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.

TURKEY

The development in terms of climate policy in Turkey follows in various respects the international trends. Furthermore, the private sector makes a special contribution. Currently, it is still significantly supported by international financial resources. However, Turkey's public institutions have also started to intensify the development of climate-friendly legislation and stimulation systems in close cooperation with private actors in order to create financial bases for the change to a low-carbon economy.

In Turkey, the support for renewable energies is provided to a large extent by multilateral funds and development banks.
Source: © 1001slide, iStockPhoto

PROBLEMS OF CLIMATE FINANCING

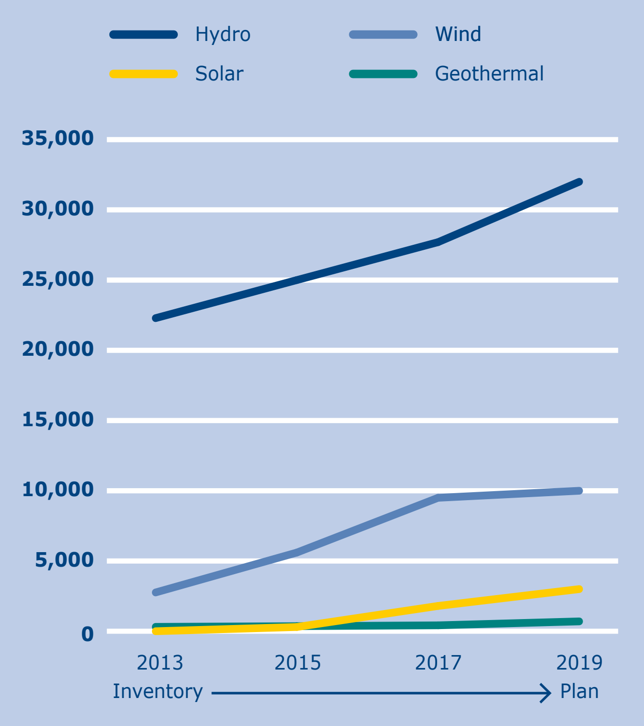
The Paris Agreement globally points to a rapid transition in the direction of low-carbon national economies. In order to ensure this fast and structural transformation, urgent political measures, programmes or projects for lowering the greenhouse gas emissions and the adaption to negative effects of the climate changes are required. These measures and actions that are financially supported from international, national, local, public and private sources can be summarized under the term Climate Finance. By looking at the details, it seems that the resources of the climate protection financings are far beyond actual need. The Global Economy Forum, for example, found out that investments in infrastructure, which are to be used in the developing countries, must be financed with 5.7 trillion US dollars yearly till 2020, so that these countries are "green" and are able to withstand the climate change.

INTERNATIONAL CLIMATE FINANCING AND PRIVATE-SECTOR INITIATIVES

What is the status quo now in Turkey with regard to a new climate regime, and what status has been achieved in the financing of the private sector in Turkey? With its twelve years of belated partnership both at the UNFCCC (2004) and at Kyoto Protocol (2009), and up to the admission of the Paris Agreement, we may say that Turkey has practised follow-up politics and, due to its special conditions, has avoided taking on responsibility. Turkey as a founding member of the OECD, official candidate of the European Union and of the G20 economy, became on 24 May 2017 an official contract partner of the Paris Agreement, which represents the framework of the global battle against climate change. Due to its present position, Turkey is not able to benefit from the Green Climate Fund, which is the most important distribution mechanism of the climate financing structure. Its application for receiving climate financing is negotiated as open-ended. Despite its unclear position, we may say that the development of the climate policy at national and local level in Turkey shows parallels to international trends. Recent works have shown that the development of climate protection legislation throughout the world has made rapid developments, especially after 2005. Based on these dynamics, which are the result of international negotiations, legislative efforts for harmonisation in the process of becoming a member of the European Union and the activities carried out by non-governmental actors, Turkey is forming its relevant politics and measures – although with relative delay, but at a steady tempo – and evaluates different options for the development of capacities for the realisation of these measures.

