Submission by Canada: Views on Operational Definitions of Climate Finance

May 2023

Introduction

Canada is pleased to submit its views on operational definitions of climate finance for consideration by the Standing Committee on Finance (SCF). We note the importance of sharing views on clustering types of climate finance definitions in use that could be considered within the UNFCCC process, as decided at COP27 (Decision 14/CP.27, paragraph 11). In providing views on this topic, Canada recalls and reiterates views shared in its previous submission on the topic in 2020.

Canada values the role of climate finance in addressing climate impacts, and remains committed to the implementation of its $5.3 billion climate finance commitment (double its previous commitment) announced in 2021. As of 2023, Canada is half-way through its implementation and is well on-track to delivering the full amount as planned by March 2026.

As noted in Canada's 2020 submission, the climate finance landscape is a complex system, consisting of various actors and sources, and is continuously evolving. As such, the operational definitions of climate finance should be comprehensive to allow for effective implementation of the Paris Agreement, including its transformational element to make all financial flows consistent with a pathway towards low-emission, climate-resilient development. Furthermore, reporting entities use self-determined underlying assumptions, methodologies and definitions in their reporting approaches, in line with the bottom-up approach outlined in the Paris Agreement's Enhanced Transparency Framework and its Modalities, Procedures and Guidelines. This is also consistent with the nationally determined approach to the Paris Agreement. Due to this bottom-up approach, there are technical challenges and limited utility in developing a single definition of climate finance. However, an operational definition can still be framed to safeguard against approaches that would go against the Paris Agreement goals, particularly Article 2, while remaining broad enough to allow for 'national determination'.

Canada welcomed the SCF's October 2022 report on definitions of climate finance. We emphasize the SCF's findings highlighting the differences in views on the scope, coverage of sectors/activities, range of financial instruments and other concepts that frame the definitions of climate finance. Canada reiterates that the diverse views stemming from the bottom-up approach should not be undermined by requiring the use of a singular operational definition. This is particularly important as we turn our attention to the New Collective Quantified Goal. The operational definition should remain broad and adaptable to ensure it fits the new post-2025 goal and does not prejudge its outcome before the goal is established in 2024. Similarly, the work of the Transitional Committee on the new funding arrangements and fund for loss and damage is ongoing and considerations of how these new funding arrangements fit within the scope of the climate finance definition will need to be determined in the future, after the Transitional Committee's work has concluded. Additionally, Canada believes that in order to secure inclusive, just and equitable climate financing that is channeled directly to the appropriate recipients, this definition must be informed by the in-country perspectives of those on the frontlines of climate change, including Indigenous Peoples. In particular, incorporating Indigenous perspectives can help to ensure better climate finance outcomes, such as more equitable access to climate finance and support that more effectively responds to the needs on the ground.

Uses and elements of climate finance

Canada’s approach to climate finance features a number of elements that demonstrate the complexity of the climate finance landscape, but ultimately aligns with the objectives of the Paris Agreement to transition to low-emission, climate-resilient development. These various elements demonstrate that a narrow interpretation of operational definitions of climate finance will not be conducive to effective implementation of the Paris Agreement.

Canada’s climate finance flows through various institutions and actors, which apply different internationally accepted and widely adopted approaches suitable to the nature of each institution. Similarly, **they use various financial instruments that fit their objectives and operations.** The majority of Canada’s total climate finance is international assistance delivered as Official Development Assistance (ODA) through the federal government, with some provincial and municipal government support. Canada delivers this climate finance by using different instruments fit for different purposes. Canada’s climate finance largely goes through multilateral development banks (MDBs) who facilitate on-lending to public and private entities. Concessional loans and investments to public sector provide critical support to projects that may not otherwise be feasible, whereas those to revenue-generating private sector project proponents are used in a blended finance structure to de-risk investments and mobilize private resources for climate action in developing countries. Grants are used where cost-effective market-based financing is not viable.

Canada’s climate finance also includes climate relevant investments by Canada’s development finance institution, FinDev Canada, and Canada’s export credit agency, Export Development Canada (EDC). FinDev Canada has the mandate to provide financial services to the private sector in developing countries with the aim of combatting poverty through economic growth. Climate action is one of the three development impact goals of FinDev Canada. Due to its mandate, FinDev Canada uses a range of financial instruments to support climate investments in developing countries, such as financing, equity, blended finance and technical assistance solutions. This is a growing and dynamic entity. In 2022, as part of its Indo-Pacific Strategy, Canada announced that FinDev Canada will be expanding into this region in support of Canada’s international development priorities. This expansion will be supported by the injection of an additional $750 million of global capital. A principal area of focus of the Indo-Pacific region will be in the sustainable infrastructure space and opportunities to address food security.

