

# Climate Finance to Promote Sustainable Development

An Assessment of  
Canada's Climate  
Finance in 2013-2015



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A REPORT BY:



## Introduction

Since the creation of the United Nations Framework Convention on Climate Change (UNFCCC) in 1992, Canada and other industrialized nations have agreed to help developing countries meet the costs of climate change. These investments are critical, as developing countries are already absorbing up to 80% of the costs of climate change through food insecurity, migration, and losses and damages.<sup>1</sup>

In the years 2010-2012, Canada provided \$1.4 billion<sup>2</sup> in climate finance, of which \$1.2 billion was part of what was called Fast Start Finance (FSF).<sup>3</sup> Under the Copenhagen Accord, donor countries agreed to mobilize US\$30 billion in FSF. It was to kick off mobilization of the promised US\$100 billion per year by 2020 for developing countries, to assist them in mitigating and adapting to climate change.

Canada's next major climate finance contribution was pledged just prior to the Paris Climate Conference in 2015. Prime Minister Justin Trudeau announced that Canada would provide \$2.65 billion over five years 'to support the efforts and actions of the poorest and most vulnerable countries to adapt to the adverse effects of climate change'.<sup>4</sup>

But what happened in the intervening years between these major commitments? The Canadian Coalition on Climate Change and Development (C4D) commissioned an independent assessment of Canada's climate finance in the years 2013-2015.<sup>5</sup> The key findings from this report are summarized below, with comparisons to Canada's FSF contribution. Also included are recommendations on how the disbursement of the \$2.65 billion, as well as future climate finance contributions, should be delivered to ensure it truly reaches the poorest and most vulnerable.



Yihenew Demessie walks by a water drainage canal built by cash for work labourers in the Berbenz watershed in Ethiopia. Land degradation caused by erosion has seriously affected and reduced the quality and quantity of farm and grazing land in this area, cumulating in a chronic shortfall in food production for households. (Matthew Sawatzky, MCC)

# CANADA'S CLIMATE FINANCE IN 2013-2015

## A Summary of Findings<sup>6</sup>

Canada's climate finance in the years 2013-2015 was assessed with respect to obligations of developed countries regarding climate finance, as well as key civil society recommendations:

- Countries provide their fair share of total climate finance.
- Adaptation funds are provided as grants not loans.
- A 50:50 split between adaptation and mitigation finance.
- Climate finance is additional to existing aid.
- Climate finance is focused on the poorest and most vulnerable populations.

A summary of the main findings of this assessment is below.

### Canada's climate finance declined by 71% between 2010-2012 and 2013-2015

In the years 2013-2015, Canada provided \$405 million in climate finance. This was a decline of 71% compared to the years 2010-2012, when Canada provided \$1.4 billion.<sup>7</sup>

Over the past 10 years, Canada's climate finance seems to be entirely target driven. In the absence of an external driver, such as the FSF target, Canada's disbursements for climate finance fell away. When there was no target, there was little finance.

### Canada is a long way from achieving its fair share of climate finance

When measured by the proportion of its Gross National Income (GNI) relative to other climate finance providers, Canada's fair share is 3.9% of total donor country climate finance.<sup>8</sup> On this measure of fair share, Canada should be providing US\$3.9 billion, which includes US\$1.5 billion (or \$1.8 billion) in public climate finance annually by 2020.

In the years 2013-2015, Canada provided only 0.6% of total public climate finance. This was a drop from 2010-2012, when Canada contributed 1.9% of total public climate finance. In both time periods, 11 out of 23 countries<sup>9</sup> met or exceeded their fair share of total commitments.

### All of Canada's climate finance in 2013-2015 was provided as grants

In the 2013-2015 period, all of Canada's climate finance was in the form of grants. This is good news, though a disclaimer is needed. When looking at the years 2010-2015, Canada ranked 6<sup>th</sup> out of 11 donors in terms of reliance on loans. Canada provided 60% of its FSF contribution in the form of loans. In the years 2010 to 2015, approximately half of the 24 donors<sup>10</sup> provided all climate finance as grants.

