POLICY PERSPECTIVE

BY GREENOVATION HUB, CHINA

From Hangzhou to Hamburg – Green Finance in the G20

Enhancing G20's contribution to promoting the role of green and development finance in sustainable development

1 Introduction

Since the 2015 adoption of the UN's Sustainable Development Goals and the success of the Paris Agreement under the UN Framework Convention on Climate Change (UNFCCC), it has become clear that "business as usual" is no longer an option for neither industrialized countries nor the developing world. Both the Agenda 2030 and the Paris Agreement (PA) entail substantial consequences for the world financial system. Mobilizing the massive investment required for climate resilient, low-carbon infrastructure and development, transforming the world economy and hedging the climate-related risk to the financial system form formidable challenges to the public and the private sector alike. The G20 unites the world's largest economies that together emit almost 85% of energy related Carbon-Dioxide (CO_2) and about 75% of all Greenhouse Gases. With their focus on financial stability and economic development, the G20 is a key forum for the design and implementation of policies that support sustainable development through and within the financial markets. This paper summarizes key issues related to the role of green and development finance in fostering sustainable, low-carbon and climate resilient development that were discussed during a multi-stakeholder workshop on August 22nd 2016 in Shanghai, China. It outlines recent green finance initiatives taken by the Chinese government, including during its 2016 G20-presidency, and suggests concrete steps for the incoming German G20-presidency to further that work.

1.1 Paris Agreement and SDGs

The adoption of the United Nations 2030 Agenda for Sustainable Development (Agenda 2030) with the 17 Sustainable Development Goals (SDGs) demonstrated the determination of the international community in promoting the 1992 sustainable development agenda under the new challenges of a new era. Implementing the Agenda 2030 requires not only upgrading existing development strategies but also a paradigm shift concerning production, life-style and thinking. The Paris Agreement reached at COP21 signalled political consensus of over 190 countries to hold the global mean temperature rise at "well below 2°C" compared to pre-industrial levels, striving to achieve stabilization at no more than 1.5°C, and thus the decarbonisation of the global economy with zero net-emissions in the second half of the century. To achieve these goals requires nations to mobilize global financial flows into low-carbon and quality development and for rich countries to provide sufficient financial support to poor developing and vulnerable states.

1.2 The Chinese G20 presidency

As the host of 2016 G20 Summit, China worked with all member states towards an "innovative, invigorated, interconnected and inclusive world economy[1]". To better address the challenges posed by environmental degradation and climate change and support the transition towards a green global economy, the Chinese presidency made the ratification of the Paris Agreement, the implementation of the SDGs and green finance top priorities of their agenda. Moreover, with the establishment of the "Green Finance Study Group" the Chinese presidency installed green finance as a key issue for the first time, with the aim to encourage greener financial institutions worldwide.

2 The Green Finance Policy Framework

Finance and investment connect the regional and the world markets, and can be engines for economic growth and social development. While most finance and investment activities focus on economic gains, they also face fluctuations and crises, and place a great deal of pressure on natural resources and the environment. In countries where environmental governance is weak and public welfare is inadequate, finance and investment activities with environmental and social impacts are likely to cause resource depletion, ecosystem destruction, social conflict, which in turn bring economic failures. To remedy such negative effects, environmental and social safeguards are being deployed by many financial institutions. As a part of a sustainable financial system[2], the concept of green finance goes beyond this approach and aims to incorporate social and environmental performance into the financial decision-making process itself.

2.1 Definition of Green Finance

Obviously, the effectiveness of any green finance approach will depend on what is considered "green": the stringency of environmental criteria, including blacklisting of certain high risk-technologies, and the representation of wider social and governance concerns will be decisive for its sustainability impact. While a widely accepted definition of green finance is yet to be adopted, this paper proposes the following scope:

Green Finance encompasses all financing where financial institutions take investment and lending decisions on the basis of environmental protection and social inclusiveness, while taking full consideration of

[1] http://www.g20.org/English/China2016/G202016/201512/P020151210392071823168.pdf
[2] See e.g. recent UNEP Inquiry report "The financial system we need" at http://web.unep.org/inquiry/publications

potential environmental and social impacts, and factoring in the potential costs, risks and returns related to environmental, social and development issues into the operational practices. It also refers to the financing of policies that encourage financial flows into industries that save resources and protect the ecological environment, to promote green and low-carbon production, consumption and sustainable development. At the same time, the financial sector should also establish a green mechanism that ensures sustainable development and avoid investment activities driven by short-term interests.

