concessional loan), sector and type of support (mitigation, adaptation or cross cutting).
- Canada publishes aggregate data for its contributions to multilateral climate change funds, climate-related core finance attributed to Canada for multilateral financial institutions, and the Global Environment Facility.
- Canada publishes aggregate data for its climate-related support through Export Development Canada (EDC) and FinDev Canada.
- The Fourth Biennial Report provides a list of projects supported through Canada's special climate funds at the International Financial Institutions (IFIs) – the World Bank's International Finance Corporation (IFC), the Asia Development Bank, and the Inter-American Development Bank (mainly for the first phases of these funds dating from the Fast Start period). In this report it also estimates amounts for repayment to Canada for previous climate-related concessional loans (mainly from the special funds at the IFIs).
- The Fourth Biennial Report provides an aggregate estimate of private sector finance mobilized by public finance for climate purposes, but no details on the calculation and content of this financing.
- *Publish What You Fund* gave Canada an overall "Very Good" grade in 2020 (rising from "Good" in 2018) on the overall transparency of its ODA, ranking the country 10<sup>th</sup> out of 47 donors and institutional funders reviewed annually.<sup>32</sup>

However, there are several significant limitations in the current data as presented in these reports.

- The Biennial Reports highlights the total for disbursements related to Canada's \$2.65 billion, but fails to identify projects related to this commitment in the detailed project tables.
- The Fourth Biennial Report fails to mark bilateral and other projects where a climate objective is one of several project objectives (significant purpose Rio Marker). This identification was provided in the Third Biennial Report.
- There is no project-level detail on the recipient country and implementing partners. It is not possible to determine the degree to which climate finance is targeting Least Developed Countries (LDCs) and Small Island Development States (SIDS).
- The Reports fail to disaggregate the various financial instruments (export credits, loan and investment guarantees, etc.) for the EDC's climate support, the types of projects supported and countries in which these investments take place. Similarly, there is no list of projects and their details with respect to FinDev Canada. However, it is possible to access some information on these projects at FinDev Canada's web site.

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<sup>32</sup> Publish What You Fund, Aid Transparency Index, 2020, Canada, June 2020, accessed at <https://www.publishwhatyoufund.org/the-index/2020/canada-global-affairs/#>.

- The Reports do not present any detail on repayment of loans or on project-level mobilization of private sector resources.

Transparency in Canada's Methodologies: Canada does publish basic information on its methodology in a section on Methodologies and in the Documentation boxes in the detailed project-level report format.<sup>33</sup> Its reporting closely follows OECD DAC methodologies and is based on Canada's reports to the DAC Creditor Reporting System (CRS) and the Rio Markers for identifying projects with climate purposes.<sup>34</sup> At 30% of disbursements/budgets, it takes a welcomed conservative approach to including projects where a climate objective is only one of several objectives. All activities, except for FinDev Canada and the EDC, are reported as annual disbursements, not commitments.

Treatment of Loans: All loans are reported at face value and not grant equivalency for concession loans. While the Fourth Biennial Report estimates 2017 and 2018 amounts for repayments received, these are not deducted from the presentation of Canada's aggregate climate finance.

New and Additional: Canada says that "the \$2.65B climate finance commitment is an increase in previous annual levels of climate finance during Fast Start. Through this commitment, Canada is supporting climate projects that are above and beyond what was planned prior to the Convention and Copenhagen Accord."<sup>35</sup> While this rationale might address what is "new" through an increase in Canada's climate finance, it ignores the issues relating to its additionality to already planned ODA for other purposes. (See a further discussion of additionality in Section 6 (c).)

Defining Climate Finance: As agreed at COP25, Canada is among eight countries and institutions that have submitted its views on operational definitions of climate finance to UNFCCC's Standing Committee on Finance.<sup>36</sup> Canada suggest (alongside other submissions) that the operational definition should take into account the evolving complexity and dynamics of all sources and actors in climate finance, such as the private sector and philanthropies, South South Cooperation and UNFCCC funds. Canada agrees with the "objective of the Paris Agreement to make all financial flows consistent with a pathway towards low-emission, climate resilient development." (pages 1-2) The Submission then outlines Canada's use of the

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<sup>33</sup> See Annex 3.2 in Canada's Fourth Biennial Report to the UNFCCC.

<sup>34</sup> The OECD DAC completed a review of its various purpose markers, including the Rio Markers. On the latter it suggested improvements by improving the definition/eligibility criteria for climate change mitigation, by considering approaches to the 0-1-2 marking system for better differentiation, striking an equilibrium between too generic rules that are valid in most cases and detailed rules that are difficult to apply, and improving the quality of text descriptions. See OECD DAC, "Assessing the policy objectives of development cooperation activities: Review of the Reporting Status, use and relevance of Rio and Policy markers," DCD/DAC/STAT(2020)27, June 2020, accessible at [http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=DCD/DAC/STAT\(2020\)27&docLanguage=En](http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=DCD/DAC/STAT(2020)27&docLanguage=En).

<sup>35</sup> See the Documentation Box in Table 7 accompanying the Fourth Biennial Report accessible at [https://unfccc.int/sites/default/files/resource/can\\_2020\\_v1.0.xlsx](https://unfccc.int/sites/default/files/resource/can_2020_v1.0.xlsx).

<sup>36</sup> See [https://unfccc.int/sites/default/files/resource/Canada\\_0.pdf](https://unfccc.int/sites/default/files/resource/Canada_0.pdf).

Rio Markers in determining most of its eligible climate finance as well as the IFC's Definitions and Metrics for Climate-Related Activities for EDC transactions. It supports the methodology developed by the OECD in its annual estimates of climate finance provided and mobilized by developed countries. Unfortunately, the submission largely avoids comment on contentious issues relating to different coefficients that DAC members apply to their Rio Marker activities in reporting to the UNFCCC<sup>37</sup> and the different methodology used by the Multilateral Development Banks in attributing mobilized private sector finance.<sup>38</sup>

### 3. Deconstructing Canada's International Climate Finance

As was apparent in the previous section, Canada's international climate finance can be divided into a number of pools of climate finance:

- a) The \$2.65 billion five-year commitment, 2016/17 to 2020/21;
- b) Bilateral projects where climate is the principal purpose, but which are not included in the \$2.65 billion portfolio;
- c) An overview of Global Affairs Canada's dedicated climate finance programming (\$2.65B projects and principal purpose bilateral projects);
- d) Mainstreamed climate finance GAC projects (where a climate objective is only one objective among other main objectives for the project);
- e) FinDev Canada and Export Development Canada climate finance;
- f) Climate finance by core resources of multilateral organizations, attributed back to Canada; and
- g) An estimate of Canada's total climate finance for the period 2016 to 2018.

This section analyzes each of these elements in Canada's overall international climate financing in response to the climate emergency (see **Box One**). In the final part of this section it calculates an approximate total for all components of Canada's climate finance including mobilized private sector for climate-related purposes. In doing so, it must make some assumptions about components of this finance for years for which there is no exact data in Canada's reports to the UNFCCC.

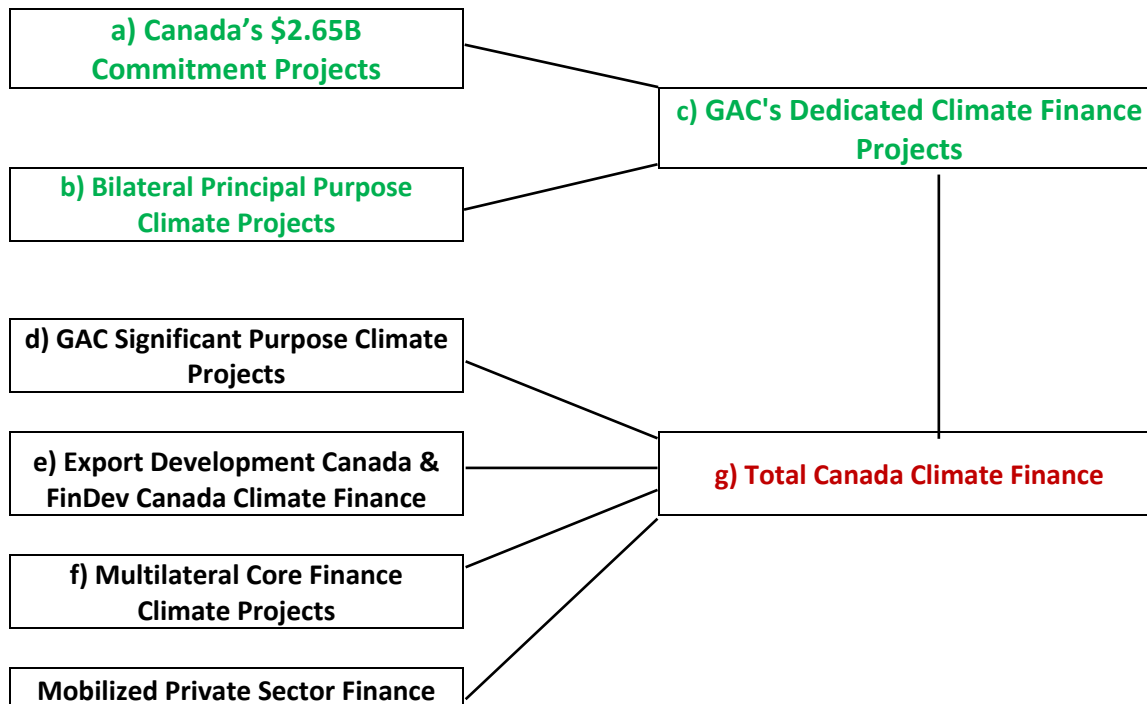
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<sup>37</sup> See OECD DAC, "Results of the first survey on coefficients that Members apply to the Rio Marker data when reporting to the UN Conventions on Climate Change and Biodiversity," April 2019, accessed at <http://www.oecd.org/dac/financing-sustainable-development/Results%20of%20the%20first%20survey%20on%20coefficients%20that%20Members%20apply%20to%20the%20Rio%20marker%20data%20when%20reporting%20to%20the%20UN%20Conventions%20on%20Climate%20Change%20and%20Biodiversity.pdf>.

<sup>38</sup> See Box 3.1 (OECD and MDB approaches for measuring mobilized private finance), page 38, in OECD, "Climate Finance Provided and Mobilized by Developed Countries in 2013 – 17," September 2019, accessed at <https://www.oecd-ilibrary.org/docserver/39faf4a7-en.pdf?expires=1595871696&id=id&accname=guest&checksum=7649B2610720EAED39EDA6B83CB4EA2E>.



### Box One: Components of Canada's Total Climate Finance Portfolio



#### a) The \$2.65 billion five-year commitment

##### Canada's \$2.65 billion Commitment Allocations – Key Points

1. As of March 2020, the government has committed \$2.0 billion in projects relating to its five-year \$2.65 billion pledge.
2. Canada also committed to reach \$800 million for climate finance in 2020/21. To achieve this goal the government must commit the remaining \$620 million to meet the \$2.65 billion pledge and an additional \$180 million to reach \$800 million in this fiscal year.
3. All projects related to the \$2.65 billion have been channelled through multilateral organizations and banks (MDBs). Eight special funds account for close to 85% of commitments to date.
4. Taken together, only 18% (Cdn\$150 million to date) of the Cdn\$820 million allocated to the four special Canadian funds at the MDBs have been committed to projects, which is not necessarily all disbursed.
5. Loan finance now makes up more than two-thirds (68%) of allocated programs in the \$2.65 billion commitment.
6. Only 25% of \$2.65 billion commitment projects to date are directed to adaptation. These estimates are based on the prior experience of project approvals for funds.

In 2015, Canada pledged to allocate \$2.65 billion in international climate finance over five years, up to March 2021. As of March 2020, the Government has committed \$2.0 billion in projects related to this pledge.<sup>39</sup> In 2019/20, new projects related to this commitment totaled \$230 million. Almost a quarter (23%), or an additional \$617 million, must be committed in 2020/21 to reach the goal of \$2.65 billion.<sup>40</sup> See **Section A of the Table in Annex Three** for a list of all project commitments to date related to this Paris pledge.

As part of its 2015 pledge, Canada also agreed to commit \$800 million in climate finance annually by 2020/21, which may be achieved by completing the \$2.65 billion pledge and approving an additional \$180 million in climate finance projects where mitigation/adaptation is the principal purpose of the project.

#### Observations on the \$2.65 billion commitments:

- Delivered through multilateral channels All of the \$2.65 billion project commitments are through multilateral institutions. Bilateral projects where a climate purpose is the main objective of the project (see Section 3(b) below and **Annex 3**, Section B) are not included in the allocations to achieve the five-year target.
- High concentration in large special funds at MDBs and multilateral organizations Among 24 recipients of \$2.65 billion commitments, the largest eight allocations to date, making up 84% of the total, are the following:
  - Green Climate Fund (UNFCCC) - \$350 million (See **Annex Five** for an updated analysis of project approvals from the Green Climate Fund up to March 2020.)<sup>41</sup>
  - Energy Transition and Coal Phase Out Program (World Bank) - \$275 million;
  - Canada International Finance Corporation (IFC) Blended Climate Finance Program (World Bank) - \$250 million;
  - Canadian Climate Fund for the Private Sector in the Americas (IADB) - \$223.5 million;
  - Canada Climate Fund for the Private Sector II (Asia Development Bank - ADB) - \$200 million;
  - Canada IFC Renewable Energy for Africa (World Bank) - \$150 million;
  - International Fund for Agriculture and Development (IFAD) - \$150 million; and
  - Climate Risk Insurance - \$100 million.