And while official numbers are not yet available, the government has announced that 68% of Canada's \$2.65 billion in climate finance from 2016-2020 will be in the form of loans.

### Finance for adaptation increased, but was not on par with mitigation financing

There was a substantial increase in the percentage of Canada's climate finance that went towards adaptation initiatives in 2013-2015 compared to the FSF period. In the years 2013-2015, adaptation finance accounted for 39% of Canada's total climate finance, compared to 28% in the years 2010-2012. The remainder of the funds in both time periods went towards mitigation work.

#### Adaptation/Mitigation Allocations, 2013-2015

The Copenhagen Accord, and the more recent Paris Agreement, called for a balanced allocation between adaptation and mitigation for climate finance. Twelve countries provided 50% or more of their climate finance for adaptation initiatives in this time period. Canada ranked 16<sup>th</sup> out of 24 donors on proportion of funds dedicated for adaptation. Here is how a selection of countries made the split.

Country	Adaptation	Mitigation
Korea	87%	13%
Ireland	82%	18%
Australia	62%	38%
Sweden	55%	45%
United Kingdom	53%	47%
EU Institutions	50%	50%
<b>Canada</b>	<b>39%</b>	<b>61%</b>
United States	36%	64%
France	28%	72%
Japan	20%	80%

Twelve donor countries provided 50% or more of their climate finance for adaptation initiatives between 2013 and 2015.

### Canada's financing for adaptation in highly vulnerable countries declined

Canada's adaptation finance for Least Developed Countries and Small Island Developing States – which includes some of the most vulnerable countries to the impacts of climate change and who have the fewest resources to adapt – declined from 62% in 2010-2012 to 56% in 2013-2015.

Of Canada's adaptation finance in 2013-2015, the largest portion went to Sub-Saharan Africa (48%), a 10% increase from the years 2010-2012.

### Canada's climate finance for 2013-2015 cannot be considered either new or additional to planned ODA

Determining whether Canada's climate finance was 'new' (new money for addressing climate change) and 'additional' (to Official Development Assistance) is a tricky task. A limited proxy for additionality is the use of Supplementary Estimates, where funds are allocated during the fiscal year in addition to the annual federal budget. Between 2010-2012, \$1.43 billion in supplementary estimates for Canada's climate finance commitments were added to the original budgets of three departments. This could be considered additional to Canada's aid budget. For the years 2013-2015 there were no supplementary estimates for climate finance that preceded the \$2.65 billion commitment.

In the year prior to the FSF period, Canada contributed only \$41 million in climate finance. A case could therefore be made that climate finance in every year since has



Sari-sari store owner Merle Yeboa tracks her inventory. The Co-operative Development Foundation of Canada's PREMIUM project is helping owners of these iconic convenience stores in typhoon-stricken parts of the Philippines to grow financially sustainable and profitable enterprises, and be better prepared for future weather calamities. (David Shanks, CDF)

been 'new'. This was inarguably the case for the years 2010-2012, but not for the years 2013-2015.

Climate finance that comes from within the existing ODA budget reduces money for other development needs.

### Multilaterals remained Canada's preferred channel for climate finance

In the FSF period, 91% of climate finance disbursements went through multilaterals.<sup>11</sup> This dropped in 2013-2015, but still 42% of Canada's climate finance was disbursed through multilaterals. Of Canada's adaptation finance in 2013-2015, 62% went through multilateral organizations.



Pigeon pea is a multi-purpose shrub that can be used for both food and as a sustainable source of fuelwood to reduce wood gathering from natural areas. (REAP-Canada)

# Recommendations for next steps

With the above information in mind, C4D recommends the following:

## 1. Build on adaptation efforts

Canada's increased support for adaptation efforts, particularly in Sub-Saharan Africa, is an encouraging trend. But more needs to be done. Successive international climate agreements, as well as developing countries and civil society, have long stressed the need for a balance between financing for adaptation and mitigation. This balance is particularly important for Sub-Saharan African countries and Small Island Developing States.

