Photo: IFAD

Protecting our Common Future:
An Assessment of Canada's Fast-Start Climate Financing

October 2013

A report by:

CCIC CCCI — Canada's Coalition to End Global Poverty / Ensemble pour éliminer la pauvreté dans le monde

Canadian Foodgrains Bank — A Christian Response to Hunger

care

Canadian Feed the Children

For Over 50 Years CHF Canadian Hunger Foundation

Farm Radio International

Halifax Initiative d'Halifax

Oxfam Canada

Oxfam Québec

Mennonite Central Committee

Pembina Institute

USC Canada

World Vision

Oxfam-Québec is helping communities in Haiti respond to climate change, including through the introduction of seeds adapted for a shorter growing season, Disaster Risk Reduction activities, reforestation, irrigation channels and protection against soil erosion. The project was supported by $4.5 million of fast-start financing.

Photos this page: N.Montibert, Oxfam-Québec

Introduction

Between 2010 and 2012, Canada contributed almost $1.2 billion towards supporting developing countries to address the impacts of climate change. This was part of Canada's commitment under the Copenhagen Accord (see box next page) and represented a substantial increase from previous years of Canada's climate-related financing.

Under the Copenhagen Accord, developed countries also pledged to mobilize US$100 billion a year by 2020 to address the needs of developing countries. In order to make constructive recommendations for how Canada can effectively contribute to longer term financing goals, it is important to review the successes and challenges of Canada's track record from the 2010-2012 fast-start finance period.

To this end, a coalition of Canadian international development and environmental organizations commissioned an independent assessment of Canada's fast-start financing.[1] The key questions addressed are summarized below, followed by recommendations for next steps.

[1]The full report, *An Assessment of Canada's Commitments to Fast-Start Climate Finance, 2010-2012: A Financial Overview* is available at www.c4d.ca. The report was commissioned by the Canadian Coalition on Climate Change and Development (C4D). C4D is a group of development and environmental organizations that joined together in 2006 to share knowledge, take concerted action to address climate change and bring the voice of the international development community to the debate on Canada's response to climate change.

The Copenhagen Accord

At the UN climate change conference in Copenhagen (COP 15) in December 2009, Canada and other developed countries pledged to provide financing to help developing countries adapt to and mitigate the effects of climate change. This was reaffirmed and strengthened at COP 16 in Cancun in December 2010.

The Copenhagen Accord stated: "The collective commitment by developed countries is to provide new and additional resources, including forestry and investments through international institutions, approaching USD 30 billion for the period 2010-2012 with balanced allocation between adaptation and mitigation. Funding for adaptation will be prioritized for the most vulnerable developing countries, such as the least developed countries, small island developing states and Africa." This investment came to be known as fast-start financing.

As of November 2012, 23 developed countries had made pledges totaling US$32.9 billion for fast-start financing.[1] This self-reporting from countries suggests that the US$30 billion fast-start goal has more or less been met.

The Copenhagen Accord further calls for longer term financing for developing countries from a variety of sources. It states: "In the context of meaningful mitigation actions and transparency on implementation, developed countries commit to a goal of mobilizing jointly USD 100 billion a year by 2020 to address the needs of developing countries."

[1]See World Resources Institute, "Summary of Developed Country Fast Start Climate Finance Pledges," accessed May 2013 at http://www.wri.org/publication/summary-of-developed-country-fast-start-climate-finance-pledges.

