

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.

BRAZIL

The Brazilian Development Bank (BNDES), one of the largest development banks in the world, provided in 2015 85 percent of the eleven billion US dollars for climate-related initiatives implemented by Brazil. Because of their dedication to the subject, the BNDES not only contributed directly to climate financing but introduced private players to the issue of "climate financing". Despite this relatively positive starting point, private financing still rests on shaky foundations due to the economic crisis.



Wind turbines on the beach of Canoa Quebrada. Source: © silkfactory, iStockPhoto

CONTEXT AND MOST RECENT DEVELOPMENTS

BNDES not only contributes directly to climate financing, but in doing this, it has also brought other financial institutions, in particular private banks, to climate financing. A revolutionary initiative was the signing of the Green Protocol of the Brazilian Banking Federation (FEBRABAN) in 2009. This document defines the actions and practices of the banks concerning social and environmental responsibility in accordance with the concept of sustainable development. It led to a new directive in the region, decision No. 4,327 of the Brazilian Central Bank, which provides the implementation of a strategy on socio-ecological corporate responsibility by all financial institutions.

Since then, there have been some success stories of the growing involvement of the private sector in climate financing (e.g. green bonds), but the private sector's involvement remains marginal overall. In view of the exhausted financing capacities of the

Brazilian state, due to the ongoing deep economic crisis and the associated unavoidable fiscal policy adjustment measures, a strategy focused on national development banks is not very sustainable. This is why the Brazilian government should react to the weaknesses of its own policy – with the targeted promotion of private investment and the elimination of market barriers.

LEGAL BASE AND IMPLEMENTATION

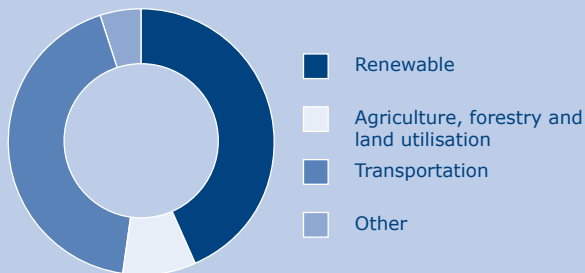
According to a 2015 report by the G20 Climate Finance Study Group (CFSG) to the finance ministers, “Brazil’s National Adaptation Policy is supported by a strong legal mandate that has clarified the roles and responsibilities of institutions as well as of financing arrangements” (CFSG, 2015). In addition, the Brazilian Law on the Fight against Climate Change (*Política Nacional sobre Mudança do Clima*, PNMC, Law No. 12.187/2009) sets out 23 specific instruments, including among them specific programmes for the granting of loans and financing to public and private actors.

Fundamental to the paradigm shift in the Brazilian development strategy, is the Nationally Determined Contribution (NDC). Nevertheless, neither the commitments of the Brazilian NDC are linked to access to funding, nor is the country pursuing a policy of climate financing. There have however been developments in terms of subsidies, green bonds and the CO₂ pricing system, which are explained below.

- **Subsidies:** In the field of subsidies, the programme “Low-Carbon Agriculture” (ABC), started in 2010, offers producers access to fixed-rate loans (currently 8.5 percent). The government bears the interest rate difference to the Brazilian standard rate (12.25 percent) through BNDES. In order to have access to these discounted loans, the producer must submit a project design with clear environmental objectives that contribute to the reduction of carbon emissions, such as the renaturation of pasture land, waste

FINANCIAL RESOURCES USED BY BNDES IN 2015 (SECTOR)

Total: 2,079 billion US dollars



Source: Samaniego/Schneider 2017

treatment or reforestation. This programme is significant because agriculture is the second largest greenhouse gas emitter after Brazilian deforestation.

- **Green Bonds:** In July 2016, the Brazilian market for fixed-income securities with positive environmental characteristics amounted to 2.9 billion US dollars. The first issue of local green bonds took place in 2015/2016. The potential of green bonds is particularly large in the agribusiness, forestry and energy sector, but also in the transport sector as well as in the construction and sewage sector. Companies without access to the capital market could issue green bonds through banks. However, the Brazilian capital market has structural problems, including high market barriers, low stock market listings and a low liquidity rate.
- **CO₂ Pricing System:** The Brazilian federal government has so far not implemented a CO₂ pricing system, neither in the form of an emission trading system (ETS) nor of a CO₂ tax, although the Brazilian Ministry of Finance has thoroughly examined international initiatives. In contrast to other countries, Brazil's NDC does not provide for participation in an international CO₂ market in order to attain the climate protection targets. Instead, the NDC establishes that Brazil reserves its position with regard to the possibility of using any market mechanism that can be introduced under the Paris Agreement and thus fails to indicate how the self-imposed obligations are to be met. However, in order to achieve the reduction target of 43 percent of national emissions compared to a business-as-usual scenario by 2030, Brazil will need an ETS in addition to an effective termination of illegal deforestation. This ETS needs to charge CO₂ emissions in the energy sector at approximately 50 US dollars per tonne CO₂, so that investment decisions in this sector are actually directed towards renewable resources and biofuels.

In addition, the PNMC aims to stimulate the Brazilian Emissions Reduction Market (MBRE) an exchange-controlled institutional framework designed to facilitate trade in emission certificates. However, there is a lack of demand for emission certificates in Brazil and the setting of details for the regulation of this market is still pending, such as the nature of the emission certificates to be traded.