The Food and Agriculture Organization of the United Nations has said that 'without adaptation to climate change, it will not be possible to achieve food security for all and eradicate hunger, malnutrition and poverty.'<sup>12</sup> The OECD estimated that in 2013-14 only 16% of global climate finance went towards adaptation efforts.<sup>13</sup> To achieve the Sustainable Development Goals and realize the goals of the Paris Agreement, much more work is needed on adaptation, including financial investments.

Climate action is not always adaptation or mitigation. Many interventions have co-benefits. Canada's climate finance could have greater impact by investing in work that both reduces emissions and helps communities adapt to the impacts of climate change.

### Recommendation:

- Canada should provide at least 50% of its climate finance for adaptation, in response to the identified needs of developing countries. A greater focus on adaptation will help to address issues of gender equality, the

Initiatives that have adaptation and mitigation co-benefits:

- Agroecological farming systems and methods
- Agroforestry
- Conservation agriculture
- Integrating food and income generating perennial species into agricultural landscapes
- Solar water pumping for village gardens
- Sustainable rural household cooking systems and fuels
- System of Rice Intensification

primary focus of Canada's Feminist International Assistance Policy. This is important for two reasons: women are the most vulnerable to the impacts of climate change and can be effective change agents in responding to the impacts of climate change.<sup>14</sup>

## 2. Commit to reaching \$1.8 billion in public climate finance annually by 2020

Canada's climate finance contributions in the years 2013-2015 provide a cautionary tale of what can – but must not – happen in the times between major international commitment periods. After the initial Fast Start Finance period, Canada's climate finance declined by 71%. There were only three countries among the major donors – Canada, the Netherlands, and Spain – who reported very significant declines in climate finance for principal purpose projects in this interim period.<sup>15</sup> The needs of developing countries for adaptation and mitigation support did not likewise decline in this time period.

While Canada's 2015 announcement of a new 5-year climate finance commitment was welcomed, funding will only reach \$800 million in 2020. This falls far short of Canada's 'fair share' of the US\$100 billion donor countries have committed to mobilizing annually by 2020. Based on bilateral donors' share of US\$37.3 billion in bilateral resources expected by 2020 for climate finance, according to the 'Roadmap to the US\$100 Billion' prepared by developed countries, Canada's fair share (3.9%) should be \$1.8 billion (using current exchange rates of \$1.25). Therefore, Canada's \$800 million in public funds is less than half of its fair share in 2020. Canada can take a leadership role by both improving its record on consistency of financing and increasing its total contribution.

### Recommendations:

- Canada should develop and publish a clear plan to reach \$1.8 billion in predictable, annual public climate finance contributions for the post-2020 period, well in advance of 2020.

- Climate finance cannot be seen in isolation from the International Assistance Envelope, which includes Canada's ODA. It is only through an increased Envelope that Canada will achieve its fair share of climate finance, with new and additional money that does not affect other purposes for ODA.

### 3. Decrease reliance on multilateral development banks

Canada's reliance on disbursement of climate finance as loans through multilateral development banks (MDBs) has proven to be inefficient. The independent assessment conducted found that funds are slow to be disbursed, they are not serving the countries most in need, and they almost exclusively focus on mitigation initiatives. Canada's preference for using MDBs as a channel for climate finance seriously calls into question whether these funds are reaching the poorest and most vulnerable countries and communities.

In addition, loans increase the debt burden of developing countries and decrease the value of Canada's support for climate mitigation and adaptation.

The Paris Agreement was ratified by Canada on October 5, 2016 and entered into force on November 4, 2016. It provides a blueprint for climate finance:

*"The provision of scaled-up financial resources should aim to achieve a balance between adaptation and mitigation, taking into account country-driven strategies, and the priorities and needs of developing country Parties, especially those that are particularly vulnerable to the adverse effects of climate change and have significant capacity constraints, such as the least developed countries and small island developing States, considering the need for public and grant-based resources for adaptation."* Article 9.4

#### Recommendations:

- If multilateral funds are used, climate finance should be channeled through MDBs that focus on adaptation – in the form of grants – and that can disburse money quickly. Where possible, Canada should work to change the terms of its three dedicated MDB climate funds, to ensure a greater focus on adaptation and grants.
- Diversify the channels for Canada's climate finance, including increasing the proportion delivered by civil society organizations (CSOs). CSOs have demonstrated that they can

reach and engage communities vulnerable to climate change, understand local contexts, and work in a participatory manner to address climate change and strengthen community resilience.