In the course of the climate strategy and measures, Turkey already benefits from its own public resources and many different sources of climate finance. Turkey is a country which has access to a vast range of financing resources, especially to EU structural funds, bilateral and multilateral funds of development banks, the Global Environment Facility (GEF) and the Climate Investment Funds (CIF). The trade with CO_2 emissions certificates permits Turkey to join the optional carbon markets to a significant proportion, which can be seen as a financing of the private sector. It is estimated that in 2015 alone, an income of more than four million US dollars had been achieved in the voluntary market of the private sector in Turkey. The development of finance in terms of climate policy for Turkey for the year 2014 seems to have exceeded 2.4 billion US dollars. Turkey has received a funding of 301 million US dollars for 55 projects over GEF and has created co-financings of around 1.2 billion US dollars. The sum of support received in the frame of CIF was about 449 million US dollars, to which about 4.5 billion US dollars of co-finances have been created. The European Bank for Reconstruction and Development (EBRD) supports 230 projects in Turkey with around 9.5 billion euros, with 97 percent of the projects being private enterprises. To a high degree, this support has been invested in renewable energies, energy and resource efficiency, infrastructure and sustainability of the infrastructure as well as in the reform of the energy sector. Mechanisms, such as the Turkish Sustainable Energy Financing Facility (TurSEFF) and the Turkish Mid-size Sustainable Energy Financing Facility (MidSEFF), have created important financial resources to support the climate protection of the private sector. Offering this support through Turkish banks has increased stimulation for private actors and at the same time increased the capacity of the funding institutions.

PLANNED INSTALLED POWER CAPACITY BASED ON RENEWABLE ENERGY SOURCES (IN MW)



Source: Ministry of Energy and Natural Resources, National Renewable Energy Action Plan

GREEN BONDS

A fast development of various financial instruments for climate protection can be observed in Turkey parallel to the international development. The interest in green bonds, which are securities and used on international bond markets as a means of financing the transition to a low-carbon economy, has increased and the first green bond of Turkey with 300 million US dollars has been issued. Some critical steps have been undertaken to create a basis for the transfer of private sector financing to the climate protection measures. Public institutions evaluate the options for various market-based mechanisms, such as the carbon trade in cooperation with the private sector, and are preparing the necessary legal requirements. In 2014, the Istanbul Stock Exchange (BIST) started to calculate and publish the ISE sustainability index. In order to identify the financial need for the transformation into a low-carbon economy, the private sector and the investors have received an important infrastructure indicator.

An examination of the intended national contribution of Turkey within the frame of the Paris Agreement at the climate negotiations shows that the basic perception regarding climate financing is confined to public funds, the Green Climate Fund and market-based mechanisms. Nevertheless, the perception of the private sector in Turkey is not limited with regard to its perspective. It has been found that specifically credit and insurance companies perceive the climate financing in a larger frame which, with regard to the realised activities and agenda discussions, cannot be wrong. Substantial deficits in climate protection financing in the realised projects and programmes are the lack of financial resources, uncertainties and insufficiencies of the legislature, limited capacities of the actors and problems finding financing project pipelines. Financing actors have repeatedly found in many parts of the world, and in Turkey too, that financial resources alone are rarely sufficient presuppositions.

OUTLOOK

It is true that there is no consensus on the definition of private-sector climate financing in Turkey. Nevertheless, the necessary funding for the required measures for the transition to a low-carbon economy and a sustainable development are partially provided or will be available in near future through various channels such as carbon pricing policy, carbon trading systems, support of renewable energies, green bonds, investment funds, bank loans and grants. In the face of these developments, it can be assumed that the climate regime rearranged by the Paris Agreement will send out strong signals to international investors and credit companies, and the possibilities for financing of the private sector in Turkey will increase and also become more widely distributed. The role of public actors in Turkey in this process is to develop climate-friendly legal requirements and stimulate systems in cooperation with non-governmental actors in order to create transient signals that go beyond carbon issues. The private sector and financing institutions should diversify the climate-protection instruments, develop capacities for their efficient use and make scientifically consolidated steps by using transparent evaluations of climate risks in investments and portfolios.

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FURTHER READING

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