BRIEFING PAPER

An Assessment of Canada's Commitments to Fast-Start Climate Finance, 2010 to 2012

A Financial Overview

A report prepared under contract for the Canadian CSO Coalition, C4D

Brian Tomlinson

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AidWatch Canada is a Canadian not-for-profit social justice organization, producing and disseminating independent research and analysis on aid and development cooperation trends, policies and practices. AidWatch Canada promotes development cooperation that enables people living in poverty, vulnerable and discriminated populations to claim their human rights.

Brian Tomlinson is the Executive Director of AidWatch Canada. He can be contacted at brian.t.tomlinson@gmail.com.

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Briefing Paper #4, *An Assessment of Canada's Commitments to Fast-Start Climate Finance, 2010 to 2012 A Financial Overview*, A report prepared under contract for the Canadian CSO Coalition, C4D, October 2013.

An Assessment of Canada's Commitments to Fast-Start Climate Finance, 2010 to 2012: A Financial Overview[1]

A Summary of Conclusions

These conclusions follow from an assessment of Canada's disbursements to Fast-Start Finance (FSF) based on six key areas identified by the CSO coalition, Canadian Coalition on Climate Change and Development (C4D), for effectively meeting Canada's commitments arising from the 2009 Copenhagen Accord. This report is intended to complement with background on FSF disbursements the lessons and conclusions that C4D is drawing from the 2010-2012 FSF experience, in order to inform future climate financing by Canada. As these are summary conclusions, they should be read in conjunction with the more detailed analysis that can be found in section three of the report.

1. Fulfilling Canada's FSF fair share commitment: Is it "new" and "additional"?

Overall, through the use of Supplementary Budget Estimates, Canada's contributions to the three-year Fast-Start Financing can be considered "new" and "additional" to budgeted levels of ODA. However, it should be noted that the International Assistance Envelope for ODA has been declining in recent years.

Canada has disbursed its "fair share" of global Fast-Start Finance. The total reported disbursed funds for FSF is Cdn$1,193.4 million. But 74% of Canada's FSF disbursements has been allocated as loans, primarily for private sector mitigation projects, that will ultimately be repaid to Canada. The introduction of loans repayable to Canada in trust funds managed by the World Bank's IFC and the regional development banks (IADB and ADB) call into question the real value of Canada's contributions. These trust funds represent the first loans in Canadian ODA since 1986 that will be repaid to Canada. It is expected that more than Cdn$615 million will be returned to Canada through loan repayments over the life of these programs, reducing the true value of Canada's total FSF by more than 50%.

2. Grants versus loans: Level of financing in grant or "grant-equivalent form

Among all the FSF donors, at 74%, Canada has one of the highest ratios of loans in its FSF portfolio. CSOs raise critical concerns not only for the ethics of loans for Canadian climate finance, given the historical and current responsibility of Canada's emissions for climate change, but also for the implications of increased debt loads for some middle income countries and for low thresholds for calculating the concessionality or grant-equivalency of these loans.

3. Is there an equitable balance between adaptation and mitigation?

An estimate by the author of the balance between adaptation and mitigation, based on a review of Canadian FSF initiatives, suggests an overall imbalance, with about 82% of Canada's FSF going to mitigation. Developing countries and many civil society organizations, including C4D, advocated a roughly 50/50 balance, and several other donor countries report an allocation closer to this more equitable balance. The strong private sector focus for Canadian FSF skews the allocations strongly towards mitigation.

4. Is Canadian FSF prioritizing adaptation FSF to the most vulnerable countries?

Canadian FSF meets its stated priority to disburse adaptation funding to countries that are highly vulnerable to the impacts of climate change (LDCs, Small Island States and Africa). An estimated 70% of allocable FSF for adaptation can be identified with vulnerable countries. This good performance, however, is qualified due to the overall unfavourable balance between adaptation and mitigation finance in Canada's overall FSF.

[1] This report has been prepared by Brian Tomlinson, AidWatch Canada, under contract with members of the Canadian CSO coalition, Canadian Coalition on Climate Change and Development (C4D). While care has been taken by the author to address helpful comments from a C4D reference group and to ensure the accuracy of all calculations and trends identified, the author alone is responsible for any remaining errors.

5. Are adaptation programs pro-poor, promoting gender equality and human rights, as mandated under the ODA Accountability Act?

It was not possible to determine whether Canada's FSF funds for adaptation were pro-poor, promoting gender equality and human rights. Improved transparent due diligence/public reporting of outcomes is required on the part of the government to verify that all FSF initiatives meet the three tests of the ODA Accountability Act (poverty reduction, takes account the perspectives of the poor and is consistent with human rights standards). According to the recent report of the Auditor General, this verification has not occurred for most of Canada's ODA implemented through multilateral organizations, a category which includes the majority of Canada's FSF.

6. How transparent and accountable is Canada's Fast-Start Finance?

The annual reports by Canada to the United Nations Framework Convention on Climate Change (UNFCCC) on its FSF provide basic transparency for the disbursement of funds. However, the government should take advantage of its commitment to the IATI/DAC Common Standard, its annual *Statistical Report for International Assistance* and the annual Report to Parliament on the ODA Accountability Act to more fully account for the disbursements of FSF. This transparency should include country level disbursements by multilateral organizations and trust funds as well as departmental details of activities. Despite advantages to developing country partners of predictable finance, Canada's FSF was not predictable over the three years, as all stakeholders were dependent on periodic annual Ministerial announcements for information about specific Canadian disbursements to FSF for that year.

1. Introduction

In its May 2013 report on Canada's Fast-Start Finance (FSF), the government announced, "Canada has fully delivered its fair share of fast-start finance" (Canada 2013). Following 2009's 15th Conference of the Parties to the UN Framework Convention on Climate Change (COP 15) in Copenhagen, Canada agreed to make a contribution to a global commitment of US$30 billion in Fast-Start Climate Financing (FSF) between 2010 and 2012. While the government had earlier announced approximately $400 million in FSF for 2010, it was not until December 2011, two years into the initiative, that Environment Minister Kent confirmed that Canada would provide Cdn$1.2 billion in FSF over the three years.[2] This report, commissioned by members of the Canadian Coalition on Climate Change and Development (C4D),[3] provides an assessment of the specific commitments and disbursements reported by Canada as Fast-Start Finance.