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<sup>39</sup> Note that this amount differs from the previous section for the \$2.65 billion as the end dates differ – December 2018 for the Biennial Reports and March 2020 for this section. The \$2,033 million are commitments often disbursed over several years. The Biennial Reports include only disbursements made in the relevant years.

<sup>40</sup> Please note that these amounts differ from those reported in *The Reality of Canada's International Climate Finance, 2019*. The current list of projects has been provided by officials in Global Affairs Canada for the first time. Previous reports assumed that bilateral projects where climate adaptation/mitigation were the principal purpose were included in the \$2.65 billion commitment. However, the list provided only lists multilateral project grants and loans as the projects to date making up this pledge.

<sup>41</sup> A more detailed analysis of the Green Climate Fund can be found as **Annex Eight** in *The Reality of Canada's International Climate Finance, 2019*, op. cit.

- Limited information and disbursements on Canada's special funds at the World Bank, ADB and IADB See **Annex Four** for a list of approved projects for the five Canada's Special Funds for the private sector at the multilateral development banks. There is no project information for the Energy Transition and Coal Phase Out Program at the World Bank. Only the Canada Climate Fund for the Private Sector II at the Asia Development Bank (ADB) publishes up-to-date project information on its site. Information on other funds must be gleaned from project press releases and annual reports (for the IFC funds).

Only the ADB fund, established three years ago in March 2017, has disbursed half of its resources. Taken together, only 18% (Cdn\$150 million to date) of the Cdn\$820 million allocated to the four special Canadian funds at the MDBs have been committed to projects, which is not necessarily all disbursed.<sup>42</sup> It is important to note the discussion of the serious limitations in approving blended projects for renewable energy projects in Africa in the *2019 Implementation Progress Report* for the Canada IFC Renewable Energy for Africa at World Bank (see **Annex Four** for detailed quotes). No projects have been approved for this fund since according to this *Report* there is not the necessary conditions in most African countries for private sector renewable projects to take off.

- New commitments in 2019/20 include
  - \$50 million out of the \$300 million multi-year first replenishment of the Green Climate Fund, of which \$18.3 million is loan finance.<sup>43</sup>
  - A loan of \$150 million to the International Fund for Agriculture (IFAD).<sup>44</sup>
  - Three smaller projects totaling \$30 million.
  - Almost three quarters (73%) of the new commitments in this year were in the form of loans.
- Preponderance of concessional loans Loan finance now makes up more than two-thirds (68%) of allocated programs in the \$2.65 billion commitment. Concessional loans are the modality for 44% of Canada's finance for the Green Climate Fund, a loan to IFAD, the special funds at the World Bank (IFC), the special fund at the Asia Development Bank, and the special fund at the Inter-American Development Bank. Loans for the most part are lent by the institution as blended finance for projects involving the private sector. It is estimated that 89% of these loans will be spent on mitigation (based on prior experience with these funds.).

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<sup>42</sup> These projects have been announced as approved and committed but funds not necessarily all disbursed. Disbursement of funds will proceed according to schedules agreed in the project documentation. The five funds were announced by Canada between March 2017 and April 2019.

<sup>43</sup> This allocation relates to the pro-rated replenishment up to March 31, 2021, the period for the \$2.65 billion commitment. The remaining \$250 million will be included in the next commitment period, 2021/22 to 2025/26.

<sup>44</sup> GAC describes the purpose of this loan "to expand support for agriculture development activities in rural areas that create opportunities for smallholder farmers, especially women, to strengthen resilience to climate change and adopt technologies and practices that help mitigate the carbon footprint of agriculture." According to IFAD, the Board authorized sovereign loans as part of the 2017 replenishment and Germany, France and Canada responded with loans. This loan is highly concessional and will be allocated as concessional loans to eligible member states.

- Main focus for allocations of the \$2.65 billion pledge on mitigation Given the high propensity for special funds for partnerships with the private sector, it is not surprising that only an estimated 25% of \$2.65 billion commitment projects to date are directed to adaptation. These estimates are based on the prior experience of project approvals for funds and the ratios of each fund are set out in **Annex One**.

GAC's own coding of these same projects estimates 42% to adaptation. This coding suggests that a significant number of private sector projects, not yet even submitted for consideration, will have adaptation as a cross cutting purpose. This more positive potential outcome for adaptation, however, is not the experience of the first phases during Fast Start, nor those projects funded to date. Close to 90% of the known projects financed to date by the five MDB special funds created since 2017 went to mitigation purposes.

- Geographic focus spread equally between Africa, Asia and the Americas Not unexpectedly since these are multilateral channels, almost half (43%) of the allocations have a global geographic scope. Of the remaining programs for which a geographic focus is possible to discern, they are relatively evenly distributed: 27% to Africa, 30% to Asia and 31% to the Americas.<sup>45</sup> The Pacific region, home to many Small Island Developing States (SIDS), receive only 2% of these non-global allocations. Middle Eastern countries receive 7% of the non-global allocations and Europe 3%.
- High regional concentration and focus on middle income countries Again it is not possible to allocate many of the individual projects to Low Income/Least Developed Countries (LICs/LDCs), Lower Middle-Income Countries (LMICs) and Upper Middle-Income Countries (UMICs). Fully 47% are designated regional or global in scope. Of the non-regional/global share, LICs/LDCs received 32% of project commitments, LMICs received 31%, and UMICs received 37%.<sup>46</sup>

The relatively high allocations to LMICs and UMICs are the result of the high concentration on mitigation and private sector partners in this climate finance. At least 70% of mitigation finance was directed to these countries, whereas 40% of adaptation finance was directed to LICs/LDCs.

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<sup>45</sup> Major funds are allocated geographically, for the purposes of this analysis, based on the prior experience of projects in these funds. See the methodological notes in **Annex One**. It may be that future allocations from Canadian funds, so far not allocated to projects, may have a different regional breakdown. Because of the large numbers of regional programs and special climate funds it is not possible to identify programs that target Small Island States (SIDS).

<sup>46</sup> The methodology for allocating special funds based on prior approved projects in these funds can be found in **Annex One**.

**b) Bilateral projects where climate is the principal purpose**

**Climate Principal Purpose Bilateral Projects – Key Points**

- 7. Between March 2016 to December 2019, GAC approved \$205 million in bilateral project commitments, for which climate mitigation or climate adaptation were the principal purposes of these projects, with \$59 million approved in the past year.**
- 8. Almost two-thirds (62%) of these bilateral projects were devoted to adaptation and 38% to mitigation purposes and all were provided as grants. CSOs implemented almost half (46%) of these adaptation projects.**
- 9. More than 83% of these projects were directed to LDCs/LICs and 33% were implemented in SIDS (mainly Haiti).**

Between March 2016 to December 2019, GAC approved \$205 million in bilateral project commitments, for which climate mitigation or climate adaptation were the principal purposes of these projects, with \$59 million approved in the past year. (See **Annex Three, Section B** for a list of these projects.) While these projects are fully devoted to addressing climate change in a developing context, Canada has decided to not include them as part of fulfilling Canada's 2.65 billion pledge.

Observations on the Bilateral Climate-Related Projects:

- Focus on adaptation 62% of project commitments were devoted to adaptation and 38% to mitigation purposes.
- Grants are the financing modality All of these projects were provided as grants.
- CSOs as implementing partners Canadian CSOs implemented \$59.4 million in project commitments in Haiti and Senegal, which were the result of specific calls for proposals. All of these projects focused on adaptation, which made up 46% of all bilateral project adaptation.
- Geographic focus concentrated in Africa and Americas (Haiti) Countries in the Americas received 42% of project commitments and countries in Africa, 37%. Only \$1.5 million or 1% of country allocated commitments were directed to Pacific island countries. Regional / global projects received only 1% of commitments. Among the recipient countries, Haiti, Dominica, and the Pacific/Caribbean region are SIDS, receiving 33% of the \$205 million in commitments.
- LICs/LDSs strong focus in bilateral climate programming More than 83% of bilateral project commitments that could be allocated were directed to LICs/LDCs. The remaining 17% focused on UMICs. Regional/global programs that could not be allocated made up 28% of the \$205 million total.

c) An overview of Global Affairs Canada's dedicated climate finance programming

**GAC Dedicated Climate Finance – Key Points**

1. A total of \$2,235 million has been allocated to climate finance by GAC between January 2016 and March 2020 (principal purpose under the DAC the Rio Marker).
2. Allocations to adaptation and mitigation (28% adaptation / 72% mitigation)
3. Geographic allocations (40% Global; 17% Africa; 1% Pacific)
4. Allocations to income groups (45% Regional/Global; 21% - LDCs & LICs; 15% - LMICs; 19% - UMICs)

Taking multilateral and bilateral climate focused programming together [combining \$2.65B projects and principal purpose bilateral projects in 3 (a) and 3 (b) above], a total of \$2,234.7 million has been allocated by GAC in project commitments between January 2016 and March 2020. These projects do not include those financed where a climate adaptation or mitigation purposes is only one among other project objectives. (See section 3 (d) for a discussion of these projects.) Nor does it include multilateral core climate finance imputed to Canada, climate finance via Export Development Canada and FinDev Canada, which are discussed below.

**Figures Three to Five** on the next pages point to the main trends in the allocation of this climate finance for all known project commitments by GAC.

