

Canada's Climate Finance: An Update on Trends and Issue Areas (November 2023)

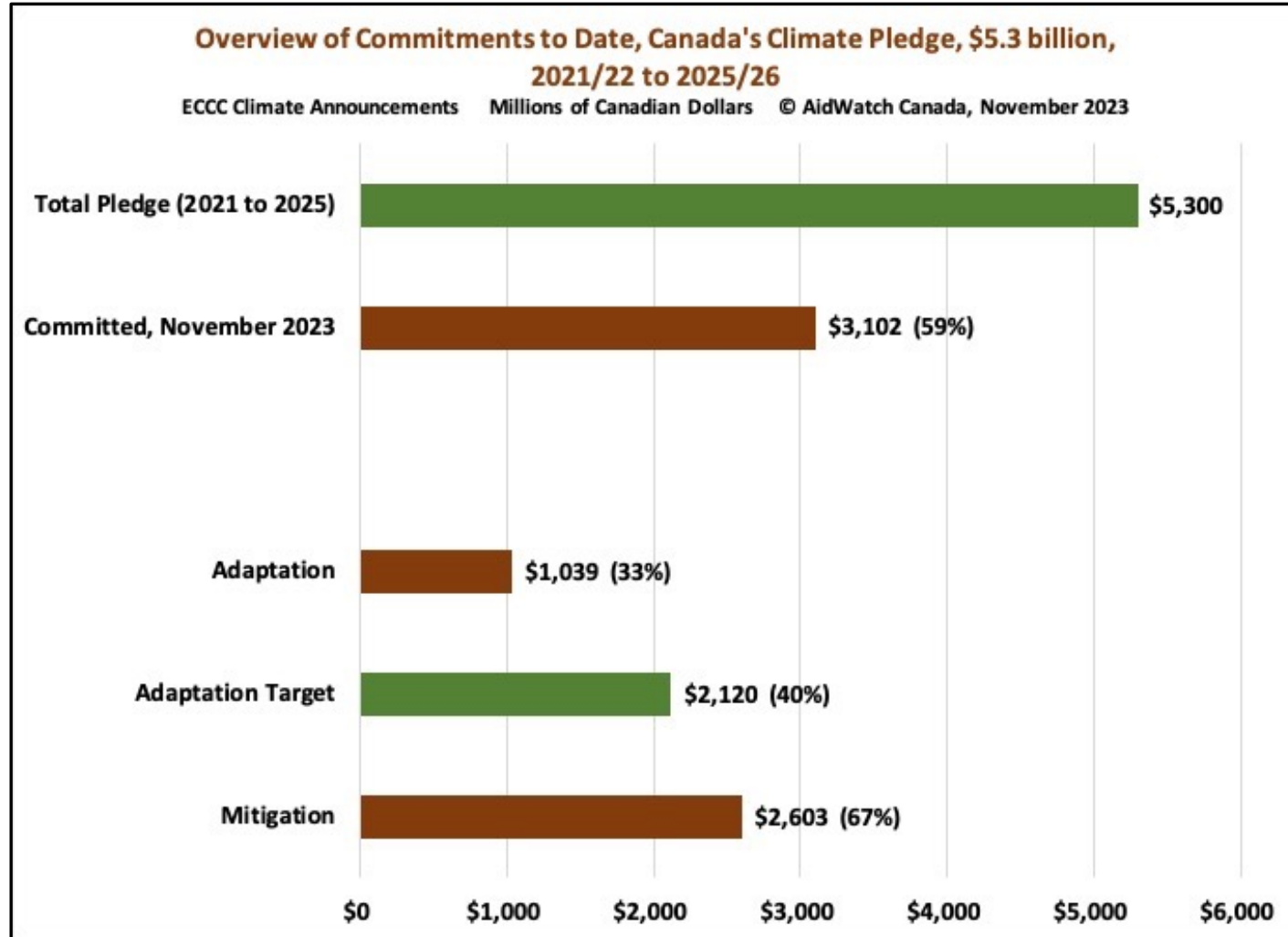


