**Biennial Communication by Canada on Indicative Quantitative and Qualitative Information on Climate Finance in Accordance with Article 9, paragraph 5, of the Paris Agreement**

**January 2021**

## Introduction

Canada is pleased to submit its 2020 Biennial Communication on indicative quantitative and qualitative information on climate finance. This communication contains information on projected levels of public financial resources to be provided to developing countries, as applicable and as available, in accordance with the Annex of decision 12/CMA.1. These communications and additional work as part of Article 9, paragraph 5, of the Paris Agreement are means to increasing the clarity, predictability and efficiency of support for the implementation of the Paris Agreement.

Canada has been steadfast in its commitment, in partnership with other developed countries, to mobilise climate finance towards US$100 billion (B) per year by 2020. This financing comes from a wide variety of sources: public and private, bilateral and multilateral, including alternative sources. Over recent years, developed countries have successfully scaled-up efforts to mobilize climate finance towards this goal. A recent report produced by the Organisation for Economic Co-operation and Development (OECD) estimated that climate finance provided and mobilised by developed countries reached US$78.9B in 2018, up from US$39.5B in 2013.

We remain committed to the continuation of this collective mobilisation goal through 2025 in the context of meaningful mitigation actions, as well as transparency on implementation. We recognize that meeting the ambitious goals of the Paris Agreement will require a global effort. Financing the transition to low-emission climate resilient economies will require substantially more financing, from all actors and sources.

## Public Finance

In November 2015, Canada pledged $2.65B over five years to support developing countries transition to low-carbon, climate resilient economies. Canada is in the final year of this commitment.

Canada's total climate finance has been steadily increasing since committing to the collective US$100B goal in 2009. From $625M over 2015 and 2016, Canada's public climate finance disbursements increased to $1.5B over 2017 and 2018. While a portion of this amount is directly attributable to Canada's $2.65B commitment, it also includes support from other sources such as other international assistance with a climate change component, climate-relevant support through Export Development Canada (EDC), provincial support, and core contributions to Multilateral Development Banks (MDBs) that supported climate action.

### Climate Finance Objectives

Canada's climate finance is designed and delivered 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 but that they 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.

Channels

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

- In August 2019, Canada announced a contribution of $300M to the first replenishment of the Green Climate Fund (GCF), joining 30 other contributors pledging a total of USD $9.9B covering the 2020 to 2023 period. This builds on Canada's contribution of $300M to the initial resource mobilisation of the GCF.

Recognizing the importance of using public resources in a way to maximize their ability to leverage and mobilize resources from the private sector, Canada pioneered innovative approaches in working closely with 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, in line with partner country priorities, such as building up the capacity, systems and processes necessary to implement Nationally Determined Contributions and National Adaptation Plans. Bilateral initiatives also aim to establish public-private partnerships 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 impacts 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 projects. 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.

Canada is also exploring new instruments (such as Catastrophe and Resilience Bonds) to support disaster-related risk-sharing, and new approaches like the Ocean Risk and Resilience Action Alliance, to bring together governments, financial institutions, the insurance industry, conservation organizations, and other stakeholders to unlock increased private investment in resilience.

Sectors

Canada's climate finance supports initiatives that aim to reduce greenhouse gas emissions and enhance resilience for the poorest and most vulnerable people. For example:

Initiatives Supporting Mitigation Action

- **$275M to the World Bank to create the Energy Transition and Coal Phase-Out Program:** This program helps developing countries, particularly in Southeast Asia, to phase out their dependence on traditional coal-fired electricity generation while supporting energy-efficient and renewable-energy alternatives to power their fast-growing economies. The program will also mobilize private-sector financial resources for climate action and provide training and employment opportunities for women in clean-energy sectors. Canada's support is being delivered over 2019/20 to 2020/21.

  **$60M for a renewable energy in Small Island Developing States program at the World Bank:** Canada supports the expansion of clean energy systems and infrastructure, the improvement of energy access for women and girls, and the provision of training and employment opportunities for women in non-traditional, sustainable technology sectors, in Small Island Developing States (SIDS). Canada's support is being delivered over 2019/20 to 2020/21.