Fast-Start Finance is intended to lay the foundation for a significant ramping up of finance from developed countries by 2020, which will lead to sustained and longer-term support for adaptation and mitigation action in developing countries. In Copenhagen, developed countries committed to the goal of mobilizing US$100 billion in climate financing annually by 2020 for these purposes in the context of meaningful mitigation actions and transparency on implementation, with the funding to come from both public and private sources. This 'long term' finance goal was reiterated at COP 16 in Cancun in 2010 and again in 2011 at COP 17 in Durban. In December 2012 at COP 18 in Doha, Parties "[encouraged] developed countries to further increase their efforts to provide resources at least to the average annual level of the fast-start finance period for 2013-2014." In its 2013 annual report on FSF, the Canadian government "remain[s] committed to the goal of jointly mobilizing $100 billion per year by 2020" (Canada 2013, 14). However, to date, the government has made no specific pledges beyond announced commitments for 2012, the last year of FSF. C4D has called upon the government, at a minimum, to sustain its annual Fast-Start Cdn$400 million, between 2013 and 2015.[4]

In order to better understand how FSF money was spent and to frame recommendations for post-2012 climate financing, this report examines in detail the allocations of the $1.2 billion commitment. Information on the specific Canadian initiatives is derived from Canada's annual report to the UNFCCC for Fast-Start Financing

[2] Minister Kent's press conference at COP-17 in Durban, South Africa, December 5, 2011.

[3] The Canadian Coalition on Climate Change and Development (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.

[4] Like many countries, Canada announced in Doha that it does not plan to contribute to the Green Climate Fund – a new fund whose progress was one of the success stories of recent negotiations in Cancun and Durban – "until a new agreement applicable to all, as agreed to in Durban, can be adopted by all parties." It is reasonable to expect that countries will not commit specific funding to the Green Climate Fund until all agreements have been reached to make the Fund operational. Canada also added that Canadian pledges for this Fund would be dependent upon major emerging economies, such as China, Brazil and India, committing to emission reduction targets under a post-Kyoto agreement, currently under negotiation.

(Canada 2011, 2012 and 2013). A full list and description of these initiatives can be found in Annex One.

This assessment is based on available documentation in the public realm from the Government of Canada's announcements since 2010 and from the web sources for the multilateral organizations managing much of this financing. The analysis sets out some observations on the disbursements in meeting the FSF commitment, the allocation of Canadian climate financing between mitigation and adaptation, and Canada's approach to mitigation and adaptation as exemplified by these allocations and some relevant secondary sources.[5]

The reference point for this report's analysis is the government's stated goals for its FSF. But the analysis also draws out implications for the effectiveness of Canada's FSF disbursements, based on the often vague Copenhagen FSF agreements as well as six policy proposals by C4D for structuring Canada's FSF, conveyed to (but not accepted by) the Ministers of Environment in 2010 and in 2011.

A Civil Society Framework for Assessing Canada's Fast-Start Climate Finance

The Copenhagen Accord called for a "balanced allocation" between mitigation and adaptation. Under the "Fast-Start Finance," developed countries also promised to give priority to the poorest and most vulnerable—the Least Developed Countries (LDCs), the Small Island Developing States (SIDS) and Africa. (UNFCCC 2009, §8)

C4D welcomed Canada's initial commitment to the Fast-Start initiative. As the government worked through the parameters for this commitment in 2010, the Coalition drew attention to a number of important issues that had not been clarified in the Copenhagen Accord, but were nevertheless important to take into account. The Coalition put forward six proposals to the Ministers of the Environment, which were acknowledged but not accepted, to guide the allocation of FSF for the following two years:[6]

1. **Canada's Fast-Start Financing must be "new and additional."** "New and additional" were not clarified in Copenhagen and donors have made several interpretations since 2009. C4D suggested that financing should be new in relation to previously committed climate change financing. It should also be "additional" to any previously announced levels or additions to the International Assistance Envelope (IAE). The Coalition proposed that Canada steadily increase its ODA, within the IAE, in order to reach the UN 0.7% of GNI target and create additional fiscal space for climate finance.

2. **Grants versus loans: Level of financing in grant or "grant-equivalent" form.** Given the close involvement of the public sector in adaptation in poor countries, C4D proposed that allocations towards adaptation should be grants, "ensuring that the burden on vulnerable people is not increased by the need to pay back loans." C4D also encouraged grant finance for aspects of mitigation, while recognizing that mitigation funding (particularly directed towards the private sector) could be provided as loans. Where financing is provided as loans, the Coalition suggested that only the concession portion of the loan be counted towards Canada's Fast-Start contribution, not the entire loan disbursement. The Auditor General in his 2013 report on Canada's multilateral assistance has subsequently supported these concerns.

3. **Equitable balance between adaptation and mitigation.** Echoing the call for balanced financing between adaptation and mitigation in the Copenhagen and Cancun Agreements, the Coalition proposed a 50-50 split between these two purposes in climate financing.

4. **Funding should prioritize the most vulnerable countries, particularly for adaptation.** The most vulnerable countries include the least developed countries (LDCs), small island states, and African countries. Some mitigation financing should also provide opportunities for sustainable low-carbon development pathways in most vulnerable countries and populations where they complement adaptation.

[5]Annex Two situates Canada's Fast-Start Financing in context of other climate change financing through CIDA. This Annex analyzes CIDA's climate change project financing from 2008/09 to 2011/12, based on the adaptation and mitigation project policy markers developed by the OECD Development Assistance Committee (DAC).

[6]These proposals are based on two letters sent to Environment Ministers Prentice (July 28, 2010) and Kent (February 15, 2011) by C4D.

5. **Adaptation programs should be pro-poor, promoting gender equality and human rights.** The Canadian CSO coalition called for Canadian adaptation dollars to be directed towards programs that "take into consideration differential vulnerability to climate change, and the perspectives of vulnerable and marginalized groups, including women, smallholder farmers, and indigenous communities. Funding should support community-based adaptation so that the human costs of climate change can be addressed, while also ensuring the continued resilience of ecosystems and the conservation of biodiversity" (C4D letter to Minister Kent, February 15, 2011).

6. **Ensure transparency and accountability.** C4D encouraged the government to develop mechanisms and timely accessible reports so that the implementation of Canadian FSF commitments is both transparent and accountability to parliament and Canadians, consistent with Canada's commitments under the Copenhagen Accord and Cancun Agreements.

Annex One provides an overview and some details for each allocation by Canada as reported in its annual reports to the UNCCC (Canada, 2011, 2012 and 2013).

Box 1: Canada's Priorities for Fast-Start Finance

The stated priorities for Canada's FSF were the following:

1. Adaptation by the poorest and most vulnerable;
2. Clean energy; and
3. Forest and agriculture

Canada also indicated that this financing would support developing countries to strengthen capacities to implement their obligations under the UNFCCC, in particular through country-determined priorities as set out in plans for "Nationally Appropriate Mitigation Actions" (NAMAs).