2.2 Is “Green” the same as “Paris-compatible”?

With the PA decision to hold global warming to well below 2°C if not 1.5°C, the need to develop “Paris-compatible” investment criteria becomes evident: Such criteria would go beyond incremental improvements to environmental performance and encourage investment into technologies and projects that support global decarbonisation by 2050 and GHG-neutrality in the second half of the 21st century. As the Paris Agreement puts the world on a path towards 2°C if not 1.5°C by the end of the century, investments need to be tested against future scenarios of both policies and emission trajectories in order to understand their implications for the Paris goals. While conventional “green” standards measure the performance of a project under current regulation and circumstances, a “Paris-compatible” standard[3] would encompass a projects’ consistency with a 2°C/1.5°C emission trajectory, and anticipate how future policy developments could impact the return of the project. For example, while the replacement of an inefficient dated coal-fired power plant with a new, supercritical generator may constitute a “green” investment according to some standards, it is most likely not PA-compatible, given that such an investment today would still be generating high emissions 30 to 40 years from now. Similarly, before investing massive sums into new infrastructure for liquefied natural gas, it should be considered whether the residual emissions from gas use may not become prohibitively high further down the road.

The development of such scenarios depends on many assumptions and the results still carry large uncertainties concerning both climate-related factors and, for example, future technological development and change in societies. In a 2015 report, first attempts were made to classify projects in three sectors (energy, transport, buildings) according to their consistency with the (then) 2°C limit. While in the energy sector, clear positive and negative assessments emerge for some technologies, there is a large grey zone in particular for investments in infrastructure-bound projects. However with the further tightening of the long-term ambition, criteria for PA-consistent investments have further tightened. Therefore, the development of plausible, forward looking scenarios is a key item on the agenda for both investors and enterprises.

3 China’s Green Finance Strategies

China has recently announced its intent to transform into an “ecological civilization” in its 13th Five-Year Plan, an economic blueprint for the period of 2016-2020. The notion signals a shift from the previous mode of development-at-all-costs, into a quality growth that recognises and incorporates ecological protection in its strategies. With the pressure due to environmental degradation mounting across the nation, China is taking steps to clean up its production, shift its economy towards less-polluting products and services and remediate rivers and landscapes. In the area of green finance, China has emerged as one of the world leaders.

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[3] Developing 2°C-Compatible Investment Criteria https://germanwatch.org/en/2degree-criteria

3.1 Green Finance in China

In a speech in December 2015, Chinese President Xi Jinping stressed that the G20 needs to better address the challenges of environment and climate change. To support the transition to a green global economy, the G20 should explore ways to encourage greener financial institutions worldwide, and improve the capacity of capital markets in channelling resources to green industries, thus developing the environment-friendly economy.

Right before G20 Hangzhou Summit in 2016, the People's Bank of China and six other ministries jointly released "Guidelines for Establishing the Green Financial System"[4], charting plans to promote the green transition of China's financial system, as an essential step for implementing the overall strategy of promoting ecological civilization. The Guidelines emphasize that the primary purpose of establishing a green financial system is to mobilize and incentivize more private capital away from polluting sectors into green investments. The green financial system will help facilitate a green transition of China's economy, promote technological progress in environmental protection, clean energies, and energy saving.

Already in 2012, the Chinese Banking and Regulatory Commission issued "Green Credit Guidelines", in which Clause 21 requires financial institutions of the banking sector to strengthen the environmental and social risk management when granting credit to overseas projects, and to make sure that project sponsors abide by environmental, land, health and safety laws and regulations in host countries or regions. It also required that financial institutions should commit to adopt international standards and best practices when granting credit to overseas projects, to ensure credit issuance aligns with international best practices in essence.