**Figure Three, GAC Climate Finance Allocation to Adaptation and Mitigation**

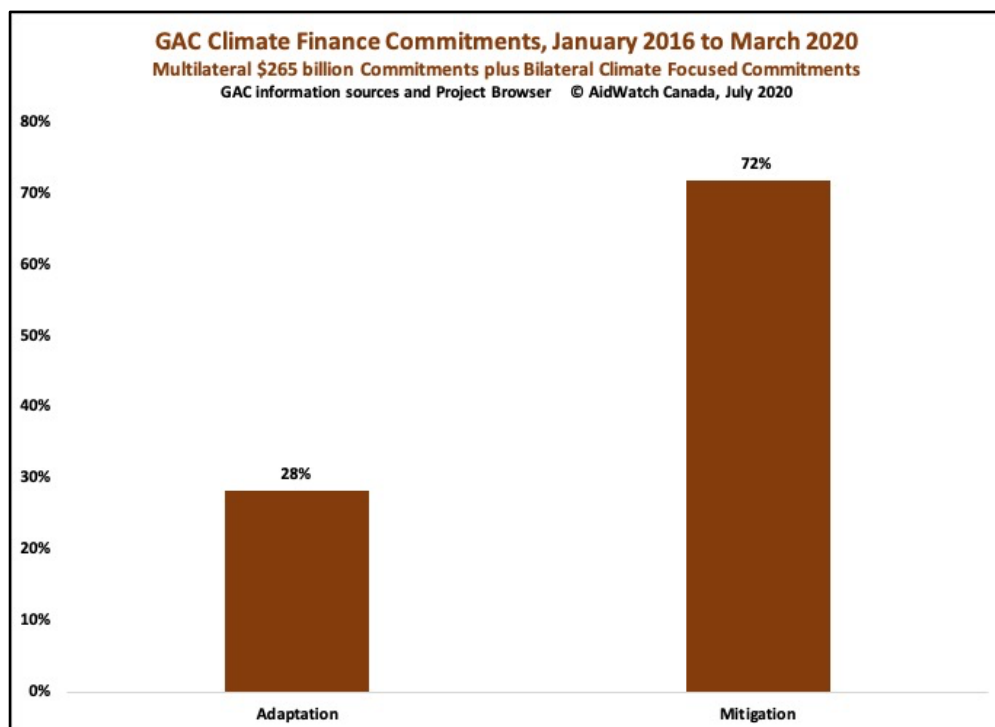


Figure Four, GAC Climate Finance Allocations to Geographic Regions

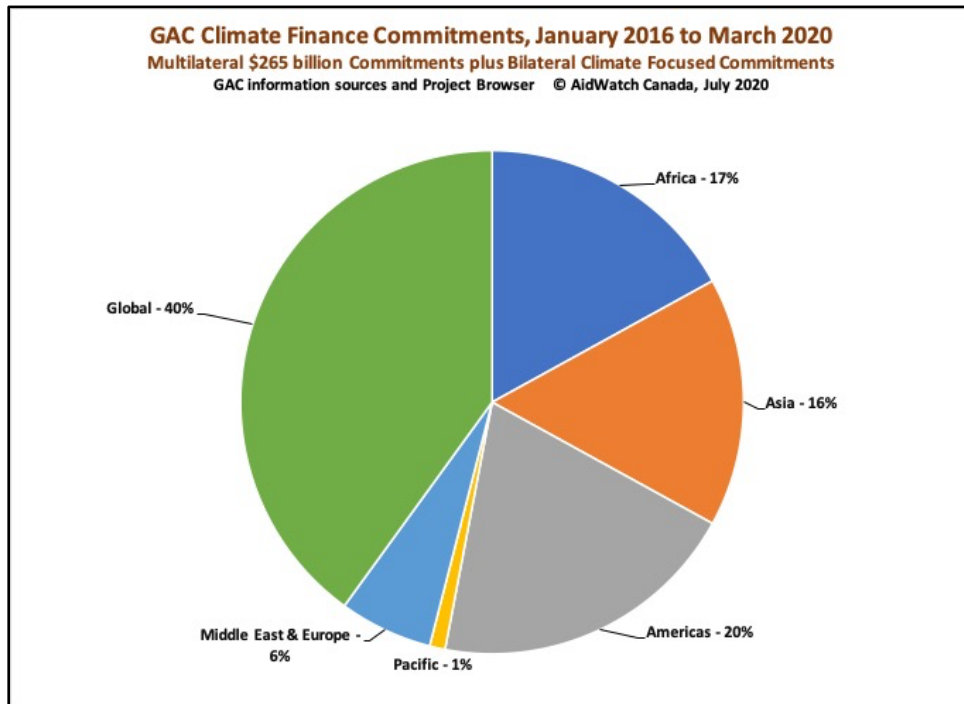
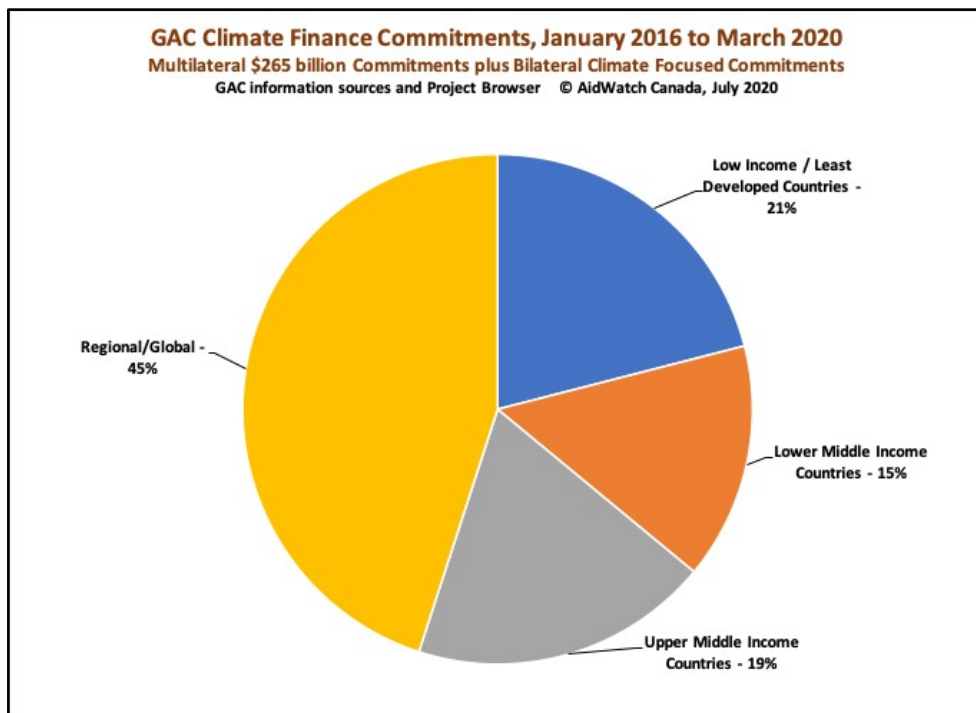


Figure Five: GAC Climate Finance Allocations to Income Groups



#### d) Mainstreamed Climate Finance Projects

##### **Mainstreamed Climate Finance Projects – Key Points**

- 1. Between 2016/17 and 2018/19, Global Affairs Canada has financed approximately 75 ‘climate mainstreamed’ projects with the climate-related components valued at approximately \$208 million in disbursements.**
- 2. Climate mainstreamed projects represents only 14% of total bilateral project disbursements for these years (2016 to 208).**
- 3. The leadership of the OECD DAC are promoting the alignment of all ODA with the Paris Agreement, although several donors such as Japan, Australia and the United States, have not agreed.**
- 4. A report for the DAC suggests that “development co-operation providers are not yet adequately set up to address the climate emergency.” While they increasingly recognize the importance of the objectives of the Paris Agreement for achieving sustainable development, “they face persistent challenges in integrating climate considerations across their portfolios. While much debated at the DAC, Canada has not responded publicly to this report.**

Under the Paris Rulebook, donors may include projects in which climate mitigation or adaptation are not the main objective but only one among several other objectives. These are considered projects where climate adaptation and/or mitigation issues are mainstreamed within the project and affect its objectives and outcomes. While positive and necessary, neither the UNFCCC nor the DAC have established rules governing how to account for these projects in a way that reflects their partial climate purposes. It seems reasonable that Canada reports the budgets/disbursements of these projects pro-rated to 30% to reflect this element.<sup>47</sup> Other donors use different coefficients ranging from 20% to 100%.

Between 2016/17 and 2018/19, Global Affairs Canada has financed approximately 75 ‘climate mainstreamed’ projects with the climate-related components valued at approximately \$208 million in disbursements (applying the 0.30 coefficient to total disbursements). But as a share of all bilateral ODA disbursements for these years, climate mainstreamed projects represent only 14% of this total. GAC has considerable scope for improving the mainstreaming of climate objectives within its ODA.

In advancing a mainstreaming agenda, GAC could do well to consider the findings of a major report published by the OECD Development Cooperation Directorate (DCD) in November 2019. This report promoted the alignment of all ODA with donor commitments in the Paris Agreement and analyzed what might be required to do so.<sup>48</sup>

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<sup>47</sup> The inclusion of 30% of budgets for these projects indicates that on average climate finance objectives are less than 50% of the projects, but on the other hand are not insignificant. In the end it is a judgement.

<sup>48</sup> OECD, *Aligning Development Co-operation and Climate Action: The Only Way Forward, The Development Dimension*, November 2019, Development Cooperation Directorate (DCD), accessed at [https://www.oecd-ilibrary.org/development/aligning-development-co-operation-and-climate-action\\_5099ad91-en](https://www.oecd-ilibrary.org/development/aligning-development-co-operation-and-climate-action_5099ad91-en). It is important to



The DCD report suggests that “development co-operation that is Paris-aligned supports the three core objectives of the Paris Agreement on climate change mitigation, adaptation and finance flow consistency (outlined in Paris Agreement, Article 2.1).”<sup>49</sup> It goes on to outline four key characteristics of alignment:

- 1) Development cooperation does not undermine the Paris Agreement, but rather “makes a positive contribution to the system-wide transformation that is needed to achieve low-emissions, climate-resilient pathways.” This guidance includes the phase out of all coal-related ODA investments;
- 2) Paris-aligned development co-operation should catalyze countries’ transitions to low-emissions, climate-resilient pathways;
- 3) Paris-aligned development co-operation supports short- and long-term processes in developing countries “to connect climate-centric processes with other development and sectoral plans;” and
- 4) Paris-aligned development co-operation proactively responds to the evolving needs of developing countries, including “the pace and scale of climate change and its impacts; identified needs within specific communities and sectors; and opportunities and solutions (including technologies and good practices) for addressing these challenges.”

Paris alignment requires the “necessity to consider climate action at the very heart of sustainable development, fully integrated into strategies, theories of change and programming.”<sup>50</sup> The report argues for a paradigm shift in the planning for bilateral ODA by DAC members, with a strong appeal for policy coherence across all aspects of government policy and programs. It suggests that “climate considerations should be integrated across other sectors and activities that have not traditionally been recognised as central to the transition,” beyond traditional sectors of energy, agriculture and environment.<sup>51</sup> The report notes that very little climate finance for adaptation related to the health sector, for example, and that more than 40% of support for agriculture was still reported as having no climate objective.

The DCD report goes on to argue that “development co-operation providers are not yet adequately set up to address the climate emergency.” While they increasingly recognize the importance of the objectives of the Paris Agreement for achieving sustainable development, “they face persistent challenges in integrating climate considerations across their portfolios.”<sup>52</sup> The report points to the stagnation of bilateral climate finance in recent years.

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note that this report does not represent adopted policy by the donors at the Development Assistance Committee. Several donors object to the potential exclusion of coal-related ODA investments (Japan) and the United States does not consider itself a party to the Paris Agreement. Nevertheless, the DCD is still promoting an ambitious agenda for DAC Members in aligning with climate smart ODA (avoiding specific reference to the Paris Agreement). The latter may change if the United States reverses its decision to withdraw from the Paris Agreement following the November elections.

<sup>49</sup> This quote and subsequent quotes in this section are from *Ibid.*, pp 20ff.

<sup>50</sup> *Ibid.*, p. 23.

<sup>51</sup> *Ibid.*, p. 25.

<sup>52</sup> *Ibid.*, p. 28.

The challenge for providers is “a result of their fundamental parameters – e.g. mandates, performance indicators and capacities – currently not being set up to address the climate emergency. Few providers have integrated climate considerations into their mandates, and only slightly more than two in five include climate-related targets in their institution’s performance framework.”<sup>53</sup>

The report calls for, *inter alia*, substantial strengthening of capacities for developing countries to fully integrate climate action in their policy and planning processes, the reduction of highly fragmented access to climate finance apparent from a recipient perspective, and the updating of key standards to rule out “the promotion and subsidisation through concessional resources of activities that undermine or delay the transition [away from a fossil fuel based economy] , such as new fossil fuel-based energy supply and power generation.”<sup>54</sup> Importantly, it warns that “providers should not interpret low climate awareness and insufficient ambition in developing countries as sanctioning support to activities that are inconsistent with the objectives of the Paris Agreement and that compromise countries’ ability to achieve sustainable development.”<sup>55</sup>

Canada has not responded publicly to this important study, but the report has been the subject of intense discussion at the DAC among its members. As a donor, GAC should be addressing these major challenges in both project design and scale of bilateral climate finance in truly mainstreaming climate objectives in its ODA at the systemic and institutional level.

#### **e) FinDev Canada and Export Development Canada climate finance**

##### **FinDev Canada and EDC Climate Finance – Key Points**

- 1. FinDev Canada has made a total of Cdn\$114.5 million commitments for climate-related activities since its inception in 2018, with all investments targeting mitigation.**
- 2. Since 2015, the government has reported to the UNFCCC a total of Cdn\$782 million from Export Development Canada (EDC) to mobilize private finance for climate purposes in developing countries. There is no detail on these investments, but it is reasonable to assume that almost all are directed to mitigation.**
- 3. The impact of these EDC climate-related investments is more than cancelled out by its continued large scale support by EDC for fossil fuel trade and investment. Since 2016 the EDC has provided more than \$45 billion in support to the oil and gas sector, while investing only \$7 billion in clean technology.**

**FinDev Canada** was launched in 2018 as Canada’s bilateral Development Finance Institution (DFI). It is housed within Export Development Canada but is governed by its own board of directors and operating

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<sup>53</sup> *Ibid.*, p. 29.

<sup>54</sup> *Ibid.*, p. 31.

<sup>55</sup> *Ibid.*, p. 27

policies. Among these policies climate finance is one of three priorities for the Institution, 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.”<sup>56</sup>

According to projects listed on its web site, FinDev Canada has made a total of Cdn\$114.5 million commitments for climate related activities since its inception in 2018. (See **Annex Six** for a list of projects.) There is no discernable geographic focus for these investments as several are global in scope. All of the investments are for mitigation projects – building new solar, wind and biomass energy facilities.

Since 2015, the government has reported to the UNFCCC a total of Cdn\$782 million from **Export Development Canada (EDC)** to mobilize private finance for climate purposes in developing countries. Unfortunately, no details are provided for this finance, but EDC generally provides export credit financing, loan and investment guarantees for Canadian firms’ trade and investments.

Some of these investments may be financed by EDC Green Bonds, with the latest, Bond 5, valued at \$500 million in August 2019. The stated purpose is 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.”<sup>57</sup> According to the latest report on investments made from the proceeds of the bonds, 34% of resources from Bond 3, Bond 4, and Bond 5 were directed to investments in renewable energy.<sup>58</sup> These investments are global and any that might relate to investments in developing countries are not identified.

Support for climate adaptation and mitigation activities by EDC must be seen in context of EDC’s full portfolio, which still maintains enormous support for carbon intensive fossil fuel trade and investments. According to a recent study, since 2016 the EDC has provided approximately \$45 billion in support of the oil and gas sector, while only investing \$7 billion in clean technology.<sup>59</sup> In 2020 EDC made a commitment to reduce by 15% the carbon intensity of its investments. The study concludes that “this low-level of ambition is not aligned with Canada's climate commitments, and more importantly, by waiting too long

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<sup>56</sup> See <https://www.findevcanada.ca/en/what-we-do/our-approach>.

<sup>57</sup> 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>.