Brian Tomlinson

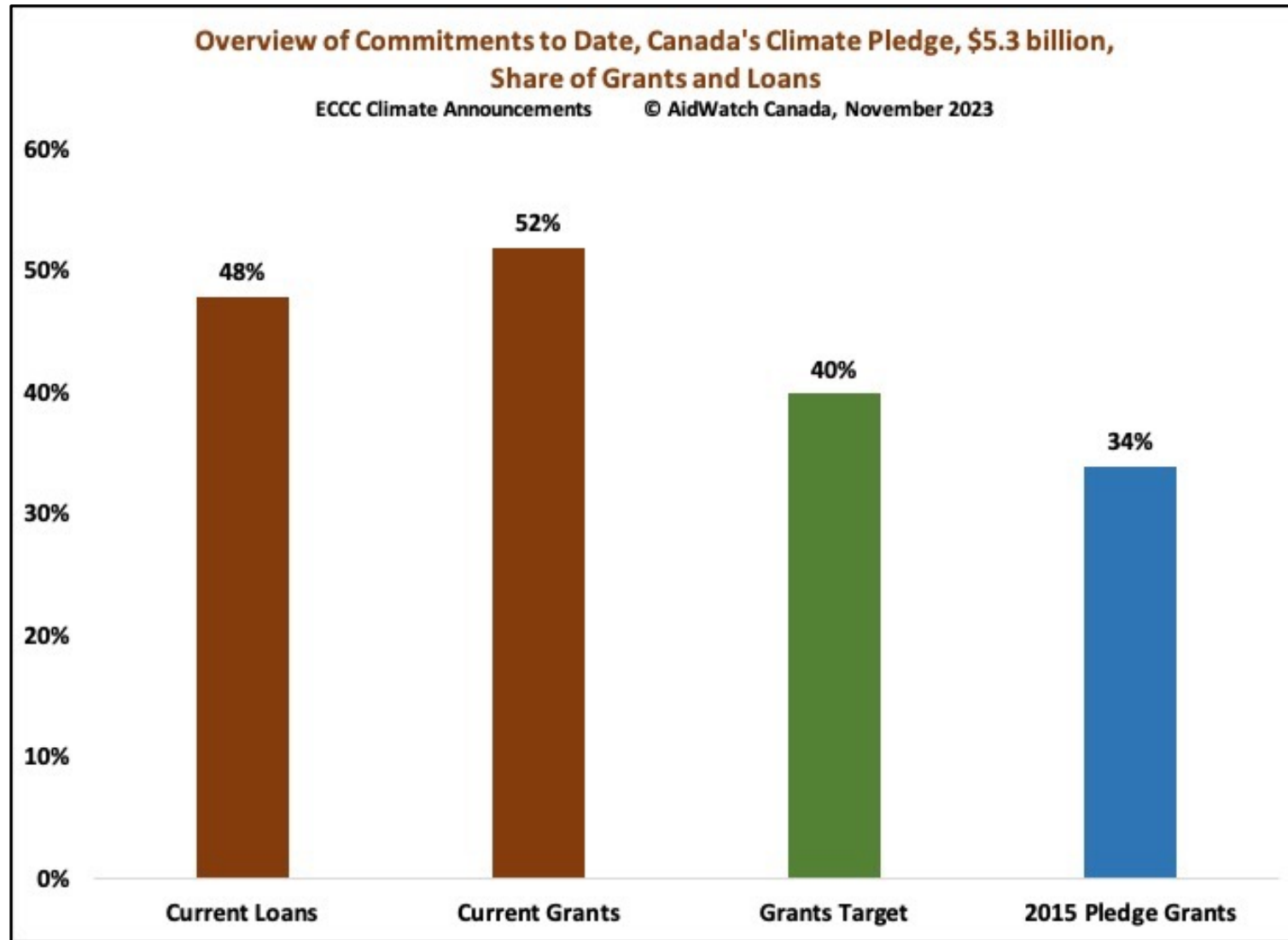
AidWatch Canada

Canadian Coalition on Climate