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 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 of the private sector are a prerequesite 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 the extent to which the private sector plays a role for climate financing in the G20 countries.

## AUSTRALIA

Private climate finance is a growing part of Australia's climate action landscape. In 2015, at the Paris Climate Summit the Australian government announced a climate finance pledge of one billion Australian dollars (760 million US dollars) over five years. But, due to the absence of clear definitions and central oversight, a patchwork of initiatives has evolved in Australia. The result is a growing but fragmented private climate sector.

*Solar panels in the middle of Flinders Ranges national park. Source: © Fritz Hiersche, AdobeStock*

## FINANCIAL PLEDGES STILL NON-BINDING

A submission by the Australian government under the *United Nations Framework on Climate Change* (UNFCCC) noted that the one billion Australian dollar pledge seeks to "assist countries in our region, and to leverage additional private sector finance" (DFAT 2016). It is an increase on previous efforts, but still well below what most studies have suggested would be Australia's "fair share" of financing efforts. The Figure provides a comparison between Australia's current pledge against estimates of Australia's fair share of international climate finance in 2020. It is a non-binding political pledge and neither climate finance generally, nor private finance specifically, are mentioned in Australia's *Nationally Determined Contribution* (NDC).

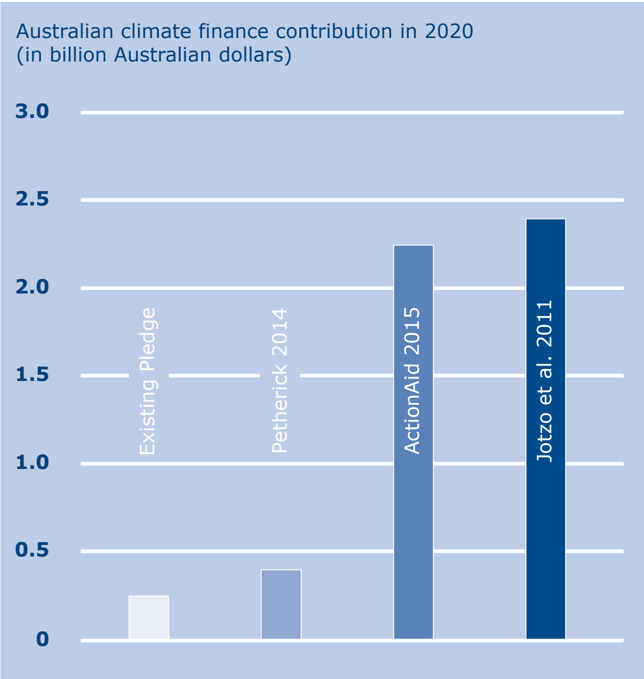
## GROWTH AND FRAGMENTATION

Given limited public funds, mobilising private climate finance has become an increasingly important strategy for government and other actors. Private climate finance is understood here to be finance mobilised for the intention of climate mitigation or adaptation by Australian private sector actors for use at the domestic and international levels. In international negotiations, Australia has been an outspoken proponent of using private sector funds to meet multilateral financing goals. This includes Australia's central role in developing the "Roadmap to 100 Billion US dollars", a strategy tabled at the 2016 Marrakech climate talks which emphasizes the role of private finance in meeting the Copenhagen finance goal of mobilizing 100 billion US dollars of climate finance for developed countries per year by 2020 (Copenhagen Accord 2009). Australian private sector engagement in climate finance has also increased. The Investor Group on Climate Change has released a report on the seven climate change priorities for investors and supported the Australian launch of a new investor action framework for sustainable real estate.

Despite increasing attention, Australian private climate efforts are fragmented and difficult to track. Currently, in Australia and internationally, there is no clear definition of private climate finance. In the absence of clear definitions and central oversight, a patchwork of initiatives has evolved in Australia. The table shows a broad typology of private climate finance in Australia.

The typology and overview of initiatives below provide a non-exhaustive snapshot of the Australian private climate finance landscape.

**COMPARING EXISTING FINANCING EFFORTS VS. "FAIR SHARE ESTIMATES"**




*Source: Author's compilation based on Jotzo et al. 2011, Petherick 2014 and Action Aid 2015*

- *Public Catalyst*: Australia is using public funding to help catalyse private finance. Several institutions have been created by Australia and receive most of their funding from public coffers. One example is the *Clean Energy Finance Corporation* (CEFC), a ten billion Australian dollar fund for clean energy projects. The *Australian Renewable Energy Agency* (ARENA), established in 2012, has a 2.5 billion Australian dollar budget until 2022. Its purpose is to invest in projects that hasten the development and commercialization of renewable energy technologies. The Renewable Energy Venture Capital Fund is a 120 million Australian dollar co-investment initiative under ARENA. One half of the funding is provided by ARENA and the other by *Softbank China Capital* (SBCVC). The fund makes equity investments in early-stage renewable energy projects in the US, Australia, and Asia, helping firms to cover start-up capital costs. Australia has also made a four million Australian dollar grant to the *United Nations Development Programme's* (UNDP) Low Emissions Capacity Building Programme and mandated for new aid investments to consider innovative ways to engage the private sector.
- *Private Catalyst*: Australian actors have been involved in supporting several privately driven climate finance initiatives. For example, the Australian government has provided funding for the *Private Financing Advisory Network* (PFAN), which matches investors to clean energy projects and provides facilitation, training and networking opportunities for renewable energy entrepreneurs. Similarly, the government has provided consistent support for the Climate Innovation Centre in Vietnam and the Clean Energy Solutions Centre, which operates throughout the world. The latter aids governments in designing and adopting programs which assist renewable energy deployment, while the former provides financing and business training for entrepreneurs and new ventures. The Australian government also uses the Private Infrastructure Development Group to provide guarantees for clean energy investment in developing countries. Financial instruments such as climate bonds have also been on the rise. From 2014 to 2017, Flexigroup, Monash University, Westpac, ANZ, Treasury Corporation Victoria and the National Australia Bank have all invested in climate bonds, amounting to approximately two billion Australian dollars