<sup>58</sup> EDC, “2020 Green Bond Impact Report,” 2020, accessible at [file:///Users/Brian/Downloads/green\\_bond\\_report\\_2020-1.pdf](file:///Users/Brian/Downloads/green_bond_report_2020-1.pdf)

<sup>59</sup> See Horizon Advisors, “Reforming Export Development Canada: Climate-Related Risk Management and the Low Carbon Transition,” A Report Prepared for Above Ground and Oil Change International, June 2020, accessed at [https://5187fba4-0e62-4c37-af26-b2b843007968.filesusr.com/ugd/8e966a\\_772f5e17fa084bafb18f127dd83b747e.pdf](https://5187fba4-0e62-4c37-af26-b2b843007968.filesusr.com/ugd/8e966a_772f5e17fa084bafb18f127dd83b747e.pdf).

to transition out of environmentally damaging financial exposures, EDC's investments in carbon intensive sectors will inevitably contribute to climate change.”<sup>60</sup>

These carbon intensive investments much more than cancel the carbon reduction achievements in its support for renewable energy. EDC climate-related investments for developing countries, which at \$509 million in 2017 and 2018 made up a third (33%) of its reported \$1.5 billion to the UNFCCC, should not be reported as a positive contribution to Canadian international climate commitments.

**f) Core multilateral climate finance attributed to Canada**

**Core Multilateral Finance Attributed to Canada – Key Points**

- 1. In 2017, the DAC recorded that Canada had US\$170 million in imputed multilateral core contributions to these funds and MDBs. This climate support is separate from Canada’s bilateral allocations and are determined by the level of climate activities for each multilateral organization to which Canada provides core support.**

Developed countries pledge of US\$100 billion in annual climate-related flows for developing countries included US\$29.5 billion in annual outflows from multilateral funds and multilateral development banks (MDBs) from their own resources, which can be attributed to these providers. MDBs in particular may have internally generated resources (e.g. repayments on previous loans) that are not attributable to developed countries but make up some of the MDBs climate related financing.<sup>61</sup>

The degree to which these multilateral flows for climate finance can be attributed to a donor country is based on the relative share of the core support provided by the donor to these institutions. A donor’s core support for MDBs does not include special funds established by the donors at these institutions such as the special climate funds for the private sector created by Canada at the ADB, the World Bank and the IADB. Canadian allocations for these special funds are treated as bilateral contributions (an in turn relate to the US\$37.3 billion bilateral share of the US\$100 billion commitment).

In 2017, the most recent year for which statistics are available, the DAC determined that US\$27.5 billion is attributable to developed country providers as a whole.<sup>62</sup> In that year the DAC recorded that Canada had US\$170 million in imputed multilateral core contributions to these funds and MDBs. But Canada should be responsible for US\$770 million of this annual US\$29.5 billion target in multilateral climate

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<sup>60</sup> Ibid, page 9.

<sup>61</sup> Multilateral funds and MDBs report their flows to developing countries to the OECD DAC. The MDBs also publish an annual joint report on their climate finance, which uses a different methodology in defining the scope of adaptation and mitigation activities.

<sup>62</sup> See OECD, “Climate Finance Provided and Mobilized by Developed Countries in 2013/17,” September 2019, pages 13 and 34-35, accessible at <https://www.oecd.org/environment/climate-finance-provided-and-mobilised-by-developed-countries-in-2013-17-39faf4a7-en.htm>.

support for developing countries.<sup>63</sup> The government however does not determine the level of multilateral climate finance that can be attributed to Canada as these allocations are based on decisions within each multilateral organization.

**g) An Estimate of Canada's Total Climate Finance, 2016 to 2018**

**Estimating Total Climate Finance, 2016 to 2018, All Channels – Key Points**

- 1. While it is not possible to accurately estimate an annual amount of climate finance relative to Canada's fair share of the US\$100 billion, from 2016 to 2018 Canada contributed a three-year cumulative total of approximately \$3.0 billion in climate finance from all sources including private sector mobilized finance (see the notes for Table 1 for assumptions).**
- 2. A very approximate calculation suggests that by 2018 Canada had only achieved 25% of its fair share of the global US\$100 billion target for 2020.**
- 3. Excluding imputed multilateral finance, Canada dedicated only 27% of this estimate of total three-year climate finance to adaptation.**

The OECD DAC in 2016 created a “roadmap” towards achieving the annual climate finance commitment of US\$100 billion by 2020. This roadmap indicated that US\$37.3 billion would be bilateral climate finance, US\$29.5 billion would be multilateral climate finance attributable to developed country donors [see section (e) above], and US\$33.2 billion would be private sector climate finance mobilized by donor public sector resources.

While developed countries like Canada are responsible for reaching the US\$100 billion target by 2020, It is not possible to precisely measure Canada's performance against this full US\$100 billion target due to incomplete information. There is good information on bilateral Canadian climate finance and aggregate information on the EDC and FinDev Canada websites. It is possible to estimate Canada's share of attributable multilateral finance, but as noted in the previous section, this is not an amount that Canada has any role in determining other than through its influence on multilateral funds and MDB governance. It is excluded from the attempt to estimate Canada's total climate finance below. There is also very limited information on private mobilized climate finance as a result of blending with Canadian official contributions to projects.

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<sup>63</sup> This amount is determined by the total of Canada's imputed multilateral contributions (US\$170 million) in DAC climate finance statistics for 2017 (provider perspective) at <http://www.oecd.org/dac/financing-sustainable-development/development-finance-topics/climate-change.htm>. This is 2.6% of total imputed multilateral contributions for that year. Canada's share of the US\$27.5 billion is  $29.5 \times 0.026$  or US\$770. The exchange rate used by Canada for its 2017 report to the UNFCCC (\$1.30) is used to arrive at the Canadian dollar figure (\$997 million).

**Table 1: An Estimate of Canada's Reported Climate Finance, 2016 to 2018, All Channels**

Commitments, Millions Cdn Dollars		Total	
N.B. See Assumptions for this table below		Three-Year Total	
		Adaptation	Mitigation
<b>Allocations, \$2.65B Commitment</b>	\$ 1,432.5	\$ 358.1	\$ 1,078.1
<b>Bilateral Principal Purpose Commitments</b>	\$ 153.9	\$ 95.4	\$ 58.5
<b>Bilateral Significant Purpose</b>	\$ 207.6	\$ 133.6	\$ 74.0
<b>Export Development Canada</b>	\$ 645.5	\$ 129.1	\$ 516.4
<b>FinDev Canada</b>	\$ 57.3		\$ 57.3
<b>Private Sector Mobilized</b>	\$ 463.5	\$ 92.7	\$ 370.8
<b>Total</b>	<b>\$ 2,960.3</b>	<b>\$ 808.9</b>	<b>\$ 2,155.1</b>
Estimate of Imputed Multilateral Finance			
<b>Share Excluding Imputed Multilateral</b>		<b>27%</b>	<b>73%</b>

**Table Assumptions**

1. All project commitments for the \$2.65 billion commitment are allocated per month from January 2016 to March 2020, then distributed equally and then aggregated to December 2018.
2. All bilateral principal projects commitments are allocated per month from January 2016 to December 2019 and then aggregated to December 2018.
3. All bilateral significant purpose projects are all significant purpose project disbursements up to April 2019. These amounts are an under-estimate as disbursements may not complete the commitments and disbursements for the remaining months of 2019 are missing. Bilateral significant purpose projects include bilateral branches and partnership branch in GAC in the HPDS.
4. A 80/20 ratio for mitigation/adaptation is assumed for the allocation of EDC climate finance.
5. Mobilized private sector finance amounts are only available for 2017 and 2018. A similar amount is estimated for 2016. A 80/20 ratio for mitigation/adaptation is assumed for the allocation of private sector mobilized finance.
6. The DAC established imputed multilateral climate finance for Canada at US\$170 or Cdn\$220 for 2017. This amount has been projected for the three years.

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**Table 1** sets out an approximation of all reported climate finance for Canada for the period 2016 to 2018, noting the assumptions that are required. Because of the necessity to make these assumptions, some of the amounts in this table are approximations and should not be taken as precise data.

Observations on estimating Canadian climate finance relating to the US\$100 billion commitment

- An approximation of Canada's fair share of the 2020 US\$100 billion annual commitment is US\$3.8

billion or approximately Cdn\$4.9 billion.<sup>64</sup> This amount includes the US\$29.5 billion portion for multilateral climate finance attributable to developed countries, which is determined by multilateral institutions, not policy choices in Canada.

- **Table 1** estimates that Canada made approximately Cdn\$3.0 billion in international climate investments between 2016 and 2018. If Cdn\$660 million (US\$170 million in 2017 assumed for each year) is added for multilateral climate finance imputed to Canada, the three-year total is Cdn\$3.6 billion or an estimated average commitment of Cdn\$1.2 billion per year. This amount is therefore approximately 25% of Canada's fair share of the US\$100 billion to be realized in 2020.
- Over the three years, the approximate share of adaptation is only 27% of Canada's total climate finance, including an estimate for EDC, but excluding imputed multilateral finance.<sup>65</sup>

#### 4. Characteristics of Canada's Climate Finance Disbursements: Sectors, Channels and Gender Equality

An update on key trends in sector allocation, main channels of delivery and the priority for gender equality in Canada's climate finance requires a review of project disbursement data compiled by GAC in its Historical Projects Dataset (HPDS) for 2016/17 to 2018/19. This data combines project allocations for the \$2.65 billion commitment and bilateral projects for which climate adaptation or mitigation is the principal or significant purpose. While not inclusive of all components of Canada's climate finance, trends for GAC disbursements over these three years are a good proxy for overall trends in these commitments.

##### a) Canada's climate finance disbursements

###### Disbursing Canada's Climate Finance – Key Points

1. There is no information on the degree to which project commitments for climate finance have been actually fully disbursed, in part because Canada disburses most of its climate finance to multilateral organizations and the MDBs, which in turn make the actual project disbursements.
2. MDB disbursements may be one indicator, accounting for 47% of all climate finance disbursements by GAC, but may not be fully representative of the rate of disbursements for all multilateral organizations involved in Canada's climate finance. Of the \$610 million disbursed by GAC to the special Canadian funds for the private sector at the MDBs, only 24% have been committed to projects up to December 2019, which in turn are not fully disbursed. These project commitments represent only 18% of the full committed value of these four funds.

<sup>64</sup> Canada's fair share is calculated at 3.8% of the global target converted into Canadian dollars @ Cdn\$1.30. Fair share is based on Canada's average share of DAC donors total GNI since 2016.

<sup>65</sup> Note that this share differs from the estimated share of adaption for GAC supported principal purpose projects to date of 28% referenced in section 3 (c) above.

A total of \$1,300 million has been disbursed for climate-related purposes between 2016/17 and 2018/19.<sup>66</sup> See **Annex Seven** for annual details of all climate finance disbursements recorded in the HPDS. These disbursements correspond to approximately \$1,720 million in project commitments for principal purpose projects (multilateral and bilateral).

According to these disbursement numbers, more than 75% of climate commitments have been officially disbursed (i.e. transferred out of Canada's accounts). But developing country recipients to date have received much less than these total disbursements. Of the \$610 million disbursed to the Canadian special funds for the private sector at the MDBs, only 24% have been committed to projects, which in turn are not fully disbursed. These disbursements to MDBs represent almost half (47%) of total disbursements for this period.<sup>67</sup>

There is no information on the level of disbursements for other multilateral allocations and principal purpose bilateral projects, which generally disburse their funds to project implementers over two to three years according to project schedules.

#### **b) Sector allocation of climate finance disbursements, 2016/17 to 2018/19**

##### **Sector Allocations of Canada's Climate Finance – Key Points**

- 1. Canada's climate finance is mainly concentrated in the energy sector (39%), environment policy and activities (33%) and agriculture and forestry (11%), including both GAC principal purpose and significant purpose climate finance.**

The sectoral trends for Canada's total climate finance (principal purpose and significant purpose) since the Paris Agreement in 2015 has not shifted significantly.<sup>68</sup> (See **Annex Nine** for details.) Almost 40% of total climate finance in this period is focused on the energy sector, with 27% on renewable energy. Another third (32.5%) is coded to support for environmental policy and activities. Agriculture and forestry sectors make up just 11% of climate finance disbursements. Emergency assistance and reconstruction account for 3.2% and health and nutrition only 2%.

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<sup>66</sup> These disbursements include a disbursement for the GCF which took place in 2015/16 fiscal year. An additional \$390 million in significant purpose climate project disbursements are recorded for these years, with total project disbursements discounted to 30%.

