



*Sustainable Energy Solutions*

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Re: **Department of Finance Consultation on Official Development Assistance, 2010**

The Pembina Institute welcomes this opportunity to submit comments to the Department of Finance as part of the department's consultation process under the *Official Development Assistance Accountability Act* (ODA AA).

The comments below pertain only to the Department of Finance's International Climate Change funding (as described under the "Other New Initiatives" section of the consultation paper provided at <http://www.fin.gc.ca/actvty/consult/oda-ado-eng.asp#a1>).

As a member of the Canadian Coalition on Climate Change & Development (C4D), the Pembina Institute supports the comments submitted by C4D to this consultation process. C4D raises several questions about whether the Department of Finance's allocation of \$291.5 million in concessional support to the International Finance Corporation (IFC) conforms adequately to the criteria outlined in the ODA AA. The issues raised by C4D include:

- Whether providing over 71% of Canada's fast-start financing contribution in the form of IFC loans will benefit the poorest and most vulnerable, populations that are often better served by grant financing
- Whether the balance between mitigation and adaptation in Canada's 2010 contribution meets the requirements of the ODA AA. In 2010, just 11% of Canada's 2010 fast-start financing was dedicated to adaptation initiatives. Adaptation (not mitigation) tends to be the immediate priority of Least Developed Countries and of poor communities or populations that are highly vulnerable to climate change in other developing countries
- Whether the IFC's governance structures, private-sector focus, and reliance on financial intermediaries allow the organization to take adequate account of the perspectives of the poor, as required under the ODA AA.

For more information on these issues, please see C4D's full submission, which is entitled "RE: Consultation on Official Development Assistance – 2010."

The remainder of this submission builds on C4D's comments by providing specific suggestions about transparency concerning Canada's contributions to international climate change financing.

Transparency and accountability are, of course, central themes of the ODA AA, and a significant portion of the legislation (Section 5) is devoted to an outline of reporting requirements. As 2010 was the first year that Canada provided fast start financing (as a consequence of the 2009 Copenhagen Accord), 2011 is the Government of Canada's first opportunity to report on its fast start climate financing disbursements.

As a result, this consultation, and the 2011 Report to Parliament under the ODA AA, offer a timely opportunity to design an effective reporting system for climate financing that can be strengthened over time. It's worth noting that transparency about international commitments — often described as MRV, or measuring, reporting and verifying Parties' actions — are also central themes in the UN Framework Convention on Climate Change (UNFCCC) negotiations. Most recently, December 2010 Cancun Agreements outlined several new reporting commitments for climate financing.<sup>1</sup>

The current format of the ODA AA annual report to Parliament reviews ODA support department-by-department. Fast start climate financing involves numerous departments, including CIDA, Finance, and Environment Canada. To report on it effectively, the Government of Canada should develop a specific reporting approach for climate financing. Within the context of the ODA AA report, those elements of climate financing counted as ODA could be brought together in an annex.

The following elements should be reported as part of a Government of Canada effort to provide transparency about Canada's fast-start financing contributions:

- **The terms of any agreements that the Government of Canada reaches with international financial institutions to deliver climate finance.** For example, as noted above, over 70% of Canada's 2010 financing was allocated as concessional support to the IFC for "a broad portfolio of clean energy projects."<sup>2</sup> The Government of Canada has yet to provide any clarification about how it, or the IFC, defines "clean energy" — a critical component in determining the environmental effectiveness of this contribution. (A broad-

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<sup>1</sup> See, for example, Section III A, Paragraphs 40(c), 41, 42(b), 46(a)(i) and Section IV A Paragraph 96 of *Draft decision -/CP.16*, "Outcome of the work of the Ad Hoc Working Group on long-term Cooperative Action under the Convention" (available online at [http://unfccc.int/files/meetings/cop\\_16/application/pdf/cop16\\_lca.pdf](http://unfccc.int/files/meetings/cop_16/application/pdf/cop16_lca.pdf)).

<sup>2</sup> <http://www.fin.gc.ca/activty/consult/oda-ado-eng.asp#a1>

based investment program to support concentrated solar power will likely be far more transformative than support for “cleaner” coal.)