However, the definition of "green" by China has been very general. When first introducing the concept of green finance in 2007, China adopted the standards of UNEP Financial Initiative[5]. China approaches green finance from the environment-friendly angle, focusing on pollution control and restoration, rather than from a perspective of social responsibility, and with no specific reference to climate risk disclosure.

In China's 13th Five-Year plan (2016-2020), China plans to establish what it calls the "ecological civilization", incorporating air pollution control, energy consumption control targets and green finance for the first time, thereby laying out China's transition towards a green and low carbon economy. China launched a nationwide programme at the end of 2015 to require all coal-fired power plants to be equipped with "ultra-low" emission technologies by 2020, to cut emissions of sulphur dioxide and nitrogen oxides. But Environment Minister Chen Jining publicly admitted proper governance and supervision were key to achieving a clean environment. He stressed that China would not return to an era of pursuing economic growth at the expense of the environment despite the slowing economic growth. However, these ultra-low emission coal plants don't necessarily have much climate benefits. Still, the Chinese catalogue of projects qualified for green bonds (see section 4) lists "Clean Utilization of Coal"[6]. Given China's environmental challenges, the domestic focus on technologies that help tackling pollution and provide incremental efficiency gains is warranted; however, from an international climate policy perspective as well as its (I)NDC emission peak targets, further investments into coal-fired power may be uncalled for; as they run a high risk of premature retirement if the PA is not to be breeched. International green finance flows should thus be directed towards more ambitious, transformational technologies and infrastructure that is not compromising the long-term climate goals.

[4] The People's Bank of China and six other agencies jointly issue "Guidelines for Establishing the Green Financial System", PBoC, http://www.pbc.gov.cn/english/130721/3131759/index.html
[5] http://www.unepfi.org/
[6] Translation of the Chinese Green Bond Catalogue: http://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/Preparation-Instructions-on-Green-Bond-Endorsed-Project-Catalogue-2015-Edition-by-EY.pdf

3.2 Green Finance in the G20 Chinese Presidency

The G20 is playing an increasingly important role in fostering global economic and financial stability. In 2016, the Chinese G20-presidency established the Green Finance Study Group (GFSG), which aims to identify institutional and market obstacles to the development of green finance, and to find ways of mobilizing private capital for green investment[7]. The Study Group is co-chaired by China and the United Kingdom, with support from UNEP as secretariat. The GFSG produced a synthesis report[8] to inform the communique of the G20 finance minister and central bank governor meeting in July. The report focused on stocktaking, knowledge sharing, and developing voluntary options for countries to choose from and for bilateral/multilateral collaboration.

According to the synthesis report, despite the substantial potential for scaling up green finance, the development of green finance still faces many challenges in terms of internalizing environmental externalities, information asymmetry, inadequate analytical capacity and lack of clarity in green definitions as well as maturity mismatch. Therefore, the GFSG proposed following key options to enhance the ability of the financial system to mobilize private capital for green investment:

1. provide strategic policy signals and frameworks;
2. promote voluntary principles for green finance;
3. expand learning networks for capacity building;
4. support the development of local green bond markets;
5. promote international collaboration to facilitate cross-border investment in green bonds;
6. encourage and facilitate knowledge sharing on environmental and financial risk;
7. improve the measurement of green finance activities and their impacts.

The recommendations of the GFSG synthesis report was also largely incorporated into the G20 Leaders communique at the Hangzhou summit in September:

"21. We recognize that, in order to support environmentally sustainable growth globally, it is necessary to scale up green financing. The development of green finance faces a number of challenges, including, among others, difficulties in internalizing environmental externalities, maturity mismatch, lack of clarity in green definitions, information asymmetry and inadequate analytical capacity, but many of these challenges can be addressed by options developed in collaboration with the private sector. We welcome the G20 Green Finance Synthesis Report submitted by the Green Finance Study Group (GFSG) and the voluntary options developed by the GFSG to enhance the ability of the financial system to mobilize private capital for green investment. We believe efforts could be made to provide clear strategic policy signals and frameworks, promote voluntary principles for green finance, expand learning networks for capacity building, support the development of local green bond markets, promote international collaboration to facilitate cross-border investment in green bonds, encourage and facilitate knowledge sharing on environmental and financial risks, and improve the measurement of green finance activities and their impacts.[9]"