Canada's Fast-Start Climate Finance, 2010-2012: A Summary of Findings

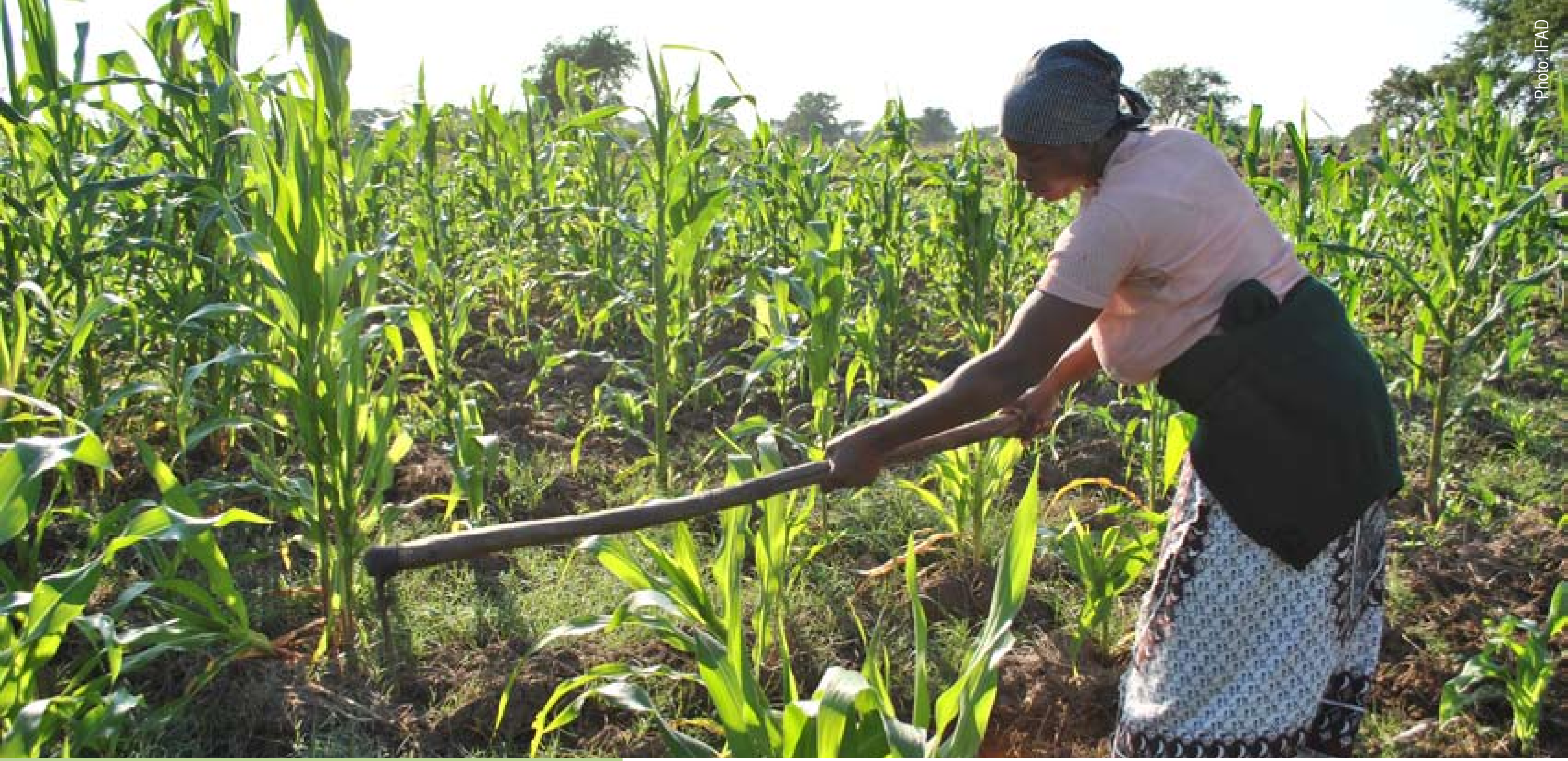
Canada's fast-start financing was assessed on the basis of requirements under the Copenhagen Accord, as well as additional key civil society recommendations: that there be an approximate balance between adaptation and mitigation financing; that Canada's fair share of financing be provided as grants or be calculated in 'grant-equivalent' form; that adaptation programs be pro-poor and promote gender equality and human rights; and that transparency and accountability be ensured. What follows is a summary of the main findings of this assessment.

Was Canada's fast-start financing new and additional?

Canada's contributions to fast-start financing can be considered both "new" and "additional." Virtually all of the funds allocated to fast-start financing were new resources above what Canada had spent on climate-related financing pre-2010. Canada's $1.2 billion was "additional" to budgeted international assistance at the beginning of each fiscal year. However, it should also be noted that the Government flat-lined overall international assistance in 2011 and then cut it each year from 2012 to 2014, which raises valid concerns that climate financing came at the expense of other aid.

Did Canada contribute its fair share of the global commitment?