EDC contributes to the transition to a low-carbon, sustainable economy by supporting the development of clean technology in Canada and abroad, including in developing countries, through credit insurance, guarantees, bonding, knowledge services, financing and equity. EDC has committed to achieve Net Zero by 2050, including establishing targets for its operations, and has aligned its portfolio with Government of Canada’s directives to end new direct public support for the international unabated fossil sector. Additionally, EDC has adopted a number of commitments that aim to address climate risks and opportunities in its investments that include but are not limited to the implementation of the recommendations of the Taskforce on Climate-Related Financial Disclosure and engagement with financial sector peers to advance dialogue around a just transition to net zero.

Overall, the commonality among the mandates of these institutions is that they align with the objective of the Paris Agreement to transition to low-carbon, climate-resilient development. Any singular climate finance definition should account for this broad objective, while also allowing for flexibility in the pathways used by various actors and institutions to fulfil their mandates and achieve the goals of the Paris Agreement.

Canada identifies and reports the vast majority of its climate finance using the OECD Development Assistance Committee (DAC) Rio Markers for Climate, which provide operational definitions, eligibility criteria and guidelines to classify projects targeting climate adaptation and mitigation objectives. This reporting has enabled greater consistency among contributor countries' reports based on international standards. Due to the nature of FinDev Canada's investments, eligible transactions are identified using the Common Principles for Climate Mitigation and Adaptation Finance Tracking, agreed to by the International Development Finance Club (IDFC) and Multilateral Development Banks (MDBs). On the other hand, eligible transactions[1] from EDC are identified using the International Finance Corporation (IFC) Definitions and Metrics for Climate Related Activities. Details of Canada's approach to reporting climate finance can be found in its 8th National Communication and 5th Biennial Report, which outlines underlying assumptions and methodologies. While adhering to the UNFCCC and Paris Agreement objectives and guidelines, Canada strives to continuously improve its climate finance tracking and reporting to enhance the transparency and comprehensiveness of Canada's report.

Canada delivers its climate finance to a variety of sectors to support the transition to low-carbon, climate-resilient economies. While specific sectors are not usually predefined, contributors may structure climate finance provision around targeted areas of support that reflect the needs and priorities of developing countries. In line with this, the implementation of Canada's $5.3 billion climate finance commitment focuses on four priority thematic areas to ensure targeted programming across various sectors: clean energy transition and coal phase out; climate-smart agriculture and food systems; nature-based solutions and biodiversity; and climate governance. This aligns with the overall objective of the Paris Agreement by ensuring a comprehensive approach that takes into consideration developing countries' needs and priorities across a variety of sectors. As such, specifying eligible sectors in a climate finance definition would restrict programming and make it challenging for programs to ensure country-driven climate action. Recognizing the diversity of sectors in climate action, Canada appreciates the OECD-DAC's work on developing an indicative table that provides sector-by-sector guidance on screening and marking activities against climate change mitigation and adaptation objectives.

Canada's delivery of its climate finance also spans a wide geographical scope and a range of recipients. For example, Canada's 2019 and 2020 climate finance bilaterally supported 63 countries and provided regional support to Asia and the Pacific, Latin America and the Caribbean, and Africa. Recipient countries' needs and priorities can vary tremendously between countries and regions, as do national circumstances. The inflexibility of a singular approach would prevent contributors from working with partners to identify and address recipient needs with tailored programming, and vice versa. As such, a singular climate finance definition should not be so narrow as to undermine the bottom-up approach to the implementation of the Paris Agreement in line with national circumstances.

This demonstrates that finance for climate action can vary and intertwine, and will continue to evolve. As such, a singular climate finance definition is challenging and inappropriate as it would be exclusionary

[1] Eligible transactions refer to project or non-project transactions, including loans, guarantees, project finance and equity. In 2019, EDC expanded their indicator scope to include transactions under the International Trade Guarantee (ITG) program.

and limiting to the range of actions and solutions contributors and recipients can use to implement the Paris Agreement.

SCF's operational definition of climate finance

Canada notes that the SCF's operational definition on climate finance adopted by the 2014 Biennial Assessment continues to be a useful tool in the climate finance landscape. It is comprehensive in capturing the objectives of the Paris Agreement while remaining broad enough to reflect the dynamic and evolving nature of climate finance. Canada does not see an update to the operational definition of climate finance as essential at this time but suggests instead that the work on clustering types of climate finance definitions could outline how these various clusters fit within the current operational definition frame as evidence of convergence or divergence. This work could also focus on enhancing our understanding of causality as the key element to ensure adherence to the definitions of climate finance. If the SCF determines an update is needed, Canada suggests the update should be part of the next Biennial Assessment for consistency in the process of technical work. It should also take into consideration other UNFCCC processes underway this year, such as the New Collective Quantified Goal. Furthermore, any update should ensure that the definition adheres to the bottom-up approach to the Paris Agreement and is in line with the Enhanced Transparency Framework.