[7] http://www.unep.org/Documents.Multilingual/Default.asp?DocumentID=27058&ArticleID=35902&l=en
[8] G20 Green Finance Synthesis Group, GFSG, http://g20.org/English/Documents/Current/201608/P020160815359441639994.pdf
[9] G20 Leaders' Communique Hangzhou Summit, http://g20.org/English/Documents/Current/201609/t20160906_3395.html, Sept 4-5, 2016

3.3 Civil Society Recommendations on the Green Finance Policy Frameworks

Leading up to G20 Hangzhou Summit, Chinese and international NGOs developed recommendations for policy frameworks related to green finance on multilateral and national levels as well as in private sectors. In collaboration with domestic and international civil society groups, Chinese NGOs called for G20 nations to incorporate green finance and responsible investment into national development strategies; take into consideration of green taxation and green bond issued; actively manage negative social and environment impacts from financial and investment activities, strengthen multilateral financial institutions' implementation of environment and social safeguard policies, and establish robust accountability and grievance mechanism; actively develop green finance products and services, and channel public fund and social capital to green projects; and finally, governments, financial institutions, enterprises and civil society should strengthen communication and cooperation on above measures, work together to promote finance and investment patterns with minimum ecological footprints, and to expedite the process to achieve the Sustainable Development Goals.

4 Mobilizing Green Investment

The G20 nations should enhance the capital flow towards environmental and climate-friendly as well as low-carbon sectors, in order to guide public and private capital towards green investment.

4.1 Transparency and Disclosure

To achieve the SDGs and enforce the Paris Agreement, nations need to set up a robust legal framework to drive a fast economic decarbonisation and promote a paradigm shift. Namely, countries need to set legal requirements for information disclosure, including requiring financial institutes and enterprises to improve information disclosure and transparency of their environmental, social and climate impacts, and to ensure stakeholders, including communities and civil society organizations, are properly consulted and guaranteed their rights for monitoring;

An effective policy framework and solid project implementation should ensure the multi-stakeholder engagement of multilateral development institutions in the consulting and advance-review process. The inadequate communication with stakeholders of many development projects involving public interests may cause serious environmental and social problems. Nations need to ensure the development of third-party verification and international standards for issuing green bonds.

Climate change has become a systematic risk to financial markets. Averting catastrophic climate change impacts will require dramatic slashing of fossil fuel use. To achieve the 2°/1.5°C temperature limit, three quarters of existing fossil fuel reserves must stay underground[10]. Continuing to invest in fossil fuel industries will risk having stranded assets. While some of the biggest investors such as Norway Sovereign Wealth Fund have started to draw back from coal-related industries, financial institutions in general are still inadequate in recognizing and assessing the climate risks.

[10] IPCC AR5, http://www.ipcc.ch/pdf/assessment-report/ar5/syr/AR5_SYR_FINAL_SPM.pdf

At the request of the G20, the Financial Stability Board (FSB) engaged the private and public sector to review how the financial sector can incorporate climate-related issues in financial reporting. The Task Force on Climate-related Financial Disclosures (TCFD) was established to develop voluntary, consistent climate-related financial risk disclosures for use by companies in providing information to lenders, insurers, investors and other stakeholders. The Task Force will deliver final recommendations to the FSB at the end of December 2016.

Based on the recommendations by the task force at the end of this year, G20 nations should devise policy framework to assess the systematic risks of climate change to financial markets, to encourage financial institutions to identify, disclose and manage the information related to climate and carbon risks.

4.2 Green Bonds

Green bonds were introduced to fund projects that have positive environmental and/or climate benefits. The green bond market took off in 2014 with US$ 36.6 billion issued, triple the amount issued in 2013 (US$ 11 bn), rose to US$ 42 bn in 2015 and continues to grow, with more than US$ 60 bn total issuance by October 2016[11]. Accounting for 44% of total, China led the surge in global green bond issuance in the third quarter of 2016 which amounted to a record US$ 26 billion[12].