#### 4. Create a user-friendly, interactive climate finance tracker

Canada typically ranks high on CSO assessments of donor transparency, including with climate finance.<sup>16</sup> Yet, an interactive website where Canadians can follow the public funds provided to help address climate change, where results are shared, would go a long way to increasing support for climate finance.

#### Assessment of Canada's climate finance through Multilateral Development Banks

In the FSF period, Canada initiated three special climate funds for the private sector at the Asian Development Bank, the Inter-American Development Bank, and the World Bank's International Finance Corporation. These funds are used almost exclusively as loans for climate change mitigation work.

The analysis of the disbursement of these funds show three worrying trends:

- **Disbursement is slow:** As of the end of 2015, only half of the committed funds (\$302.5 million out of \$609 million committed) had been disbursed.
- **Energy projects dominate:** 98% of funds allocated to date have gone to energy sector projects.
- **Majority of support for Upper Middle-Income Countries:** To date, 57% of loans from the three funds have been made to private sector partners in Upper Middle-Income Countries, including Chile, Uruguay and Mexico. Thirty percent were made in Lower Middle-Income Countries and only 8% in Least Developed Countries.

## Recommendations:

- Create a website where up to date climate finance information for Canada can be easily tracked. Report climate finance data using key areas derived from international agreements (as has been done in this report). Information on when the funds are disbursed, which country receives it, how it is spent, whether it is a loan or grant, and whether it is for adaptation or mitigation will help Canadians better understand climate finance and its importance. Sharing announcements of allocations alone is inadequate.
- Ensure that Canada's reported climate finance accurately reflects the reality of the support provided.<sup>17</sup> Reporting should clearly show expected and actual repayment of loans to Canada.<sup>18</sup>



Cuso International Laos has been collaborating with agencies in the Mekong basin to develop community-based adaptation initiatives at Climate Smart Villages with the International Rice Research Institute (IRRI) and through exchange visits with partner organization Cambodian Center for Study and Development in Agriculture (CEDAC). (Cuso International)

