Konrad Adenauer Stiftung

# 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 $CO_2$ 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.

## UNITED KINGDOM

Despite Brexit, the UK remains, at least so far, highly committed to the Paris Agreement and the respective contributions of the EU as a whole. Private climate finance is an instrument that the UK plans to use in meeting its commitments. The Paris Agreement has increased confidence in investments in green technologies, considered to be key in the process of meeting the climate targets. Climate finance is an area in which the UK has a competitive advantage.

*An off-shore wind farm in the English Channel near Clacton-on-Sea in south east England. Source: © Toby Melville, Reuters*

## IMPORTANCE OF PRIVATE SECTOR CLIMATE FINANCE

Several actors are directly involved in shaping the field of climate finance: the government, by proposing frameworks that would encourage private climate finance, the public financial sector (the Bank of England), the private financial sector (Aviva and HSBC, which have emerged as global leaders in this field), insurance companies, climate finance academics and think tanks. Large oil and gas companies such as BP have started to financially support low-carbon technologies and to adopt an internal carbon price. The debate is taking place in settings provided by media, government, think tanks and foundations (E3G, ODI and European Climate Foundation), and sometimes even by private financial institutions (Lloyds Bank, for instance).

London also hosted climate finance events with global implications, such as the Clean Energy Finance Summit held on 3 and 4 June 2014. Recent initiatives that are based in London include the Climate Bonds Initiative and the Green Finance Initiative. The Green Finance Initiative was launched on 14 January 2016 to enhance financing for sustainable infrastructure. Jointly with the UN Principles for Responsible Investment, the Initiative is organising the Green Finance Summit 2017 on developments in green financial policy and market developments.

## CONCRETE INITIATIVES, EXPERIENCES, PROVISIONS

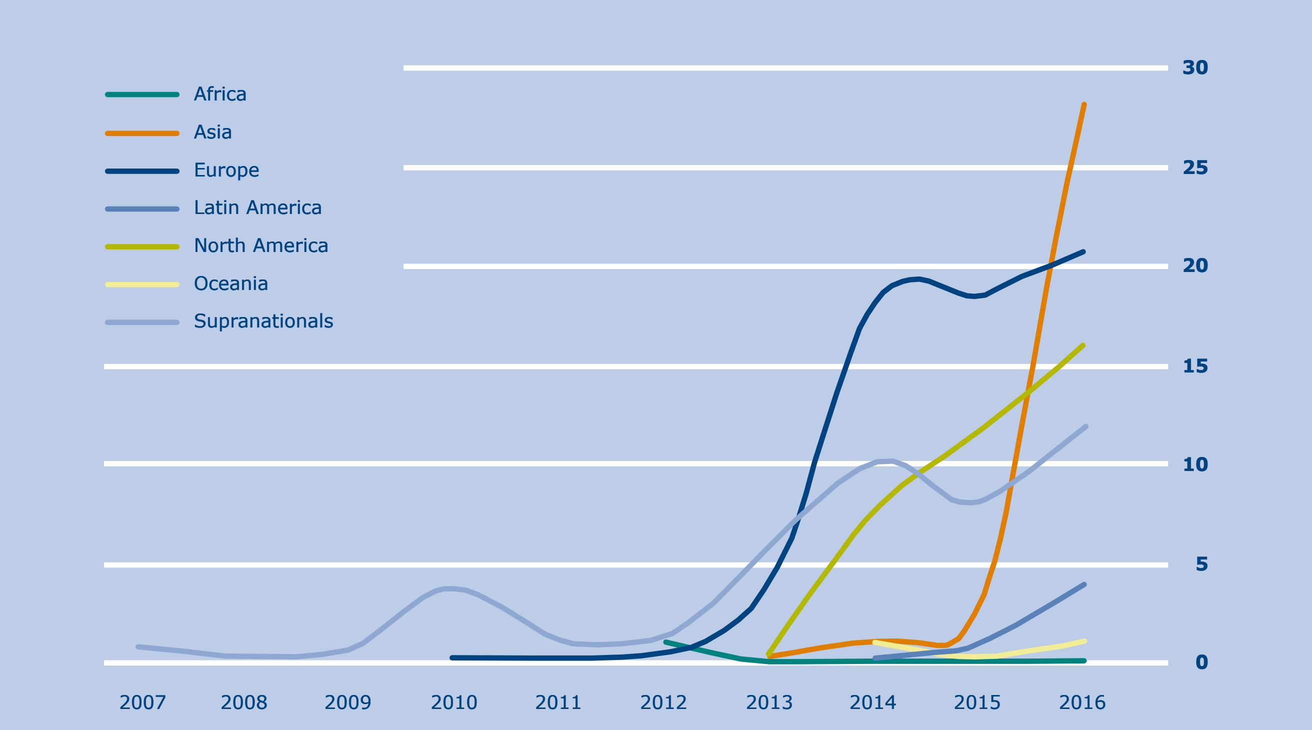
The UK is part of the EU-ETS, Emissions Trading System, which is complemented in the UK by a carbon floor. They aim to underpin the price of carbon at a level that drives low-carbon investment, which the EU ETS has not yet achieved.