In December 2015, the People's Bank of China issues guidelines[13] on green financial bonds, making China the first country that has made official rules on green bonds issuance. The guidelines require the green financial bonds proposal to include environmental benefits targets and encourage green financial bonds issuers to annually disclose independent or verified assessment reports on the environmental impacts of the projects. The guidelines include a catalogue of projects that green bonds could support. There are six primary categories: energy saving, pollution prevention and control, saving and circular use of resources, clean transportation, clean energies, and ecological protection and climate change adaptation.

As major economies, G20 nations should actively develop green finance products and services, and channel public funds and social capital to green projects; G20 nations should develop third-party verification and international standards for issuing green bonds, building up the carbon market and enhancing international cooperation in this regard.

4.3 Development Finance

From a global perspective, with stakeholders' engagement, the World Bank, Asian Development Bank and regional development banks pioneered in formulating and implementing mature environmental and social security mechanisms, information disclosure policy and appeal mechanisms that will hold deviant projects accountable. Global voluntary principles for sustainable investment such as the "Equator Principle", "United Nations Global Compact", "Global Reporting Initiative" and "Extractive Industries Transparency Initiative" served as a reference for global investors and financial institutions in formulating environmental and social risk management of the projects[14].

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[11] https://www.climatebonds.net/
[12] http://www.reuters.com/article/china-bonds-idUSL4N1CV1WC
[13] Green Financial Bond Guidelines, PBoC, http://www.pbc.gov.cn/goutongjiaoliu/113456/113469/2993398/index.html
[14] Greenovation Hub, Green Financing for "The Belt and Road" Initiative: Overseas Environmental and Social Risk Management of Financial Institutions, http://www.ghub.org/cfc_en/?p=1294

However, robust measuring, reporting and verification is required to ensure the implementation of or compliance to these principles. According to a recent investigation, the World Bank is still involved in funding a coal boom in Asia, despite its moratorium on such projects in 2013[15]. The IFC – the World Bank's private-sector arm – has been found to fund at least 41 coal projects since the moratorium on new coal funding, through its highly opaque support for commercial banks, private equity funds and other financial intermediaries. These new coal projects have a total capacity of over 56 GW, same as the entire coal-generating capacity of Germany.

The Belt and Road – China's Overseas Investment

In recent years, the development financing of developing countries has been increasing year by year. Furthermore, to achieve the aforementioned global climate and sustainable development goals, the construction of low-carbon and sustainable infrastructure will require more capital input in the coming two decades. In this context, China launched "The Belt and Road" Initiative, aiming at promoting the interconnection of and extensive cooperation in trade, infrastructure, finance, culture and other aspects among countries, especially developing countries along the historic Silk Road to help them achieve an independent, balanced and sustainable development. Planned projects are mainly located in Central Asia, East Asia, South Asia and West Asia and North Africa, covering installations such as railways, ports, highways, power grids, energy infrastructure, oil and gas pipelines, cross-border power transmission lines, etc. For such a massive potential demand for capital the financial development of the relevant regions is still insufficient, what may be a challenge for establishing and improving the investment risk management system and credit system.

While social risk is the primary focus of risk control in project investment, another challenge facing Chinese overseas investment is the environmental risk management of investment projects. The ecological environment of relevant countries and regions is often vulnerable, with complex geological landscapes suffering from relatively severe soil and water scarcity. The Arabic countries, for example, are located in West Asia and North Africa, with more plateaus and deserts with a single and fragile ecological system and forest coverage rates significantly lower than the world average level. Climate change and biodiversity pose new challenges to overseas investment, which needs to learn from international practices urgently when dealing with these issues. That's why it needs multilateral development banks and financial institutions to build capacity and deepen the cooperation in knowledge-sharing and banks' policies development.

Financial institutions and investors are involved in infrastructure investment and construction of "The Belt and Road" by placing or receiving investments or participating in multilateral financial governance. Therefore, governments should guide and facilitate the emerging financial institutions to include the environmental and social security standards in their credit granting terms to positively prevent the financial risks caused by environmental and social problems, promoting the development of green finance in the relevant regions. Besides, nations need to strengthen multilateral financial institutions' implementation of environment and social safeguard policies, and establish robust accountability and grievance mechanism. They should also agree on a mechanism and set up an earmarked fund to redirect billions of revenues from the existing carbon pricing mechanisms to support climate actions at home and abroad.

