

The Reality of Canada's International Climate Finance, 2018

**A Report on key trends in allocating
Canada's \$2.65 billion Paris commitment**

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Overview

1. Challenges in monitoring and determining climate finance

2. Overview of allocations of \$2.65 billion commitment to date

3. Issues

- a) Is Canada's climate finance new and additional?
- b) Achieving Canada's Fair Share of climate finance
- c) Channels for implementing Canada's climate finance
- d) Canada's climate funds with Multilateral Development Banks
- e) Adaptation / Mitigation balance
- f) Loans in Canada's Climate Finance
- g) Geographic and sectoral allocations
- h) Gender equality and women's rights in climate finance
- i) Taking advantage of the experience of CSOs for reaching vulnerable populations

4. Some suggestions for directions forward

Challenges in monitoring climate finance (1)

- **No rules for accounting for climate finance** agreed at the UNFCCC
 - ◆ Countries report on different basis to UNFCCC, but often use DAC CRS statistics
 - ◆ DAC statistics for Rio purpose marker for climate mitigation and adaptation
 - ✓ **Principal purpose projects** - Main objectives for project relate to climate mitigation or adaptation
 - ✓ **Significant purpose projects** - Climate mitigation or adaptation one objective among several other non-climate related objectives. DAC includes these projects at 100% of commitment in its aggregate statistics for climate finance.

- **No review / oversight of developed country practices** in determining an adaptation or mitigation project

- **Highly fragmented channels for climate finance**, difficult to aggregate, with many establishing new private sector oriented initiatives (e.g. DevFin Canada)

- **Different and incompatible sources of data**, making international comparisons difficult

- Issues of **transparency** on the details of projects approved and implemented, with long time lags for Canada in putting project up on the GAC project browser.

Challenges in monitoring climate finance (2)

'Rules' for AidWatch Canada study:

1. Examines only Canadian **concessional finance** for climate adaptation and/or mitigation;
2. Counts only **principal purpose finance** against \$2.65B pledge;
3. Do **not** include share of Canada's **institutional replenishment for multilaterals** against \$2.65B pledge;
4. Considers **significant purpose projects** an important indicator of mainstreaming climate adaptation/mitigation issues in development finance;
5. But counts significant purpose projects **@30% of budget / disbursement** (also current practice of Canada in its reports to the UNFCCC);
6. Divides projects 50/50 where the purpose is **both mitigation and adaptation**;
7. **Loans** included at grant equivalency for DAC providers (share calculated by DAC for 2016).

Challenges in monitoring climate finance (3)

Copenhagen 2009 developed country commitment to allocate US\$100 billion annually by 2020

- Reaffirmed at 2015 Paris COP21, and extended to 2025

Developed countries mandated to develop [Roadmap to the US\\$100 Billion](#) in 2016:

- Based on projections made by the OECD DAC Secretariat for climate finance by donors, multilateral organizations and the private sector.
- Projections for the US\$100 billion in 2020:
 - Bilateral Donors: US\$37.3 Billion (Including Green Climate Fund and Specialized Multilateral Organizations)
 - Multilateral Organizations attributed to Developed Donors: US\$29.5 Billion
 - Private Sector: US\$33.2 Billion

Canada's Cdn\$800 million annual climate finance by 2020 is Canada's commitment to the bilateral US\$37.3 billion.

Allocations of \$2.65 billion Paris commitment

- \$2.65 billion in climate finance pledged by Canada at the Paris 2015 COP21, of which approximately **\$1.44 billion (54%) has been publicly allocated to date**
- **\$1.2 billion (46%) remains to be committed** up to 2020/21 (most of which is seemingly allocated but not yet announced)
- **34 highly diverse projects/initiatives:** Climate Finance “Policy” driven mainly by project announcements – analysis derived from known information about projects
- Many of these projects/initiatives were **just announced and/or approved** in 2016 and 2017
 - ❖ Limited information available for many of these initiatives
 - ❖ Given lengthy approval periods, disbursements only beginning to be reflected in GAC annual aid disbursements (2016/17 is the latest period for statistics on disbursements).
- Canada committed to **\$800 million in annual climate finance by 2020/21**
 - ❖ Should include only principal purpose finance
 - ❖ In 2016/17 principal purpose disbursements were **\$212 million**, only just over a quarter of the \$800 million annual target -- a long way to go to achieve this target

Issues: a) “New and Additional” Finance

A donor commitment to “new and additional” climate finance since COP13 (Bali) and reiterated in Copenhagen (COP15), but then watered down in Paris (COP21) – donor finance should “represent progress beyond previous efforts”.