Technically, Canada contributed its "fair share" of the US$30 billion global commitment to fast-start financing by providing 4%, or $1.2 billion, of the total. This amount is based on Canada's Gross National Income (GNI) in relation to the total gross GNI of OECD donor countries.



Congo Basin Forest Fund

As a forest-rich region, the Congo Basin of Africa faces the dual challenges of deforestation and climate change.

The Congo Basin Forest Fund (CBFF), established in 2002 with support from the UK and Norway governments, is developing the capacity of the people and institutions of the Congo Basin to preserve and manage their forests. This will help mitigate climate change as well as support sustainable livelihoods necessary for adaptation and ongoing development. The CBFF provides grant support for a range of climate-related projects—particularly in building capacity for REDD+[1] across the region.

Canada has been a strong supporter, contributing Cdn$20 million in fast-start financing to the CBFF, as well as serving as facilitator of the closely related Congo Basin Forest Partnership (CBFP) from 2010-2012. Canada also contributed an additional Cdn$2 million in fast-start financing to the CBFP.

As of late 2012, the CBFF had disbursed US$26 million in project support and approved an additional US$95 million (of an available US$165 million). Canada's support will help communities in the vulnerable Congo Basin to secure sustainable livelihoods while simultaneously addressing deforestation.

[1]Reducing emissions from deforestation and forest degradation in developing countries, and the role of conservation, sustainable management of forests and enhancement of forest carbon stocks in developing countries (REDD+) is a mechanism under the United Nations Framework Convention on Climate Change (UNFCCC) and is viewed as a key building block in a post-Kyoto climate agreement and potential market mechanism.

However, Canada's reliance on loan finance calls into question the actual value of Canada's commitment. It is expected that more than Cdn$615 million will be returned to Canada over the life of the loan programs, reducing the value of Canada's total fast-start finance by more than 50%.

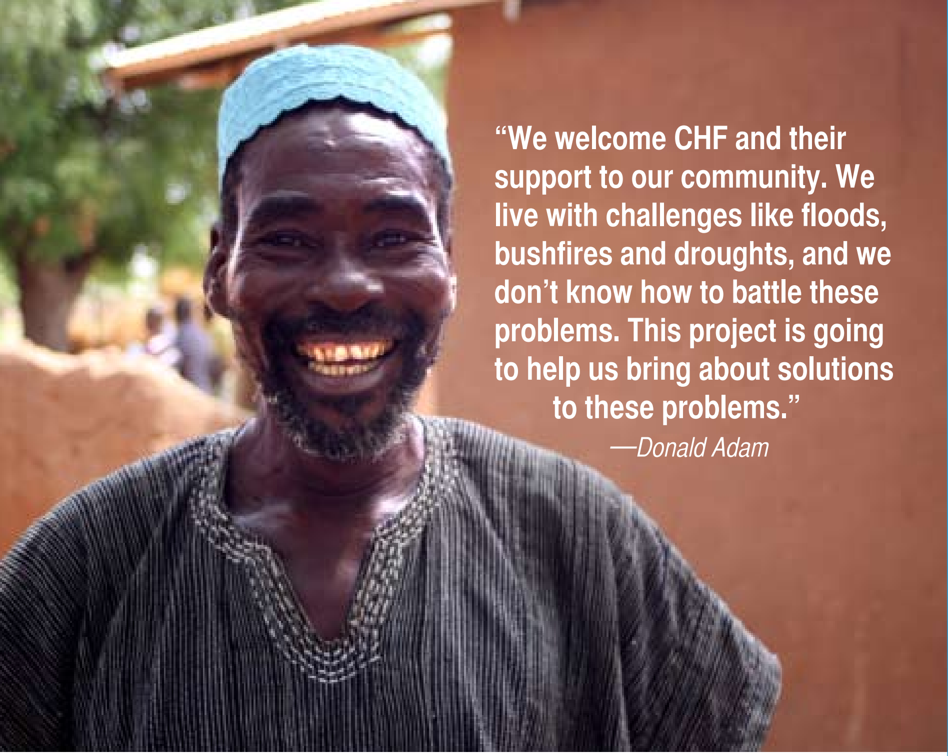
Fully 74% of Canada's $1.2 billion was allocated for loans, primarily for private sector mitigation projects. Canada's loans are managed through trust funds in the World Bank's International Finance Corporation (IFC) and two regional development banks, the Inter-American Development Bank (IADB) and Asian Development Bank (ADB). These loans are counted as part of Canada's Official Development Assistance (ODA), which will be adjusted downwards as the loans are repaid. The fast-start loans are the first time since 1986 that Canadian loans delivered as ODA will be repaid to Canada rather than re-loaned by the financial institutions back to new borrowers.