[15] International Finance Corporation – Financial Intermediary Portfolio Sub-Investments with Serious Adverse Social, Environmental and Human Rights Risks and impacts, inclusive development international, http://www.inclusivedevelopment.net/wp-content/uploads/2016/09/IFC-FI-Harmful-Sub-Projects-Database-27-Sept-2016.pdf

4.4 Fossil Fuel Subsidy Reform

A fossil fuel subsidy is any government action that lowers the cost of fossil fuel energy production, raises the price received by energy producers, or lowers the price paid by energy consumers. Essentially, it's anything that rigs the game in favour of fossil fuels compared to other energy sources.

It is estimated that G20 nations are still heavily subsidizing fossil fuels, while they, as part of Parties of UNFCCC convention, adopted the Paris Agreement to achieve economic decarbonisation. Figures show that G20 countries are subsiding fossil fuel production by up to US$ 444 billion per year, four times higher than renewables[16], and are subsidizing fossil fuel consumption by around US$ 500 billion per year[17]. Adding to this, the IMF estimates trillions of dollars in externalities from fossil fuel use each year. Such perverse incentives run contrary to the PA and the Agenda 2030, and need to be abolished in order to develop a sustainable Green Finance System.

In the Leaders' Statement of the Pittsburgh Summit in September 2009, the G20 leaders promised to "phase out and rationalize over the medium term inefficient fossil fuel subsidies while providing targeted support for the poorest". However, limited progress has been made during the years. G7 Summit this year made an important step forward, as G7 leaders for the first time committed to eliminating inefficient fossil fuel subsidies by 2025 and encouraged all nations to do so.

In 2012, G20 Leaders asked Finance Ministers to explore options for a voluntary peer review process. During the 2016 Hangzhou Summit, China and the US became the first countries in the G20 to release their voluntary peer review reports on inefficient fossil fuel subsidies that require reform. Most of the policies marked for elimination by the US[18] must pass enabling legislation for this proposal to become law first.

In China's report[19], nine fossil fuel subsidies are listed with annual cost estimates reaching around US$ 14.5 billion, though China was not able to estimate the annual cost of six of the nine subsidy policies, citing a rapidly changing policy environment. As for the timeline of the reform, China brought up two sets of timelines. China plans to adjust two subsidies policies on oil consumption and production in a short- and mid-term reform. In the mid- and long-term reform, China plans to phase out preferential policies on urban land-use tax for fossil fuel exploration and production; phase out preferential policies on 13% VAT reduction for coal gas; phase out VAT exemption and other policies on urban land-use tax and house property tax for heating enterprises; and improve subsidy policy package after refined oil price and tax-free reform.

China stresses in the report that for each subsidy policy proposed for reform, details should be given including legislative and/or administrative actions, specific timeframes, the ministry or government body responsible for carrying out reforms, relevant capacity building, risk management and consultation and communication strategy. Despite its lack of firm commitments, the review process is seen as a major step forward in cooperation and transparency between the two nations and signals a genuine desire to remove subsidies that are both environmentally and economically harmful.

The voluntary peer review process could be an effective tool to encourage G20 members and facilitate their efforts to rationalize and phase out inefficient fossil fuel subsidies that encourage wasteful consumption. Germany, Mexico and Indonesia have already signed up for the next round of peer review.

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[16] OCI-ODI, Empty promises-G20 subsidies to oil, gas and coal production http://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/9957.pdf

[17] IEA, Energy Subsidies-World Energy Outlook. http://www.worldenergyoutlook.org/resources/energysubsidies/

[18] US Self-review Report, http://www.g20.org/English/Documents/Current/201609/P020160919419901132079.pdf

[19] China Self-review Report, http://www.g20.org/English/Documents/Current/201609/P020160919417836868103.pdf

However, for the peer review to be effective political will as well as concrete actions from many more countries are required and as soon as possible, which is necessary to achieve the transition towards an environmental-friendly, climate-resilient and low-carbon economy powered by clean energies.