- In addition, the Government of Canada has not yet provided any information about the **degree of concessionality** of the loans it is providing the IFC. Financial information such as the time of maturity of a loan, its grace period, repayment duration, and the interest rates charged allow governments and observers to understand the “grant element” of financing provided, as per the OECD’s definition of concessionality. Currently, there is no way for the public to learn, or to calculate, the grant element of Canada’s IFC financing contribution.
- **The data needed to determine the newness and additionality of Canada’s fast start financing.** Both the 2009 Copenhagen Accord and the 2010 Cancun Agreements specified that climate financing provided to developing countries must be both “new” and “additional.”<sup>3</sup> Determining whether or not Canada’s contribution meets these important thresholds requires transparent reporting about:
  - The baselines that the Government of Canada is using when it asserts that a contribution is new or additional. (New relative to when? Additional to what?)
  - Projected rates of change in Canadian ODA contributions in future years, so that observers can gauge whether climate financing support has resulted in a reduction in ODA contributions that would otherwise have been provided to non-climate development priorities.
  - The sources (or origins) of the federal revenue used to provide Canada’s fast-start contribution for a given year, preferably in a table format. At present, it is possible to find some of this information in the Government of Canada’s Estimates and Supplementary Estimates, but some of those documents were not available when the Government of Canada first announced its 2010 financing allocations. In future years, information about the sources of revenue used for climate financing should be provided at the time the announcements are made.
- **Decision-making criteria for climate financing.** The Government of Canada should provide a listing of the criteria used to choose particular focus areas for climate financing. For example, Canada’s 2010 financing fact sheet states that financing will be focused on

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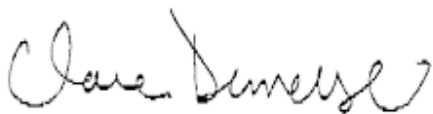
<sup>3</sup> See, for example, Section I Paragraph 2(d), Section II Paragraph 18, and Section IV A Paragraphs 95 and 97 of the *Draft decision -/CP.16*, “Outcome of the work of the Ad Hoc Working Group on long-term Cooperative Action under the Convention.”

three priority areas (adaptation, clean energy, and forests and agriculture)<sup>4</sup> but does not explain why those particular areas were selected over others. Similarly, it would be useful to understand the criteria used to select multilateral funding options, such as the Least Developed Countries Fund or the IFC. This reporting could be bolstered by summarizing the results of any consultations held with Canadian or international civil society.

- **The rate of disbursement of the previous year's announced financing contribution.** How much of Canada's 2010 financing has already been delivered? How much remains to be disbursed?
- **The results achieved with previous years' financing contributions.** In the case of Canada's 2010 IFC contribution (as well as any future loan-based mitigation support), this would include information about greenhouse gas (GHG) emissions reduced relative to a baseline<sup>5</sup>; private sector funding (and other types of co-financing) leveraged; supportive policies adopted in the recipient country; and the geographical and sectoral distribution of projects funded. On the adaptation side, reporting on results should include assessments of the projects' effectiveness in reducing vulnerability; any social or environmental co-benefits achieved through the work; and assessments of the success achieved in involving civil society organizations and vulnerable communities in the recipient countries.

Thank you again for the opportunity to provide these comments to this consultation. Please do not hesitate to contact the Pembina Institute with any comments or questions.

Sincerely,



Clare Demerse  
Acting Director, Climate Change

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<sup>4</sup> Government of Canada, *Canada – 2010 Fast-Start Climate Change Financing* (Ottawa: Government of Canada, 2010), 1. Available online at <http://www.climatechange.gc.ca/default.asp?lang=En&n=5F50D3E9-1>.

<sup>5</sup> It will also be important to report on what is “done” with those emission reductions once they are achieved: i.e., where they are being counted within the international system. Will Canada attempt to use these “credits” towards meeting its own target, in a variation on the approach permitted under the Kyoto Protocol's Clean Development Mechanism (CDM)? Will the recipient country count the emission reductions towards achieving its own Nationally Appropriate Mitigation Action (NAMA) goals? Knowing the “fate” of emission reductions achieved with financial support is important to ensure that they are not being double-counted.