Change and Development

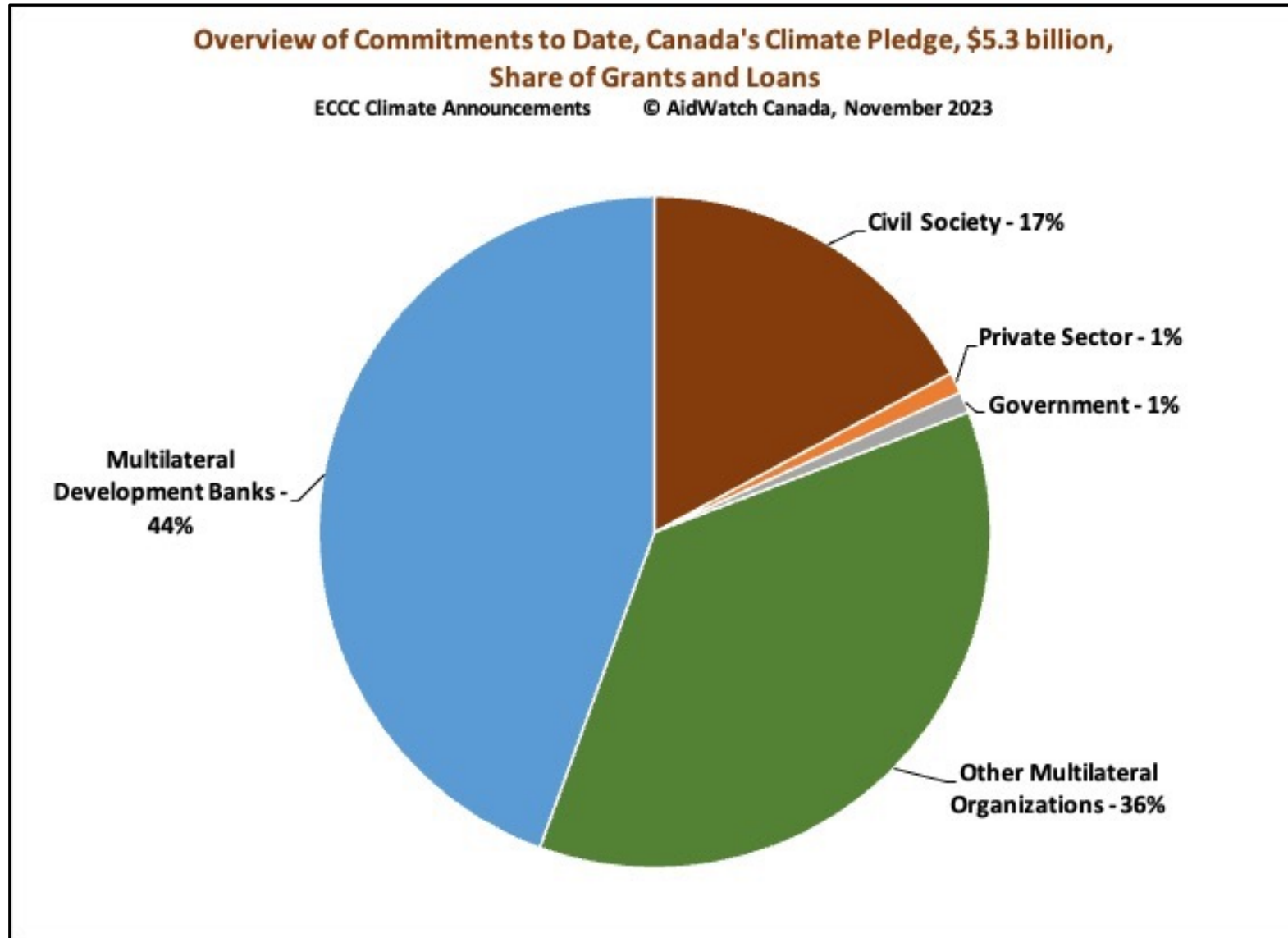
Overview of Commitments to Date, November 2023



