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

November 2018

Introduction

Canada is pleased to submit its 2018 Biennial Submission on Strategies and Approaches for Scaling up Long-term Climate Finance in response to COP decision 3/CP.19 para 10. Canada is committed to ambitious action on climate change in line with our collective goals under the Paris Agreement. This submission builds on previous submissions on strategies and approaches for scaling up climate finance made by Canada in 2014 and 2016.

One of the core aims of the Paris Agreement is to make all financial flows consistent with a pathway towards low-emission, climate-resilient development. In order to set the global economy on this trajectory, all actors (public and private), will need to shift capital flows on a massive scale and at unprecedented speed. This commitment also offers economic opportunities measured in trillions of dollars. Canada is stepping up to seize this historic opportunity to build a prosperous low-carbon future.

Canada is committed to working collectively with developed countries towards the goal of mobilizing US$100 billion in climate finance per year by 2020 to address the needs of developing countries. This financing comes from a wide variety of sources: public and private, bilateral and multilateral, including alternative sources. Canada is looking forward to discussions on climate finance at the 24th Conference of the Parties.

1) Information on the expected levels of climate finance mobilized from different sources

Public Climate Finance

In November 2015, Canada made a historic pledge of $2.65 billion[1] over five years to support developing countries transition to low-carbon climate resilient economies. This commitment is a substantial increase from Canada's past levels of climate finance, scaling up to $800 million in 2020/21, which represents a doubling of Canada's previous commitment.

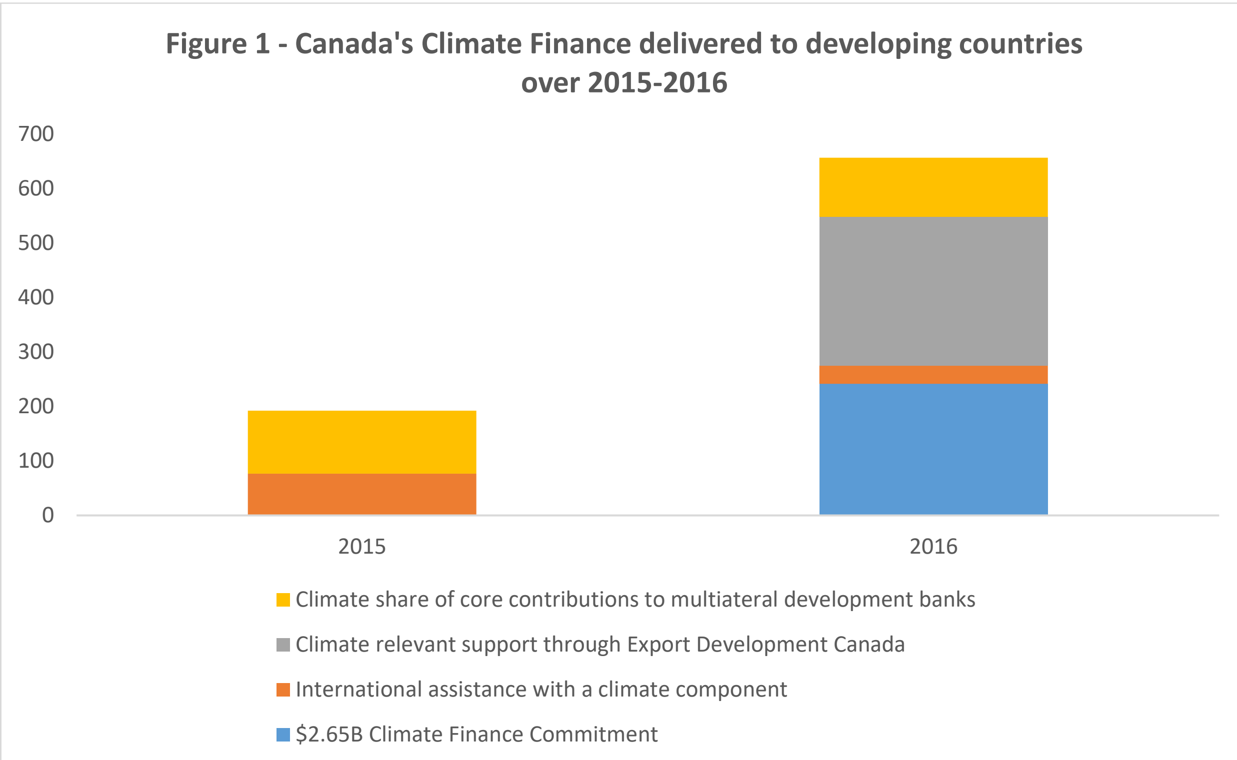
Canada is on track to delivering on its commitment. To date, over $1.2 billion[2] worth of projects has been announced by Canada as part of this pledge. More information on these announcements, including how to access this funding can be found throughout this document.