Initiatives Supporting Adaptation Action

- **$37.5M to the Least Developed Countries Fund (LDCF):** This initiative helps to address the adaptation needs of the poorest and most vulnerable countries. Through the implementation of critical, on-the-ground projects, this funding will focus on sectors including water, agriculture and food security, health, disaster risk management and prevention, infrastructure, and fragile ecosystems. Canada's support is being delivered over 2016/17 to 2020/21.

- **$16.2M for water management and climate resilience for Andean women and men in Peru**: This project ensures a stable water supply for the poorest people in the Andes, especially women, through appropriate water management and climate change adaptation measures. It adopted innovative financing models, management and technical solutions, or "green infrastructure," and by engaging with Indigenous Andean communities to ensure women's needs and contributions are at the heart of Peru's national climate policies and activities. Canada's support is being delivered over 2017 to 2022.

Cross-cutting Initiatives (supporting both adaptation and mitigation objectives)

- **$150M to the International Fund for Agricultural Development (IFAD):** This contribution delivered over 2019/20-2020/21 expands support for agriculture development activities in rural areas that create opportunities for small-scale farmers, especially women, to strengthen resilience to the impacts of climate change and adopt technologies and practices that help mitigate the carbon footprint of agriculture.

- **$2M for the Accelerator for Women Climate Entrepreneurs:** This contribution offers mentorship support in business and financial management, and examines and proposes solutions to address the key barriers facing women-owned businesses in the delivery of climate-smart goods and services in developing countries. Canada's support is being delivered in 2020/21,

More information on initiatives currently supported by Canada can be found here: https://www.canada.ca/en/services/environment/weather/climatechange/canada-international-action/climate-finance.html

Alignment with International Assistance Priorities

Recognizing that climate change and development are intrinsically linked, Canada's climate finance is aligned closely with the 2030 Agenda for Sustainable Development. In this regard, mainstreaming of climate change within Canada's international assistance is supported by Global Affairs Canada's mandatory Environmental Integration Process (EIP). The EIP mandates that environment specialists provide recommendations for the mainstreaming of climate change considerations in the design and implementation of programs supported by Canada.

In evaluating proposals for climate finance, Canada selects initiatives that strongly align with its climate program priorities as well as broader international priorities, notably 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.

- For example, Canada is providing up to $17.1M between 2017 and 2021 for Sustainable Energy and Economic Growth in Burkina Faso's Boucle du Mouhoun Region. This project aims to increase inclusive and sustainable economic growth in Burkina Faso. The project carries out activities that include electrifying 14 localities from the national electricity grid, promoting certified solar lamps in rural areas, and equipping 30 remote health centres with solar energy systems. In addition, the project aims to create new jobs for women and young entrepreneurs by promoting the development of businesses and economic activities enabled by electricity, as well as by access to financing and vocational training.

Furthermore, projects are considered based on their climate rationale, looking if climate change adaptation or mitigation is fundamental in the design and impact of the investment and is an explicit objective of the investment. As the majority of Canada's public climate finance is delivered by Global Affairs Canada, please find more information here on how proposals are assessed.

How Canada Projects and Communicates Ex-Ante Climate Finance Information

Projected levels of Canada's public climate finance are based on multi-year commitments. These commitments are new and additional climate finance as they are above and beyond what was planned prior to the Copenhagen Accord.

Over the course of the multi-year pledge, Canada provides program level information at the commitment stage of each project. A new project commitment is often communicated through an official announcement. These announcements provide detailed information, such as the project implementer, funding amount, and program priorities. Furthermore, all announcements are clearly listed on Canada climate finance website here.

