

CLIMATE REPORT 2017

PRIVATE SECTOR AND CLIMATE FINANCE IN THE G20 COUNTRIES

ABOUT THE REPORT

The G20 countries comprise two thirds of the global population as well as more than three quarters of the world's economic output, trade and CO₂ emissions. Climate change is on the G20 agenda as a central future issue, also as an economic and fiscal challenge because corresponding investments from the private sector are a prerequisite for the fulfilment of the Paris climate protection goals. Our latest Climate Report, which continues the series from 2007, 2011 and 2014, provides answers to the question of how far the private sector plays a role in climate financing in the G20 countries.

CHINA

After the conclusion of the Paris Agreement, China started to focus its climate politics on green investment from the private sector. Although still very state-centred, China has rapidly become the largest issuing country for green bonds. During its G20 presidency in 2016, the Chinese government gave emphasis to the topic of "Green Finance". Beyond the G20, China can use its leadership role within the New Development Bank or the Asian Infrastructure Investment Bank to incorporate low-carbon support in these institutions.



Solar panels in front of the Shanghai skyline. Source: © Aania, AdobeStock

CHINA INCREASINGLY PUTS PRESSURE ON THE PRIVATE SECTOR

Besides the traditional “North-South” flow of financial support, there have been two other interesting developments in the area of climate financing since the ending of the UN Climate Conference in Paris 2015. In order to obtain the necessary financial resources amounting to a billion US dollars for control of climate change, the so-called “South-South climate financing” is gaining here in importance because half of the global gross domestic product is now accounted for by developing countries.

As the largest energy consumer and emitter of greenhouse gases, China declared already on the evening before the UN Climate Conference in 2015 that it intended to provide 3.1 billion US dollars as financial assistance, thereby starting to prove its global leadership abilities. The rest of the world is now watching the Middle Kingdom with increased interest and how these two trends – the South-South climate financing and the involvement of the private sector – are going to be realized. The Chinese leadership already used the G20 presidency in 2016 to underline the significance of the topic of “Green Finance” during the summit in Hangzhou, and to signalize its willingness to advocate environmentally friendly changes in the future. Nevertheless, global climate protection targets can be achieved only if laws are also introduced at a national level to stimulate investment from the private sector.

ENVIRONMENTAL PROBLEMS HAVE PRIORITY

China, as one of the countries most threatened by climate change, plays a central role in the improvement of environment protection. Especially air contamination is being regularly picked out as a central theme, not least because whole cities in the northeast of China regularly disappear under unhealthy smog. A survey of the inhabitants of ten Chinese cities, which was carried out by the Chinese Renewable Energy Industries

Association (CREIA), showed that over 90 percent of urban consumers are willing to pay more for “green energy” from renewable sources in order to minimise air pollution. This result shows a clear improvement in the environmental consciousness of the Chinese population and underlines at the same time the necessity for a change to environment-friendly energy resources.

According to a statistic from the Centre for Development Research of the central government, China would need annual green investment amounting to at least two billion renminbi (315 million US dollars) over the period of the 13th five-year plan (2016 to 2020) to be able to effectively combat its environmental problems. In the last two years, the central and provincial governments were able to provide only 200 billion renminbi of investment in environmental protection, energy savings, the development of renewable energy projects and other green sectors. Due to the financial limitations of the public sector, it is expected that 85 to 90 percent of all green investment has to be financed by the private sector. In order to guarantee a stable sustainable climate change and to mobilise resources from the private sector, the development of an effective green financial system is therefore of crucial importance.

CONCRETE OBJECTIVES FOR THE ACTIVATION OF PRIVATE CAPITAL

Involvement of the private sector in climate financing can be guaranteed and stimulated only by positive signals at the national level. So far, China has tried its utmost to achieve the objectives of the Paris Agreement. It has committed itself to reach the peak of its carbon emissions before the year 2030, and to reduce its emissions – in relation to economic performance at this point in time – to 60 to 65 percent of the 2005 level. Besides this, non-fossil fuels are to cover 20 percent of primary power consumption. In the 13th five-year plan that came into force in 2016, the Chinese government also defined the “ecological red line” which is not to be exceeded and has to be observed

GLOBAL GROWTH IN GREEN BOND ISSUANCE WAS DRIVEN BY CHINA IN 2016



Source: China Green Bond Market Report 2016

in future laws. In respect of environmental protection, the 13th five-year plan has several key points that have to be pointed out: on the one hand the government defines the upper limit for energy consumption in general and in the use of coal in particular, and on the other hand, Premier Li Keqiang demands more vigorous action against air and water pollution. For the first time in Chinese history, a concrete target of PM2.5 (pollution particles with the size of 2.5 micrometres) of air quality has also been set.