Canada's climate finance has been increasing since committing to the collective US$100 billion goal in 2009. From $190 million in 2015, Canada's climate finance disbursements amounted to $655 million in 2016. While a large portion of this amount is directly attributable to Canada's $2.65 billion commitment, it also includes support from other sources such as other international assistance with a climate change component,

[1] All figures are in Canadian dollars unless specified otherwise.

[2] Up to date as of October 2018.

climate-relevant support through Export Development Canada, provincial support, and core contributions to Multilateral Development Banks (MDBs). The increase seen in Figure 1 below is the result of Canada beginning to disburse funding under its $2.65 billion commitment and the tracking of climate relevant support through Export Development Canada (EDC), which Canada began in 2016.



Channels

Canada’s climate finance is delivered through a variety of channels, including the United Nations Framework Convention on Climate Change (UNFCCC) financial mechanism, as well as through a number of multilateral and bilateral initiatives.

A key aim of Canada’s climate finance is to mobilise climate investments from the private sector in developing countries. That is why a large portion of Canadian climate finance is channeled through multilateral institutions, such as MDBs. These organisations have the program delivery capacity, scale, and technical expertise to mobilize private finance flows that align with country driven strategies.

Canada is also implementing a number of targeted bilateral initiatives. Bilateral climate change programming is in line with partner country priorities (e.g. in line with countries Nationally Determined Contributions and National Adaptation Plans).This includes working bilaterally with public-private partners to support the implementation of national sectoral strategies through transformational change and large scale implementation of sustainable climate projects.

Instruments

Choosing the right instruments and delivery channels helps to ensure transformational and efficient delivery of climate finance, consistent with the ambition of the Paris Agreement. Canada is using a mix of financial instruments to deliver support to developing countries. Grant support is used 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, is the primary choice when affordable market-based financing is constrained by factors such as market failures, capital availability, and perceived risks. Non-grant instruments primarily target middle-income countries and non-sovereign proponents, notably the private sector, to avoid increasing the debt burdens of lower-income countries.

UNFCCC Financial Mechanism

The entities of the financial mechanism of the UNFCCC play an important role in global action on climate change by facilitating the delivery of climate finance and are part of Canada's efforts to successful implement the Paris Agreement.

- In 2015, Canada pledged $300 million to the initial resource mobilisation of the Green Climate Fund (GCF). The GCF is the largest dedicated international fund supporting the efforts of developing countries to respond to climate change. As of October 2018, the GCF has approved over USD $4.6 billion for 93 projects climate change projects, expected to avoid 1.6 billion tonnes of GHG emissions and support 272 million people in increasing their resilience to climate change. Canada welcomes the launch of the GCF's first replenishment process and looks forward to engaging in this process.

- In June 2018, Canada pledged $228.79 million (for 2018/2019 through 2022/2023) to the seventh replenishment of the Global Environment Facility (GEF). GEF-funded projects have reduced the vulnerability of almost 17 million people and supported over 940 climate change mitigation projects expected to contribute 8.4 billion tonnes of direct and indirect GHG emission reductions over time. We look forward to the GEF's continued efforts to foster the shift to a low-carbon economy and further support climate action in developing countries.

Private Climate Finance Mobilised

The private sector plays a key role in reaching the investment levels required to shift the world towards a low-carbon and climate resilient path. Canada is committed to working with developing countries to help attract investments that unlock the potential for clean innovations in local economies.

Canada is taking an innovative approach to mobilizing private sector financing and partnering with MDBs and bilateral partners to help remove barriers to private investment. This includes using targeted amounts of concessional finance to demonstrate the commercial viability of projects and unlock future private investments in similar initiatives.

