

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.

ARGENTINA

In 2015, Argentina allocated nearly 855 million US dollars for climate protection measures, the money for which was provided almost exclusively by the Latin American Development Bank and the World Bank. The remaining sum was brought forth by other actors, for example the Inter-American Development Bank and international climate funds like the Green Climate Fund. Within Latin America, Argentina, besides Brazil and Mexico, is one of the three countries with the highest climate protection budgets.



Trees bent by the wind like the ones in Patagonia depicted here clearly show Argentina's potential for wind power.
Source: © Martin Schneiter, AdobeStock

CLEARER ORIENTATION UNDER THE NEW GOVERNMENT

Up to the end of 2015, the distribution of climate finance in Argentina was largely unstructured, and partially confused due to a lack of strategic guidelines. Climate protection, and thus climate finance, only became a political priority with the new government under President Mauricio Macri. Since 2016, Argentina has enacted a national climate protection strategy as part of the *Nationally Determined Contributions* (NDC). Although it does not contain an exact definition of climate finance, the strategy includes funds from international climate funds and regional development banks, which also contribute to the implementation of the Argentine NDC.

The growing importance of climate policy in Argentina is reflected in the fact that it was the first country in the world to revise its NDC in the light of the Paris Climate Change Agreement. The new government did not simply raise the climate change goals. In the course of revising the NDC, Argentina has also formulated numerous concrete measures and implemented comprehensive institutional changes at the ministerial level. In doing so, the Argentine government is striving to create a solid framework for climate protection, as well as fostering private investments.

REVISED NDC AND NEW STRUCTURE

The new government began to revise its NDC shortly after taking over in 2015. In the amended version, the country set a CO₂ reduction target of 18 percent (previously 15 percent) against a business-as-usual scenario until 2030. The scheme even permits a reduction of CO₂ emissions of up to 37 percent (previously 30 percent) if sufficient financial or other resources are raised. The revision also includes a clarification of the implementation for the NDC. Numerous measures and institutional changes have already been addressed and implemented accordingly. At the first climate conference following

the Paris Convention, in Morocco 2016 (COP22), Argentina was already in a position to present the new goals to the international community.

In the context of the revision of the NDC, a national reconciliation process on climate protection policy took place in Argentina for the first time. From the political point of view, the NDC therefore play an extremely important role in climate financing in Argentina. For the first time, they provide a strategic basis for climate protection because climate financing provided by national and multilateral development banks in Argentina is now governed by the NDC priorities. In addition, the development of the NDC has led to a significant improvement in the climate finance structure within the Argentine administration.

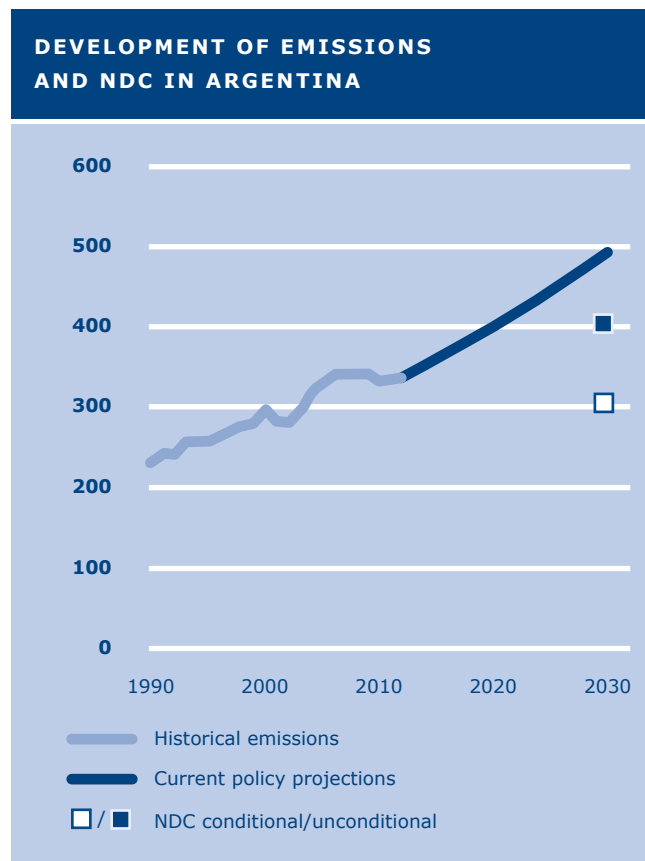
The Ministry of Environment and Sustainable Development (*Ministerio de Ambiente y Desarrollo Sustentable*, MADS) is responsible for climate policy including climate finance, although not for all its aspects in formal terms. Within MADS, the Department of Climate Change and Sustainable Development deals with all questions concerning climate change. It acts as a competence centre within the ministry and beyond. In the course of the revision of the 2016 NDC, an Interministerial Cabinet (*Gabinete Nacional de Cambio Climático*) was established for climate change issues, which is convened and coordinated by MADS. It has the task of assigning political implementation instruments to the commitments undertaken, e.g. in the context of the Paris Climate Agreement, and to coordinate climate financing. The cabinet is a working group composed of members from twelve different ministries. The cabinet is ranked at the ministerial level and its work is accompanied in practice by thematic working groups with the relevant experts from the various ministries. The debates, referred to as the “expanded cabinet”, are open to representatives from civil society such as academic and private sector actors.