In 2010, the UK established the Capital Markets Climate Initiative which – according to the Department for Business, Energy and Industrial Strategy and Department for International Development – "created a strong public-private partnership to help mobilise and scale up private finance flows for low carbon solutions in developing economies" (Department for Business, Energy and Industrial Strategy and Department for International Development 2013). In 2012, the UK government created the first worldwide green bank – the Green Investment Bank (GIB) –, which has mobilised more than ten billion pounds sterling total capital (2.7 billion pounds sterling direct commitment), to support over 80 low-carbon projects in the UK, with almost 75 percent of investment from non-GIB sources. The GIB aims to support and reduce barriers to investment in green projects with the intention of attracting private funds for private sector investments. The priority areas of GIB include investing in energy efficiency projects and building retrofit projects.

The Climate Bonds Initiative is a UK initiative raising finance for climate change mitigation or adaptation-related projects or programmes. The Climate Bonds Initiative is mobilising the 100 trillion US dollars bond market. The Capital Markets Climate Initiative (CMCI) has been set up to support governments of developing countries in obtaining a better understanding as to why and how to effectively and efficiently leverage private capital by helping to address the information barriers.

The UK government has set up the 3.87 billion pounds sterling International Climate Fund (ICF) to help address the challenges of climate change and to benefit from the opportunities by catalysing green private investment and building markets for sustainable, low-carbon ventures worldwide. Through the ICF, public money helps to mitigate the risk of private investments as well as increasing the availability of finance to small and medium enterprises (SMEs). ICF is perhaps the most significant positive experience in climate finance. It has supported the creation of over 39,000 jobs and helped avoid more than 2.3 million tons of greenhouse gas emissions worldwide. A range of ICF-financed programmes work with the private sector. The most important are the World Bank's Carbon Initiative for

**GREEN BOND ISSUANCE BY REGION (IN BILLION US DOLLARS)**




*Source: Climate Bonds Initiative 2017*

Development (Ci-Dev), the Results-Based Financing Facility (for energy access) and the Energising Development (EnDev) programme. In December 2013, the UK government invested 30 million pound sterling of ICF funds into the Global Climate Partnership Fund (GCPF), a public-private partnership committed to mitigating climate change.

The Climate Public Private Partnership Programme (CP3) is a joint initiative of the Department for International Development (DFID), the BEIS and the Department of Energy and Climate Change (DECC). CP3 is an important initiative in the UK's contribution to mobilising 100 billion US dollars of climate finance a year by 2020.

Another example of the role of the state in climate finance is the Global Innovation Lab for Climate Finance. The Lab was launched in 2014 by the UK, US and Germany, as well as in partnership with several countries supporting climate finance such as Denmark, France, Japan, the Netherlands and Norway, and major private sector representatives. The Lab is constituted by leaders from governments, pension funds, investment banks, project developers and development finance institutions. It aims to identify, develop and pilot climate finance instruments in order to drive billions of dollars of private investment into climate change mitigation and adaptation, contributing to the PA's target of mobilising 100 billion US dollars of climate finance a year by 2020.

There are some barriers from the country's perspective related to climate finance. There is a need to align the government's and private sector's standpoints on green energy objectives. The state should spell out the reasons for the UK's ratification of the PA. This would include making clear the outlines of the UK's path to a greener future. There should also be more data transparency in climate finance operations in order to incentivise investments. The government should support the analysis and understanding of climate-related risks, ensuring that money managers, analysts, consultants and the financial leaders of the future can target climate-related risk and explore green economic opportunities. Additionally, the government should collaborate to institutionalise green finance through international best practices, learning, and cooperation.

### THE G20 AS FRAMEWORK FOR ENCOURAGING PRIVATE CLIMATE FINANCE

The UK and especially the Bank of England places a lot of confidence in the G20 when it comes to climate finance. The G20 is regarded as a platform that can further stimulate both governments and financial services to work towards implementing the climate commitments made in Paris. The Bank of England co-founded and is co-chairing the G20 Green Finance Study Group (GFSG) together with the People's Bank of China. The Group aims to detect institutional and market barriers and enhance the capacity of the financial system for mobilising private financial resources for green investment.

Voices from British academia hold a similar position. Ben Caldecott, Director of the Sustainable Finance Programme at Smith School, University of Oxford, welcomed the initiative of the G20 to focus on mobilising finance and the work on green finance by the Bank of England and the People's Bank of China. Caldecott mentioned that this work needs to accelerate under the G20 taking place in Germany. However, G20 countries have also been criticised in the past by London-based institutes such as ODI for not phasing out subsidies for fossil fuels. Against this backdrop, in May 2016, alongside other G7 members, the UK took a pledge to end subsidies for fossil fuels by 2025, especially subsidies distorting the energy market. The media also recognise the impact that the G7 agreement on cuts in carbon emissions and on pledging money to help poor countries access low-carbon energy infrastructure might have on effectively fighting climate change.

### CONCLUSION

The UK is a leading European financial centre (London, for instance, is the third largest bond market in the world and covers nine percent of total global issuance). Climate finance is an area in which the UK has a competitive advantage. Institutions in the UK are a leading issuer of green bonds. The UK has a positive track record in private climate finance, playing a central role in conducting important programmes to support the private sector's fight against climate change. Some investments offer climate change benefits in their portfolios. Many of these programmes remain in their early stages, and their innovative elements will need to be monitored and evaluated over time as implementation proceeds. Initiatives such as ICF and GIB have sought to find new approaches that will bring greater volumes and proportions of private finance into climate compatible development. It remains to be seen whether these approaches will attract more private investment than past efforts. The more successful climate finance initiative will encourage investors to consider the sector for future investments and accelerate private sector capital flows towards a low-carbon economy.

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