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SUPPORTING GLOBAL CLIMATE ACTION: PROVIDING CANADA'S FAIR SHARE FOR DEVELOPING COUNTRIES

Recommendation

Climate negotiations under the United Nations have entered a new phase as countries work towards reaching a global agreement in 2015 that would take effect in 2020. As part of that process, developed countries like Canada have committed to provide funds to poorer countries to help them cope with climate change. Canada should build on its 2010–12 track record with a new commitment of funds, of at least $400 million in each of 2014 and 2015.

Investment Required:
At least $400 million in each of 2014 and 2015

Background and Rationale

Adapting to the consequences of climate change and reducing greenhouse gas pollution requires financial investment from all countries. But for developing countries, particularly those that are most vulnerable to serious impacts, the scale of investment required often goes beyond the resources they have available.

From the beginning of the global effort to tackle climate change, international agreements have called upon richer developed countries to provide financial support to developing countries to help them cope with the consequences of climate change.

Under the December 2009 Copenhagen Accord, developed countries committed specifically to provide three years of "fast start" climate financing from 2010 to 2012, totalling US $30 billion, and also committed to jointly "mobilize" US $100 billion a year by 2020 "from a wide variety of sources."[71]

Several prominent estimates have suggested that far more funding will in fact be needed to meet developing countries' needs. But the near-term and 2020 financing goals outlined in the Copenhagen Accord represent a crucial starting point in making the investments required to protect some of the world's most vulnerable people from the impacts of climate change.

Adaptation expenses fund initiatives such as strengthening infrastructure so that it can withstand more violent storms or investing in malaria prevention as the disease spreads to new regions. Financing for greenhouse gas (GHG) emission reductions ("mitigation") could, for example, cover the extra cost of powering homes with electricity generated from wind energy instead of coal. Funding for GHG emission reductions and climate adaptation overseas is widely recognized as helping to increase economic and social security in a world already experiencing a ramp-up in extreme weather events, which can have destabilizing consequences for communities and countries.

Fulfilling developed countries' financing commitments is also an essential step in building the trust between countries that is needed to successfully negotiate a fair, ambitious and binding global climate agreement — a task that countries have agreed to complete in 2015 for an agreement that would take effect in 2020.

Fast Start Financing

In June 2010, the Government of Canada announced its first tranche of climate financing under the Copenhagen Accord.[72] Although the initial announcement provided very few details,[73] it took the

[71] Copenhagen Accord, Paragraph 8. Available at http://unfccc.int/home/items/5262.php. The Accord states that the potential sources of the $100 billion in financing in 2020 are "public and private, bilateral and multilateral" and include "alternative sources of finance."

[72] Environment Canada News Release, "Government of Canada Makes Major Investment to International Climate Change" (June 23, 2010).

[73] The Pembina Institute's response to the announcement is available at http://climate.pembina.org/media-release/2039.

important step of recognizing Canada's "fair share" of climate financing: when developed countries contribute funds to global goals, Canada's traditional share has been just over 4% of the total.[74] Thus, then-Environment Minister Jim Prentice announced a contribution of $400 million in 2010, or about 4% of the US$10 billion to be provided each year from 2010 to 2012.

By May of 2013, Canada was able to report to the international community[75] that it had largely fulfilled its "fair share" commitment, providing just under $1.2 billion in assistance to developing countries over the 2010 to 2012 period.

Taking the next step

Reaching the goal of US $100 billion by 2020 requires a significant scale-up of both public and private financing. With the "fast start" period complete, donor countries now need to build on momentum with new financial pledges.

New commitments will allow promising initiatives to continue; ensure that vulnerable people are better prepared for the kind of extreme weather events we are already beginning to experience; and allow developing countries to deploy cleaner energy now rather than locking in to high-carbon choices. For Canada's fast-growing clean technology sector, increasing commitments of climate financing to developing countries would open up new export opportunities. As noted above, new financial commitments are also necessary at this point to build trust and momentum at the UN negotiations.

Unfortunately, Canada has not made new commitments of climate financing since the "fast start" phase ended. In contrast, countries like Germany and the United Kingdom have made preliminary commitments of "interim" financing, building towards the longer-term goal of mobilizing US $100 billion a year by 2020.

At last year's climate negotiations in Doha, Qatar, Canada signed on to an agreement that called on developed countries to provide new funding to developing countries "of at least to the average annual level of the fast-start finance period for 2013- 2015."[76]

For Canada, meeting the Doha commitment means providing contributions of at least $400 million per year from 2013 to 2015.[77] In fulfilling that commitment, Canada can draw on its successes and lessons learned over the "fast start" period.

