Strategies and approaches for long-term climate finance

Canada is pleased to respond to the invitation contained in decision 3/CP.19, paragraph 10, to prepare biennial submissions on strategies and approaches for scaling up climate finance from 2014 to 2020. This submission presents Canada's perspectives on issues related to the long term finance discussions under the UNFCCC.

Canada supports an effective new international climate change agreement that is fair, addresses both mitigation and adaptation, and, most importantly, includes a commitment to action by all the world's major emitters of greenhouse gases.

Canada remains committed to implementing the Copenhagen Accord and is delivering on its commitments. As reported in our 6th National Communications, Canada's climate finance reached $1.5 billion over the 2009/10-2012/13 fiscal years, which included the fast-start financing period. Canada is proud to have fully delivered on its commitment to provide $1.2 billion in new and additional fast-start financing over fiscal years 2010/11 to 2012/13, representing our largest ever investment in international climate change-related support. This support has benefited over 65 developing countries to date.

Beyond this, Canada recently pledged $300 million to the Green Climate Fund. The Fund's strong focus on helping the poorest and most vulnerable countries with adaptation and promoting private sector investment will play a key role in addressing climate change globally. Canada is pleased that, with the pledges made by various Parties, the level of financing committed to the Green Climate Fund is consistent with an ambitious initial resource mobilization process at very significant scale as agreed in Warsaw (Decision 4/CP.19).

Canada also remains committed to continuing to work with our partners towards the goal of jointly mobilizing $100 billion per year by 2020 to address the needs of developing countries, in the context of meaningful mitigation actions and transparency on implementation. In this respect, the majority of long-term financing will need to be in the form of private sector investment in developing countries, with public sector finance playing a key role, notably in mobilizing private investment as well as in supporting efforts to build climate resilience in the poorest and most vulnerable countries.

Looking beyond 2020, the climate finance regime will need to take into account the evolving capabilities of developing countries and their growing place in the global economy. An increasing number of developing countries are able to access significant flows of finance and investment on affordable terms directly from domestic and international private sources. Canada recognizes, however, that this may not be true for the poorest and most vulnerable countries, which face an ongoing need for support to adapt to climate change.

In this respect, it will be critical to continue to focus on climate finance that is effective. We believe that our previously presented considerations included below remain relevant in our discussions. We also present our perspective on effective approaches to deliver support to the poorest and most vulnerable countries for adaptation; on the need to continue to use an effective mix of financial instruments, in particular to support private sector investment; on the importance of enabling environments domestically and enabling frameworks internationally; and finally, on transparency and its critical importance to an effective overall climate regime. Canada will continue to work on strategies and approaches that take into account such considerations as they are consistent with consensus in the UNFCCC and are likely to better attract finance from donor governments, public funding institutions as well as private investors and financiers.

Climate finance effectiveness
In Canada's view, effective climate finance has five key attributes – it should be cost-effective, predictable, transformational, transparent and results-based.

- **Cost-effective** -- achieving climate impacts at the lowest reasonable cost.
- **Predictable** -- contributing to effective long-term planning by public and private actors.
- **Transformational** -- ensuring demonstration effects and promoting deployment of best available technologies to help relevant sectors become sustainable without subsidy over the long run.
- **Transparent** -- showcasing successful contributions, strengthening accountability and results, and maximizing demonstration effects.
- **Results-based** -- prioritizing actions leading directly or indirectly to measurable and/or reportable results, such as tons of CO_2-equivalent emissions reduced or increased capacity for climate resilience.

Support for Climate Change Adaptation
Public support for adaptation in developing countries has been scaled-up over the recent years. For Canada, this type of support is crucial for the poorest and most vulnerable countries which face an ongoing challenge to build their resilience to the impacts of climate change. Canada's recent adaptation support focused primarily on the needs of the poorest and most vulnerable countries, with a view to further underpin the achievement of results related to food security and sustainable economic growth, and to support the principles of aid effectiveness.

Given the importance of public support for adaptation, Canada is particularly pleased that the Green Climate Fund has placed a major emphasis on it. Public funding is also important to the programs Canada finances that seek to reduce climate and disaster risk. For example, Canada has been actively engaged in supporting disaster risk reduction projects through its Caribbean Regional Development Programme. In 2013, the Asian Development Bank also established the Integrated Disaster Risk Management Fund for the Southeast Asia region with the financial support of Canada. These programs support better climate risk assessment, the design of disaster risk reduction and climate change adaptation interventions, and the design and initiation of risk financing solutions, such as regional risk pooling mechanisms.

Risk pooling mechanisms are an example of the best practices of private finance that should be taken into consideration in discussions of adaptation finance. Opportunities for private sector partnership and to leverage the capacity and finance of the private sector to build climate resilience should be actively explored as a complement to more classic public-sector driven approaches.

A recent example from the US$250 million Canadian Climate Fund for the Private Sector in the Americas at the Inter-American Development Bank illustrates the point. The Fund recently approved its first adaptation project that uses private financing approaches. Financing will be provided to small and medium sized coffee farmers in Central and Latin America on longer terms than are currently available. This will allow them to renovate their coffee plantations with trees resistant to *roya*, or coffee rust, the effects of which may be worsening due to increased climate variation. More than 500 farmers are expected to benefit from this support over the next three years.