Grants versus loans: Was the level of financing in grant or "grant-equivalent form"?

At 74%, Canada has one of the highest ratios of loans in its fast-start financing in comparison to all fast-start finance donors. Furthermore, Canada has counted the full disbursement of the loans towards its fast-start finance contribution. Assessing only the "grant equivalent" value of the loans would significantly discount their face value.

Was there an equitable balance between mitigation and adaptation?

In the final year of the 2010-2012 fast-start phase, Canada significantly increased its funding for adaptation initiatives. However, given the heavy emphasis on loans to the private sector for mitigation activities, adaptation finance is estimated to account for only 18% of Canada's overall fast-start contributions. This contrasts with several donors that have a more equitable balance between mitigation and adaptation in their fast-start finance.



Did Canada prioritize adaptation fast-start financing for highly vulnerable countries?

Canada generally disbursed adaptation funding to countries highly vulnerable to the impacts of climate change (least developed countries, small island developing states and Africa). Approximately 70% of funding for adaptation activities was allocated to these countries.

Were adaptation initiatives pro-poor?

Detailed information on the substance of fast-start activities is currently insufficient to determine the degree to which financing initiatives met the requirements of the ODA Accountability Act with respect to poverty reduction, taking account of the perspectives of the poor, and the promotion of human rights. A recent report from the Auditor General[2] suggests Canada has not adequately tracked these legislated obligations for ODA activities implemented through multilateral organizations.

Recommendations for next steps in climate financing

The Government of Canada allocated significant funding to climate change mitigation and adaptation activities in developing countries from 2010-2012. Some of these funds have not yet been disbursed by partner organizations. Moreover, it will take considerable time before the results of many of these activities become apparent. Nevertheless, Canada's experiences during the fast-start financing period can provide some important lessons as we take the next steps forward in climate financing.[3]

[2]Auditor General, 2013. "Official Development Assistance through Multilateral Organizations," Chapter 4, Office of the Auditor General of Canada, Spring Report, April 2013, accessible at http://www.oag-bvg.gc.ca/internet/docs/parl_oag_201304_04_e.pdf.

[3]The recommendations focus predominantly on issues related to public finance, as private sector financing is not C4D's area of expertise.