Grants and Loans in Canada's Climate Pledge



Channels of Delivery for Canada's Climate Pledge



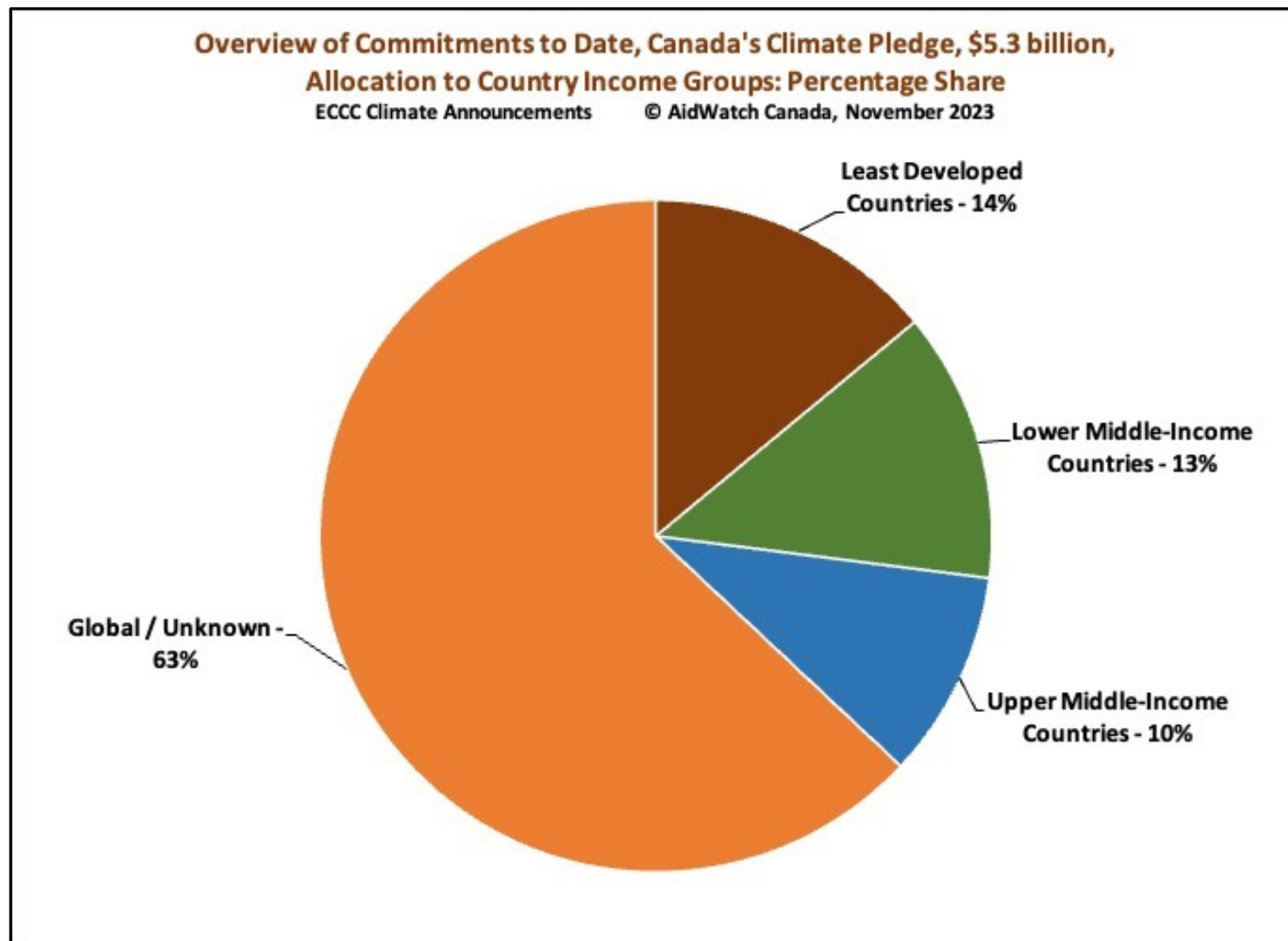
Gender Equality in Canada's Climate Pledge

- ❖ **Not sufficient information** to determine focus on gender equality purposes in the \$5.3 billion pledge
 - Only gender purpose data for 2021/22 for the \$5.3B pledge
 - 2015 five-year pledge: 95% of disbursements significant purpose gender equality
But only 0.4% principal purpose gender equality disbursements

