

# Canada's Biennial Submission on Strategies and Approaches for Long-Term Climate Finance

November 2016

## Introduction

Canada is pleased to submit its 2016 Biennial Submission on Strategies and Approaches for Scaling up Long-term Climate Finance in response to COP decision 3/CP.19. Addressing climate change is a major priority for Canada and we are fully committed to the entry-into-force of the historic Paris Agreement on November 4<sup>th</sup>, 2016 and its robust implementation by all Parties. Canada also fully supports the long-term finance outcomes of the Paris Agreement and looks forward to working with all Parties to ensure support is adequate, predictable, effective, and efficient.

Limiting average global temperature increases to well below 2°C and pursuing efforts towards 1.5°C will require both ambitious domestic actions by all countries, as well as increased investment in developing countries. Canada embraces both the challenge and opportunity of our collective fight against climate change, fully recognizing the need to make all financial flows consistent with the low emissions and climate resilient pathways set out in Article 2.1(c) of the Paris Agreement.

Recalling paragraph 10 of decision 5/CP20 on long-term finance, Canada is pleased to provide enhanced qualitative and quantitative elements in our 2016 submission on strategies and approaches, clearly illustrating the predictable delivery of Canada's climate finance.

Canada and other developed country Parties continue to collectively work towards the goal of mobilizing US\$100 billion in climate finance per year by 2020 from a wide variety of sources; public and private, bilateral and multilateral, including alternative sources, to address the needs of developing countries. Canada and our donor partners have recently developed a collective Roadmap to US\$100 Billion to demonstrate how we are meeting the US\$100 billion goal. The Roadmap is a snapshot in time, but illustrates that the goal is well within reach, notably thanks to pledges made by the donor community since 2015.

In November 2015, Prime Minister Justin Trudeau made an historic pledge of CA\$2.65 billion over five years to support developing countries in their transition to low carbon and climate resilient economies. This financial contribution is a substantial increase from Canada's past levels of climate funding, scaling up to CA\$800 million per year by 2020. This doubles Canada's previous annual climate investment levels under Fast-Start Finance. The delivery of the commitment and results achieved from past initiatives can be tracked through Canada's International Climate Financing website.

Since climate change is both a contributing factor and an exacerbating factor for existing development challenges, it is imperative for Canada that climate finance flows are consistent with Agenda 2030 for Sustainable Development. Goal 13 of the 17 Sustainable Development Goals (SDGs) sets out targets for climate action including implementing UNFCCC commitments; enhancing adaptation and climate resilience; and promoting effective climate planning with a focus on women, youth and local and marginalized communities. The Paris Agreement emphasizes the importance of gender equality in climate change actions. Advancing the health and rights of, and protecting and empowering women and girls, is thus an overarching objective of Canada's approach to climate change.

## Approaches

Canada's climate financing will support the implementation of developing countries' Nationally Determined Contributions and National Adaptation Plans and contribute to their transition to clean and climate resilient economies by:

- 1) Increasing adaptation to support the poorest and most vulnerable populations impacted by climate change;
- 2) Supporting the institutions and financial mechanism of the UNFCCC, including the Global Environment Facility (GEF) and the Green Climate Fund (GCF);
- 3) Supporting the implementation of Sustainable Development Goals; and
- 4) Mobilizing the private sector and attracting clean investment to make financial flows consistent with a low emission and climate resilient pathway to sustainable development.

## Delivering Canada's Commitment

To translate Canada's climate finance commitment into results, it is critical to ensure that climate finance is accessible, catalytic, and effective at reducing emissions and enhancing resilience on the ground. This is why Canada is channeling support towards climate-smart agriculture, transformational mitigation initiatives, and building local capacity and climate resiliency.