While the government did not provide any indication of the balance of funding between its three priority areas, it set out five criteria to guide allocations:

1. Priorities identified by developing countries
2. Projects are ready for financing
3. Ability to manage resources for rapid disbursements
4. Maximum leverage of private sector finance; and
5. Measurable emissions reductions and improved climate resilience.

Source: Canada 2011

2. Overview of the scope and priorities for Canada's Fast-Start Climate Financing

As of November 2012, 23 developed countries had made pledges totaling US$32.9 billion for Fast-Start financing.[7] This self-reporting from countries would indicate that the $30 billion fast-start goal has by and large been met. An analysis by the World Resources Institute suggests that the majority of this finance has been directed to mitigation over adaptation, in part due to the interests of many donors, including Canada, to catalyze private sector investment. Due to the nature of the data provided by donors, it is not possible to have a precise analysis of the overall distribution of this $33 billion to LDCs and vulnerable countries.

Canada's commitment of Cdn$1.2 billion to the FSF is approximately 4% of the US$30 billion target, and this 4% commitment is equal to Canada's fair share among the donor countries.[8]

In its FSF report to the UNFCCC for 2010, the Canadian government described three priority areas and set out five criteria for allocating its Fast-Start Financing (see Box 1). In terms of the three priority areas, the government's 2013 UNFCCC Report states that clean energy made up 65% of FSF (although the government does not define its scope for "clean energy" – solar/wind energy vs "clean" coal), forestry and agriculture 11%, and adaptation 15%, with a further 9% described as cross cutting (Canada 2013, 3). Mitigation, with a strong focus on financing clean energy projects through the private sector, has been the major priority for Canadian FSF. The government's 2013 Report provides little further elaboration of the government's own assessment of its performance against its stated five criteria for FSF allocation.

[7] 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.

[8] "Fair share" is based on the share of Canada's Gross National Income (GNI) in relation to the total Gross National Income of all OECD donor counties. In 2009 Canada's share of OECD donors' GNI was 3.4%. By 2012, this share has grown to 4.2%, due to weak economies in Europe and the United States.

3. An Assessment of Canada's Fast-Start Climate Financing

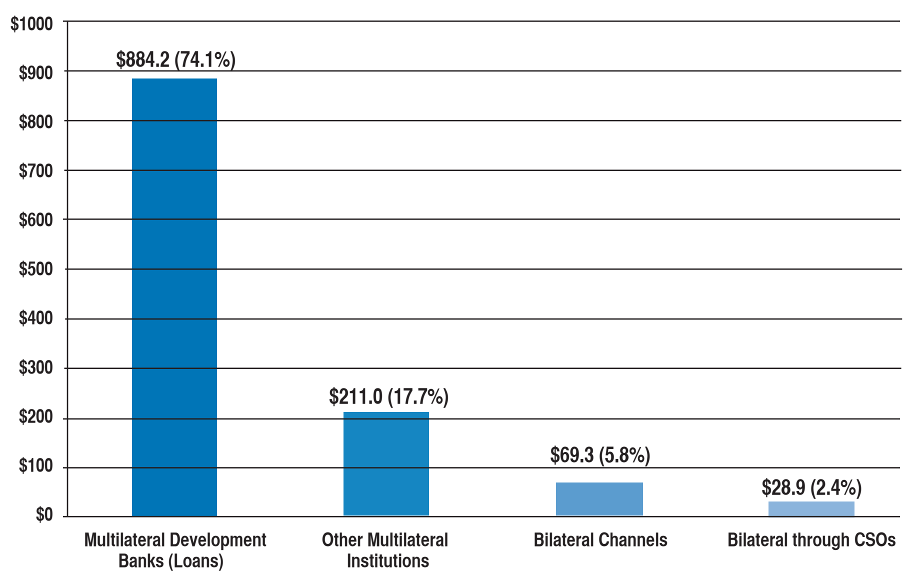
This analysis attempts an independent assessment of Canada's FSF disbursements, using existing data and information on Canadian initiatives, against the six-point framework as summarized by C4D to guide an effective allocation of Canada's FSF. In doing so, it will assess the channels for implementing Canadian FSF, the degree to which the use of loans and the private sector focus has influenced the net value of Canadian FSF, its additionality to climate finance in 2009, its orientation towards priorities identified by developing countries and, in particular, the adaptation needs of poor populations.

Implementation channels

Table 1 in Annex One provides a summary breakdown of the implementing partners for the disbursement of Cdn$1,193.4 million for Canada's Fast-Start Climate Finance as reported by Canada to the UNFCCC. Some trends are important to highlight (see also Chart 1):

- **Multilateral versus bilateral:** Canada has disbursed Cdn$1,108.2 (92.9%) of its FSF through multilateral channels, and only Cdn$85.2 million (7.1%) through bilateral modalities, including Canadian NGOs/CSOs and IDRC.[9]
- **Implemented by Multilateral Development Banks:** Almost three-quarters or Cdn$884.2 million (74%) of Canadian FSF has been provided to the World Bank, the Asia Development Bank (ADB) and the Inter-American Development Bank (IADB) as direct support to private sector actors through loans for mitigation.[10] Canada's main other multilateral agency partners beyond the Banks are the UNDP, the Forest Carbon Partnership, the Congo Basin Initiative, the World Meteorological Organization, and the Global Environment Facility (Cdn$211 million).
- **Implemented by NGOs/CSOs:** Only Cdn$28.9 million is identified as being implemented by an NGO/CSO partner (94% of which is directed to adaptation).
- **Implemented by the private sector:** Almost three-quarters of Canadian FSF, or an estimated Cdn$893.5 million (74.9%), is implemented by the private sector, almost all of it for mitigation.[11]

Chart 1: Channels for Canada Fast-Start Finance Commitments
(2010 - 2012) (Millions of Canadian Dollars)



[9]The following initiatives are considered bilateral (see the full list in Annex One): #5 Support for Nationally Appropriate Mitigation Actions; #6 Clean Cook Stoves; #13 Canada Fund for African Climate Resilience; #16 Parks Canada Protected Areas; #20 IDRC Adaptation Research Funds; #22 IDRC/WHO Reduce Population Health Vulnerability; #23 Environment Canada; and #24 Government of Vietnam.

[10]The $884 million include the IFC Fund, the Catalyst Fund, the ADB and the IADB trust funds and the World Bank Clean Technology Fund.

[11] All of the $884 million for the various Development Bank funds is intended for the private sector. A number of other initiatives have indirect implications for private sector actors, such as the Forest Carbon Partnership Facility Carbon Fund ($5 million) and the World Bank BioCarbon Plus Fund ($4.5 million). These figures do not include the IFAD Smallholder Agriculture Program, which also targets smallholder agriculturalists as private sector actors in agriculture.