- ❖ **Expect some improvement in principal purpose climate finance** in new climate pledge commitment, for example:
 - Women-Led Coal Transition Mechanism (\$15M)
 - Partnering for Climate – Strong focus on gender equality (\$315M)
 - Rural Women cultivating change (\$14.8M)
 - Women and Youth Action for Sustainable Ecosystems (\$25M)
 - Women Leading Climate Action (\$11M)

- ❖ **Canada is a strong leader among its DAC peers** in its focus on gender equality objectives in adaptation finance – 86% significant purpose (58% DAC average) and 8% principal purpose (7% DAC average) (2021 reporting year)

Allocations to Country Income Groups in Climate Pledge



Canada's climate finance performance relative to 30 DAC Donors in 2021

Total bilateral principal purpose climate commitments: Canada 9th in 2021, down from 8th in 2020

Climate finance commitments as share of GNI: Canada 13th in 2021, down from 10th in 2020

- Canada commits less than 2 cents out of every \$100 in GNI to international climate finance

Share of Real Bilateral ODA Commitments: Canada committed 7.8% to climate finance

Adaptation commitments: Canada 11th (2020 and 2021 average), down from 9th (2016 to 2019 average)

Mitigation commitments: Canada ranked 12th (2020 and 2021 average), down from 9th (2016 to 2019 average)

Loans: Canada 3rd among 6 donors

Multilateral channels: 77% compared to DAC average of 38% (2020 and 2021 average)

CSO Channels: 19% through CSOs, compared to DAC average of 10% (2020 and 2021 average)

Gender equality: 86% to significant purpose and 8% to principal purpose, compared to 58% and 7% DAC average

Key Issue Area: Adaptation Finance

- ❖ While Canada's adaptation finance will double between the 2015 pledge (\$2.65B) and the 2021 pledge (\$5.3B) with its target of 40%, **current adaptation commitments are 33% of total to date**
- ❖ **CSOs play a major role in Canada's adaptation finance** (47% of total adaptation to date)
 - Partnering for Climate focus on adaptation in Sub-Saharan Africa (\$300M)
 - Partnering for Climate Indigenous Peoples Organizations (\$15 M)
- ❖ **Canada ranks 11th out of 30 DAC donors** (2020 to 2021 average commitments), down from 9th position (2016 to 2019 average)
- ❖ **International community far from meeting estimated adaptation needs:** Developing countries need an estimated US\$387 billion a year to carry out their current adaptation plans, and rising again significantly by 2050 (UNEP 2023 Adaptation Gap Report)
 - At US\$21.2B in 2021, adaptation flows are far off Glasgow commitment to doubling to US\$40B by 2025 (Canada's fair share in this US\$40B is Cdn\$1.9 billion per year, in contrast to our current performance of Cdn\$2.1 billion cumulative over five years to 2025 or Cdn\$420M per year.
 - Negotiations at the UNFCCC for an agreement to operationalize the US\$40B target are deeply divided between developed (no substantive targets) and developing countries (seeking specific targets); issues s defining and measuring

Key Issue Area: Loss and Damage Finance

- ❖ **Canada played a constructive role at COP27** in reaching agreement in principle on a Loss and Damage Fund
 - Small allocations towards loss and damage type activities, financed under Adaptation, mainly insurance related initiatives
 - \$24.6M in 7 projects from the \$5.3B pledge or 2.4% of total adaptation commitments to date
 - \$82.6M in 9 projects from the \$2.65B pledge or 8.4% of total adaptation commitments
- ❖ **Fragile last-minute agreement reached by the Transitional Committee**, including Canada, to operationalize a Loss and Damage Fund, to be agreed at COP28, after months of deep north / south divisions
 - Developing countries conceded **World Bank as temporary host** for four years (concerns about strong US influence at the Bank)
 - US objected to language related to **voluntary contributions for developed countries** – seeking broader range of contributors
 - Disagreement on **who is “particularly vulnerable,”** agreement has no definition of vulnerability, but agreed there would be a minimum percentage allocated to LDCs and SIDs
 - Agreed that the **Board will have a majority of developing countries**, rejecting other proposals where developed countries were more dominant
 - No sub-funds, with **Board determining project approvals**
- ❖ **How much money?** Developing countries are seeking \$100B by 2030 at a minimum (expected costs of US\$150B to \$300B by 2030)