Concessional climate finance counts as ODA under DAC rules for ODA

- But where there are no individual donor targets for ODA (e.g. Canada), **difficult to determine what is additional climate finance with respect to ODA for other purposes**
- Only option is to subtract climate finance (principal purpose from ODA) – approximately 5.6% of ODA in 2016, reducing Canada’s Real ODA performance from 0.23% to 0.22%

What is the measure of “new” finance for climate adaptation / mitigation?

- An approximate proxy could be whether climate finance was allocated from “Supplementary Estimates” during the fiscal year
- Between 2010/11 and 2016/17, 95% of principal purpose climate finance disbursements were allocated through this budgetary mechanism.

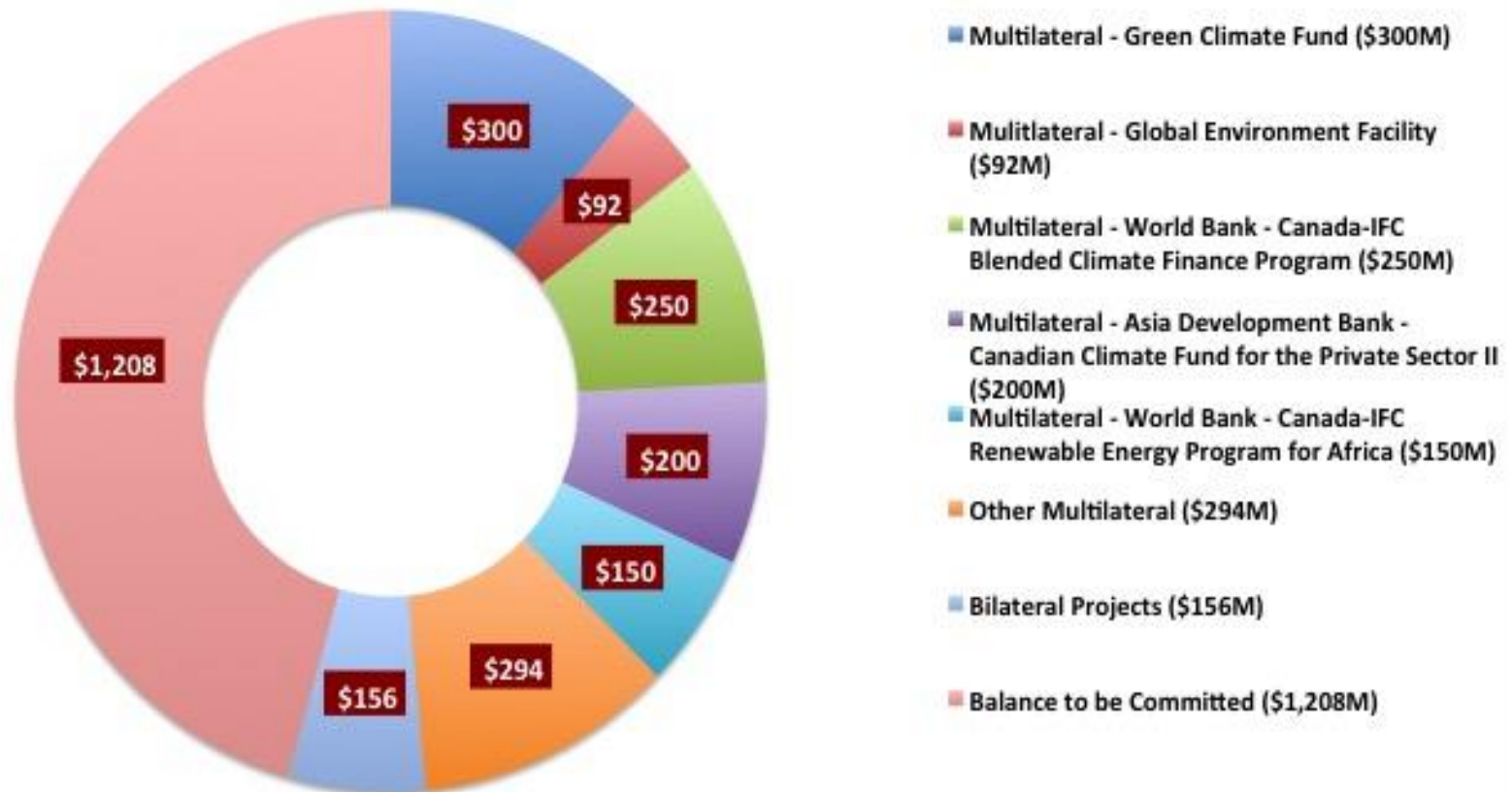
Issues: (b) Canada's Fair Share

- Achieving **annual disbursements of \$800 million in 2020** represents \$4 billion over five years, an increase of 50% over the current \$2.65 billion five-year commitment.
- Yet, Canada's fair share is **more than double this \$800 million annual commitment**
 - Canada's fair share of the US\$100 billion is 3.9%, or approximately **Cdn\$1.9 billion** (based on Canada's GNI share of total donors' GNI)
- **Canada's generosity as a climate finance provider is also very weak** (climate finance as a share of its Gross National Income – similar to the ODA/GNI ratio):
 - ❖ 11th position among 23 donors in Fast Start period (2010 to 2012)
 - ❖ 20th position in the period 2013 to 2015
 - ❖ 16th position in 2016
- Only Norway met their target necessary to achieve the donor share of the US\$100 billion, with Germany and Japan also among the top five donors in all periods since 2010.