3.1 Fulfilling Canada's FSF Commitment: Is Canadian FSF "new" and "additional"?

Fast-Start Finance was to be both "new" and "additional" finance, although the Copenhagen Accord did not define either of these conditions. C4D considers the baseline for "new" and "additional" to be climate-related financing identified by the Canadian Government for 2009/10. The Government's report to the UNFCCC for 2010 FSF calculated that comparable climate-related financing in 2009/10, the fiscal year prior to its first commitment year, was Cdn$41 million (Canada 2011). The Government then reported that it disbursed a total of $441 million to international climate finance in 2010, with $400 million new climate financing beyond 2009 levels (Canada 2011). Unfortunately Canada's reports to the UNFCCC in 2011 and 2012 did not give specific allocations for this $41 million, in order to track and identify "new" financing in those years. If the 2009 amount of Cdn$41 million is included in reported climate financing in each of 2011 and 2012,[12] Canada is potentially Cdn$88.6 million short of Cdn$1.2 billion in new financing over the three years.

Canada's $1.2 billion for FSF has been mainly "additional" to budgeted international assistance at the beginning of each fiscal year. The government allocated a total of Cdn$1,085 million in the three fiscal years (2010/11 to 2012/13) through "Supplementary Estimates" that added climate financing to existing budget lines for CIDA and other relevant government departments (see the breakdown in Table 1).[13] Supplementary estimates for 2013/14 added an additional $60.3 million to bring the total supplementary estimates for FSF up to Cdn$1,145.2 million, just short of the total reported FSF of $1,193.4 million. These supplementary amounts are additional to the budget for the International Assistance Envelope (IAE), reviewed and passed by Parliament in the budget bill at the beginning of each of these fiscal years.[14] However, it should be noted that the IAE was flat-lined by the government in 2011 and then reduced for the three-year period, 2012-14, resulting in significant reductions in Canadian ODA.[15]

In the Supplementary Estimates, these amounts are identified with the Fast-Start initiative and recorded with the following description:

> "This funding will support initiatives with the following key objectives: to help the poorest and most vulnerable people adapt to the impacts of climate change they are currently experiencing; to increase the availability of clean energy in developing countries; and to improve the management of forest and agriculture resources in developing countries including the protection of rainforests and protected areas."

While Canada's level of ODA is modest and declining, its performance on "new and additional" resources for FSF within its ODA ranks high among other donors.[16] According to data collected by the World Resources Institute, countries that have exceeded the UN ODA target of 0.7% of their GNI count their FSF finance within the amount of aid that exceed this target. However, some countries such as the Netherlands, which were 0.7% donors, are reducing their ODA below this target due to budget restraint, thus negatively affecting the additionality of their climate finance. Other European donors count their FSF as ODA within their commitment to raise ODA towards 0.7% (Belgium, Finland, France), but have not achieved these targets for ODA, thus potentially taking existing ODA resources to meet their FSF commitment (World Resources Institute 2012). As a result of "cannibalizing of Official Development Assistance" Oxfam calculates that only 24% of total FSF was additional to existing aid promises (Oxfam 2012: 5).

[12] There is no indication in the reports for these years to suggest that this is not the case, as it was for the report on 2010. To qualify the $1.2 billion as "new" climate finance, therefore, total Canadian climate finance over the three years should amount to a cumulative total of $1.282 billion ($1.2 plus $41 million to cover pre-2009 finance level in each of 2011 and 2012). However, the 2013 report on Canada's Fast-Start Financing details only Cdn$1.193 billion in commitments. The difference is Cdn$88.6 million.

[13] Supplementary Estimates are tabled in Parliament in June, November and March each fiscal year. These Estimates are intended to respond to unplanned requirements for financing during the year, which are in addition to the original figures in the annual budget, usually passed by Parliament in the first quarter of the fiscal year.

[14] The remaining $48.2 million ($1,193.4 less $1,145.2) were allocated to FSF from the original budgets for various departments and cannot be considered additional.

[15] See the CCIC analysis of the 2013/14 Federal Budget for the IAE and ODA at http://www.ccic.ca/_files/en/what_we_do/2013_03_27_Analysis_Budget_2013.pdf. Not including Supplementary Estimates each year, Canadian ODA is projected to drop by close to 10%, from about $5.5 billion in 2010 to $5 billion in 2014/15.

[16] As a result of using supplementary estimates to increase the International Assistance Envelope each year.

Table 1: Supplementary Estimates for Canada's Fast-Start Financing *(Millions of Cdn Dollars)*

Department	FY 2010/11	FY 2011/12	FY 2012/13
CIDA	$ 4.0	$345.9	$267.0
Environment Canada		3.5	46.0
Finance Canada*	291.5		
DFAIT	75.0	4.6	5.0
IDRC	11.6	27.5	
Parks Canada			3.3
Sub-Total	$ 382.1	$381.5	$321.3
Three-Year Total			**$1,084.9**
Total including 2013/14**			**$1,145.2**

**In FY 2013/14, an additional $60.3 million of supplementary financing was added by the Department of Finance for the IFC FSF.*

***The Supplementary Estimates do not break down the amounts against specific initiatives and so comparisons with these initiatives in Table 1 in Annex One are imprecise.*

Source: Treasury Board Canada, Supplementary Estimates, various years, http://www.tbs-sct.gc.ca/ems-sgd/esp-pbc/se-bs-eng.asp

Conclusion: Overall, through the use of Supplementary Budget Estimates, Canada's contributions to the three-year Fast-Start Financing can be considered "new" and "additional" to budgeted levels of ODA. However, it should be noted that the International Assistance Envelope for ODA has been declining in recent years.

Repayable loans diminishes the true value of Canada's FSF Commitment

The 2013 report by the government of Canada to the UNFCCC documents Cdn$1,193.4 million in Canadian FSF, just under the Cdn$1.2 billion commitment. As noted above, this commitment is approximately 4% of the US$30 billion or Canada's "fair share." But a number of issues can be raised that call into question whether Cdn$1,193.4 million in disbursements represents the true value of Canada's commitment. These concerns are due to the fact that for the first time since 1986, Canada is providing a significant amount of FSF in the form of loans through the multilateral development banks that will be repaid to Canada and not remain with the banks with loan repayments reallocated by the banks as new loans. Repayable loans are a significant change in Canadian aid policy.[17]

Added together, fully three-quarters of the Cdn$1.2 billion commitment, or Cdn$884 million, has been allocated as loan capital to be implemented by various multilateral banks in dedicated Canadian trust funds. These funds mainly support climate change mitigation projects through onward loans by these institutions to the private sector. According to the Auditor General, these loans will be repayable by the World Bank and regional Development Banks to Canada (over a 30+ year period).