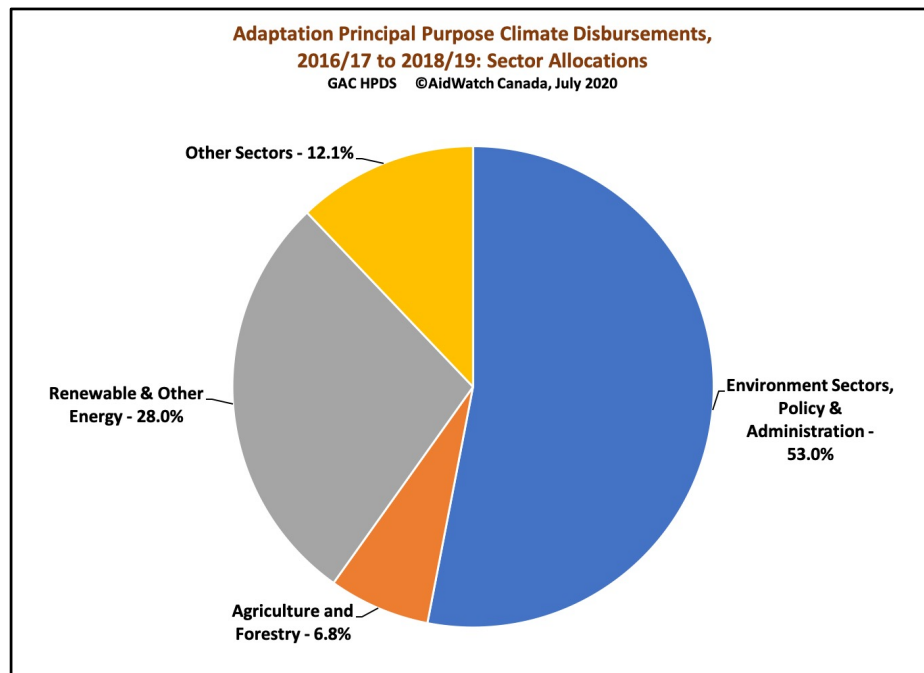
<sup>67</sup> Note that this share of 24% differs slightly from the earlier reference in section 3(a) that only 18% of the four special funds had been allocated to projects. The latter is the share of the total value of these funds, while the former is the share of actual total disbursements to date to the funds, which is less than their committed value. Further disbursements are forthcoming to fully reach the committed value.

<sup>68</sup> The sectoral allocations are based on project coding in GAC's HPDS. Disbursements for the Green Climate Fund have been allocated to adaptation and mitigation according to the focus of all GCF projects up to March 2020. These sector allocations have not been adjusted for actual project disbursements from the special funds at the MDBs.

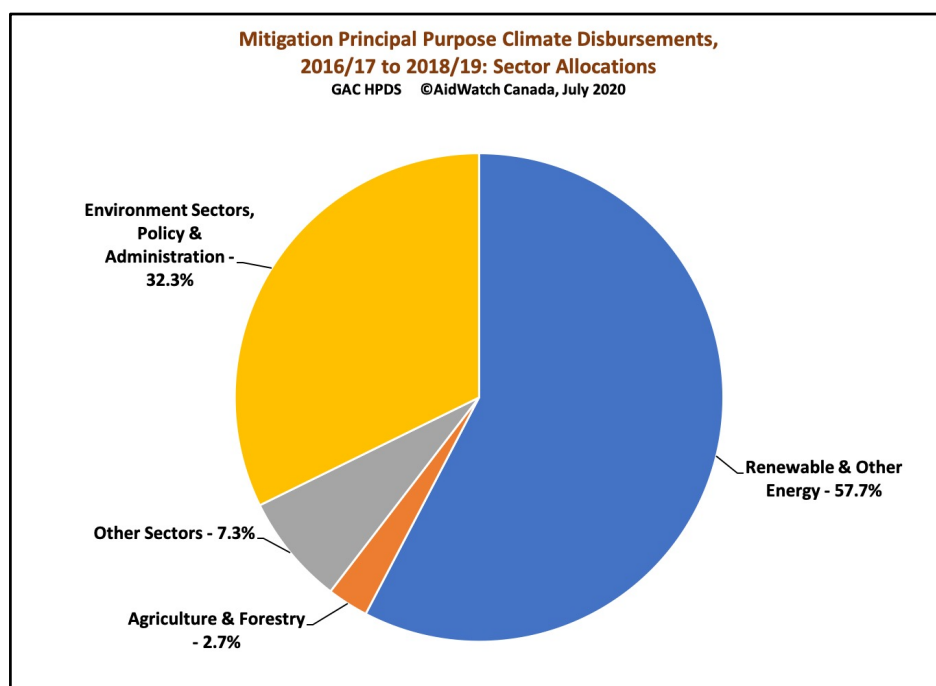


There is considerable difference in sector allocations between adaptation and mitigation (principal purpose) as exhibited in **Figures Six and Seven** below, with renewable and other energy disbursements dominating mitigation, and environment policy and activities dominating adaptation.

**Figure Six: Main Sector Allocations for Adaptation Finance**



**Figure Seven: Main Sector Allocations for Mitigation Finance**



## Agriculture and forestry

### Agriculture and forestry in Canada's climate finance – Key Points

1. Climate finance in the agriculture and forestry sectors is mainly via significant purpose climate finance (45% of all significant purpose finance for adaptation). These sectors make up only 6.8% of principal purpose adaptation finance.
2. Relative to other donors, Canada's ODA investments in the agriculture sector account for climate change, with 57% of Canada's agriculture disbursements having a climate objective, compared to 17% for all DAC donors.
3. 96% of climate-related agriculture disbursements were marked gender significant (mainstreamed), 2.2% had no gender equality objectives, and 1.7% (\$2.7 million) were marked gender equality principal purpose.

Agriculture and forestry are not high priority sectors in Canadian climate finance. These sectors make up only 2.7% of principal purpose mitigation finance and 6.8% of principal purpose adaptation finance. However, a closer examination of climate finance relating to the agriculture and forestry sectors reveals that 39% of all significant purpose climate finance (adaptation and mitigation combined) goes to these sectors. Only 4% of principal purpose climate finance combined is allocated to these sectors. In fact, more than 45% of all allocations of climate finance to agriculture and forestry is significant purpose adaptation, where climate adaptation is one among several other objectives in these projects. (See **Annex Eight** for details.)

Over the three years, 2016 to 2018, just over half (56.5%) of disbursements to the agricultural sector have at least one climate adaptation/mitigation objective. This performance compares favourably to all DAC donors, which together had a climate objective in only 17% of their agriculture sector programs in the same period.

The agricultural sector should be a particularly important priority for Canada's adaptation finance.<sup>69</sup> It is a sector that is highly vulnerable to changes and extremes in temperature and rainfall, with particular impacts for the incomes and food production of smallholder farmers.<sup>70</sup> The Global Commission on Adaptation reports that “globally, 500 million farms are two hectares or smaller, and two-thirds of adults working in poverty make a living through agriculture.”<sup>71</sup> They point out that women make up more than 40% of the agricultural workforce, with substantially less access than men to land rights, fertilizers,

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<sup>69</sup> Canadian CSOs have a long history of engagement in sustainable agriculture and food security with a diverse set of partners across the Global South. See the submission prepared by the Canadian Food Security Policy Group for GAC consultations on the future of its climate finance, August 2020, forthcoming at <https://ccic.ca/what-we-do/canadian-food-security-policy-group/>.

<sup>70</sup> See Chapter Two, “Food Security and Livelihoods of small-scale producers,” in Global Commission on Adaptation, *Adapt Now: A Global Call for Leadership on Climate Resilience*, November 2019, accessed at [https://cdn.gca.org/assets/2019-09/GlobalCommission\\_Report\\_FINAL.pdf](https://cdn.gca.org/assets/2019-09/GlobalCommission_Report_FINAL.pdf).

<sup>71</sup> *Ibid.*, p. 24.

weather information, water resources and technical assistance. The report quotes FAO estimates that “if women had the same access to productive resources as men, they could increase yields on their farms on average by 20 to 30 percent and reduce the number of hungry people in the world by 12 to 17%.”<sup>72</sup>

The Commission calls for programs that help small scale producers adapt production and manage risk from increased climate variability, including diversifying crops, improving basic social safety systems, weather based agricultural insurance, improved microfinance for adaptation investments, improving women farmers’ rights and resources, government transition funds for those producers irreparably affected by changing climate conditions, avoiding tensions between adaptation and mitigation initiatives (e.g. avoiding agriculture in wetlands).<sup>73</sup>

Finally, investing in projects for agriculture, forestry and conservation represent an important opportunity for Canada to increase support for nature-based solutions which is key to increase global climate ambition. In fact, in 2018 the IPCC highlighted that all pathways to limiting global warming to increases of either 2°C or 1.5°C of pre-industrial levels, require the use of nature-climate solutions (IPCC 2018).

#### c) Channels of delivery for Canadian climate finance, 2016/17 to 2018/19

##### **Channels of Delivery for Canadian Climate Finance – Key Points**

- 1. Multilateral organizations and development banks deliver 88% of all Canadian climate finance (principal purpose and significant purpose combined).**
- 2. Civil society organizations deliver only 7% of this climate finance. But CSOs are mostly implementers of significant purpose finance (40%). They register less than 1% of principal purpose finance.**

Multilateral organizations and development banks are the primary channels for the delivery of Canada’s climate finance. These channels deliver 88% of all climate finance (principal purpose and significant purpose combined). While still the dominant channel for both adaptation and mitigation, multilateral development banks (MDBs) are key channels for mitigation (52.3%) and other multilateral organizations for adaptation (43.7%). (See **Annex Nine** and **Figure Eight and Figure Nine**.)

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<sup>72</sup> *Ibid.*, p. 26.

<sup>73</sup> *Ibid.*, p. 25 – 27.

Figure 8: Channels of Delivery: Total Adaptation Climate Finance

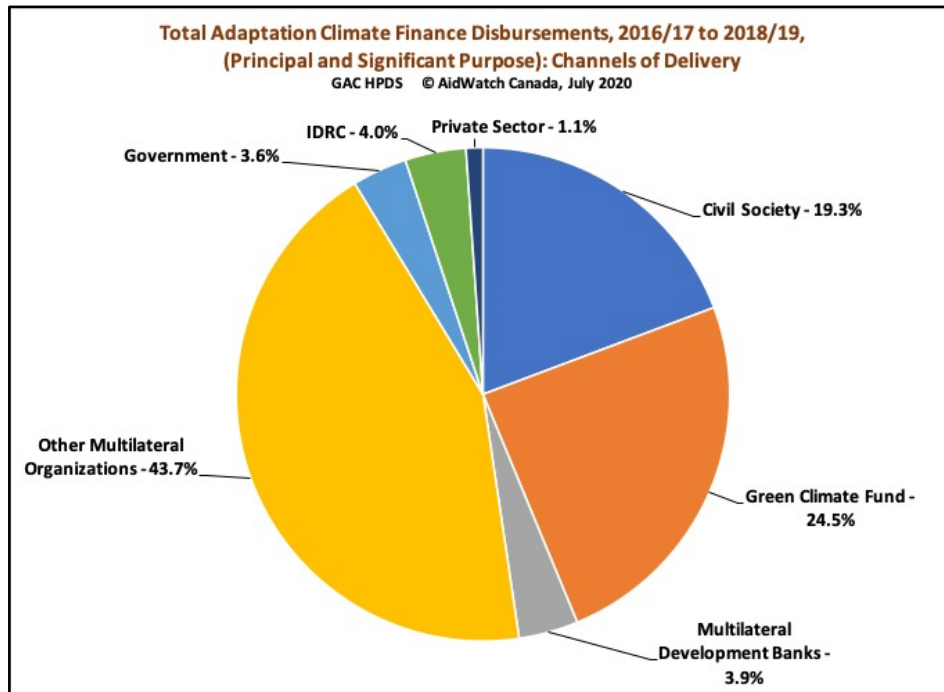
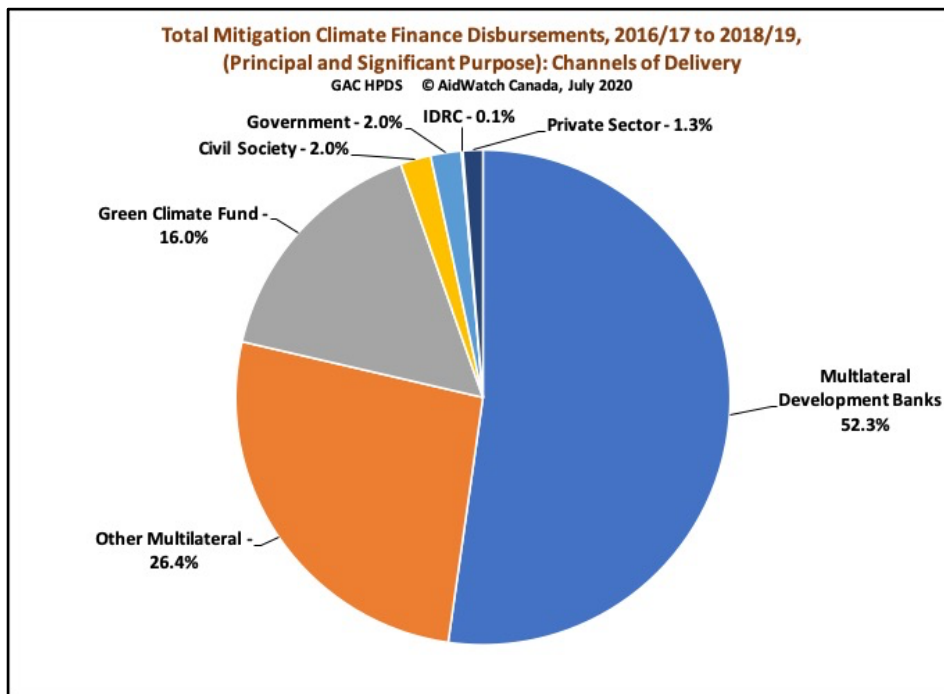


Figure 9: Channels of Delivery: Total Mitigation Climate Finance



Civil Society Organizations deliver only 7% of all climate finance but are focused on adaptation (19.3% of total adaptation finance). Disbursements through these organizations also make up more than 40% of all significant purpose climate finance.