Issues: c) Implementing Channels (1)

Current Commitments with respect to Canada's \$2.65 billion Climate Finance Five-Year Pledge, 2016/17- 2020/21 (October 2018)

Millions of Canadian Dollars AidWatch Canada's calculations based on current information from Government announcements, 3rd Report to UNFCCC, Data from ECCC, © AidWatch Canada, October 2018



Issues: c) Implementing Channels (2)

Current multi-year allocations of \$2.65 billion commitment: \$1,442.3 million (54% of commitment)

Multilateral (\$1,286.1 million) – 89% of allocated (principal purpose)

- ❖ Green Climate Fund (\$300 million) – 21% of allocated
- ❖ Canadian Private Sector Funds at Multilateral Development Banks (\$600 million) – 42% of allocated
- ❖ Replenishment of Global Environment Facility (\$92 million) - 6% of allocated
- ❖ Other Multilateral Organizations (\$294 million) – 20% of allocated

Bilateral (\$156.2 million) – 11% of allocated (principal purpose)

These allocations follow closely the experience of **climate disbursements from 2010/11 to 2016/17**

Multilateral:	94% (principal purpose only)
	84% (including significant purpose)
Bilateral:	6% (principal purpose only)
	16% (including significant purpose)

Issues: d) Canada's climate funds with Multilateral Development Banks

Canada relies heavily on blended finance mechanisms with private sector managed through multilateral development banks (50% of Fast Track Finance and more than 43% of current commitments for \$2.65 billion pledge)

Climate finance is one of four main priorities for **FinDev Canada**, Canada's newly created Development Finance Institution (but to date finance through EDC or FinDev Canada not included in the \$2.65 billion commitment)

Issues with blended finance

- Heavy focus on mitigation (only 6 of 62 projects, and 10% of value of projects funded related to adaptation from the three Fast Start MDB Climate Funds)
- Additionality of private sector funds? Is public finance a subsidy for private sector?
- Transparency of finance through blended mechanisms
- Increased tied aid, both formal and informal
- Consistency with development effectiveness principles, giving priority to the vulnerable and those "left behind"
- Accountability of blended mechanisms to parliamentary oversight
- Reliance on loans may exacerbate re-emergence of debt crisis

Issues: e) Loans in Canada's Climate Finance

Very high proportion of loans in Canada's climate finance (\$2.65 billion)

- **\$732 million out of \$1,442.3million** allocated (51%)
 - ✓ Green Climate Fund - \$132 million (44% of allocation for GCF)
 - ✓ MDB Canada Climate Funds - \$600 million

- Counter to **Paris COP21 commitment for grant-based resources** for climate finance

- Potential to **exacerbate issues for sustainability of debt** in low income and lower middle income countries (40% of low income countries are already at high risk of debt distress according to IMF)

- **Fundamental issue of justice** – developing countries should not be responsible for paying developed countries for measures to adapt or mitigate the impacts of climate change, for which they are largely not responsible

Issues: f) Adaptation / Mitigation balance

Paris COP21: Donors “should aim to achieve a balance between adaptation and mitigation.”

Current US\$100 billion inadequate to meet the real needs of mitigation and adaptation. UNEP estimates US \$140-300B needed annually by 2030 for adaptation alone.

Current allocations of the \$2.65 billion

- ❖ Stated allocations to adaptation / mitigation – 50% / 50%
- ❖ Includes Private Sector Funds at MDBs coded to both adaptation and mitigation, whose past experience is almost entirely mitigation
- ❖ If adjusted to this historical experience, the allocation **becomes 33% adaptation / 67% mitigation** for current allocations of the \$2.65 billion

Historical experience of disbursements, principal purpose projects, 2010/11 to 2016/17

- ❖ Adaptation improved from 13.2% in 2010/11, 22.5% in 2012/13, to 41.3% in 2014/15, down to **33.3% in 2016/17** (two year running averages)

Comparison with all providers

- ❖ Canada’s ranked 10th among 23 providers, but of the 10, 8 had exceeded the 50% target for adaptation, unlike Canada

