



INTERNATIONAL CLIMATE FINANCING

Recommendation Summary

Canada and other industrialized countries have committed themselves in the Paris Agreement to mobilize US\$100 billion per year to developing countries to assist them in addressing climate change. Canada's 2020 public contribution remains at least CAN\$2 billion short of Canada's fair share.

Investment Required:

At least CAN\$2 billion over the next three years, to be added to the \$800 million already committed by the federal government for 2020, all of which will leverage additional investment by the private sector. Between 2021 and 2025, Canada's annual public contribution should total CAN\$2.8 billion to CAN\$3.7 billion (using an appropriate leverage ratio for private sector financing, and depending on the US-Canada exchange rate).

Background and Rationale

A vital part of all international climate negotiations and agreements is international climate financing. Industrialized countries have acknowledged that they are largely responsible for creating climate change and have the greatest capacity to address its challenges. As such, Canada and other industrialized countries have agreed to provide financing to developing countries to address the impacts they are already facing and to assist them in undertaking low-carbon development. In the Paris Agreement, that commitment was to mobilize at least US\$100 billion per year in financing between 2020 and 2025.²⁷

1) Level of commitment

A study that investigated a number of methodologies for calculating Canada's fair share of climate financing found that the amount being mobilized should be 3-4% of the total for industrialized countries.²⁸ Climate Action Network-Canada pegs Canada's fair share at 4% of the total mobilized by industrialized countries.²⁹ That was the ratio used by the previous federal government when it extended \$1.2 billion of the \$30 billion required for climate financing in 2010 to 2012.³⁰ According to The Globe & Mail, Minister of Foreign Affairs Stéphane Dion referenced Canada's \$4 billion annual share when he

announced that his government was extending \$2.65 billion to climate financing in November 2015.³¹

Using the 3-4% range as Canada's fair share, starting in 2020 Canada will need to mobilize US\$3-4 billion per year from public and private sources for climate financing (CAN\$3.8-CAN\$5.1 billion, based on the average 2015 exchange rate). While the public contribution announced in November 2015 is welcome, the 2020 total of \$800 million would be insufficient to leverage enough private sector financing to reach Canada's fair share. An OECD report estimated that \$1 in public financing for climate change leverages an additional \$0.38 in private sector investment.³² Using that ratio, the federal government has now committed to mobilizing approximately CAN\$1.1 billion in 2020, not the minimum of CAN\$3.8 billion required.

Year	Announced contribution from federal government	Estimated commitment of public funds (supplemented by private financing)*
2016	CAN\$300M	
2017	CAN\$400M	
2018	CAN\$500M	
2019	CAN\$650M	
2020	CAN\$800M	CAN\$2.8B – \$3.7B
2021-2025	\$0	CAN\$2.8B – \$3.7B annually

27 Paris Agreement. Article 54. Accessed at <https://unfccc.int/resource/docs/2015/cop21/eng/l09.pdf>

28 Demerse, Clare. (2009). "Our Fair Share: Canada's Role in Supporting Global Climate Solutions." Pembina Institute. Accessed at <https://www.pembinafoundation.org/reports/our-fair-share-report.pdf>

29 CAN-Rac. (2015). "Canada's Fair Share: The Story Behind the Numbers." Accessed at: <http://climateactionnetwork-28b0.kxcdn.com/wp-content/uploads/2015/04/INDCBackgrounderFinalMarch2015.pdf>

30 Environment Canada. (2011). "Minister Kent Announces International Climate Funding." Press Release. Dec. 5. Accessed at: <http://www.ec.gc.ca/default.asp?lang=En&n=714D9AAE-1&news=B37E3BE6-5D04-4566-B674-677A20213456>

31 Clark, C. (2015). "Canada commits \$2.65-billion to climate-change funding." The Globe and Mail. Accessed at: <http://www.theglobeandmail.com/news/politics/canada-commits-265-billion-to-climate-change-funding/article27507453/>

32 OECD and Climate Policy Initiative. (2015). "Climate Finance in 2013-14 and the USD 100 billion goal." Accessed at: <http://oecd.org/env/cc/oecd-cpi-climate-finance-report.htm>

**Will depend on the fair share percentage chosen by the Canadian government, the private sector leverage factor, and US-Canada exchange rate.*

2) Principles for climate financing

Canada's climate financing also needs to heed important principles to be most effective and meet our commitments. Financing needs to be:

- **New and additional:** Raiding international development funds to finance climate change puts developing countries no further ahead.
- **Balanced between mitigation and adaptation:** Many poor countries need adaptation assistance most, given their level of development and significant impacts they face.
- **In the form of grants, not loans:** Extending loans that must be paid back makes often indebted countries even more financially vulnerable.
- **Predictable:** It is commendable that the Canadian government announced its international climate finance contributions for the next five years well in advance. In the future, earmarking part of the federal carbon pricing revenue for this purpose would allow the international community to know what financing totals to expect from Canada in 2020 and beyond.

Complementary policies

- Shifting fossil fuel subsidies to international climate financing,
- Supporting innovative climate financing mechanisms such as applying taxes on bunker fuels from international aviation and international shipping, or financial transaction taxes.

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