Information on strategies and approaches for mobilizing climate finance

Canada is committed to working with Parties under the United Nations Framework Convention on Climate Change (UNFCCC) to address the challenges of climate change. In that respect, we wish to respond to the invitation, contained in decision 1/CP.18, paragraph 67, to provide views on strategies and approaches for mobilizing climate finance.

Developed countries met the Copenhagen fast-start financing commitment with the delivery of more than $30 billion to developing countries. Canada is proud to have fully delivered its fair share of this commitment, representing $1.2 billion in new and additional resources over fiscal years 2010/11 to 2012/13, the country's largest ever investment in international climate change-related support.

Beyond fast-start financing, Canada remains committed to working 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 investments from the private sector as well as in supporting efforts to build climate resilience in the poorest and most vulnerable countries.

Canada also recognizes that climate finance will continue to play a key role in support of implementing a post-2020 agreement, taking 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 sufficient flows of finance and investments on affordable terms directly from domestic and international private sources. However, Canada recognizes that this may not be true for the poorest and most vulnerable countries, which face an ongoing need for support to adapt to the impacts of a changing climate.

The following presents perspectives on key issues related to the long-term finance discussions under the UNFCCC and to Parties' ongoing efforts to mobilize, attract, deploy, and absorb scaled up public and private climate finance. It is Canada's view that strategies and approaches that take into account the following considerations will more likely gain consensus in the UNFCCC, and 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 CO2-equivalent emissions reduced or increased capacity for climate resilience.

Finance flows will be influenced by policy environments
Appropriate policy and regulatory environments can contribute to strengthening all five of the attributes of climate finance outlined above and will affect how stakeholders act in response to climate change.

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 inefficient fossil fuel subsidies, can create disincentives for the private sector to invest in low-emissions, climate resilient development. With relative prices distorted, the higher 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 combined with enabling environments can create incentives for climate-smart growth and poverty reduction, which effective climate finance can facilitate. In that context, policy and financing 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, support that contributes to credible climate change approaches being implemented can be an effective use of climate finance – Canada recognises that capacity-building for governments and institutions and support for the development of financeable projects can be transformational.

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

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 those from the private sector.

To ensure scarce 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.

Monitoring flows and results

All Parties are working to track and report on flows of finance mobilized and 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 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

Going forward, Canada is fully supportive of effective climate finance strategies and approaches, namely those that are cost-effective, predictable, transformational, transparent and results-based.

We are working closely with other developed countries towards the goal of mobilizing scaled up climate finance by 2020, and support continued cooperation among developed and developing countries on strategies and approaches for mobilizing financial resources, recognizing the considerations laid out above.

We stand ready to 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, with civil society 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 reports on fast-start financing, which include examples of climate finance approaches that are in line with the views presented in this submission.