In May 2017, Canada announced $200 million in funding for the second phase of the Canadian Climate Fund for the Private Sector in Asia at the Asian Development Bank. This fund aims to catalyze private climate investment in developing Asian and Pacific countries. The fund supports a range of adaptation efforts, creates good jobs and advances low-carbon, women-focused projects.

- For example, through this fund, Canada recently approved USD $17 million to support a 47.5MW floating solar photovoltaic power station in Vietnam. This project is the first private sector utility scale solar power project in Vietnam and the first floating solar installation in the country. With support from Canada's contribution the project is expected to avoid 30,000 tons of CO_2 annually and mobilise an additional US $45 million from other public and private sources. This project will help Vietnam achieve their target set in the National Plan for Power Development which seeks to increase the share of renewable energy in Vietnam from zero to 7% by 2020.
- More information on this fund, including details on accessing funding, can be found here: https://www.adb.org/site/funds/funds/canadian-climate-fund-for-the-private-sector-in-asia-2

In July 2018, Canada announced a contribution of $250 million to establish the Canada – International Finance Corporation Blended Climate Finance Program (BCFP) which will provide concessional co-financing to private sector climate mitigation and adaptation projects around the world. BCFP resources will be used to mitigate risks deterring private investment in key areas such as resilient infrastructure, climate-smart agriculture, and renewable energy.

- More information on this fund, including details on accessing funding, can be found here: http://ndcpartnership.org/funding-and-initiatives-navigator/ifc-canada-climate-change-program

Scaling up Climate Finance

Canada recognizes that a variety of actors, including governments and the financial community, need to shift capital flows on a massive scale to achieve the goals of the Paris Agreement.

Sub-national governments are playing an increasingly important role in scaling up climate finance flows. For example, Québec is providing $25.5 million to support actions to address climate change in francophone countries that are the most vulnerable to climate change.

MDBs have an important role to play in reaching the USD $100 billion climate finance goal by 2020 and the successful transition towards low-carbon sustainable development. In 2017, MDBs collectively reach record levels of climate finance, reporting USD $35.2 billion in climate financing in 2017, up from USD $27.44 billion in 2016. This increase in climate finance shows an improved picture on progress towards our climate finance goals and demonstrates the MDBs continued leadership and commitment to climate financing. We encourage MDBs to continue scaling up their climate finance support by mainstreaming climate considerations into their operations and further leveraging private sector finance, which will be critical to meeting the objectives of the Paris Agreement.

Development finance institutions are also highly relevant to the USD $100 billion goal as they directly channel development finance to mobilize private finance. Canada recently launched a development finance institution (DFI), FinDev Canada, with an initial capitalization of $300 million. One of the three key themes the DFI is to increase the private sector's ability to adapt to and mitigate climate change, thereby contribution to the transition to a low-carbon economy. In February 2018, FinDev approved its first transaction – an investment of USD $10 million to expand for off-grid renewable solar energy for low-income households in Africa that have historically relied on kerosene and other traditional fuels.

National export credit agencies are contributing to scaling up climate finance by spurring investment in climate activities around the world. Export Development Canada, Canada's export credit agency, provided over $550 million in climate relevant support to developing countries since 2016 and has issued $1.5 billion in green bonds since 2014.

2) Information on policies, programmes and priorities

Canada's climate finance is in line with the goals of the Paris Agreement to reduce emissions reductions and build adaptive capacity around the world. More specifically, Canada's climate finance aims to:

1. **Support ambitious climate change mitigation.** Canada's climate finance supports a range of mitigation initiatives which are in line with developing countries' Nationally Determined Contributions (NDCs).

2. **Scale up support for adaptation action to help developing countries transition to clean and climate-resilient economies.** Adaptation, particularly for the poorest and most vulnerable, is a priority for Canada. Canada is increasing its support for adaptation, notably to mainstream climate change in international assistance with a focus on exploring new ways to leverage climate finance and show viable opportunities for adaptation investment.

3. **Mobilize climate finance from the private sector.** Canada is taking an innovative approach to mobilizing private sector financing and partnering with multilateral development banks and bilateral partners to help remove barriers to private investment.