CHF: Expanding Climate Change Resilience in Northern Ghana

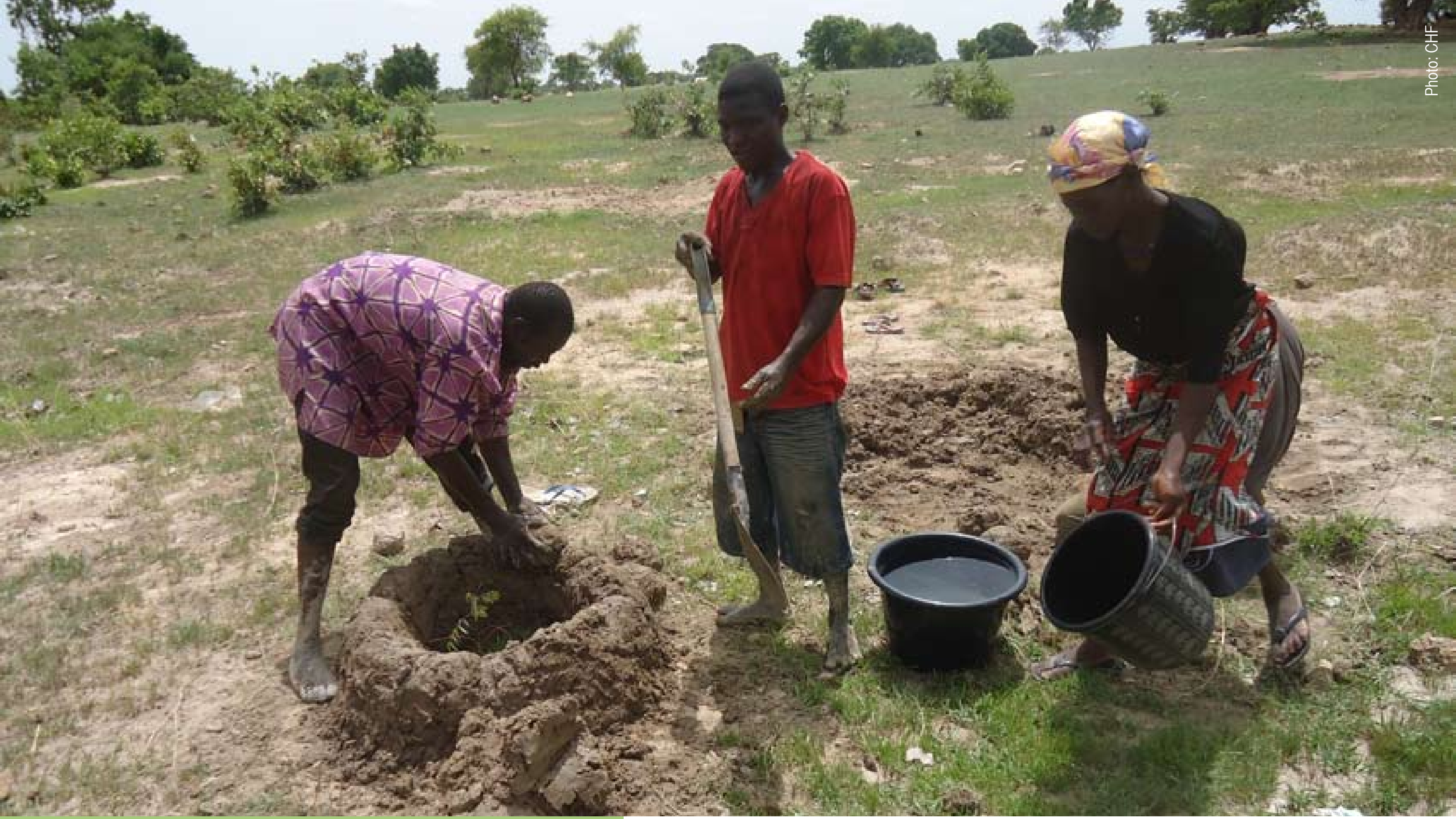
Climate change adaptation is a priority in Northern Ghana, which is experiencing rising temperatures, unpredictable rainfall and shorter growing seasons, as well as natural disasters such as floods and droughts.

To respond, CHF (Canadian Hunger Foundation) and the Association of Church-Based Development NGOs (ACDEP) in Northern Ghana are implementing a $2.6 million project, funded through Canada's fast-start financing. It leverages the climate change capacity and strong partnerships already built under previous projects implemented by CHF and ACDEP to reach 18 new communities and 10,000 vulnerable rural women and men.

The project is enhancing farmers' resilience to climate change through increasing and diversifying crop and livestock production, protecting and enhancing productive natural resources, and increasing access to alternative sources of income.

CHF and ACDEP are also working with communities, districts and regional organizations to increase their capacity to plan and implement climate change adaptation plans and priorities—resulting in a solid foundation for future responses to climate change and climate-related risk reduction.


Photo: IFAD



IFAD's Adaptation for Smallholder Agriculture Programme

The Government of Canada was instrumental in instigating a new program to help smallholder farmers adapt to climate change. Canada was looking to direct fast-start financing towards smallholder farmers, but the International Fund for Agricultural Development didn't have a dedicated financing window for smallholder adaptation.

The Rome-based UN agency established the Adaptation for Smallholder Agriculture Program (ASAP) in 2012, with Canada providing a $20 million grant. Now ASAP is the world's largest climate change finance program with a dedicated focus on smallholder farmers, having attracted more than US$300 million in bilateral financing from the U.K., Canada, Belgium and other donors.

The Programme will help IFAD scale up and integrate climate change adaptation across its new investments, and make climate finance work for smallholder farmers in developing countries.

In September 2012, ASAP approved its first project—a $4.9 million grant to Mozambique to accompany a seven-year $45 million project that focuses on value chains for horticulture, cassava and red meat. The ASAP grant will increase the climate resilience of these value chains. Thirteen new ASAP investments with a total financial volume of US$125 million are in advanced stages of design.