The working groups of the Interministerial Climate Cabinet play a central role in financing and achieving climate protection targets. Depending on the origin of the international climate funds, various working groups and thus ministries are responsible. The most important working group is the one concerned with finance, which falls under the auspices of the Ministry of Finance. The Ministry of Finance is also formally responsible for examining all climate funds from international sources. The Ministry of Finance is also the direct contact for the Green Climate Fund (GCF) in Argentina. MADS, on the other hand, is responsible for funds from the Global Environment Facility (GEF). The Ministry of Agriculture manages grants from the Multilateral Adjustment Fund (AF).

The complexity of the responsibilities is demonstrated by the example of the *Adaptación y Resiliencia de la Agricultura Familiar del Noreste de Argentina (NEA) ante el Impacto del Cambio Climático y su Variabilidad* project. The project aims to prepare small, privately managed farms for the effects of climate change, such as water scarcity, and to develop adaptation strategies. The funds for the project are sourced from the AF, which the Ministry of Agriculture is formally in charge of. The *Unidad para el Cambio Rural (UCAR)*, a sub-agency of the Ministry of Agriculture, manages the budget for the project. However, MADS and other lower-ranking authorities of the Ministry of Agriculture, such as the *Instituto Nacional de Tecnología Agropecuaria (INTA)* and the *Oficina de Riesgo Agropecuario (ORA)*, are also involved in the implementation of measures. The Climate Cabinet is to ensure that the more complex projects are implemented in a structured and coordinated manner. For the private sector, the new framework conditions and regulated competences may well provide an attractive investment framework because institutional barriers, such as ambiguous competences or the untransparent use of funds, were the primary factors that previously prevented private investments.

INTERNATIONAL CLIMATE FINANCING AND PRIVATE ECONOMIC INITIATIVES

Currently, the highest contributions from international funds for climate protection projects in Argentina are sourced from the AF, the GEF and the GCF. In addition, extensive loans are issued by the World Bank, BID and CAF every year. In recent years, the majority of the funds have been invested in the expansion of the Argentine renewable energy sector with the explicit involvement



Source: Climate Action Tracker, Climate Analytics, Ecofys, NewClimate

of the private sector. The Argentine government is backing this approach with the recent publication of a Renewable Energy Plan (RenovAr) for the country. This provides for the provision of at least eight percent of the national energy consumption from renewable energies by 31 December 2017. This is to be expanded to as much as 20 percent by 31 December 2025. The preferred instruments for the promotion of renewable energies are grant auctions. The Argentine government is fostering the expansion of renewable energy production to promote climate protection, as well as combating energy poverty in rural areas.

For this purpose, a showcase Argentine project (Catalyzing Private Investment in Sustainable Energy in Argentina) that aims to stimulate long-term private investment in the expansion of renewable energies was funded to the tune of 130 million US dollars by the GCF. Technologies and business models are to be prepared for the private sector to this end. The project is co-financed by other regional development banks. The GEF, and above all the World Bank, also support projects in rural areas, such as the *Proyecto de Energías Renovables en Mercados Rurales* (PERMER). This project intends to equip Argentina's public sector institutions in rural areas, such as schools, step by step with renewable energy technologies to counter energy shortages. Furthermore, the Argentine agricultural and forestry sector is supported financially. The specially created fund directs resources from the UN-REDD programme to the regions for reforestation projects. Additionally, the UN-REDD+ programme applies, which aims to promote forest conservation, forestry management and an overall improvement of forestry resource management.

Climate-regulatory instruments such as emission allowances, CO₂ taxes or the Clean Development Mechanism (CDM) do not currently play an important role in Argentina. For instance, there is no emissions trading scheme or environmental taxes. The

CDM is used, the corresponding projects are, however, hardly relevant. Many companies avoid investments through CDM due to the supposedly high transaction costs. Overall, the Argentine private sector has so far failed to apply any truly innovative climate finance approaches, such as green bonds, beyond the classical instruments such as grants, credits and loans.

However, the Argentine government has established a basic framework for emission allowances for the first time. This framework stipulates the consent of the central government for carbon credit trades, and consideration of all emission reductions at the national level under the objectives of the NDC. This may well result in new business opportunities for the private sector.

OUTLOOK FOR THE G20

Argentina is wondering whether Germany, with its G20 presidency, will be capable of keeping the topics of climate finance and climate policy on the political agenda in the light of the new US government. The Argentinians do have some confidence in the Germans, particularly since the COP23 is due to be held in Germany subsequently. Argentina regards its own G20 presidency as an opportunity to present itself as an economically liberal country. Accordingly, the focus is expected to be on the economy and investments. However, it is difficult to assess whether climate financing will play a major role, since Argentina is more likely to raise the issues in the UNFCCC area. However, Argentina has a vital interest in participating in international climate finance, particularly now with the establishment of a national renewable energy sector. For this reason, the Argentine G20 presidency will presumably at least provide a platform for climate finance topics.

Dr. Christian Hübner is Head of the Konrad-Adenauer-Stiftung's Regional Programme Energy Security and Climate Change in Latin America in Lima, Peru.