4.5 Climate Finance

Climate finance refers to local, national or transnational financing, which may be drawn from public, private and alternative sources of financing. It is critical to tackling climate change, in terms of both mitigation and adaption.

Under the UNFCCC framework, developed country Parties pledged to provide US$ 100 billion annually by 2020 to support developing countries to tackle climate change. During COP21 in Paris, it was decided that prior to 2025, parties shall set a new collective quantified goal from a floor of US$ 100 billion per year, taking into account the needs and priorities of developing countries. This means the financial support from developed countries to developing countries from 2025 onwards remains unclear, which might affect the confidence and actions of developing countries in tackling climate change.

Developed country Parties are urged to scale up their financial support, with a concrete roadmap to achieve the goal of jointly providing US$ 100 billion annually by 2020 for mitigation and adaptation, while significantly increasing adaptation finance from current levels.

South-South Fund on Climate Change Cooperation – Innovative Public Climate Finance

As global average temperature hits records and climate change impacts are felt in every nation in the world, especially the poor and vulnerable communities, the cost of adapting to climate change in developing countries could rise to between US$ 280 billion and US$ 500 billion per year by 2050, four to five times greater than previous estimates, according to a report by UNEP[1].

This calls for large scale and more innovative public climate finance. Chinese President Xi Jinping announced that China would set up a China South-South Climate Cooperation Fund to provide 20 billion RMB (US$ 3.1 billion) to help developing countries tackle climate change, during his visit to the US in September 2015. As developed countries are slow in fulfilling their climate finance pledges, innovative public climate finance will provide another source to help developing countries to cope with climate change impacts and inject their confidence to take more action on climate change.

5 From Hangzhou to Hamburg

The incoming German G20-presidency presents a unique chance to capitalize on the Chinese initiatives and promote the role of green finance and responsible investment throughout the G20 work streams. From an international climate policy perspective, it is vital that all G20 countries develop and implement stringent low-carbon development plans, providing a reliable and steady framework for businesses, investors and communities. These plans should be made available in a manner consistent with the requirements of the UNFCCC process, meaning a meaningful draft should be published no later than 2018, in order to facilitate a stringent assessment of the global ambition. Coordination of formats and a peer-review platform within the G20 would be a useful step to enhance mutual trust and share lessons learned. Also, Germany should aim for setting a clear timeline for the full and equitable phase-out of all fossil fuel subsidies by 2020, with an exit date for coal and an immediate elimination of subsidies for fossil fuel exploration. Starting a process towards the introduction of effective, rising prices on CO_2 emissions throughout the G20 would constitute an important enabling measure towards the implementation of ambitious mitigation policies throughout the G20.

The major innovation of the Chinese G20-presidency lies in the establishment of the Green Finance Study Group, and the endorsement of the GFSG's conclusions by the finance ministers and central bank governors. The recommendations of the GFSG, if followed, could lead the world of finance onto a more sustainable path, while at the same time mobilize much needed capital flows into low-carbon and climate-resilient infrastructure, especially in the developing world. During the German presidency, the work of the GFSG should be continued and eventually upgraded, and concrete measures towards truly Paris-compatible investments should be implemented. A good venue to start mainstreaming SDGs and the PA are stringent investment criteria for public finance institutions and multilateral development banks.

The G20 also has numerous commitments and initiatives on infrastructure investment and has set up an Infrastructure Investment Working Group (IIWG) that could be used to facilitate climate-compatible infrastructure investment. So far, the IIWG discussions do not sufficiently consider the link to SDGs and climate. More investment needs to be mobilized, but it has to be done in a sustainable and Paris-compatible manner. An important prerequisite to this work is the implementation of the recommendations of the Task Force on Climate-related Financial Disclosure, with a roadmap towards mandatory disclosure after a voluntary period, transitioning into a full-scale mandatory disclosure regime over the course of two years.

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You can download this paper here: www.germanwatch.org/en/12976

October 2016

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Financially supported by the Mercator Foundation. Responsibility for the contents rests with Germanwatch.

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