In April 2013, the Auditor General (AG) issued a report on Official Development Assistance (ODA) through multilateral organizations.[18] His report commented on the Cdn$276.8 million allocated to the International

[17] Canada has provided finance for loans by International Finance Institutions, such as through the International Development Association window of the World Bank each year, but these loans are repaid to the World Bank and recycled as new loans to developing countries. This will not be the case for FSF loans. They will be repaid to Canada. There have been no bilateral concessional loans to developing countries since 1986.

Finance Corporation (IFC) for private sector loans through the Canada Climate Change Fund (see #1 in Annex One), with Cdn$271 million as loan financing. He notes that the government calculates that up to $200 million of this loan will be repaid to Canada over the life of the repayment period, after the IFC deducts its expenses and the costs of the lending program. Therefore the net value of this contribution to Fast-Start Finance will be approximately $71 million, not $271 million as reported by Canada to the UNFCCC.[19]

In addition to the loan capital for the IFC Canada Climate Change Fund, $250 million has been allocated as private sector loan finance for a Canadian Climate Fund at the Inter-American Development Bank and Cdn$75 million to the Asian Development Bank for a similar fund. Another Cdn$200 million is allocated as loan capital to the World Bank's Clean Technology Fund. In 2012, another Cdn$75 million was added to the Climate Catalyst Fund of the World Bank's IFC as loan capital for "climate friendly projects and companies."

It is expected that the Canadian disbursements to the regional development banks will be on the same terms as the IFC's Canadian trust fund (Canada Climate Change Fund) as discussed by the Auditor General. Assuming a similar repayment rate to Canada for all Canadian trust fund loans for FSF (approximately 70%), this would reduce the actual value to developing country recipients of the Cdn$1,193.4 million by more than 50% to Cdn$581.2 million, far below Canada's stated fair share of Fast-Start Financing.

Conclusion: Canada has disbursed its "fair share" of global Fast-Start Finance. But 74% of Canada's FSF has been allocated as loans that will ultimately be repaid to Canada, primarily for private sector mitigation projects. The introduction of loans repayable to Canada in trust funds managed by the World Bank's IFC and the regional development banks (IADB and ADB) call into question the real value of Canada's contributions. These trust funds represent the first loans in Canadian ODA since 1986 that will be repaid to Canada. It is expected that more than Cdn$615 million will be returned to Canada through loan repayments over the life of these programs, reducing the true value of Canada's total FSF by more than 50%.

3.2 Grants versus loans: Level of financing in grant or "grant-equivalent" form

Three-quarters (74%) of the Cdn$1.2 billion—Cdn$884 million—has been allocated as concessional loan capital to be disbursed by various multilateral banks through dedicated Canadian trust funds in support of mitigation projects implemented by the private sector. Canadian FSF disbursements in the form of grants (Cdn$309 million) are primarily allocated to adaptation. Since the loan finance meets the concessional test of the OECD DAC, Canada, along with other donors, includes the full value of these loans as Official Development Assistance (ODA).

While not alone in financing FSF through concessional loans, Canada's share of loans in its FSF is at the high end, in comparison to most donors, for whom loans are at differing levels. Oxfam has calculated that 57% of overall FSF for all donors was in the form of loans (Oxfam 2012: 3). France is one of the few donors that has a higher proportion than Canada, with 85% of FSF in the form of loans (Oxfam 2012: 6). While Japan is making one of the largest contributions to FSF, it is estimated that 40% of its total flows (US$5.1 billion out of US$13.2 billion) is "other official flows," such as export and investment insurance, non-concessional loans and other investment guarantees, and may also include leveraged private finance.[20] Germany has exceeded its commitment to FSF, providing approximately US$1.7 billion, of which 29% is in the form of loans.[21] The World Resources Institute[22] reports that the United States provided US$2.7 billion (37%) in concessional loans out of a total of US$7.5 billion for FSF. On the other hand, Norway, the Netherlands and Australia, for example, report that all of their FSF is in the form of grants.

[18]See page 19 in the Auditor General's Report at http://www.oag-bvg.gc.ca/internet/English/parl_oag_201304_04_e_38189.html.

[19]While the AG is critical of this practice as over-stating the value of the assistance, the government's method of reporting is consistent with the rules for ODA under the OECD Development Assistance Committee, with loan financing reported in full in the year of commitment and repayments deducted from annual ODA disbursements in the year that repayments are received (often over a 25 to 30 year period).

[20]See http://www.wri.org/publication/ocn-jp-fast-start-finance.

[21]See http://www.wri.org/publication/ocn-ger-fast-start-finance.

[22]See http://www.wri.org/publication/summary-of-developed-country-fast-start-climate-finance-pledges.

There are a number of issues raised by CSOs with respect to the use of loans for climate finance. A major consideration is the acknowledged differential responsibility for addressing global climate change. Those countries making contributions to climate finance through loans, while having historical and current responsibility for the emissions that has resulted in climate change, are transferring financial obligations onto developing country partners through loans repayable to the donor country. Moreover, some close observers of developing country debt load are concerned that climate finance in the form of loans will compound a growing debt crisis among the poorest countries, which had their debts reduced after a hard-fought decade for a measure of debt cancellation in the early 2000s.[23] On the other hand, donors such as the UK and Canada suggest that loans for the private sector are an appropriate financing mechanism for stimulating private sector investment in "clean energy" where this investment would not otherwise take place (REDD-Net Program 2010; Canada 2013).

As noted above, loans substantially reduce the real value of FSF for developing country partners. One estimate puts the average grant element of concessional loans by three European Development Finance Institutions at between 12% and 20% (Buchner et al 2012). Some observers of the OECD DAC rules for concessionality for ODA have raised serious technical questions about grant-equivalency. Richard Manning, the former Chairperson of the DAC, in a recent letter to the *Financial Times*, suggests that current DAC rules "allow for large volume of loans to be counted as ODA even though they do not meet any reasonable definition of being 'concessional in character'." In an era of low interest rates, according to Manning, the DAC test for concessionality can be reached with virtually no government subsidy at all. Moreover donors are able to include the whole value of the loan as aid, not just the subsidized component.[24]

Conclusion: Among all the FSF donors, Canada has one of the highest ratios of loans in its FSF portfolio. CSOs raise critical concerns not only for the ethics of loans for Canadian climate finance, given the historical and current responsibility of Canada's emissions for climate change, but also for the implications of increased debt loads for some middle income countries and for low thresholds for calculating the concessionality or grant-equivalency of these loans.