Using the right instruments: financing terms and addressing risks and barriers
For climate finance to be cost-effective and transformational, using the right instruments should be a key consideration for the overall strategy.

Grant support should be considered where affordable market-based financing is not available, such as for many adaptation projects in the poorest and most vulnerable countries or for early stages of technology demonstration. Non-grant financing, including on concessional and non-concessional terms, should be the primary choice when affordable market-based financing is constrained by such factors as market failures, capital availability, and perceived risks. In cases where grant financing is not warranted by financing conditions in the market, however, efforts will need to be made to avoid increasing the unsustainable debt burdens of lower-income countries, and as such, non-grant instruments should primarily target middle-income countries and non-sovereign proponents, notably the private sector.

To ensure scare resources are allocated where they are most needed and promote the achievement of the most transformational impacts, addressing market failures and / or "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.

Canadian facilities for the private sector at Multilateral Banks are contributing to this effort. Over 2009-10 to 2012-13, Canada provided $687M the International Finance Corporation (IFC), the Inter-American Development Bank (IDB) and the Asian Development Bank (ADB), to establish Canadian facilities. Canadian funds are blended alongside the multilateral development banks' own funds to enable private sector investments that would not otherwise happen.

This type of finance can produce transformational projects at a very significant scale. For example, the Canadian Climate Fund for the Private Sector in Asia at the Asian Development Bank, with co-financing from other donors, is supporting a 320.8MW geothermal power facility in Indonesia expected to avoid 1.3M tons of CO_2 emissions per year.

Financing flows will be facilitated by domestic enabling environments
Internationally provided and mobilized climate finance should support and facilitate the implementation of effective domestic policy environments in developing countries rather than substituting for it. Some policies, such as harmful fossil fuel subsidies, can create disincentives for the private sector to invest in low-emissions, climate resilient development. With relative

prices distorted, the higher relative cost of low-emissions and climate resilient development increases the total financing need and project-level costs to be financed. Cost-effective, transformational climate finance can't be expected to flow in such a context.

On the other hand, transparent, predictable and credible climate–related policies and enabling environments can create incentives for climate-smart growth and poverty reduction, which effective climate finance can facilitate. In such a favorable policy context, approaches that directly enable greater action by governments and those that promote access to private capital on affordable terms by non-governmental actors affected by the implementation of climate policy are much more likely to achieve results in a cost-effective manner.

In this respect, Canada recognises that capacity-building for governments and institutions and support for the development of financeable projects can be an effective use of climate finance.

Creating a Global Enabling Environment for Scaled up Flows
In addition to creating an enabling domestic environments, a number of steps can also be taken internationally that encourage and facilitate robust financing flows for climate-friendly investment.

The adoption of an effective new climate change agreement with a commitment to action by all the world's major emitters would send a clear and strong signal to markets. Having said that, progress can be made in other areas that can contribute to robust capital and product markets.

For example, a growing financing vehicle used to mobilize private climate finance is the green bonds market, a diverse market that can include banks, corporations, and governments as issuers, and institutional and private long-term actors as investors. Earlier this year, Export Development Canada (EDC) issued its first green bond, valued at $300 million, reflecting EDC's commitment to support businesses that are active in protecting the environment and mitigating climate change. EDC's current portfolio of green assets includes loans made to companies who are active in the fields of preservation, protection or remediation of air, water, and/or soil, or the mitigation of climate change.

Export financing can also help accelerate the deployment of climate friendly technology and investment by ensuring the availability of adequate financial terms and conditions for projects in selected sectors that contribute significantly to climate change mitigation and adaptation. To this end, Canada and other countries have moved ahead on ways that allow their Export Credit Agencies to address the particular barriers faced by projects in the renewable energy, climate change mitigation and adaptation, and water sectors. [1]

[1] Sector Understanding on Export Credits for Renewable Energy, Climate Change Mitigation and Adaptation, and Water Projects under the *Arrangement on Officially Supported Export Credits*

Transparency
Despite growing global investments and delivery channels in low-carbon projects, it will be challenging to achieve the scale of investments needed without getting a better understanding of the results climate finance is achieving.

All Parties are working to track and report on flows of finance mobilized and on the results achieved through support provided and received in a transparent manner. 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 confidence that progress is being made and can improve results over time as best practices are shared. Effective tracking can also enhance predictability for all actors involved as historical trends are key inputs into forward planning.

To this end, Canada has sought to model best practices in reporting transparently on our provision of financing. We are also working closely with other donors within the Organisation for Economic Co-operation and Development to advance effective ways to track and monitor the mobilization of private finance.

Canada stands ready to work with 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.

Conclusion
Canada continues to work with other developed countries to mobilize climate finance, and supports continued cooperation among countries and institutions for mobilizing financial resources, recognizing that public climate finance should focus on where it has the biggest impacts – such as support for the poorest and most vulnerable countries to adapt to the adverse effects of climate change and to mobilize private sector finance in sectors where market-based solutions are emerging.

To that end, we will continue to work within the UNFCCC and in other fora to advance effective financing approaches in partnership with recipient and donor countries, with financing institutions and the private sector.

Canada invites Parties and others to consult www.climatechange.gc.ca for current information on Canada's climate finance, including our new interactive map, which includes examples of climate finance approaches that are in line with the views presented in this submission.

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