The People's Bank of China (the country's central bank) published in August 2016, together with six other governmental departments, the directives for the layout of a green financial system. These directives are to serve as a guideline for the development of green financial mechanisms in order to enable a transformation to a sustainable economy. The publishing of such directives is a sign that the central government is following a clear strategy of supportive proposed legislation in order to receive sufficient social capital and to speed up the economy's green change. In this way, the central government has sent out positive signals to the financial industry and green companies to eliminate doubts from private investors. In relation to this, the national "Belt and Road Initiative" is of interest. This programme for the opening of new trade channels offers governments, companies and social organisations investment opportunities to support public and private partnerships, and to start giving more emphasis to sustainable ecology.

MEASURES FOR MOBILISING THE PRIVATE SECTOR

Private capital will not automatically flow into the green sector without a combination of government finances and supportive laws. Investments into the green sector are immersed in problems, especially in developing countries which do not have an established financial market, because governments define the major part of capital use by state financial institutions, development banks and legally supported lending. China's central government finally introduced various measures intended to mobilise green investments, inter alia, its own carbon market, green certificates, green bonds and evaluations of creditworthiness which include environmental protection factors.

In 2005, the Chinese government passed a law for renewable energies which guarantees supply tariffs to energy companies to ensure that a lucrative market for renewable energy can be developed. Since 2009, China has belonged to the leading

countries for renewable energies even though a large part of the produced solar and wind energy cannot be used effectively due to frequent problems with grid power supplies. The cut-off rate in wind and solar parks reached 15 to 19.6 percent in 2016, which may in the long run lead to minimised investments in renewable energies. However, the Chinese government is trying to make improvements in this area too. In 2017, the National Development and Reform Commission (NDRC) published a document with the aim of promoting sustainable consumption, greater coordination of mains power supply and subsidy mechanisms for a trading system with green certificates.

In recent years, China has emerged as one of the world's leading countries for green bonds. In April 2015, the People's Bank of China and the United Nations Environment Programme (UNEP) published a series of law proposals and official guidelines for the introduction of a green bonds market, and soon after that, in October 2015, the first green bonds from a Chinese provider came on the market. In 2016 alone, the Shanghai Pudong Development Bank, the Industrial Bank Co. and the Qingdao Bank sold green bonds worth 7.5 billion US dollars, making China the largest issuing country for such bonds.

Since 2011, several pilot regions for emissions trading have been developed in China. They extend from the prosperous coastal regions in the east of the country to the poorer inland regions. They have given China larger practical experience in emissions trading over the last six years, and there are plans to open a national carbon market of unprecedented size in 2017. The initial plan from the Chinese government is to issue emission allowances for three to five billion tons of carbon annually. According to the NDRC, the Commission identified more than 7,000 companies who are responsible for about half of all Chinese emissions and are to become part of the market. Recent tests showed, however, significant performance differences in carbon trading between the different regions of China. Carbon prices, at 50 renminbi per ton, are stable only

in Beijing, whereas the prices in, for example, Guangzhou and Wuhan, achieve only ten to 20 renminbi per ton. There are also large differences in the participation of companies in the carbon market. These two factors contribute to a very different development of regional carbon markets.

CHINA STRIVES FOR INTERNATIONAL LEADERSHIP

Because the major industrial and newly industrialised countries, as well as the strongest producers of greenhouse gases, are part of the G20, they should have the format and the necessary capacities to incorporate climate financing in their work programmes. Political stimulus in efforts to lower the use of carbon and to invest in eco-friendly developments should therefore be a given. China proposed a G20 working group for climate financing already in 2014. The central banks of China and Great Britain were to manage this group and at the end submit a summary report on the opportunities for green financing. China also used its G20 presidency to promote the inclusion of climate financing in future summit agendas and to thereby demonstrate the importance of climate financing.

Beyond the G20, China can use its leadership role within new financial institutions such as in the New Development Bank (NDB) or the Asian Infrastructure Investment Bank (AIIB), to incorporate low-carbon support in the fundamental part of these financial institutions. The NDB, which was established in 2014, provided its first loans for four projects in Brazil, China, India and South Africa with the aim of improving capacity for the production of renewable energies. Although the loans are considered as "green", the representatives of civil society organisations criticised that the NDB has so far not specified how it wants to involve the public into this and receive feedback on the projects. In the meantime, the AIIB plans to invest in infrastructure projects as part of the "Belt and Road Initiative". The authorized capital of the bank is 100 billion US dollars,

while the subscribed capital comprises 50 billion US dollars. Unlike the NDB, the AIIB incorporated guidelines for lending in 2016 with the aim of ensuring that a public consultation will take place. Since it is the job of the AIIB to finance large infrastructure projects in developing countries, in the long term much will depend on whether or not the planned projects are environmentally friendly. So far, the AIIB have not formulated any energy strategy that would support a change from unsafe and polluting energy sources, such as coal and nuclear power, to environmental friendly energy sources. Furthermore, there is a need to address the questions of transparency and cooperation with civil society. If the AIIB are to achieve improvements in these areas, they might be able to justify in the long term their self-imposed image of being a green and clean development bank.

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