Post-2020 Climate Finance

Canada is currently considering its approach to climate finance for the post-2020 period, therefore details on future public climate finance from Canada is currently limited. In order to inform its post-2020 climate finance, Canada undertook a consultation process to engage domestic and international stakeholders to share perspectives on Canada's approach to international climate finance. Individuals and organizations were invited to submit written submissions, and virtual consultations took place, including roundtables hosted by Ministers as well as Canadian Missions and Embassies in developing countries. Subjects covered included women's rights and adaptation, mitigation, nature-based solutions, private sector engagement and green recovery. The government also met with Indigenous peoples to gain their unique perspectives. A "What We Heard" report has been published to summarize the output of the consultations.

## Enhancing Enabling Environments

Enhancing in-country capacity and country ownership for low-carbon and climate-resilient development is key to achieving transformative changes required to reach the goals of the Paris Agreement. That is why Canada is working to enhance conditions necessary for promoting climate action in developing countries including through comprehensive support around planning, policy development, improving access to finance, technology transfer and capacity building.

Access to Climate Finance

While the volume of climate finance has increased substantially over the past decade, the system for delivering and accessing finance has become highly complex. Canada recognizes the barriers and challenges that developing countries face in accessing climate finance, and supports initiatives that provide solutions.

- In June 2020, Canada announced $9.5M for the Climate Finance Access Network (CFAN). This initiative is designed to unlock climate finance for the most vulnerable and least developed countries and build the capacity of these countries to more quickly access climate finance and achieve their climate objectives. The Network, coordinated by Rocky Mountain Institute and supported by a group of international organizations, will cultivate a network of highly trained, embedded climate finance advisors who will spend one to two years working directly in developing countries. CFAN provides ongoing technical support to advisors while also building long-term capacity on the ground through in-country trainings for civil servants. CFAN is country-driven and available to all developing countries with a focus on Least Developed Countries, Small Island Developing States, and African countries.

Technology Transfer, Development and Capacity Building

Clean, innovative technologies are key to addressing climate change and to growing a global low-carbon economy. Access to clean technologies helps developing countries reduce GHG emissions and better adapt to the effects of climate change they are already facing.

The Paris Agreement commits to enhancing capacity building to assist all countries, at various stages of development and with different levels of capabilities, build 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 technology development, transfer and capacity building for climate change in developing countries. Key areas of support include:

- Climate Technology Centre and Network (CTCN): Canada continues to support the CTCN under the UNFCCC (having provided $5M to date) and will remain actively engaged with the Advisory Board to help maximize the impact of its services, which span a wide range of climate mitigation and adaptation technologies.

- Capacity Building to West Africa: Canada is contributing a total of $4.63M by 2020/21 to support countries in the Pacific Alliance (Chile, Colombia, Mexico and Peru) and Western Africa (Benin, Burkina Faso, Cabo Verde, Cote d'Ivoire, The Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone, and Togo) to define regional priorities to address GHG and short-lived climate pollutants (SLCP) emissions and to pursue opportunities to strengthen their capacities to measure, report, and verify (MRV) emissions. This project facilitates South-South collaboration and knowledge sharing of best practices generated from Canada's climate finance sectoral projects in each region. Through capacity-building and regional collaboration efforts, this project will support countries to achieve their respective Nationally Determined Contributions (NDC).

- International Energy Agency's (IEA) Clean Energy Transitions Programme: Canada continues to support the work of the IEA's Clean Energy Transitions Programme through a $1M investment (2017-21), which aims to drive an accelerated energy transition in key emerging economies through capacity building and sharing of best practices. A key focus of Canadian funding is on the impact of the clean energy transition on gender equity and women empowerment.

- International Renewable Energy Agency (IRENA): As a member of the IRENA) Canada will continue to actively promote its expertise in the development and deployment of renewable energy technologies, increase the presence and visibility of its cleantech sector internationally and demonstrate its leadership in renewable energy. Through this important international forum, Canada will also shape the ongoing global dialogue on renewable energy and climate change, including on issues such as energy access and gender equality.
    - Canada and IRENA are launching a joint global, multi-thematic platform to transition remote communities to renewable energy. Canada and IRENA will sign a five-year grant agreement in early 2021. Funding of $0.5M for Phase 1 (the first two years) has already been approved to focus on local capacity building, exchange of best, proven practices in least-developed countries and SIDS. A handbook with guiding information will be the first deliverable.