Make New Financing Commitments: At the 2012 Doha Climate Change Conference, developed countries were requested to provide resources of at least the average annual level of the fast-start period over the next three years. For Canada, this would mean at least $400 million a year from 2013-2015. A number of countries, including the U.K. and Germany, have committed funds during this interim period. Developed countries have also committed to the goal of mobilizing $100 billion a year by 2020 from a variety of sources.

It is important for Canada to commit to a schedule of financing contributions in the interim period, as well as to plan its participation in the 2020 initiative. While the private sector will play an important role in mobilizing financing, substantial and meaningful contributions from government will continue to be necessary. Furthermore, a new commitment of financing over the next three years from Canada and other developed countries would help facilitate negotiation of a new international agreement applicable to all parties to the UN Framework Convention on Climate Change.

Recommendations:

- Canada should commit at least $400 million per year in new public financing for 2013-2015 to support adaptation and mitigation activities in developing countries.
- Canada should also present a clear plan with specific annual financial targets on how it intends to scale up government contributions and leverage further private sector participation in support of the 2020 global goal of US$100 billion/year.

Build on Adaptation Efforts: There were some positive trends in Canada's support for adaptation activities from 2010-2012. Canada's adaptation financing was largely allocated to countries highly vulnerable to the impacts of climate change, and supported a variety of worthy programs. For example, Canada helped initiate an adaptation program for smallholder farmers at the International Fund for Agricultural Development (IFAD). Smallholder farmers are one of the groups most vulnerable to climate change. Another example is Canada's support for improved access to climate information in Haiti through the World Meteorological Organization. Canada also supported a number of Canadian CSOs in their work with vulnerable communities.

However, given the significant proportion of mitigation finance during the fast-start period, support for adaptation activities represented only an estimated 18 percent of overall financing. This is unfortunate as the commitment under the Copenhagen Accord was for a balanced approach to mitigation and adaptation investments. Moreover, adaptation needs are substantial. The World Bank (2010) estimates that adaptation costs between 2010 and 2050 are between $70 billion to $100 billion a year.[4]

Recommendations:

- Canada's future climate change investments in developing countries should aim for a 50/50 balance in financing between adaptation and mitigation initiatives. Over time, as the private sector plays a greater role in supporting mitigation activities, the Government of Canada might dedicate the majority of its public resources to adaptation.
- Canada should build on partnerships developed during the fast start period, including increased support to Canadian CSOs and their local partners who work with some of the most marginalized people in countries vulnerable to the effects of climate change. Adaptation initiatives often require a longer-term commitment to realize their full potential; Canada should aim to make multi-year investments when appropriate, including renewing funding to promising 2010-2012 initiatives during the 2013-2015 period.
- Support for adaptation programs should be grant-based and strengthen the roles of the public sector in addressing long-term needs for adaptation.

[4]World Bank (2010) *The Economics of Adaptation to Climate Change*, available at http://siteresources.worldbank.org/EXTCC/Resources/EACC_FinalSynthesisReport0803_2010.pdf

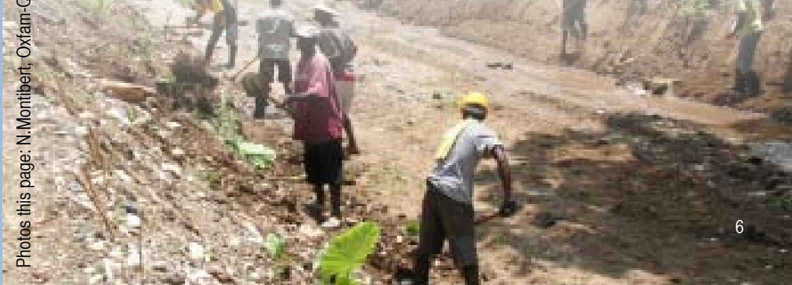
Adaptation/Mitigation Allocations

The Copenhagen Accord called for a balanced allocation between adaptation and mitigation for fast-start financing. Here's how a selection of countries made the split (based on most recent reports). Some calculations are approximations based on available data.