3.3 Is there an equitable balance between adaptation and mitigation?

The Copenhagen Accord did not specify the proportion of its call for a "balanced allocation" between adaptation and mitigation, but it is assumed by developing countries and key civil society organizations, including C4D, to mean roughly a 50/50 split, acknowledging that there is sometimes an overlap as some activities have both adaptation and mitigation characteristics. Canada allocated significant new funding to climate change adaptation in the final year of its FSF, much more than in the previous two.

While its 2013 report to the UNFCCC states that 15% of its total FSF was dedicated to adaptation, Canada did not report its own estimate of the overall breakdown between mitigation and adaptation[25] (Canada 2013, 3). Examining the content of all Canadian FSF initiatives in Annex One for this study to estimate a division between mitigation and adaptation does not come close to the C4D goal—even with a generous allocation to adaptation for some of these initiatives.[26] The estimate is that approximately 82% of Canadian funded activities are directed to mitigation and 18% to adaptation. If one includes "leveraged" private sector and other multilateral sources of funding for mitigation projects, which is a stated goal of Canada's multilateral trust funds, the balance would be even more skewed towards mitigation.

[23]See Jubilee Debt Campaign, "The State of Debt: Putting an end to 30 years of crisis," May 2012, accessed at http://www.jubileedebtcampaign.org.uk/REPORT373A3720The3720State3720of3720Debt+7628.twl. This report points out that debt for some indebted poor countries is growing as a result of increased and unsustainable private sector debt in their country, which was the basis for the original debt crisis for Mexico and other countries in the 1980s. While climate finance loans are for mainly middle-income countries, some of these countries, such as Jamaica, did not benefit from debt cancellation in the 2000s and may be reaching unsustainable levels.

[24]See Letter by Richard Manning, Financial Times, April 9, 2013, accessible at http://international.cgdev.org/sites/default/files/OECD%20is%20ignoring%20its%20definition%20of%20overseas%20aid%20-%20FT.pdf.

[25]The 2013 Report separates adaptation (15%), Clean energy (65%), Forests and Agriculture (11%) and other crosscutting (9%).

[26]This allocation between adaptation and mitigation is a calculation by the author and should be considered only an approximation. It is based on an analysis of the focus of individual initiatives in Annex One. A number of activities relating to forestry (REDD+), and "Crosscutting", where the purposes of activities may overlap between mitigation and adaptation, have been arbitrarily allocated 50% each to mitigation and adaptation.

By contrast, Australia Fast-Start Finance is well balanced with 52% adaptation and 48% mitigation. The European Union reported that 42% of its FSF activities in 2011 were directed to adaptation, and the balance to mitigation. In 2011 Switzerland allocated 71% of its FSF initiatives to adaptation and 29% to mitigation (UNFCCC 2012).

The strong private sector focus for Canadian FSF skews Canada's allocations strongly towards mitigation (as it does for several other donors). Within climate finance there is an important role for the private sector and therefore for donor allocation of funds towards this sector. However, within these allocations for mitigation it is also essential to acknowledge the role of policy development and capacity building within the public sector. Similar to Canada's FSF for adaptation, which is entirely grant-based as noted above, finance for public sector mitigation priorities should also be grant based.

Conclusion: An estimate by the author of the balance between adaptation and mitigation, based on a review of Canadian FSF initiatives, suggests an overall imbalance, with about 82% of Canada's FSF going to mitigation. Developing countries and many civil society organizations, including C4D, advocated a roughly 50/50 balance, and several other donor countries report an allocation closer to this more equitable balance. The strong private sector focus for Canadian FSF skews the allocations strongly towards mitigation.

3.4 Is Canadian FSF prioritizing adaptation for the most vulnerable countries?

Within the UNFCCC, the least developed countries, small island states (SIDS), and African countries are considered the most vulnerable countries (see the Copenhagen Accord, §3). Canada's 2013 Report to the UNFCCC states that 24% of its FSF will be disbursed to Sub-Saharan Africa (Canada 2013, 3). But, unfortunately, there is no breakdown by country for the disbursements of Canada's FSF allocations. With most disbursements through multilateral mechanisms, it is difficult to identify the countries that will ultimately benefit from these funds. However, many of the multilateral funds provide a degree of transparency for projects that have been financed and priority countries for these activities.

Based on an analysis of Canadian initiatives for FSF in Annex One,[27] Table 2 indicates that 29% of Canada's total FSF has been allocated to vulnerable countries (excluding FSF that cannot be allocated to countries).[28] Much of this allocation to vulnerable countries is accounted for by financing for adaptation. Of the FSF allocated to adaptation 70% of these initiatives are directed to vulnerable countries as defined by the UNFCCC (where countries can be identified). This proportion to vulnerable countries suggests that a Canada criterion to target "adaptation by the poorest and more vulnerable" has been given significant weight in its FSF.

[27]Some funds were allocated by formulae to adaptation, on the same basis as described in section 3.3 above.

[28]This estimate of 29% is made by the author based on an analysis of the initiatives in Annex One. Some assumptions were made about several Funds based on existing evidence of country allocations. It is assumed that 30% of the IFC funds are directed to vulnerable countries, 20% of the ADB fund is directed to vulnerable countries, 20% of the Clean Technology Fund, and 10% of the IADB fund is directed to these countries. There was not enough evidence to suggest the proportion of IFAD, GEF and UNFCCC Trust Fund for Participation to vulnerable countries, which were removed from the calculation. This unallocated amount totaled $97.6 million out of $1,193.39 million or 9% of the total.

Table 2. Allocation of Canadian FSF to Vulnerable Countries *(Millions of Cdn Dollars)*