| A TYPOLOGY OF PRIVATE CLIMATE FINANCE | |
|---|---|
| *Public Catalyst* | Government creation of organisations or financial instruments to help mobilise or leverage private climate finance. |
| *Private Catalyst* | Privately created and led initiatives, including financial instruments and organisations. These often attract government funding and support. |
| *Facilitation and Dialogue* | Consultation and dialogue activities between stakeholders to increase understanding and opportunities to mobilise private climate finance. |
| *Multilateral Engagement* | Engagement through multilateral institutions by Australian actors to help mobilise private climate finance. |

(1.52 billion US dollars). These bonds were certified through the "Climate Bonds Initiative", a UK-based non-profit which is working to develop credible standards in climate bonds.

- *Facilitation and Dialogue*: Facilitation and dialogue activities are being used by a range of actors to help spread private climate finance opportunities and create new partnerships and projects. Both the *World Wildlife Fund* (WWF-Australia) and the *Department of Foreign Affairs and Trade* (DFAT) have hosted two roundtables on Australian climate finance. The roundtables have brought together over 40 domestic stakeholders from the public, private and civil society sectors. WWF-Australia has also created a "Climate Cash" podcast series to highlight climate finance measures throughout the Asia Pacific. DFAT will also host a *Green Climate Fund* (GCF) Private Sector Roundtable on the 5th of August 2017. This roundtable aims to raise awareness about opportunities for GCF funding and to encourage companies to partner with the fund. Australia is also looking to share expertise from Australia's Clean Energy Finance Corporation internationally through the International Green Bank Network.

- *Multilateral Engagement*: Australia is currently a co-chair and active contributor to the GCF. It has used its position to strongly advocate for efforts to leverage private finance. Australia is also involved in a range of other private climate finance initiatives including Mission Innovation, the Business and Investor Engagement Group, and work through the G20 Green Finance Study Group to identify barriers to green finance and options for mobilisation. The former two attempt to support low-carbon energy research and development through private investment, while the latter works to identify barriers and opportunities for green finance.

## MANY INITIATIVES, MANY BARRIERS

This suite of activities covers a range of financial instruments including loans, bonds (Climate Certified Bonds), direct public finance (Renewable Energy Venture Capital Fund), grants (GCF funding), equity (ARENA) and de-risking of investments (CEFC). Other approaches are absent or underused. Further work could be done to limit financing for coal and fossil fuel projects, both domestically and through export credit financing. For example, OECD countries have agreed to limit subsidies for the export of inefficient coal-fired power plant technologies, but Australia has resisted this by negotiating exceptions. It is difficult to either estimate the impact of these initiatives or conduct any thorough examination of lessons learned. Since there are no definitions of what constitutes private climate finance, there is little monitoring and reporting of outcomes. The lack of government-certified standards, for instance in the case of climate bonds, makes comparisons and assessments problematic.

Despite the proliferation of private finance initiatives, numerous barriers limit their spread and effectiveness. Domestically, the two largest constraints are a lack of funding and certainty. Australian climate financing has historically been volatile. While international financing has been moderated by peer-pressure, domestic funding has been more unpredictable. Domestic bodies such as the CEFC and ARENA have struggled with repeated cuts to funding and changes to their mandates. Other barriers exist at an international level. For example, some developing countries lack the capacity to make use of private capital. There can also be higher risks, such as sovereign and exchange risks, deterring the more risk-averse private sector. It can also be difficult to mobilise the private sector towards less profitable endeavours. Climate adaptation projects are crucial in the Asia Pacific region but are less favoured by the private sector since they are seen to be generally less profitable.

## UNEXPLOITED POTENTIAL

Australia does not currently hold any official national positions on the role of the G20 in mobilising climate finance, but is likely to continue to work through it into the future. The potential of the G20 is limited by its role as a consensus-building and dialogue forum. However, it has indicated some ways forward in a 2011 paper on "mobilising climate finance" commissioned by the G20 finance ministers. Unfortunately, most of the recommended actions, such as the use of carbon pricing instruments, phase-out of fossil fuel subsidies and use of bunker fuel taxes, have not been acted upon by Australia.

For now, Australian private climate finance is characterised by growth and fragmentation. It is by no means a panacea. Certainty, definitions and funding will be needed to maximise the potential of the private sector. If Australia is serious about doing its fair share internationally, then a credible and coherent strategy is needed for using public funds to leverage private climate finance.

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## FURTHER READING


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**IMPRINT** Publisher: Konrad-Adenauer-Stiftung e.V., European and International Cooperation Department, 10907 Berlin, Germany | Responsible: Jasper Eitze, Coordinator for Energy, Climate and Environmental Policy |  | Berlin, July 2017 | www.kas.de