Country	Adaptation (% of FSF)*	Mitigation (% of FSF)
Canada	18%	82%
Norway (2010 and 2011 only)	13%	87%
United States	22%	78%
Germany	42%	58%
Switzerland	49%	51%
Australia	52%	48%
European Union	48%	52%

**Due to different reporting protocols by donors, adaptation for the purposes of this table represents disbursements allocated by the donor to adaptation, plus half of disbursements allocated to REDD+ and half of disbursements allocated to "Other."*

Sources:
Canada: http://unfccc.int/files/cooperation_support/financial_mechanism/fast_start_finance/application/pdf/1190_canada_fast-start_financing_e.pdf
Norway: http://unfccc.int/files/adaptation/application/pdf/norwegian_fast_start_finance_report_2012.pdf
United States: http://www.wri.org/publication/us-contribution-fast-start-finance-2012-update
Germany: http://www.wri.org/publication/ocn-ger-fast-start-finance
Switzerland: http://unfccc.int/files/adaptation/application/pdf/v7_-_fast_start_financing_ch_may_2012.pdf
Australia: http://unfccc.int/files/cooperation_support/financial_mechanism/fast_start_finance/application/pdf/final_fast_start_may2013_web_accessible.pdf
European Union: http://unfccc.int/files/cooperation_support/financial_mechanism/fast_start_finance/application/pdf/ie-05-29_-_fsf_report.pdf



Photos this page: N.Montibert, Oxfam-Québec

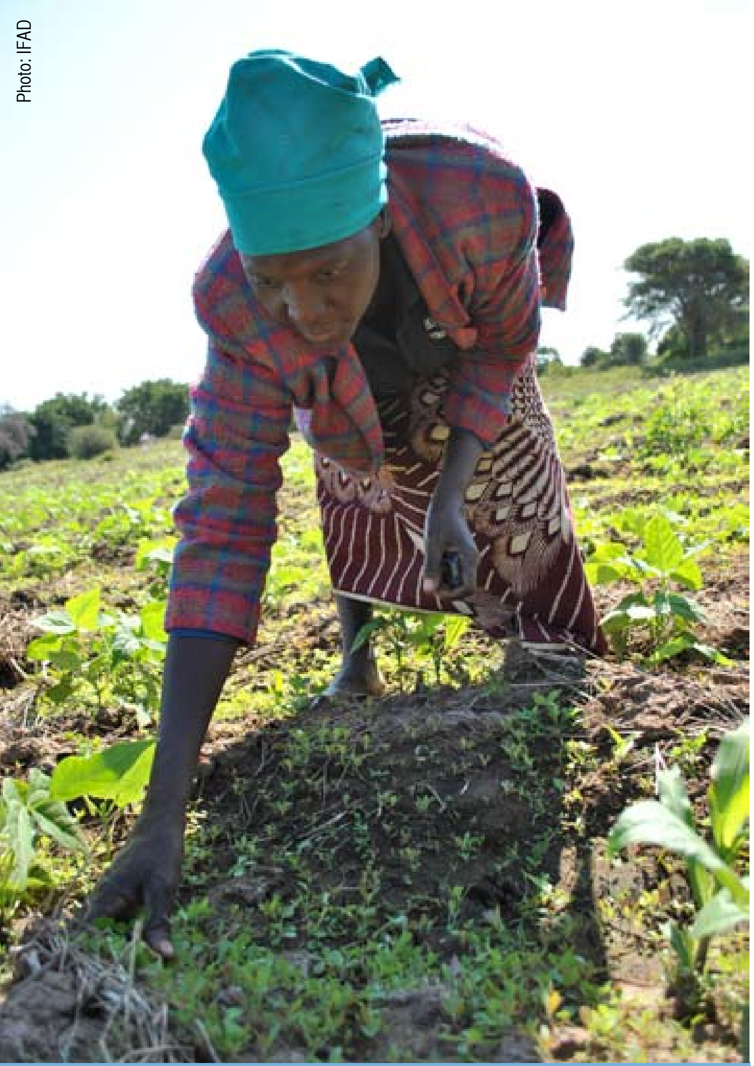


Photo: IFAD

Limit Reliance on Loan Financing: While Canada's fast-start financing contribution technically met Canada's "fair share" of the global target, 74% was provided in the form of loans repayable to Canada. The preponderance of this form of loan financing reduces the actual value of Canadian contributions.