Key Issue Area: Mitigation (Accelerated Coal Transition Investment Program)

- ❖ **Canada has committed \$2.6B to mitigation, of which \$1 billion is a loan through the Accelerated Coal Transition Investment Program (ACT), part of the Climate Investment Funds, managed by World Bank**
 - Largest project allocation for 5.3B pledge (19%); approximately 40% of the finance for first phase of ACT
 - Includes \$15M Women-led Coal Transition Mechanism, but little information on priorities for its allocation
 - **CIF-ACT is closely integrated with bilateral Just Energy Transition Partnerships** for South Africa (US\$8.5B), Indonesia (US\$20B); Viet Nam (US\$15.5B); Senegal (US\$2.7B)
 - **October 2022, ACT allocated \$500M to South Africa and to Indonesia**, but no disbursements at this stage, integrated in the bilateral commitments to JETPs for these countries
- ❖ **CIF-ACT intends that 25% of investments be directed to socio-economic support of affected people and communities**, but no information on these important aspects in \$500M allocations
- ❖ **Experience of JETPs in South Africa, Indonesia, and Viet Nam are fragile / unravelling**, with uncertain futures
 - Weak transparency and push back on terms of finance – high levels of commercial loans / loan guarantees, minimal grants at 2% to 3% of financing
 - Weak financing creating openings for vested interests in maintaining / expanding coal ; limited consultations with affected communities; environmentalist under attack in Viet Nam

Key Issue Area: Supporting the Green Climate Fund

- ❖ **Canada committed \$450M to second replenishment for GCF**, an increase of 50% over \$300M previous commitments
 - But with one third in loans, Canada is one of only two donors (France) that provides part in loans (Grant equivalency for first replenishment loans were only 17%)
- ❖ **GCF goal for second replenishment** was never agreed, but GCF ambition was US\$15B at high end (increase from US\$10B first replenishment)
 - ❖ **Canada's fair share of this high end would have been approximately Cdn \$760M of which \$450M is 59%**
- ❖ **Canada ranks 15th among 23 DAC donors in generosity to GCF** (measured by the share of their per capita – Canada - \$6.09 compared to Sweden at \$83.72 or UK at \$27.85) [does not include 2nd replenishment]
- ❖ **GEF Performance Measures**
 - ❖ Adaptation increasing (53% to 55% of project approvals since October 2021)
 - ❖ Grants only 44% of total commitments; 43% loans; 13% equity (adaptation at 64% of grants)
 - ❖ LDCs – 21%; SIDSs – 7%; LMICs – 25%; UMICs – 21%; Global / Regional / Country Unknown – 25%

Key Issue Area: Expanding roles for MDBs in Climate Finance

At 2023 Fall meetings the World Bank agreed to broaden its mandate and vision “to create a world free from poverty on a livable planet.”

- Envisions a significant role for the World Bank in financing the international community’s response to the climate crisis
- Responds to recent initiatives – the Bridgetown Initiative; the V20’s Emergency Coalition for Debt Sustainability and Climate Prosperity; G20’s Experts Group on Strengthening MDBs; UN Secretary General’s SDG Stimulus Package
- **Bridgetown estimates scale of financing needed at US\$1.8 Trillion annually: \$1.4T from private sector for energy transition; \$300B for adaptation; \$100B for Loss and Damage**
- Proposals for \$100B Special Drawing Rights issue through IMF managed funds for developing countries; focus on debt sustainability & natural disaster clauses; mobilize \$1.5T in private sector investment in green transition

Civil Society Critique – Is the World Bank fit for climate justice

- Acknowledge the urgency of the climate crisis, but **need a mix of public / private resources**, with those most affected at the decision making table
- **Bank track record** on financing fossil fuel energy projects; austerity policy measures limit country climate action
- **Diversion of resources from poverty mandate** and towards Upper Middle Income Countries
- **Predominant focus on loans** in the context of a burgeoning debt crisis
- **Focus on energy transition, little attention to adaptation and loss and damage**, not a competition but need balance
- **Unreformed bank governance**, largely in control of developed countries, further weakens trust and the UNFCCC space