4. **Focus on the empowerment of women and girls and gender equality.** Canada's climate finance and its development assistance both have a particular focus on gender equality. In June 2017, Canada adopted a Feminist International Assistance Policy. This policy recognizes that women are often disproportionately affected by climate change and also play a critical role in the response to climate change.

5. **Engage with a variety of financial actors to direct additional investments towards climate action.** Canada recognizes that in order to help set the global

economy on this trajectory, governments and the financial community will need to shift capital flows on a massive scale and at unprecedented speed.

Recognizing that climate change and development are intrinsically linked, Canada's climate finance is also aligned closely with the 2030 Agenda for Sustainable Development and is consistent with Canada's Feminist International Assistance policy. As part of this policy, Canada supports the inclusion of women and girls in designing and developing strategic responses to climate change. We work to ensure that climate-related planning, policymaking and financing address the particular needs and challenges of women and girls; to support employment and business opportunities for women in the renewable energy sector; and to strengthen women's economic empowerment in areas such as climate-smart agriculture.

3) Ensuring the balance between adaptation and mitigation, in particular the needs of developing countries that are particularly vulnerable to the adverse effects of climate change

Canada's climate finance is focused on supporting developing countries in obtaining clean and reliable sources of energy and enhance resilience, particularly for the poorest and most vulnerable countries, in their fight to adapt to the impacts of climate change.

To support these actions, Canada has announced a number of new climate finance initiatives, including as part of its $2.65 billion climate finance commitment[3]. Some new fund has remaining funding available for developing countries to access. Where feasible and applicable, Canada has provided information on accessing funding from specific initiatives below.

Adaptation Multilateral Initiatives Supporting Adaptation Action

- $100 million to support the expansion of Climate Risk Insurance coverage in climate-vulnerable countries, including for Small Island Developing States in the Caribbean.[4]

- $10 million World Meteorological Organisation Climate Risk and Early Warning Systems (CREWS) – this initiative supports least developed countries and small island states to significantly increase the capacity to generate and communicate effective, impact-based, multi-hazard, gender-informed early warnings to protect lives, livelihoods and assets. Details on accessing funding.

- $4 million for the National Adaptation Plan (NAP) Global Network – administered by the International Institute for Sustainable Development, NAP supports advice, technical assistance, learning and knowledge exchange on national adaptation plans and actions in developing countries. Countries who are NAP Global

[3] Canada's submission highlights the most recent examples of climate finance announcements and is not an exhaustive list of announcements.

[4] This initiative was recently announced at the G7 Leader's Summit in June 2018. More information on this support will become available in 2019.

Network participants can submit a request for assistance through their focal points. Details on accessing funding.

Bilateral/Regional Initiatives Supporting Adaptation Action

- $5 million delivered through the Canadian Red Cross Society to promote the use of gender-responsive and community-based disaster risk management and climate change adaptation tools, with a focus on reaching those most vulnerable to the effects of climate change.

- $13 million to AgroLAC, an innovative public-private partnership administered by the Inter-American Development Bank to support climate smart agriculture in Central America.

- $39.25 million to the Program of development and adaptation to climate change of irrigated crops in Senegal. Projects under this program were received as part of an open call for proposals in summer 2017.

Canada's mitigation support is consistent with the needs identified in developing partners Nationally Determined Contributions.

Multilateral Initiatives Supporting Mitigation Action

- $60 million to support the expansion of Small-Island Developing States' clean energy systems and infrastructure, improve energy access for women and girls in Small Island Developing States.
- $150 million to the Africa Renewable Energy Initiative – this fund aims to help Africa countries move to renewable energy systems that support low-carbon development while enhancing economic and energy security. It supports the strengthening of policies and regulations and mobilizes finances for incentives and investments in projects in renewable energy. Details on accessing funding.

- $5 million to the Transformative Carbon Asset Facility (TCAF) – this facility helps developing countries implement their plans to cut emissions by working with them to create new classes of carbon assets associated with GHG emission reductions. It will measure and pay for cuts in large-scale programs in areas like renewable energy, transport, energy efficiency, solid waste management and low carbon cities. Details on accessing funding

- $2.5 million to the Climate Technology Centre & Network (CTCN) – this network promotes the accelerated transfer of environmentally sound technologies for low carbon and climate resilient development in developing countries. Details on accessing funding.