Examining principal purpose climate finance only, the Green Climate Fund makes up 22% of this finance, with multilateral development banks at 45%, and other multilateral organizations at 30%. Civil society Organizations register less than 1% (at 0.3%).

#### **d) Gender equality and women's empowerment, 2016/17 to 2018/19**

##### **Gender Equality in Canada's Climate Finance – Key Points**

- 1. The vast majority (93.3%) of Canada's climate finance (principal purpose) disbursements have mainstreamed gender equality issues through at least one gender equality objective within projects with other purposes.**
- 2. Only 6.5% of principal purpose climate finance project disbursements had no gender equality objective, indicating increased attention to gender equality issues.**
- 3. Much less than 1% of disbursements (0.2%) are for climate projects where gender equality is the primary purpose. These projects related to adaptation and were channelled through international universities and institutions.**
- 4. With regard to empowering women's rights organizations, less than \$1 million in climate finance disbursements (\$975 thousand) has been coded up to April 2019 to women's rights organizations.**

The Government's Feminist International Assistance Policy (FIAP) *Action Area Policy: Environment and Climate Action* sets out several areas in which it will implement a feminist approach in 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."<sup>74</sup>

While there is evidence of extensive gender mainstreaming in Canada's climate finance, disbursement data from 2016/17 to 2018/19 indicate that the government will need major new initiatives to advance The Action Plan's particular goals for gender equality and women's empowerment.

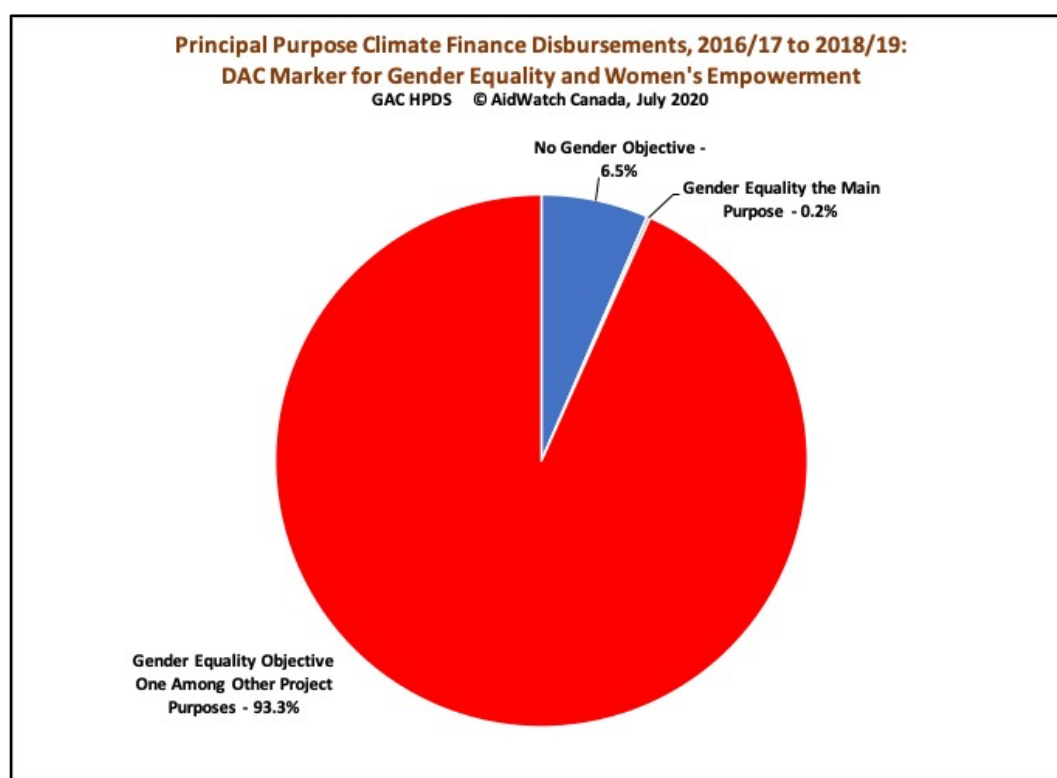
As indicated in **Figure Ten**, the vast majority (93.3%) of Canada's climate finance (principal purpose)

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<sup>74</sup> See the Action Plan at [https://www.international.gc.ca/world-monde/issues\\_developpement-enjeux\\_developpement/priorities-priorites/fiap\\_environnement-paif\\_environnement.aspx?lang=eng](https://www.international.gc.ca/world-monde/issues_developpement-enjeux_developpement/priorities-priorites/fiap_environnement-paif_environnement.aspx?lang=eng) (Accessed August 2019).

disbursements have mainstreamed gender equality issues through at least one gender equality objective within projects with other purposes.<sup>75</sup> While positive, this marker does not indicate the level of attention to these gender equality objectives, nor does it suggest that there are substantial gender equality outcomes for these projects. However, to be considered gender mainstreaming (Marker 1 - Significant Purpose) a project must undertake a gender equality analysis, set out explicit gender equality objectives, and must assess these objectives in any project evaluation. Unfortunately, there have been no assessments of gender mainstreaming in Canadian climate finance, which might contribute to better understanding of critical success factors for gender transformative climate adaptation and mitigation.

**Figure Ten: Canada's Principal Purpose Climate Finance and the Gender Equality Marker**



Only 6.5% of principal purpose climate finance project disbursements had no gender equality objective, indicating increased attention to gender equality issues. But on the other hand, much less than 1% of disbursements (0.2%) are for climate projects where gender equality is the primary purpose. Only eight

<sup>75</sup> These observations are based on the OECD DAC's Gender Equality Purpose Marker, which Canada applies to its ODA. 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.

projects focused mainly on gender equality aspects of climate finance, with \$1.9 million in disbursements in 2018/19. These projects related to adaptation and were channeled through international universities or institutions. The Government has a goal by 2020 for 15% of bilateral projects to be focused exclusively on gender equality and women's empowerment. There is therefore a crucial need for new climate programming in which addressing gender equality and women's empowerment is the principal entry point and purpose of the initiative. (See also **Annex Ten** for details.)

With regard to empowering women's rights organizations, less than \$1 million in climate finance disbursements (\$975 thousand) has been coded up to April 2019 to women's rights organizations.

Of the \$155.7 million for climate-related agriculture disbursements between 2016/17 and 2018/19, 96% were marked gender significant (mainstreamed); 2.2% had no gender equality objectives; and only 1.7% (\$2.7 million) were marked gender equality principal purpose.

What are some of the considerations for gender equality and women's empowerment in climate finance? Project documentation for the Green Climate Fund provides some indications as each project includes a gender equality analysis and a gender equality plan in recent approval tranches. The November 2019 Board of the GCF adopted a *Gender Policy and Gender Action Plan, 2020 to 2023* to guide this critical area.<sup>76</sup> A review of select GCF agriculture projects' gender equality analysis and action plans points to several gender equality issue areas, which the projects intend to address, *inter alia*:<sup>77</sup>

- Ensuring equal and sometimes favoured access to project resources and employment opportunities by women affected and potentially involved in the project (with particular attention to ethnic minority women);
- Ensuring women participate fully in project decision making about project implementation;
- Ensuring that women's livelihood objectives in agriculture (e.g. crop selection, including subsistence needs), access to paid labour, female-led land use and irrigation are well reflected in the project design and implementation;
- Design capacity-building priorities, opportunities, and training modules in ways that are tailored to the aspirations, needs and capacities of women, and linked to the support for women's priorities in agricultural production, the development of women's entry level entrepreneurial skills, the identification of market opportunities, product development and marketing;
- Strengthen and include local Women's Organizations representatives as participants in all aspects of the project;

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<sup>76</sup> See <https://www.greenclimate.fund/document/gcf-b24-15>.

<sup>77</sup> These examples are drawn from documentation for three climate sensitive agriculture projects, selected randomly, in Vietnam, Zimbabwe and Sri Lanka. A review of this project documentation, which are prepared by the implementing partner, can provide a good overview of the gender equality issues being addressed in climate finance.

- Ensure procurement and installation by farmers of gender-sensitive technologies to implement climate-resilient water resource management in rainfed farmland; and
- Provide gender sensitive technical assistance, business planning and management training to smallholder farmers, with particular emphasis on women, as well as enable women's access to financial intermediaries for sustained scaling up climate-resilient agriculture.

## 5. Comparing Canada's Climate Finance with Other DAC Donors

### Canada and other DAC Donors – Key Points

1. For the period 2016 to 2018, Canada ranks 9<sup>th</sup> in overall climate finance among 24 DAC donors, and in 8<sup>th</sup> position for both adaptation and mitigation finance.
2. Canada's generosity in its climate finance relative to the wealth of the country is very weak. Canada's climate finance commitments were 0.04% of its Gross National Income (GNI) in 2018 and it ranks 14<sup>th</sup>, about mid-way among the donors.

How does Canada's climate finance measure up against other DAC donors?<sup>78</sup> According to OECD DAC data on climate finance, for the period 2016 to 2018, Canada ranks 9<sup>th</sup> in overall climate finance among 24 donors, and in 8<sup>th</sup> position for both adaptation and mitigation finance. (See **Annex Eleven, Table 1** for details.) Canada contributed 1.8% of this total climate finance (against its fair share at 3.8% based on its GNI relative to total donor GNI). The top ten climate finance donors make up more than 90% of all climate finance in these years.

While Canada is a significant donor for climate finance, its actual generosity relative to the wealth of the country is very weak. Canada's climate finance commitments were 0.04% of its Gross National Income (GNI) in 2018 and it ranks 14<sup>th</sup>, about mid-way among the donors. (See **Annex Eleven, Table 4**) Canada's overall performance for ODA is 0.27% and is ranked about 12<sup>th</sup> among all donors. The most generous climate finance donors are Norway, Germany, France, Sweden and Japan. Two of these donors, Norway and Sweden, allocate more than 0.7% of their GNI to ODA. However, these top five 'generous' donors make up over half (58%) of total climate finance.

In relation to mitigation and adaptation, Canada ranks 8<sup>th</sup> in terms of dollar amounts devoted to these two purposes among all 24 donors. (See **Annex Eleven, Tables 2 and 3**) Among these top ten donors, only the EU Institutions, Sweden and the Netherlands provides more than 50% of its climate finance to adaptation programs. Canada ranks 4<sup>th</sup> in the share devoted to adaptation at 49%, but when the actual disbursements by Canada's Special Funds for the Private Sector at the MDBs are taken into account to

<sup>78</sup> Climate finance for DAC donors is total principal purpose climate finance and significant purpose climate finance adjusted to 30% of commitments for all donors. See **Annex One** for a methodological note.



adjust the allocation of adaptation and mitigation programming, this ranking drops to 7<sup>th</sup>.<sup>79</sup>

### **Canada, Norway and Ireland: Relative Performance in Climate Finance**

In June 2020 Canada lost out to Norway and Ireland in the UN General Assembly elections for non-permanent members on the Security Council. From the point of view of many developing countries Canada's weak ODA performance may have been one of the factors influencing this outcome. According to the OECD DAC, Canada was less generous in development cooperation, with an ODA/GNI ratio for 2019 at 0.27%, while Norway met the UN 0.7% target at 1.02% and Ireland was at 0.31%.

How do these countries compare in their overall trends in climate finance?<sup>80</sup> The record for all three countries is mixed and is unlikely to have had much influence on the vote. Norway's climate finance for 2018 was the top performer among donors at 0.18% of its GNI. On the other hand, Ireland provided only 0.02% of its GNI as climate finance, compared to 0.04% for Canada. According to DAC data on climate commitments averaged over three years (2016 to 2018), Norway provided more than three times its "fair share" (as measured by the relative size of its economy) of total actual donor commitments in these years; Ireland provided half its fair share; and Canada provided about two-thirds of its fair share.

While Ireland is a relatively weak climate finance donor in terms of overall finance and its share in Irish country wealth, it allocates a very high proportion (73%) of this finance to adaptation, which is all grant-based finance, compared to only 17% for Norway, and 49% for Canada (39% when adjusted for the actual performance of its MDB special funds for the private sector). Only Canada reports a very high share of loans in its climate finance to the OECD DAC – 52% of commitments in 2018, compared to no loans for either Norway or Ireland.<sup>81</sup>

Using OECD DAC data for 2018, Canada delivered 89.6% of its climate finance commitments for that year through multilateral organizations and banks, compared to 73.8% for Norway and 69.2% for Ireland. All three donors prioritize multilateral channels when compared to all DAC donors taken together, which

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<sup>79</sup> It should be noted that no other donors' designations of mitigation and adaptation for particular projects have been adjusted against actual allocations of projects. Some of their programs may also be miscoded against this performance, similar to these Special Canadian Funds at the MDBs, which would also affect their ranking.