Lessons Learned

A 2013 assessment of Canada's fast-start commitments[78] from thirteen international development and environmental organizations found some promising trends and some areas for improvement as Canada enters the next phase of climate financing. The analysis concluded that:

- While determining whether funding is "new" and "additional" depends on the baseline chosen, Canada invested far more on climate financing after the Copenhagen Accord than it did before.
- However, nearly three-quarters of Canada's commitment was in the form of loans that require repayment to Canada (rather than in revolving funds, where repayments are re-loaned to support new borrowers). This is the first time since 1986 that Canada has required repayment to Canada of loans provided under its Official Development Assistance (ODA) commitments. If Canada accounted for only the "grant element" of its loans rather than their full face value, its commitment would be far smaller than the $1.2 billion total the government has reported committing.
- Over the three year period, Canada devoted less than one-fifth (18%) of its total financing effort to adaptation. While financing for GHG emission reductions is essential, support for adaptation is the priority for the poorest and most vulnerable countries. The Copenhagen Accord called for a "balanced" allocation between adaptation

[74] For more details, see Clare Demerse, *Our Fair Share: Canada's Role in Supporting Global Climate Solutions*, at http://climate.pembina.org/pub/1815.

[75] Government of Canada, *Canada's Fast Start Financing: Delivering on our Copenhagen Commitment* (May 2013), available at http://unfccc.int/files/cooperation_support/financial_mechanism/fast_start_finance/application/pdf/1190_canada_fast-start_financing_e.pdf

[76] UNFCCC Decision 1/CP18, Paragraph 68, http://unfccc.int/resource/docs/2012/cop18/eng/08a01.pdf

[77] Because Canada did not contribute new funding in 2013, its contributions over the next two years would need to be greater than the $400 million average to match the total of nearly $1.2 billion it contributed between 2010 and 2012.

[78] Canadian Foodgrains Bank et al, *Protecting our Common Future: An Assessment of Canada's Fast-Start Climate Financing*, http://c4d.ca/publications/policy-briefs/protecting-our-common-future-report

and emissions reduction efforts, and numerous other developed countries have made significant efforts to achieve that standard, with allocations that represent approximately a 50:50 split. It is important to note that Canada's final year of fast-start climate financing (2012) included stronger support for adaptation initiatives than the previous two years.

Making a stronger contribution

Canada's fast-start financing contribution has laid a foundation that the Government of Canada can build on in the 2013–2015 period.

The Green Budget Coalition recommends that Canada begin making a more effective climate financing contribution **by committing, in Budget 2014, at least $400 million for each of 2014 and 2015 to support adaptation and mitigation activities in developing countries.**

Canada should also commit to continuing to provide an annual "fair share" contribution of at least that level in the years ahead, en route to the 2020 goal Canada signed on to in Copenhagen. This means providing financing for both adaptation and mitigation annually to 2020 at a minimum, and likely beyond that (pending the outcome of negotiations on the new international agreement, which is to take effect in 2020). While the private sector will play a crucial role in financing a clean energy transition, public dollars from donors like Canada are essential to leverage private sector participation in developing countries. Thus, the federal government should present a plan with specific annual goals to build towards providing Canada's fair share of the US$100 billion that countries have pledged to mobilize by 2020.

In allocating Canada's next tranche of climate financing, the Government of Canada should:

- Aim for a 50:50 balance between adaptation and emission reduction initiatives;
- Continue the commendable practice of providing adaptation financing only in the form of grants, as Canada did during the 2010–2012 period;
- Build on promising initiatives from the fast-start period by renewing or making multi-year commitments;
- Reduce its reliance on repayable loan financing. While the GBC agrees that a limited use of concessional loans to finance GHG emissions reductions in the energy sector is appropriate, there is also an essential role for grants in emission-reduction activities (e.g. to build capacity and support policies); and
- If Canada does continue to provide loans for emission-reduction initiatives in the 2013–2015 period (and beyond), the government should ensure that this future loan finance be repaid to revolving funds that support further climate financing (rather than back to Canada).[79]

Finally, the Green Climate Fund — a new fund being developed under the UN Framework Convention on Climate Change — currently requires funding for its start-up costs. Canada should consider pledging to support those needs in the near term. Canada could also commit to providing a specific number of dollars to the Green Climate Fund once it is operational, thus signalling support for the Fund's development.

For a more detailed analysis of climate financing requirements, please see the Green Budget Coalition's Recommendations for Budget 2012, from http://www.greenbudget.ca/2012/main.html.

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[79] Accounting for, and reporting on, financing from a revolving fund would need to be done very carefully, as the fund's loans over time would no longer be new and additional.