Issues: g) Geographic & Sectoral Allocations of Climate Finance (1)

- i. **Geographic Allocations** (principal and significant purpose projects)
 - 40% of current project allocations for \$2.65 billion pledge going to **Least Developed & Low Income (20%) and Lower Middle Income Countries (20%)**
 - 31% to **Upper Middle Income Countries**
 - 29% to **Global and Regional Programming**
 - Consistent with principal purpose project disbursements for 2010 to 2016

 - While not sufficient information for the current allocations for the \$2.65 billion pledge, there is indications from disbursements up to 2016/17 that **allocations of adaptation finance to Sub-Saharan Africa, LDCs and Small Island Developing Countries has been improving** since the Fast Start period (more than 50% of adaptation finance disbursements to these countries between 2010 and 2015).

Issues: g) Geographic & Sectoral Allocations of Climate Finance (2)

ii. Sectoral Allocations (principal and significant purpose projects)

High annual variability in sector distribution of mitigation and adaptation finance, but main sectors for disbursements, 2010 to 2016:

Mitigation: Energy, Environment, Agriculture and Forestry, Transportation, Water and Sanitation

Adaptation: Environment, Agriculture and Forestry, Emergencies and Rehabilitation, Energy, Water and Sanitation

Agriculture makes up 9.1% of mitigation finance disbursements and 17.7% of adaptation disbursements

But only 12% of agriculture climate finance was for principal purpose projects, and 88% for significant purpose projects. Principal purpose projects were almost entirely for adaptation

Issues: h) Gender equality and women's rights

- Government commitment to a Feminist International Assistance Policy, **but no elaborated strategy to embed gender equality & women's empowerment in the implementation of its climate finance** in its Gender Action Plan submitted to the UNFCCC.
- **Canada's MDB partners for private sector climate finance** [Asia Development Bank (ADB) and International Finance Corporation (IFC)] have had **very weak track record on gender equality programming**
- **DAC Gender Equality Marker** (significant and principal purpose)
 - ❖ Canada has improved its focus for significant purpose climate projects, but up to 2016 has **no climate project where gender equality is the principal purpose**
 - ❖ Canada has **out-performed the DAC providers** for significant purpose gender equality (more than 70% of projects since 2013 by commitments), but at less than 1% of commitments for principal purpose projects, lags behind a weak DAC performance in principal purpose gender equality.
- **Do Canadian gender significant projects meet the DAC standard for mainstreaming gender equality in development projects?**
 - ❖ **Not sufficient information** to determine whether DAC criteria are being met in Canada's climate finance marked significant purpose for gender equality.

Issues: i) CSOs in climate finance

- CSOs have growing profile in climate finance, but **almost all activities concentrated in significant purpose climate finance, and in adaptation finance**
- **Approximately 35% of adaptation** delivered by CSOs in 2016 (but mainly for significant purpose projects)
- **Only one of 34 project commitments** (principal purpose projects) for the \$2.65 billion is being delivered by a CSO (UN Foundation project for Haiti)
- **CSO are focusing climate finance adaptation through food security initiatives**
 - ❖ Agriculture (34%), emergency food aid (17%), multi-sector projects (14%) and basic nutrition (8%, top 4 sectors)
- **Highly concentrated in least developed and Low Income Countries (57%) and Sub-Saharan Africa (53%)**
 - ❖ More so than Canada's climate finance as a whole, but ratios are affected by the absence of principle purpose climate finance in CSO portfolio, which tend to be biased towards Middle Income Countries.

Some suggested ways forward

Proposals from AidWatch Canada

1. **Set out an integrated strategy for international climate finance**, including overarching goals, objectives and targets (particularly for the post 2020 period), and appropriate channels and aid modalities to realize these objectives, with public consultation on these directions.
2. **Commit to and document at least 50% of finance for principal purpose adaptation initiatives addressing the needs of vulnerable people and countries**, and to specific strategies to embed gender equality objectives in all of its climate finance.
3. **Develop a better balance in the channels for Canada's principal purpose climate finance** (\$2.65 billion commitment), in ways that will meet goals for increased adaptation, will strengthen the priority for gender equality, will reach vulnerable people and communities, and will reduce the use of loans in climate finance.
4. **Ramp up the annual budget for both ODA and climate adaptation/mitigation finance, starting in 2019/20**, to avoid ODA-able climate finance taking away from ODA for other purposes. Create a **transparent budgetary section for climate finance** in the International Assistance Envelope, which should be published each year in the Federal Budget, and in any supplementary estimates during the year.
5. **Commit to new and increased climate financing for the post-2020 period**, building on the \$800 million target for 2020/21, but proportionate to Canada's fair share of global targets, Canada's relative wealth and its global responsibilities.