<sup>80</sup> For more detail on Norway's climate finance see Hans Peter Dejgaard and Andrew Hattle, "Funding what counts – assessment of channels for increasing Norwegian climate finance," report for Norwegian Church Aid et. al., March 2020, accessed at <http://forumfor.no/assets/docs/FundingWhatCounts2020.pdf>. For a detailed report on Irish climate finance see Cliona Sharkey and Jennifer Higgins, "The Cost of Inaction: Ireland's responsibilities for global climate finance," a report for Trocaire and Christian Aid Ireland, November 2019, accessed at <https://www.trocaire.org/sites/default/files/resources/policy/climate-inaction-report.pdf>.

<sup>81</sup> Figures in this and the following paragraphs are derived from DAC CRS reporting of climate finance data for both principal purpose and significant purpose (discounted to 30%) climate goals. This DAC data is similar but differ in exact figures from data presented in the two CSO studies of Norway and Ireland, as well as this study of Canadian climate finance, due to different time periods, currencies and assumptions in allocating the commitments / disbursements. But the overall trends set out in these paragraphs are consistent with the detailed reports.

channel less than half (45.3%) of their climate commitments through these channels.

The use of CSO channels also differ between these donors. Ireland, while a small donor in total finance, allocates 28% of its total bilateral commitments through CSOs, while DAC data indicates that Norway channels 16% and Canada directs 8% through CSOs. The Norwegian study makes some important observations in the case of Norway, which find resonance in the analysis of Canadian climate finance:

“Adaptation objectives and finance to LDCs are largest in contributions channelled through NGOs. Whereas the remaining bilateral partners provide less of their total finance towards adaptation and to LDCs, than Norwegian finance channelled through multilateral partners. No specific partner achieves balance between mitigation and adaptation, though NGO-channelled finance has the highest adaptation share of 33%. And only finance channelled through NGOs surpasses, with 64%, the average 29% share of total Norwegian ODA going to LDCs.”<sup>82</sup>

Ireland’s climate finance is composed of only 58% principle purpose finance compared to 63% for all DAC donors. Canada principle purpose finance is 88% of its total climate finance and Norway has 95% principle purpose climate finance. In all three countries much of the climate finance channelled through CSOs is significant purpose climate finance. Significant purpose climate finance responds to an essential agenda to mainstream climate objective throughout development cooperation and strengthen climate resilience. But expanding significant purpose climate finance does nothing to increase much needed additional resources for developing countries for both climate and other purposes.<sup>83</sup>

## 6. A Framework for Canada’s Post-2020 Climate Finance

Canada’s current commitment of \$2.65 billion in climate finance is to be achieved by March 2021, with the added promise of annual commitments of \$800 million by 2020/21. The status of this latter commitment is not clear. It is highlighted in Canada’s Third Biennial Report to the UNFCCC in 2017 but was not mentioned in the most recent Fourth Biennial Report. The Third Biennial Report stated that

“Canada is supporting this transition by: delivering \$2.65 billion (B) over five years in climate finance to developing countries, scaling up to \$800 million (M) per year by 2020; integrating climate change into our development assistance; using public finance to address market failures, helping to attract and mobilize climate investments from the private sector; and deploying innovative climate resources, such as providing climate investment through Export Development Canada.”

The reference to Export Development Canada, which presumably includes FinDev Canada, suggests that more than a third (34%) of the \$800 million (up to \$275 million based on the most recent report to the UNFCCC) could come from these sources.<sup>84</sup>

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<sup>82</sup> Dejgaard and Hattle, *op. cit.*, p 26.

<sup>83</sup> Sharkey and Higgins, *op. cit.*, p. 26.

<sup>84</sup> “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>. This commitment to \$800 million per year by 2020/21 was repeated in Canada’s Third

a) A Fair Share Target for 2021/22 to 2025/26

**A Fair Share Target for 2021/22 to 2025/26 – Key Points**

1. Canada's bilateral annual fair share of the US\$100 billion is Cdn\$1.8 billion. Achieving this fair share by 2025/26 would require an investment of \$6.76 billion, including the carry forward of \$800 million annual commitments in 2020/21. Assuming the latter carries forward, achieving the goal will require \$2.76 billion.
2. Comparing a post-2020 commitment to the five-year \$2.65 billion up to 2020, the new commitment should not include climate finance through EDC or FinDev Canada, which has not been included in the \$2.65 billion commitment. EDC and FinDev Canada climate finance would still be reported to the UNFCCC.
3. If Canada's new commitment were to only carry forward the \$800 for these five years, and the government includes EDC and FinDev Canada in this annual \$800 million, Canada's new commitment at \$2.63 billion would be less than the current \$2.65 billion.

The UNFCCC has extended the annual target of US\$100 billion from 2020 to the years up to 2025 as negotiations continue on an ambitious new target for beyond 2025, from a floor of US\$100 million. Canada has not announced its financing target for the five-year period 2021/22 to 2025/26. *The Reality of Canada's International Climate Finance, 2019: Towards a fair share climate finance portfolio for Canada* put forward a policy framework and a suggested pathway ramping up climate finance to achieve Canada's fair share of the global US\$100 billion annual target by 2025/26.<sup>85</sup> This framework and pathway have been supported by Canadian CSOs through their participation in the C4D coalition's contributions to the July/August 2020 government consultations on Canada's future climate finance.

A five-year investment of \$6.76 billion is needed to achieve this fair share goal, which is 2.5 time more climate finance in this period compared to the five-year \$2.65 billion. (See **Table 1 in Annex Twelve** for a projected pathway to reach this fair share.) The overall fair-share commitment of \$6.76 billion includes the assumption that the current \$800 million in annual climate finance is realized in 2020/21 and is extended annually over these years. Taking account of this \$800 million, only \$2.76 billion in new resources would be required over the five years.<sup>86</sup>

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Biennial Report to the UNFCCC in 2017, page 211, accessed at [http://publications.gc.ca/collections/collection\\_2018/eccc/En4-73-2017-eng.pdf](http://publications.gc.ca/collections/collection_2018/eccc/En4-73-2017-eng.pdf).

<sup>85</sup> For details on the calculations involved in Canada's fair share of US\$100 billion and the elaboration of the framework and portfolio see Tomlinson, *The Reality of Canada's Climate Finance 2019, op. cit.*, pp. 38 -49 (accessed at <http://climatechangeanddev.ca/wp-content/uploads/2019/11/Final-October-2019-Climate-Report.pdf>). This section reiterates this framework and pathway and updates the discussion on additionality and the allocation of Canada's climate finance to different priorities post-2020/21.

<sup>86</sup> \$6,755 million less \$4,000 million (\$800 million for five year) carry forward.

To date, Canada has recognized climate allocations by the EDC and FinDev Canada in its biennial reports to the UNFCCC but has not included this finance in its allocations of the \$2.65 billion commitment. (See Sections 3 (a) and 3 (e) above.) If it were to include EDC/FinDev Canada in its five-year commitment going forward, assuming the same level financing (\$275 million annually), it would account for \$1,375 (or 20%) of the fair share commitment in concessional resources.

If the government were to extend the \$800 million annual climate commitment in 2020/21 to 2025/26, this action would increase the current five-year commitment by 50% to \$4.0 billion. However, if it were to include EDC/FinDev Canada climate finance in do so, Canada's new commitment (at \$2.6 billion) would actually be slightly less than its current \$2.65 billion over five years.<sup>87</sup>

#### **b) A Policy Framework for Determining and Allocating Canada's Climate Finance Fair Share**

The 2019 report for C4D put forward seven essential principles that should guide Canada's post-2020 climate finance and its allocation:

- i. Making a fair share contribution: New targets, at a minimum, should respect Canada's fair share of developed countries' financing obligations to developing countries as agreed in the Paris Agreement. While the pandemic has seriously affected the fiscal context for all donor countries, the government has the support of a majority of Canadians who recognize the urgency of the climate emergency.<sup>88</sup>  
  
Our climate finance commitment should be in keeping with the fact that the global goal of US\$100 billion annually is a minimal target, politically negotiated among the parties. This target does not itself meet the actual needs in developing countries for mitigation and adaptation action, made all the more urgent by the pandemic.
- ii. Addressing climate finance additionality: Climate finance targets should ensure additionality 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 and its international development obligations to the poorest and most vulnerable countries. Canada should establish a line item for principal purpose climate finance in the International Assistance Envelope and increase the Envelope each year minimally by at least the planned level for these disbursements.
- iii. Giving priority to adaptation: Canada should aim to allocate a minimum of 50% of its principal purpose climate finance commitments to adaptation. Loss and damage allocations would be included as adaptation, but beyond this 50% target for adaptation;

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<sup>87</sup> \$4,000 million less \$1,375 million (estimate of EDC @ \$275 million per year) = \$2,625 million.

<sup>88</sup> According to a recent EKOS poll, three-quarters (73 per cent) of Canadians expect "broad transformation of our society" as a result of the pandemic. A majority say they expect to see major social reforms that prioritize "health and well-being," and a "sizeable majority" think the crisis "underlines the need to shift to a greener economy in the post-pandemic world." See <https://pressprogress.ca/big-majority-expects-major-social-reforms-and-transformation-of-canadian-society-after-covid-19/>.

- iv. Giving priority to gender equality and women's empowerment in climate action, 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 projects that have gender equality as their principal purpose;
- v. Supporting a pathway to low greenhouse gas emissions: Ensuring that all Canada's development cooperation is consistent with a low greenhouse gas emissions pathway and climate resilient development;
- vi. 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. Climate related investments supported by Canada, including through the multilateral funds for the private sector, must respect the rights of indigenous peoples and must implement the principles of free, prior and informed consent for all affected populations; and
- vii. 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. In the context of not only the historic responsibility of development countries for creating conditions of climate change and the quickly evolving debt crises for many developing countries, Canada should give strong priority to grant financing in all types of climate finance, but exclusively so in adaptation finance.

### c) Additionality

#### Additionality in Canada's Climate Finance – Key Points

1. **By any measure Canada's climate finance disbursements have not been additional to ODA for other purposes. By 2018/19 climate aid was 8.1% of Real ODA.**
2. **Various financing scenarios for Canada's post-2020 climate finance commitment all require commiserate increases in the International Assistance Envelope at least equal to the level of this financing. Canada's climate finance can be an integral part of a ten-year plan to achieve the 0.7% UN target for Canadian ODA.**

While difficult to measure precisely, additionality for any new Canadian commitment is a crucial principle and goal for climate finance. Supplementary Estimates (which are additions to the budget for the International Assistance Envelope [IAE] during the fiscal year) had been an important practice in climate finance from 2015/16 to 2017/18, financing 64% of climate-related disbursements up to that year. But there have been no similar allocations in Supplementary Estimates in either 2018/19 or 2019/20. For those years, disbursements for principal purpose climate finance came directly out of the IAE and thus there was no budgetary additionality.<sup>89</sup> To date for 2020/21, in the context of massive spending for

<sup>89</sup> See the discussion of additionality in Tomlinson, *The Reality of Canada's Climate Finance 2019*, *op. cit.*, pp 39 – 42.

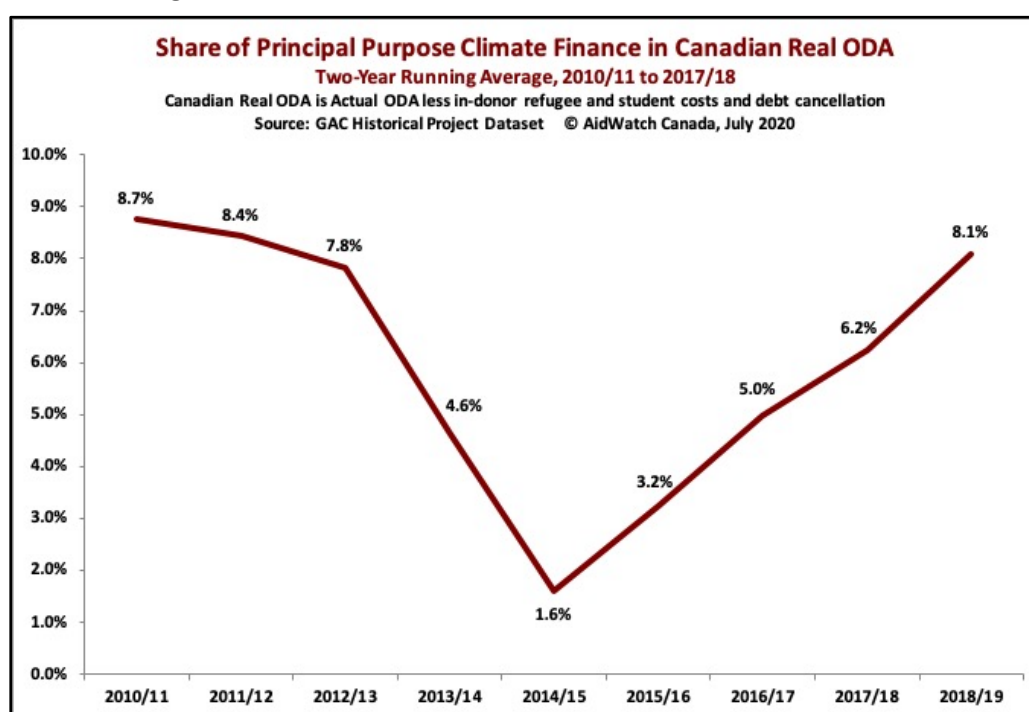
alleviating the impact of the pandemic in Canada, the government has not published a budget or the IAE for this year.