- $10 million to the Climate and Clean Air Coalition (CCAC) Trust Fund – this fund unites governments, civil society and the private sector to reduce short-lived climate pollutants across sectors by raising awareness, developing actions, increasing capacity and mobilizing support, promoting best practices and sharing knowledge of short-lived pollutants and mitigation strategies. Details on accessing funding

Bilateral/Regional Initiatives Supporting Mitigation Action

- $20 million to the United Nations Foundation and Global Alliance for Clean Cookstoves to help promote the use of clean energy and cookstoves in Haiti where more than 90% of households rely on fuelwood or charcoal to cook their meals.

- $7.2 million to EcoMicro, a program administered by the Inter-American Development Bank's Multilateral Investment Fund, to support the private sector's transition to cleaner and more sustainable energy sources in the Caribbean.

4) Information on steps to enhance enabling environments

The Paris Agreement sends a clear signal to investors that we are serious about addressing climate change. However, the ambitious vision of the Paris Agreement will not be achieved by finance alone. All Parties need to have in place the right enabling environments that underpin low emissions and climate resilient pathways to implement their needs and take concrete climate action. Canada is committed to enhance enabling environments for climate action domestically and internationally.

At home, Canada's national climate change action plan, the Pan-Canadian Framework on Clean Growth and Climate Change, is helping Canada meet its emissions reduction targets, grow the economy, and build resilience to a changing climate. This plan includes a pan-Canadian approach to pricing carbon pollution, and measures to achieve reductions across all sectors of the economy. Canada's climate action plan is creating enabling environments by driving innovation and implementing policies that help to cut emissions, creating new markets for low-emission goods and services and providing investment certainty to businesses using climate-friendly technologies.

The Paris Agreement commits to enhance capacity building to ensure all countries, at various stages of development and with different levels of capabilities, have the necessary skills and knowledge to contribute to global efforts to reduce emissions and adapt to climate change. Canada is committed to a range of actions to support capacity building for climate change in developing countries. Internationally, Canada is engaging in a number of fora that help to enhance enabling environments in developing countries to facilitate the mobilization and effective deployment of climate finance. For example,

- Canada provided $5 million to the Capacity Building Initiative for Transparency (CBIT) to help developing countries increase their capacity to report transparently their greenhouse gas emissions reductions and their climate efforts, in line with the enhanced transparency requirements laid out in the Paris Agreement. Increasing transparency is one way enhance enabling environments by instilling accountability and increasing confidence of stakeholders.

- The International Development Research Centre supports the Frankfurt School of Management and the Thailand Development Research Institute to train future leaders in the science, policy and private sectors who are active in climate adaptation finance by discussing current challenges and opportunities in adaptation and adaptation finance. The project, launched in February of 2016, is developing a typology for adaption projects, outlining criteria for attracting and securing investments, investigating the mitigation of financial and business risks associated with adaptation projects, and determining how public policy can enable larger financial flows into adaptation.

5) Information on actions and plans to mobilize additional finance

Canada is engaging with a variety of partners, including institutional investors and the private sector, to build and strengthen the tools, alliances and initiatives essential for mobilizing additional climate finance flows. Canada recognizes that in order to help set the global economy on this trajectory, governments and the financial community will need to shift capital flows on a massive scale and at unprecedented speed.

Canada is looking to build on the world-renowned standards and reputation of Canadian pension funds to leverage private-sector investment to meet our economic and climate goals. For example, the Public Sector Pension Investment Board and Ontario Teachers' Pension Plan acquired interest in global renewable energy and water infrastructure company Cubico, providing it with access to capital and supporting continued conversion from hydrocarbons to clean and renewable sources of power.

In order to achieve the level of investment needed for a successful low carbon transition, it will be important to ensure that investors have the information they need to properly understand the financial and physical risks associated with climate change. This is why Canada is supportive of the Financial Stability Board's industry-led Task Force on Climate-related Financial Disclosures (TCFD). Canada established an expert panel to consult with Canada's financial market participants on issues related to sustainable finance, including climate-related disclosures, which could provide useful information for tracking private climate finance for domestic climate action in Canada. This Panel works with the private sector and the federal government, in collaboration with securities commissions, to promote awareness among Canadian financial market participants of climate-related risks and to advance the recommendations of the TCFD.