The strong private sector focus of loan programs promotes an emphasis on mitigation projects in middle-income countries rather than in low-income countries, as this is where projects are more likely to be closest to deployment (as opposed to the capacity-building work that may be required in lower-income countries). While allowing some of these loans to be re-paid in local currencies is positive, concern has been raised internationally about the extent to which climate finance loans may add to developing country debt loads. Effective climate finance should not increase the financial burden on low-income countries.

Recommendations:

- Canada should reduce the use of loan finance in order to achieve a 50/50 balance between adaptation and mitigation investments. While the private sector will play a crucial role in financing a clean energy transition, public sector dollars are essential to leverage private sector participation.
- Rather than requiring repayment to Canada, the Government of Canada should ensure that future loan finance for mitigation be repaid into revolving funds for continued climate change financing into the future.

Split Between Loans and Grants

The Copenhagen Accord did not specify a numerical goal for determining an appropriate balance between loans and grants, but many developing countries and civil society organizations have been critical of the dependence on loans to fulfil fast-start finance commitments. Here's how a selection of donors allocated their funding.

Country	Loan (% of FSF)	Grant (% of FSF)
Canada	74	26
Germany[1]	29	71
U.S.[2]	37	63
Australia[3]	0	100
Norway[4]	0	100
EU[5]	38	62

[1]Source: World Resources Institute (May 2013)
[2]The United States transferred roughly 63% of its FSF in the form of grants and related instruments; 37% in the form of loans, guarantees, and insurance; and less than 1% in debt relief. All U.S. FSF adaptation funding and the vast majority of REDD+ funds (95%) were in the form of grants and related instruments, compared to only 42% for clean energy. Source: World Resources Institute (April 2013)
[3]Source: Australia submission to the UNFCCC (2012)
[4]Some grants are on a pay-for-performance basis. Source: Scaling up: how Germany, Japan, Norway, the UK, and the US approached fast-start climate finance, June 2013, Overseas Development Institute (ODI), World Resources Institute (WRI), Institute of Global Environment and Sociey (IGES), Center for International Climate and Environmental Research - Oslo (CICERO), Germanwatch
[5]Source: EU submission to the UNFCCC (2011, 2012, 2013)

Photo: N.Montibert, Oxfam-Québec

Improve Transparency and Accountability: Canada relied mainly on multilateral channels during the fast-start period, disbursing 93% of financing via multilateral channels and only 7% through bilateral modalities, including Cdn$28.9 million (approximately 2%) implemented by CSO partners. While multilateral banks provide administrative expediency, they may not disburse this money onwards quickly, nor always meet aid effectiveness criteria. Canada should ensure that the financing modalities chosen are consistent with the urgent needs for immediate country-level financing and with aid effectiveness principles, including the centrality of country-level ownership, predictability and full transparency of activities.

Insufficient information is available related to bilateral and multilateral disbursements at the country level and the timing of disbursements. Canada's Auditor General has suggested that greater transparency is needed with respect to disbursements. He also noted that due diligence is required on the part of government to ensure that programs channelled through multilateral institutions meet the requirements of the ODA Accountability Act.

Canada should be highlighting to Canadians the achievements and challenges of the fast-start program. While the full results of Canada's contributions will emerge over a period of time, Canadians should be informed of results achieved as information becomes available. This will help build public support for a continuing Canadian role in responding to climate change challenges internationally.

Recommendations:

- Canadian climate change investments should give priority to funding channels and activities that ensure country-level ownership, and meet the requirements of the ODA Accountability Act and Canada's commitment to the International Aid Transparency Initiative (IATI).[5]
- Canada should provide clear plans and reporting for how these objectives are to be met in future climate finance. Wherever possible, Canada should clearly define and publicly communicate the parameters it sets for its climate investments (for example, which types of "clean energy" investments are eligible for consideration?).
- Canada should support a governance structure for the Green Climate Fund that is fair, democratic and equitable, and contribute funding for the Secretariat and start-up costs, as this is the immediate need for the Fund.
- Canada should ensure that its long-term financing for climate change is predictable, as agreed at the Busan High Level Forum in December 2011.

[5]For more information on the IATI process and standard see www.aidtransparency.net.