Canada has already announced a number of initiatives as part of its CA\$2.65 billion commitment (all figures below are in CA\$ unless specified otherwise):

### Adaptation

- The **G7 Initiative on Climate Risk Insurance** will receive a contribution of **\$50 million** from Canada to help people in developing countries protect themselves against the economic consequences of natural catastrophes. Access to insurance helps poor and vulnerable countries build resilience to the impacts of climate change by covering a portion of the risks that arise from natural hazards and extreme weather events. Together with the G7 and our partner countries, Canada is working to provide up to an additional 400 million vulnerable people with insurance against the risks of climate change by 2020.
- Canada will contribute **\$30 million** to finance projects through the **Least Developed Countries Fund (LDCF)**, bringing Canada's total LDCF contribution to \$60 million. The LDCF is focused on addressing the urgent and immediate adaptation needs of the poorest and most vulnerable countries, and is the only fund dedicated specifically to supporting adaptation in least developed countries. With this pledge, Canada joined with other donor countries to collectively announce nearly US\$250 million in contributions. Canada's contribution to the LDCF is part of its commitment to increase adaptation action in the poorest and most vulnerable countries through the implementation of critical, on-the-ground projects, and will focus on sectors including water, climate-smart agriculture and food security, health, disaster risk management and prevention, infrastructure, and fragile ecosystems.

- Canada will contribute **\$10 million** to support the improvement of early warning systems in some of the world's most vulnerable communities through **Climate Risk and Early Warning Systems (CREWS)**. Canada's contribution will be delivered through the World Meteorological Organization (WMO) to improve Multi-Hazard Early Warning Systems in developing countries, particularly in small island developing states and least developed countries. These systems have been proven to reduce loss of life and economic hardship caused by meteorological hazards such as tropical cyclones, floods, severe storms, forest fires, and heat waves.

### Clean Energy

- Canada will contribute **\$150 million** to the **G7 African Renewable Energy Initiative** to improve access to affordable energy services and reduce poverty while tackling climate change. The Initiative seeks to provide funding to accelerate the deployment of renewable energy projects in Africa by 2020. Canada will work with its G7 partners to catalyze private sector investment in renewable energy in Africa, such as solar, hydro, and wind power, and help unlock the significant renewable energy potential in the region. Canada's contribution will also feed into the G7 goal of supporting the generation of 10 gigawatts of new renewable energy by 2020, and 300 gigawatts by 2030.
- Canada has further pledged **\$35 million** for initiatives to reduce **short-lived climate pollutants (SLCPs)** like hydrofluorocarbons (HFCs), black carbon, and methane. As SLCPs have a relatively short lifespan in the atmosphere and respond relatively quickly to changes in emissions, actions to reduce SLCPs can reduce the rate of near-term global warming. Of this funding, \$25 million will help reduce SLCPs through mitigation actions with key partner countries. The remaining \$10 million will be directed to the Climate and Clean Air Coalition's Trust Fund, which supports the development and implementation of the Coalition's programs and initiatives in developing countries.

### Other support

- Canada is pleased to support the centerpiece of the UNFCCC financial mechanism by committing **\$300 million** to the **Green Climate Fund (GCF)**. By supporting the GCF, Canada is contributing significantly to the broader global effort to mobilize global financial flows, from all sources to support climate efforts in developing countries. Of particular note is the Fund's aim to invest 50 per cent of its resources to support climate adaptation, with half of the adaptation funding going to the poorest and most vulnerable countries.
- Canada has committed **\$5 million** in support of the **Capacity Building Initiative for Transparency** to help developing countries address climate change by meeting the transparency requirements in the Paris Agreement; a critical element for its effective implementation.

### **Using the Best Instruments and Channels to Optimize Results**

Canada is committed to working with developing countries to address the barriers associated with access to climate finance and to help attract investment that unlocks the potential for clean innovation in local economies. Choosing the right instruments and delivery channels will help ensure transformational and efficient delivery of climate finance, consistent with the scale of the Paris Agreement.

Canada will continue to use a mix of financial instruments to deliver support to developing countries. Grant support will be considered where affordable market-based financing is not viable, for example, for many adaptation projects in the poorest and most vulnerable countries, or for early stages of technology demonstration. Non-grant financing, including on concessional terms, will be the primary choice when affordable market-based financing is constrained by factors such as market failures, capital availability, and perceived risks. Non-grant instruments will primarily target middle-income countries and non-sovereign proponents, notably the private sector, to avoid increasing the unsustainable debt burdens of lower-income countries.