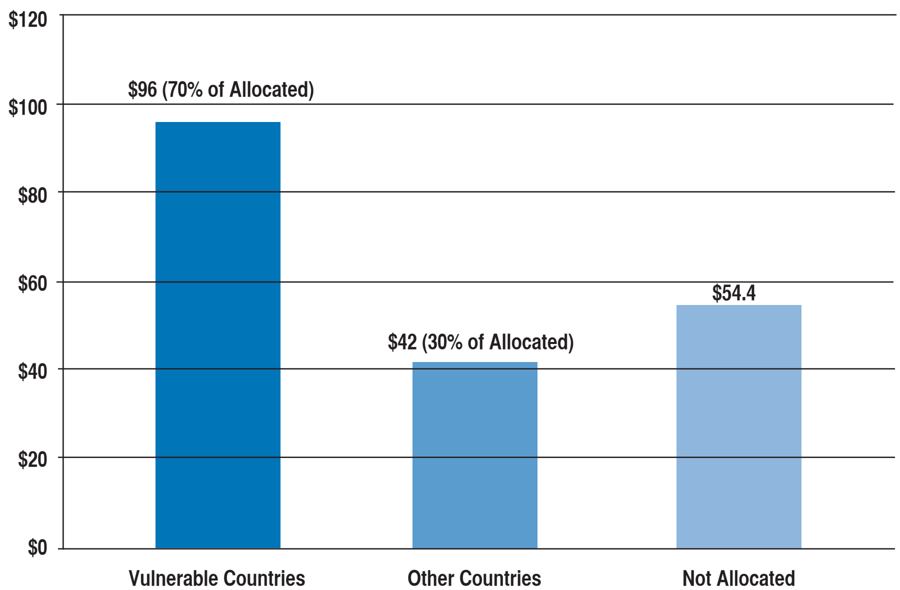
	Allocated to Vulnerable Countries*	Allocated to Other Countries	Percentage to Vulnerable Countries
Mitigation	$222.2	$735.4	23.2%
Adaptation	$ 96.0	$ 42.2	70.0%
Total FSF	$318.1	$777.6	29.0%
Not Allocated	$ 97.6		

**Vulnerable countries as defined in the Copenhagen Accord are countries in Africa, the least developed countries and small island states. Source: Author's calculations based on the allocation of projects within the Canadian Fast-Start initiative (see footnote #26 and #28).*

With respect to mitigation financing, given the strong emphasis on supporting private sector initiatives in middle-income countries through the IFC and the Regional Development Banks,[29] support for vulnerable countries drops to 23% of country allocable commitments.

Chart 2: Distribution of FSF for Adaptation to Vulnerable Countries

(Vulnerable Countries: LDCs, Small Island States, Africa) (Millions of Canadian Dollars)



Conclusion: Canadian FSF meets its stated priority to disburse adaptation funding to countries that are highly vulnerable to the impacts of climate change (LDCs, Small Island States and Africa). An estimated 70% of allocable FSF for adaptation can be identified with vulnerable countries. This good performance, however, is qualified due to the overall unfavourable balance between adaptation and mitigation finance in Canada's overall FSF.

[29]As of December 2012, only two loans from the IFC Canada Climate Change Fund were made to African countries (Ghana and Kenya), which totaled US$19 million or 34% of the disbursed funds. All of the 15 eligible countries for the Clean Technology Fund are middle-income countries (Canadian contribution of $200 million to a loan fund) and half are upper middle-income countries. The first two loans from the IADB Canada trust fund (Canadian contribution $250 million) were to Chile (upper middle income country) and Peru (lower middle income country). All of the six countries in the Americas identified for Canadian support for their plans for Nationally Appropriate Mitigation Actions are middle-income countries.

3.5 Are adaptation programs pro-poor, promoting gender equality and human rights, as mandated under the ODA Accountability Act?

With current public information about Canadian FSF adaptation initiatives, it is not possible to determine the degree to which these initiatives are pro-poor, proactive in support of gender equality and promote human rights. For example, the Least Developed Countries Fund for adaptation (Annex One, #17), to which Canada contributed Cdn$20 million, states that the Fund supports community-based initiatives in many LDCs such as Bangladesh and Niger that affect poor people in their communities. But there is insufficient information to determine the community processes for participation and empowerment in these initiatives.

In another example, the CIDA/FAO adaptation project in Ethiopia (Annex One, #18), which focuses on managing environmental resources, points to lessons learned about "community empowerment" in which "community participation and ownership have been fundamental for the project's success." For this project, "erosion of traditional divisions of labour and gender-based discriminations have been promoted by giving equal involvement of women in the decision-making processes and entitlement to equal wages or incentives."[30] Similarly, the IFAD program for Adaptation for Smallholder Agriculture (Annex One, #21) states that it "will empower community-based organizations to make use of new climate risk management skills, information and technologies." Given the orientation of Canadian CSOs in development cooperation, is also expected that the nine CSO projects under the Canada Fund for African Climate Resilience (Annex One, #13), as well as the Oxfam-Québec's Reducing Vulnerabilities in Haiti (Annex One, #19), will have a community and empowering pro-poor focus.

To date, the government has included all FSF initiatives as Canadian Official Development Assistance (ODA), and as such these initiatives fall under the ODA Accountability Act. The Act requires the respective Minister to verify that each initiative—not only those related to adaptation—reduces poverty, takes account the perspectives of the poor and is consistent with human rights standards, including the rights of people affected by these initiatives to participate effectively in their own development. As noted, most of the FSF has been channeled through multilateral institutions. More transparent due diligence is required on the part of the government to verify that all FSF initiatives meet the three tests of the Act. According to the recent report of the Auditor General (AG), this verification has not been the case for most of Canada's ODA implemented through multilateral organizations and the AG calls on the government to strengthen its practices in the approval process.

The Auditor General's April 2013 Report found that "none of the core funding proposals we examined provided a clear picture of how the multilateral organizations had taken the perspectives of the poor into account." The AG also found that "the proposals for both project and core funding contained no assertions about specific rights along the broad spectrum of international human rights standards, with the exception of gender equality, for which departments included an assessment of whether this was incorporated into the policies and programs of the multilateral organization being funded." The AG recommended that all departments "demonstrate how funding provided to multilateral organizations and reported as ODA meets the three conditions of … the Official Development Assistance Accountability Act." Different from the government's legal interpretation of its obligations under the Act, the AG suggested that demonstration of these three tests must occur at the approval stage, not just in subsequent reporting of the outcomes of the initiative (Auditor General 2013, 7-11).

Conclusion: Improved transparent due diligence/public reporting of outcomes is required on the part of the government to verify that all FSF initiatives meet the three tests of the ODA Accountability Act (poverty reduction, takes account the perspectives of the poor and is consistent with human rights standards). According to the recent report of the Auditor General, this verification has not occurred for most of Canada's ODA implemented through multilateral organizations, a category which includes the majority of Canada's FSF.

[30]See The Water Forum: Solutions for Water, "Managing Environmental Resources to Enable Transitions to more Sustainable Livelihoods (MERET), accessible at http://www.solutionsfor-water.org/solutions/managing-environmental-resources-to-enable-transitions-to-more-sustainable-livelihoods-meret.