**Mobilised Finance**

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 and resilient innovations.

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.

For example, Canada provided $200M to the Canadian Climate Fund for the Private Sector in Asia II (CFPS II) at the Asian Development Bank. The purpose of the fund is catalyze greater private investment in climate change mitigation and adaptation projects that support the pursuit of a low-carbon, gender-responsive and climate resilient development path for the region. As Asian markets become supportive of utility-scale renewables, projects that once required concessional support are becoming more commercial. The fund aims to help the private sector overcome risks, such as market risks, by offering financing on concessional terms and conditions to projects that would not proceed solely on a commercial basis.

Projects through this fund are eligible to low and lower-middle income Asian and Pacific countries, and upper-middle income small island developing states in the region. Eligible activities include mitigation and adaptation activities in areas such as clean and renewable energy generation, energy efficiency, resilient infrastructure and disaster risk management. Gender equality, particularly the empowerment of women and girls, is an objective across all projects.

For more information on eligibility criteria and to access available funding please visit: https://www.adb.org/site/funds/funds/canadian-climate-fund-for-the-private-sector-in-asia-2

**CFPS II Project Example: Upper Trishuli 1 Hydropower Project**
In 2019, the CFPS II approved US$30M to support a 216.0 megawatt (MW) run-of-river hydro power plant. The project will boost domestic power generation and help reduce imports of electricity into Nepal through the efficient use of indigenous renewable sources, contributing to Nepal’s long-term energy security, sufficiency and sustainability.

CFPS II funding was integral to the project’s financial viability as it helped attract private capital currently unavailable in the market. The success of this first private sector-led hydro project in Nepal is expected to pave the way for additional private sector development of Nepal’s untapped hydropower potential.

The project also has a Gender Action plan that will increase employment of women during construction, support skills development of women and support girls child education through scholarships.

## Efforts to make finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development

Climate finance, notably the collective goal to mobilise US$100B per year, is critical to supporting developing countries take concrete action on climate change. However, this support underpins a larger global financial landscape and required economic transformation to implement the Paris Agreement. We know that to reach the long-term goals of the Paris Agreement a global response is needed to align financial flows with climate change. This objective is reflected within Article 2.1c of the Paris Agreement which calls to make all financial flows consistent with a pathway towards low-emission and climate-resilient development. This goal reflects the full scale of the financing effort that is required to address climate change. 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 is particularly important in responding to the COVID-19 pandemic. To achieve our climate goals and rebuild from the global pandemic, putting a green lens on our recovery efforts is essential.

<u>International Actions to Align Financial Flows with the Objectives of the Paris Agreement</u>

Internationally, Canada's climate finance investments and other initiatives are supporting developing countries in their efforts to meet the long-term goals of the Paris Agreement.

For example:

- As outlined above, Canada is partnering with MDBs to mobilise private finance, using our climate finance to respond to market barriers and deliver climate finance at scale, producing transformational results. This is done by using public investments to leverage private finance investment in climate action, removing market barriers to investment; improving access to finance for clean investments; supporting developing countries to establish robust, long-term climate policies; and building in country capacity.

- As noted previously, Canada has committed a total of $600M to the GCF to date. A key element of the GCF's mandate is to promote the paradigm shift towards low-emission and climate-resilient development pathways by providing support to developing countries to limit or reduce their greenhouse gas emissions and to adapt to the impacts of climate change. This includes the GCF's pivotal role in shifting and catalysing financial flows managed by the private sector into low-emission and climate-resilient investments in developing countries, notably through its Private Sector Facility (PSF).