To promote the achievement of the most transformational outcomes, addressing market failures and “buying down” risks should generally be preferred to subsidizing returns on investment directly. This is true for both mitigation, where many barriers can be addressed through risk mitigation strategies, and adaptation, where efforts should be made to explore where insurance and other market-based approaches can help address those adaptation risks that are financeable.

By using the right instruments, Canada aims to support long-term innovation through our contribution to catalyze clean economic growth in developing countries that also serves sustainable development to eliminate poverty, improve health outcomes, provide energy security, and build resilience.

### **Enabling Environments**

The Paris Agreement sends a clear signal to investors that we are serious about addressing climate change. To further promote mainstreaming of climate change in global financial flows, all Parties must strive to establish appropriate enabling policy environments that underpin low emissions and climate resilient pathways such as carbon pricing, climate risk insurance, feed-in tariffs, as well as phasing out inefficient fossil fuel subsidies and other regressive policies.

Climate change and other environmental considerations are now reflected as priorities at the highest levels of the Government of Canada, including as part of the mandates of several federal Ministers. In addition to Canada’s \$2.65 billion pledge to support climate change action in developing countries, Canada is also implementing a range of measures to strengthen sustainable investment flows in global capital markets.

For example, Canada’s export credit agency, Export Development Canada (EDC), has begun expanding its environmentally sustainable credit flows by issuing a total of US\$600 million in AAA rated green bonds since 2014, with the goal of becoming a regular issuer in the green bond market. EDC’s green bonds are aimed at supporting renewable energy, industrial process improvements, recycling and recovery, biofuels and bioenergy, waste and water management, alternative energy and public ground transportation.

Environmentally sustainable export credits serve to strengthen the broader realignment of finance flows to increase liquidity in green finance markets, with the goal of mainstreaming environmentally sustainable investment throughout the global economy, including climate finance flows to and amongst developing countries.

### **Non-Traditional Donors**

Canada commends non-traditional donors who have joined in building a resilient foundation for sustained climate finance flows above and beyond the \$100 billion goal, including the private sector, sub-national governments, and other donors such as Parties to the UNFCCC who are supporting those in need.

## **Tracking and Transparency**

In the context of growing global investments and the increased range of delivery channels in climate change projects, ensuring that partners are capitalizing on this funding as effectively as possible will require a better understanding of the results that climate finance is helping recipient countries achieve.

Effective tracking can help climate finance flows be transformational by supporting broader awareness among market participants of project impacts, thereby creating a greater demonstration effect. It can also support greater understanding by Parties of flows and their results; contributing to greater confidence that progress is being made. Tracking and monitoring results and evaluating lessons learned will also contribute to improved results over time.

To this end, Canada has sought to model best practices in reporting transparently on our provision of financing. For example, Canada is working closely with other donors through the Organisation for Economic Co-operation and Development (OECD) Research Collaborative to advance effective ways to track and monitor the mobilization of private finance.

Canada stands ready to work with all Parties to continue to strengthen systems and methodologies to track financial flows so that current and future reporting supports effective provision and mobilization of climate finance.

Canada is also looking forward to the 2016 Biennial Assessment of Climate Finance Flows published by the UNFCCC Steering Committee on Finance (SCF), as well as the SCF's subsequent recommendations to the Parties on how to improve the measurement, reporting, and verification of climate finance flows.

## **Access to Canadian Resources**

While Canada has implemented a number of targeted bilateral initiatives, Canadian climate finance has historically been primarily channeled through multilateral and regional development organizations and funds that have the program delivery capacity and scale to mobilize private finance flows that align with country strategies.

Access to resources provided by Canada to multilateral and regional organizations is based on the rules and guidelines of those organizations. Countries seeking information should contact representatives of those organizations. Canada remains interested in the perspectives of developing countries on access to resources from these organizations in order to help ensure effective and accountable governance, a key priority for Canada.

Canada's bilateral development relationships, including access to Canadian bilateral funding, are managed by the Department of Global Affairs Canada. Bilaterally funded climate change programming is considered in the context of overall priorities for bilateral support identified in line with partner countries' priorities. In addition to any proposals that may be communicated through existing climate change channels, we encourage countries interested in exploring opportunities for bilateral climate change related support to consider identifying them during regular bilateral consultations with Global Affairs Canada.