3.6 How transparent and accountable is Canada's Fast-Start Finance?

Transparency is an essential condition for true accountability for the outcomes of FSF. The international community, through the International Aid Transparency Initiative (IATI), in combination with the OECD DAC, has established a common standard for aid transparency, which is applicable to FSF (particularly because donors include it within their ODA). This common standard requires open access to information about each aid transaction at the project level, including information about implementing partners, financing, terms for concessionality for all loans, overall objectives, and the results achieved. Reporting FSF against this standard, for example, would allow all interested parties to understand Canada's definition of support for "clean energy" in the activities supported. Canada has signed onto IATI and is in the process of implementing the IATI Standard.[31]

Under the Copenhagen and Cancun agreements, Canada, along with other donors, has submitted three annual reports to the UNFCCC on its disbursements for Fast-Start Financing.[32] The International Institute for Environment and Development (IIED) has examined these reports for 2012 and ranked Canada 8th among 10 key donors against 24 sub-indicators of transparency (IIED 2012, 3). While the Canadian reports to the UNFCCC provide basic information on all FSF initiatives, there are no country-level expenditure breakdowns for bilateral disbursements, disaggregation between adaptation and mitigation at the country level, and no overall estimates of country disbursements from multilateral trust funds and facilities to which Canada contributed. The May 2013 report to the UNFCCC, however, did provide this level of detail on several initiatives. A general lack of data in the reports makes it difficult to determine the degree to which Canada's financing gave priority to the poorest and most vulnerable, and for what purposes.

As the government is counting FSF as ODA, CIDA's annual *Statistical Report on International Assistance*[33] should provide some additional detail for all departments, assuming FSF initiatives are specifically identified in the various tables of this Report. So far, however, only the 2010/11 Report identified the Department of Finance contribution of $292 million to the IFC in 2010/11 as FSF. No other significant expenditures have been explicitly identified as FSF in the latest 2011/12 Statistical Report; these disbursements are buried within other categories within the various tables of the Report (e.g. all disbursements for UNDP or all disbursement to Kenya, etc.).

The April 2013 Auditor General's report noted that significant Canadian ODA is transferred to multilateral trust funds and suggested greater transparency in the disbursement of these funds. The AG drew attention as an example to Cdn$40 million transferred under FSF to the Forest Carbon Partnership Facility in February 2011, but then noted the low level of disbursements from this Facility the following year (only US$5.4 million).

Slow disbursement is a concern for many of the FSF multilateral trust funds. Canada's May 2013 report to the UNFCCC provided some data for the Canadian Facilities at the Multilateral Development Banks—to date, a total of US$95.4 million identified as "approved contributions" against a total commitment of Cdn$685 million (of which Cdn$307 million was only committed in 2012/13). It is expected that these and other multilateral funds will be disbursed over the next several years.

While acknowledging some good reasons for early transfer of funds to such trust funds, the Auditor-General called for greater transparency for the actual disbursements of Canadian allocations from these funds. The AG noted that the *Statistical Report* sets out information in a given year as if the full amount of trust fund contributions was expended to countries in the year of Canada's contribution, which hides a much slower actual disbursement to beneficiary country programs over the following years. Given the large proportion of Canadian FSF in multilateral trust funds, the question of timely fast disbursement of this finance is very difficult to determine for most of the

[31] For more information on the IATI process and standard see http://www.aidtransparency.net/. In agreeing to implement the Standard donors are strongly encouraged (and monitored) to work towards publishing data to the full Standard, but it is also voluntary to meet all dimensions of the Standard. Many donors do not yet publish results information and detailed narrative information about each aid activity, which for many number in the thousands. NGOs/CSOs are also strongly encouraged to sign up to the IATI and publish data on their activities in development cooperation to the Standard.

[32] Available at http://climatechange.gc.ca/default.asp?lang=En&n=5F50D3E9-1.

FSF allocations, but clearly only a small amount is disbursed in the year that Canada makes its specific grant to the multilateral agency.

The government is obliged each year to submit a report to Parliament on its implementation of the ODA Accountability Act. This report could be strengthened to include details about FSF, perhaps with an annex that brings together all elements of climate financing counted as ODA.[34]

Canada, among other donors, agreed at the Busan High Level Forum in December 2011 to improve the predictability of its ODA to enable partners and recipient governments to plan future directions. In the case of climate finance, there have been large investments in country level mitigation and adaptation plans; there is now a need to invest predictable resources up to 2020 to implement these plans. The potential gap in financing between now and 2020 will also have serious implications for the negotiations towards a new agreement as well as the ability for countries to implement and plan future initiatives.

While some Canadian FSF contributed to the development of country plans for mitigation and adaptation, Canadian FSF has not been predictable finance. Knowledge of annual disbursements for FSF has depended upon the discretion of periodic Ministerial announcements. The total Canadian commitment to FSF (Cdn$1.2 billion) was not known until the Durban COP 17 in December 2011.

Conclusion: The annual reports by Canada to the United Nations Framework Convention on Climate Change (UNFCCC) on its FSF provide basic transparency for the disbursement of funds. However, the government should take advantage of its commitment to the IATI/DAC Common Standard, its annual Statistical Report for International Assistance and the annual Report to Parliament on the ODA Accountability Act to more fully account for the disbursements of FSF. This transparency should include country level disbursements by multilateral organizations and trust funds as well as departmental details of activities. Despite advantages to developing country partners of predictable finance, Canada's FSF was not predictable over the three years, as all stakeholders were dependent on periodic annual Ministerial announcements for information about specific Canadian disbursements to FSF for that year.

4. Conclusions

On the whole, Canada met its stated financing commitment and priorities for Fast-Start Financing (see Box 1); but these priorities, criteria for allocation, and predictable levels of annual funding were at best vague and open to interpretation. There are significant gaps, however, when considering Canada's FSF disbursements against the six C4D policy areas, which Canadian CSOs proposed in 2010 for an effective implementation of the Copenhagen commitments. There is serious concern about the level of loans in Canadian FSF reducing the real value by more than 50%. While Canada did disburse fully its FSF, much of it was provided to multilateral organizations' climate trust funds, where there is concern about the lack of rapid disbursement.

Canadian FSF disbursements should be brought within Canada's commitment to improve its aid transparency through the IATI/DAC Common Standard for all government departments, with more detail in CIDA's project browser, more specific reporting in the annual Statistical Report on International Assistance, and a special annex in the annual report to parliament on the ODA Accountability Act. This Act, and it criteria for ODA, also should be the basis for assessing the impact of FSF on the poorest and most vulnerable people affected by climate change. The six areas identified by C4D remain an essential framework for the government to consider when determining Canadian contributions towards the 2020 goal of US$100 billion in annual climate change financing.

[33] There is a one-year delay in the publication of the Statistical Reports, which can be found at http://www.acdi-cida.gc.ca/reports.

[34] See the specific proposals for the report on the ODA Accountability Act by the Pembina Institute at http://www.pembina.org/pub/2173.

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