- <sup>1</sup> "Climate Change and Development in Three Charts", *Center for Global Development*, 2015, [www.cgdev.org/blog/climate-change-and-development-three-charts](http://www.cgdev.org/blog/climate-change-and-development-three-charts)
- <sup>2</sup> All numbers are in Canadian dollars, unless otherwise stated.
- <sup>3</sup> While \$1.2 billion was Canada's official FSF contribution, C4D has based its analysis on all climate finance for the years 2010-2012.
- <sup>4</sup> Canada's Climate Finance Commitment, November 27, 2015. [www.pm.gc.ca/eng/news/2015/11/27/canadas-climate-finance-commitment](http://www.pm.gc.ca/eng/news/2015/11/27/canadas-climate-finance-commitment)
- <sup>5</sup> The full report, *The Reality of Canada's International Climate Finance, 2010 to 2015: A Benchmarking Report* is available at [www.c4d.ca](http://www.c4d.ca) and [www.aidwatchcanada.ca](http://www.aidwatchcanada.ca). The report was commissioned by C4D, a group of development and environmental organizations that joined together in 2006 to share knowledge, take concerted action to address climate change and bring the voice of the international development community to the debate on Canada's response to climate change.
- <sup>6</sup> Some findings in this report differ from what was reported in the 2013 C4D policy brief that assessed Canada's Fast Start Finance. The numbers in that report represented the best available information at the time of publication. With more complete information, these numbers have been updated. For example, the previous report stated that Canada provided almost \$1.2 billion in climate finance between 2010-2012, (the actual contribution was \$1.4 billion), that 18% went towards adaptation (it was 28%), and that 74% was provided as loans (60% was the actual loan percentage).
- <sup>7</sup> Both figures represent the adjusted total climate finance amounts. When reporting on its climate finance, Canada counts 100% of the budgets of projects marked 'significant purpose' – where addressing climate change is one among other objectives. There is currently no standardized way to report on these projects. Other providers count between 20% and 100% of the budget of these projects in their climate finance reporting. In the analysis in *The Reality of Canada's International Climate Finance, 2010 to 2015*, the budgets of 'significant purpose' projects have been adjusted to 30% of the total budget, to more accurately reflect the money spent on climate change initiatives. Please see the methodological notes at [www.c4d.ca](http://www.c4d.ca) for a more detailed explanation of why and how this adjustment was made.
- <sup>8</sup> There is currently insufficient data to assess the degree to which private sources are contributing towards Canada's fair share of climate finance.
- <sup>9</sup> The 23 countries are members of the OECD Development Assistance Committee (DAC), comprised of the largest funders of aid.
- <sup>10</sup> The 24 donors represent 23 of the DAC countries plus EU Institutions.
- <sup>11</sup> Multilaterals that Canada has channeled its climate finance through include the World Bank, the United Nations Development Programme, the World Food Program, the African Development Bank, and the Inter-American Development Bank, among others.
- <sup>12</sup> "The State of Food and Agriculture: Climate Change, Agriculture and Food Security", *Food and Agriculture Organization of the United Nations*, 2016, p. xi. [www.fao.org/3/a-i6030e.pdf](http://www.fao.org/3/a-i6030e.pdf)
- <sup>13</sup> "Climate finance in 2013-14 and the USD 100 billion goal", a report by the Organisation for Economic Co-operation and Development (OECD) in collaboration with Climate Policy Initiative (CPI), 2015, p. 21. [www.oecd-ilibrary.org/docserver/download/9715381e.pdf](http://www.oecd-ilibrary.org/docserver/download/9715381e.pdf)
- <sup>14</sup> See "Women, Gender Equality and Climate Change", *UN WomenWatch*, [www.un.org/womenwatch/feature/climate\\_change](http://www.un.org/womenwatch/feature/climate_change).
- <sup>15</sup> As reported to the OECD Development Assistance Committee (DAC). 'Principal purpose' projects refer to those where addressing climate change, whether mitigation or adaptation, is the principal purpose.
- <sup>16</sup> See *Publish What You Fund: The Global Campaign for Aid Transparency*, [www.publishwhatyoufund.org](http://www.publishwhatyoufund.org).
- <sup>17</sup> For example, in 2014 the Auditor General reported that potentially more than \$615 million of Canada's \$1.2 billion in FSF could eventually be repaid to Canada. See [www.oag-bvg.gc.ca/internet/English/parl\\_cesd\\_201410\\_01\\_e\\_39848.html#hd4c](http://www.oag-bvg.gc.ca/internet/English/parl_cesd_201410_01_e_39848.html#hd4c).
- <sup>18</sup> A recommendation from Canada's Auditor General in 2014. See [www.oag-bvg.gc.ca/internet/English/parl\\_cesd\\_201410\\_01\\_e\\_39848.html#hd4c](http://www.oag-bvg.gc.ca/internet/English/parl_cesd_201410_01_e_39848.html#hd4c).

Ahmed Abukari working a field in Kpachelo, Savelugu Nanton district, Northern Region, Ghana. He listened to a radio program about climate resilience on the local radio station Might FM which covered how to grow better maize crops in the face of climate change. This program was a collaboration between Farm Radio International and Canadian Feed the Children. (Jesse Winter, for Farm Radio International)



**The Canadian Coalition on Climate Change and Development (C4D) is a coalition of international development and environmental organizations working together to share knowledge and take concerted action to address climate change.**



**c4d.ca**

FRONT COVER PHOTO: Thanks to her water harvesting system, Doña Sebastiana Montan transformed a patch of rock-riddled slope in the Andean mountainside in Panacachi, Bolivia at 3,800 metres into a terraced, densely packed vegetable farm that now feeds her family and her community. (Kathleen Clark, USC Canada)