Climate finance does have a significant impact on Canada's allocation of its ODA for other purposes (**Figure Eleven**). Since 2015/16 the share of climate finance in Canadian Real ODA has grown from 3.2% to 8.1% in 2018/19, indicating no real additionality for this climate finance, particularly in recent years.<sup>90</sup>

Without substantial increases in Canadian ODA over the next five years, the impact of Canada's fair share scenario, or even projecting \$800 million over these years, will be profound. (See **Table 2**)

In projecting the current scenario for 2020/21 (\$800 million) forward to 2025/26, without any increase in Real ODA beyond current budgetary commitments will increase the share of this ODA for climate finance from 8.1% in 2018/19 to approximately 14% in 2020/21. This share decreases slightly to 13% going forward due to small promised increases to the IAE up to 2023/24.

**Figure Eleven: Share of Climate Finance in Canadian Real ODA**



Projecting the proposed fair share increases in climate finance to 2025/26, without an increase in the IAE for ODA, climate finance will be almost a third of ODA by 2025/26. However, by committing to a ten-year timetable to increase ODA to reach the 0.7% target by 2030/31, the fair share scenario for climate finance

<sup>90</sup> Real ODA is ODA less in-donor refugee and student costs included in ODA and debt cancellation, which is included at its full face value.

is sustained at about 15% of Real ODA for these years, representing some additional climate finance for these years.

**Table 2: Share of Climate Finance in Real ODA – Future Scenarios**

	<b>Real ODA, No Increases</b>	<b>Real ODA, Increases towards 0.7% by 2030</b>	<b>Climate Finance @ \$800M</b>	<b>Fair Share Climate Finance</b>	<b>Climate Finance @ \$800M</b>	<b>Fair Share Climate Finance</b>	<b>Fair Share on ODA to 0.7%</b>
<b>2020/21</b>	\$ 5,646	\$ 5,646	\$800	\$800	14%	14%	14%
<b>2021/22</b>	\$ 5,746	\$ 6,561	\$800	\$945	14%	16%	14%
<b>2022/23</b>	\$ 5,846	\$ 7,615	\$800	\$1,115	14%	19%	15%
<b>2023/24</b>	\$ 5,946	\$ 8,836	\$800	\$1,315	13%	22%	15%
<b>2024/25</b>	\$ 5,946	\$ 10,249	\$800	\$1,550	13%	26%	15%
<b>2025/26</b>	\$ 5,946	\$ 11,865	\$800	\$1,830	13%	31%	15%

**Notes / Assumptions:**

- 1) Real ODA is ODA less in-donor expenditures for refugees and students from developing countries and debt cancellation.
- 2) ODA is calculated by the author based on known budgetary commitments by the government up to July 2020.
- 3) Increases in ODA to reach 0.7% by 2030 are by the author based on assumptions regarding an average increase in GNI and regarding non-IAE ODA eligible expenditures (e.g. in-donor refugee and student costs).
- 4) The climate finance scenarios are multiyear commitments. For the purposes of this table, all of the climate finance scenarios assume average annual disbursements over these years at the same level as project commitments. These disbursements may in fact be less in some years and more in other years.

**d) Reflections on a Fair Share Portfolio for Canada**

<b>Reflections on a Fair share Portfolio for Canada – Key Points</b>	
<b>1.</b>	<b>The proposed portfolio sets out a 60/40 balance between multilateral and bilateral channels, but calls for greater priority to those multilateral channels with a proven track record in giving priority to adaptation, LDCs and the most vulnerable.</b>
<b>2.</b>	<b>To what degree can the private sector be involved in support of adaptation? The evidence points to very limited involvement from large funding mechanisms, but there may be more opportunity in support of local small, medium scale enterprise (including small-scale farmers), local business and micro-finance institutions.</b>

**Table Two in Annex Twelve** sets out a scenario for allocations of \$6.76 billion to individual climate finance funds and purposes for the period 2020/21 to 2025/26. This scenario was proposed and discussed in



the 2019 *Reality of Canada's Climate Finance* report. It is consistent with the seven principles elaborated above.

In putting forward this portfolio the intention is not to suggest that there is only one ideal way to allocate these funds to meet these principles. Rather the government should develop a fully costed plan for its new climate finance commitment, based on an assessment of the experience of allocating the \$2.65 billion against the guiding principles above, and based on due diligence for each funding option. Given the scale of this financing, it is also assumed that it is new money and that the IAE grows at a rate to minimally accommodate this climate finance (**Table 2** above). The portfolio, in allocating an increased climate finance commitment, highlights a pathway for Canada if it were to assume significant leadership for both adaptation and for gender sensitive climate resilience, giving priority to the most vulnerable and poorest countries.<sup>91</sup>

A balance between multilateral and bilateral channels The proposed portfolio improves the overall balance between different channels based on their relative capacities to reach the most vulnerable. With 64% of the portfolio channeled through multilateral funds and organizations, the plan acknowledges the importance of the multilateral system in addressing the climate crisis in developing countries. Well focused multilateral approaches can reduce significantly the current fragmentation in climate finance options available to developing countries. It also takes account the available human capacities to manage this finance with the government.

But among these multilateral funds and organizations, it is still important to set priorities for those channels that stress adaptation and emphasize LDCs and the most vulnerable. According to an analysis by Norwegian CSOs,<sup>92</sup> the Adaptation Fund, the Global Environment Facility's Least Developed Country (LDC) Fund, IFAD's Adaptation for Smallholder Agriculture Program, and FAO-Adapt<sup>93</sup> (which is not currently included in the portfolio) are highlighted to be effective, underfunded and in high demand from developing countries. It is important to note that these funds provide finance mostly as grants not loans, unlike financing through multilateral development banks.

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<sup>91</sup> See Tomlinson, *The Reality of Canada's Climate Finance 2019*, *op. cit.*, pp 43 – 46 for a more detailed assessment of the proposed portfolio. This current Report only summarizes some of the highlights.

<sup>92</sup> Dejgaard and Hattle, *op. cit.*, p. 69. This Report includes annexes that assess a range of multilateral channels for climate finance from the point of view of impact, effectiveness, efficiency, sustainability, and cross cutting issues of human rights and gender equality. See Amalie Kongsted Cordes and Emil Hageman Christensen, "Assessment of Climate Finance Channels for increase in Norwegian government support," Report for Norwegian Forum for Development and Environment, November 2019, accessed at <http://forumfor.no/assets/docs/Annexes-to-Norwegian-study-of-finance-channels-INKA-24-November-2019.pdf>.

<sup>93</sup> FAO-Adapt is a framework program providing general guidance in the implementation of FAO's multi-disciplinary activities for climate change adaptation. It aims to enhance the coordination, efficiency and visibility of FAO's adaptation work through both short and long-term adaptation measures. See Cordes and Christensen, *op. cit.*, p.59.



The portfolio continues funding for the four special Canadian funds at the MDBs, as well as the World Bank Coal Phase Out program, at the same level as was allocated from the current \$2.65 billion commitment, mainly for mitigation with the private sector through loans. Other unallocated finance through the multilateral system should prioritize adaptation and grant financing for the poorest countries. Canada's future finance for the Green Climate Fund should increase significantly, given Canada's role at the GCF, and be exclusively grant financing (consistent with all other donors except France).

This proposed Canadian portfolio calls for a significant increase in Canadian bilateral programming targeting adaptation and poor communities. Alongside the analysis of the Norwegian CSOs, bilateral assistance should include a substantial envelope open to International and domestic CSOs "with proven interests in developing country ownership and genuine partnerships."<sup>94</sup>

Adaptation finance and the private sector Effective adaptation finance requires strong engagement at the community level if it is to reach poor and vulnerable populations affected by climate change. The adaptation needs of the poorest countries must be a priority. The evidence from Canada's experience with the \$2.65 billion allocations and the Green Climate Fund suggests that the private sector, relative to the public sector and CSOs, has had very limited engagement in adaptation. Where the private sector has engaged, it has been in the context of government leadership and/or in strengthening small scale micro finance, adaptive technologies, and local services for affected populations.

Currently-available data reveals that Canada's special climate funds for the private sector at the multilateral development banks have only financed three projects relating to adaptation. All of FinDev Canada's approved partnerships with the private sector are primarily directed to mitigation. The three MDB projects related to adaptation amount to \$18.5 million in total commitments, which is only 7% of the \$265.25 million that the MDB Special Funds and FinDev Canada together have committed to date. This finding is back up by the Norwegian CSO study: The World Bank's International Finance Corporation, a major financing partner with the private sector and home to several Canadian special funds channels only 1% of its resources to adaptation.<sup>95</sup> These are not likely the most effective channels for ramping up adaptation programming involving the private sector.

The experience of the Green Climate Fund also confirms this private sector orientation. Among the 59 projects identified as supporting adaptation in the GCF only 2 projects involve partnerships with the private sector. These projects have total commitments of US\$41.8 million out of total GCF adaptation commitments of US\$1.5 billion for all 59 projects (less than 3%). As the private sector requires a return on its investment, it is not surprising that this investment goes to mitigation, such as renewable energy, over adaptation, which for the most part is much less likely to generate income and a return on the investment.

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<sup>94</sup>94 Dejgaard and Hattle, *op. cit.*, pp. 12, 13 and 31.

<sup>95</sup>95 Dejgaard and Hattle, *op. cit.*, p. 61.

The UNDP has developed a useful framework for encouraging private sector engagement in adaptation.<sup>96</sup> Highlighting the need to be clear about what constitutes a relevant private sector, the framework suggests that the local private sector in developing countries consists primarily of micro- small- and medium-enterprises (MSMEs), including smallholder and family farms, and enterprises. It looks at both the direct risks that drive the private sector to address adaptation but also indirect risks (policy, supply-chain risks) that are hard for MSMEs to address on their own.

The UNDP set out some of the current barriers for the local private sector to invest in climate change adaptation – lack of knowledge and risk assessment, limited financing capacities, limited technology capacities and policy and regulatory barriers among others. But they also present a series of case studies of successful examples:<sup>97</sup>

- Engaging the private sector to strengthen climate information and early warning systems;
- Adapting local infrastructure through small scale loans from government or micro finance institutions for community entrepreneurs;
- Coastal management through engagement of the local tourist sector (but this example is mainly about improved government regulations governing land use);
- Technical support for smallholder farmers to develop climate resilient water management and agriculture practices;
- Risk transfer mechanisms for vulnerable communities as part of a larger program of support for small holder farmers, involving appropriate insurance schemes; and
- Micro and small scale agro-enterprise development support in vulnerable communities.

In general, the conclusion of these and other studies is one of limited experience in adaptation finance targeting vulnerable populations. An evaluation of the Adaptation Fund, which focuses on the needs of the poorest countries, identified only three projects and observed that “these initiatives indicate the need for raising awareness among private sector stakeholders to prioritize adaptation and recognize their stake in adaptation processes.”<sup>98</sup> There may in fact be more opportunities in engaging the private sector in adapting roads and other large infrastructure (e.g. water systems for cities) for climate impacts through climate finance.<sup>99</sup> These areas for adaptation, while important, must be assessed and designed to ensure benefits for vulnerable populations, whose interests are often side-lined in private sector engagement in such projects.

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<sup>96</sup> See UNDP, Climate Change Adaptation: Engaging the Private Sector, nd, accessed at <https://www.adaptation-undp.org/privatesector/>.

<sup>97</sup> *Ibid.*

<sup>98</sup> Tango International, *Overall Evaluation of the Adaptation Fund, July 2017 to June 2018, Final Report*, June 2018, page 45, accessed at [https://www.adaptation-fund.org/wp-content/uploads/2018/06/AF\\_Phase2\\_Eval\\_4June.pdf](https://www.adaptation-fund.org/wp-content/uploads/2018/06/AF_Phase2_Eval_4June.pdf). This evaluation mentions only three projects involving the private sector (two of which are repeated by the UNDP). The evaluation covered \$416 million for climate adaptation initiatives in 63 projects in 53 countries.

<sup>99</sup> See examples that are highlighted throughout the report of the Global Commission on Adaptation, *Adapt Now*, op. cit., accessed at [https://cdn.qca.org/assets/2019-09/GlobalCommission\\_Report\\_FINAL.pdf](https://cdn.qca.org/assets/2019-09/GlobalCommission_Report_FINAL.pdf).