- The Powering Past Coal Alliance (PPCA), which Canada co-leads with the United Kingdom, with over 110 members, is the driving force behind collective efforts to accelerate the global phase-out of emissions from coal power.
    - The phase out of coal-fired electricity is the most important first step public and private actors must take towards Paris alignment in the power sector. Though PPCA is a government-led initiative, it bridges the divide between public and private actors though Finance Principles that translate its public declaration into clear commitments for financial institutions.
    - The PPCA also is also driving a dialogue on coal phase-out in developing countries to share best practices and knowledge that can help countries in the transition to clean energy sources. For example, the PPCA is a key mechanism delivering on the United Nations Secretary General's call for no new coal. Through its broad coalition and thought leadership, the PPCA supports developing countries in charting a path from coal to clean energy sources.

- Canada's export credit agency, EDC, is contributing to the global transition to a low-carbon, sustainable economy.
    - In 2018, EDC became the first export credit agency in the world to commit to implementing the recommendations of the Task Force on Climate-related Financial Disclosures, joining Canadian commercial banks, along with a number of Canadian pension funds and large companies, in helping to advance the availability, consistency and comparability of climate-related information.

    - In January 2019, EDC also released its Climate Change Policy, another significant step in its contribution to the global transition to a low-carbon sustainable economy.

- Canada is part of the Like-Minded Shareholder Group on Multilateral Development Bank Paris Alignment and the Bonn Group. These joint forums establish constructive and fruitful dialogues with the MDBs to support their alignment process through political visibility and board-level backing.

Domestic Actions to Align Financial Flows with the Objectives of the Paris Agreement

Developing an understanding of actions countries are taking domestically is also important in supporting global action towards Article 2.1c as domestic experiences provide opportunities to share expertise, knowledge, lessons learned and identify opportunities for collaboration. In this regard, Canada is taking a number of actions at home to implement Article 2.1c, such as:

- The Pan-Canadian Framework on Clean Growth and Climate Change, Canada's plan to meet our emissions reduction targets, grow the economy, and build resilience to a changing climate.
    - Pricing carbon pollution is a central component to this Framework. While carbon pricing is recognized as one of the most effective, transparent and efficient policy approaches to reduce GHG emissions, it can also help to stimulate innovation and investments in clean technology, which support long-term sustainable growth. On December 14, 2020, the Government announced Canada's strengthened climate plan, which will help achieve our economic and environmental goals, including continuing to put a price on pollution through to 2030, rising at $15 per tonne after 2022 to a total of $170 per tonne by 2030.

- Canada appointed an Expert Panel on Sustainable Finance in April 2018 to consult with Canada's financial sector on issues related to sustainable finance. The Expert Panel engaged hundreds of stakeholders from the financial sector, industry, governments, think tanks, and academia.
    - In June 2019, the Expert Panel released its final report, *Mobilizing Finance for Sustainable Growth*, which builds upon the insights from the Expert Panel's consultations and presents 15 recommendations to the Government of Canada to bring sustainable finance into the mainstream. The Expert Panel's consultations and report built momentum on sustainable finance in Canada.
    - In July 2020, the Government of Canada announced the creation of a Sustainable Finance Action Council (SFAC) aimed at developing a well-functioning sustainable finance market in Canada. Creating the SFAC was one of the recommendations of the Expert Panel.
    - Other examples of public and private sector action include the establishment of the Institute for Sustainable Finance, the development of a private-sector-led transition taxonomy, and a private sector collaboration group.

- Canada's Large Employer Emergency Financing Facility, a short-term liquidity assistance program for large Canadian employers established in response to the Covid-19 pandemic, requires recipient companies to commit to publishing annual climate-related disclosure reports. These reports will highlight how corporate governance, strategies, policies, and practices will help manage climate-related risks and opportunities and contribute to achieving Canada's commitments under the Paris Agreement and goal of net zero by 2050.

## Conclusion

Canada remains committed to supporting developing countries take action on climate change, notably by contributing to collective efforts to mobilise US$100B per year in climate finance through to 2025. Furthermore, we recognize the need to align all financial flows with climate action and will continue to work with all countries and partners to accelerate this transition and achieve the Paris Agreement goals.

Canada is looking forward to discussions on climate finance at the 26th Conference of the Parties (COP26) and recognize that climate finance will be a priority as we move into the implementation phase of the Paris Agreement.