The PNMC also provides for a CO₂ tax, a second form of a CO₂ pricing system. This instrument is intended to promote the reduction of greenhouse gas emissions, for example through differentiated tax rates and exemptions from taxes and charges. A legal basis already exists for a differentiated taxation depending on the environmental impact, according to which in the future several taxes and levies at federal and state level can be adapted as an incentive to transition to a low carbon economy. Worth mentioning is the *Cide Combustíveis*, a federal tax on the emission source of fossil fuels, which could be extended to the implementation of emission-reducing strategies for the transport sector.

INCENTIVES AND POSITIVE EXPERIENCES

The promotion of private sector climate financing in Brazil is strategically important because, in all probability, competitiveness advantages and disadvantages will derive from it. An increasing number of countries are implementing pricing systems for greenhouse gas emissions so that it can be foreseen that imports of products contaminated with carbon dioxide will be limited in the future. The national ETS of the People's Republic of China (which is due to enter into force in 2018, but with pilot projects already in progress in some provinces) is a strong signal for other emerging countries. Large-scale customers will soon demand information from their suppliers on the greenhouse gas emissions of the products. This is effectively a new purchasing criterion as it makes no sense for a state to cut its emissions domestically and then continue to

import high-emitting products, (carbon leakage). In addition, the private sector is focusing on future regulations at national level, either concerning regulatory risks and image losses, or the perception of business opportunities and the promotion of innovation.

To ensure that Brazil does not lag behind in the world, and that its industry does not become even less competitive, Brazilian companies are increasingly participating in international initiatives such as the Carbon Pricing Leadership Coalition (CPLC), Carbon Pricing Champion and We Mean Business. In addition, a number of international initiatives are promoting the use of CO₂ pricing systems: the Business Initiatives on Climate (IEC), Council for Sustainable Market Development (CEBDS), Ethos Institute Climate Forum and Global Compact Network Brazil. Worth mentioning are GVces Companies for the Climate Platform (EPC) and the simulation of a cap and trade system. The initiative began in 2014 as a learning model for companies, and in 2016 it already included 30 large companies from nine sectors, emitting around 60 million tonnes of CO₂ (5.5 percent of the country's emissions in 2014, excluding land use changes). This pioneering initiative is the only active ETS in Latin America.

G20 AND GLOBAL GOVERNANCE

With regard to political uncertainties in the US and the expected growing instabilities and conflicts intensified by climate change, Brazilian experts agree that institutions and governance structures, such as the G20, need to be strengthened. With the UNEP Inquiry, the Financial Stability Board's Task Force on Climate-Related Financial Disclosures, and the CFSG, important milestones have already been reached within international organisations that are driving the discussion forward. The German Presidency of the G20 in 2017 also raised hopes that private sector climate financing would further advance internationally, as Brazil is perceiving Germany as the leading industrial nation in climate and energy policy.

High expectations are also linked to new financial institutions run by emerging countries, such as the New Development Bank of the BRICS countries (NDB) in which Brazil is involved, and the Asian Infrastructure Investment Bank (AIIB), whose founding memorandum was signed by Brazil (currently Brazil is at the end stage of the formalisation of its membership in this bank). Both the NDB and the AIIB have a starting capital of 100 billion US dollars and have the motto of being "lean, clean and green" (meaning "unbureaucratic, clean and environmentally friendly"). While the former announced that after the first loans to finance sustainable projects it would increase its loans to 2.5 billion US dollars by 2017, the latter developed a targeted loan programme with a total of nine credit programmes, which totalled 1.73 billion US dollars by the end of 2016.

CONCLUSIONS AND OUTLOOK

It is to be assumed that the implementation of a carbon dioxide tax or an emissions trading scheme in Brazil will not take place before 2018 because the government has so far not made a firm decision on this subject and the elaboration of such instruments is time-intensive. Advances in the adoption of an emissions market mechanism are beneficial to the country in several ways: Brazil could position itself as a pioneer in Latin America and become a centre for the trading of emission certificates in the region. In addition, private sector climate financing is of crucial importance on the way to a decarbonisation of the economy by 2100, which was announced in the context of the German-Brazilian government consultations in 2015. It would be desirable that the G20 helps to put private sector climate financing at the heart of Brazil's climate policy and to provide it with clear political support.

Karina Marzano Franco is Project Coordinator for the Regional Programme Energy Security and Climate Change in Latin America of the Konrad-Adenauer-Stiftung in Lima, Peru.

Marina Caetano is Project Coordinator at the Konrad-Adenauer-Stiftung's office Brazil in Rio de Janeiro.

FURTHER READING

- CFSG 2015: Report to the Finance Ministers, in: <http://bit.ly/2vtfC33> [6 Jul 2017].
- FEBRABAN/CEBDS 2016: Guidelines for Issuing Green Bonds in Brazil in 2016, in: <http://bit.ly/2vtbXCu> [6 Jul 2017].
- Institut du développement durable et des relations internationales (IDDRI) 2015: Beyond the Numbers: Understanding the Transformation Induced by INDCs, in: <http://bit.ly/2uqjswZ> [6 Jul 2017].
- Konrad-Adenauer-Stiftung 2016: Mudanças climáticas: o desafio do século, Cadernos Adenauer 2/2016, in: <http://bit.ly/2t6VS4N> [6 Jul 2017].
- Presidência da República, Casa Civil 2010: Subchefia para Assuntos Jurídicos (2009-2010), Política Nacional sobre Mudança do Clima, PNMC, in: <http://bit.ly/2v8QejO> [6 Jul 2017].
- Samaniego, Joseluis/Schneider, Heloísa 2017: Financiamiento para el cambio climático en América Latina y el Caribe en 2015, CEPAL, in: <http://bit.ly/2u0yMhd> [6 Jul 2017].