

Summary

The G20 Green Finance Study Group (GFSG)’s work supports the G20’s strategic goal of strong, sustainable and balanced growth. The challenge is to scale up green financing, which, based on a number of studies, will require the deployment of tens of trillions of dollars over the coming decade. The GFSG was established to explore options for addressing this challenge.

“Green finance” can be understood as financing of investments that provide environmental benefits in the broader context of environmentally sustainable development. These environmental benefits include, for example, reductions in air, water and land pollution, reductions in greenhouse gas (GHG) emissions, improved energy efficiency while utilizing existing natural resources, as well as mitigation of and adaptation to climate change and their co-benefits. Green finance involves efforts to internalize environmental externalities and adjust risk perceptions in order to boost environmental friendly investments and reduce environmentally harmful ones. Green finance covers a wide range of financial institutions and asset classes, and includes both public and private finance. Green finance involves the effective management of environmental risks across the financial system.

Green finance faces a range of challenges. While some progress has been made in green finance, only a small fraction of bank lending is explicitly classified as green according to national definitions. Less than 1% of global bonds are labeled green and less than 1% of the holdings by global institutional investors are green infrastructure assets. The potential for scaling up green finance is substantial. However, the development of green finance still faces many challenges. Some are largely unique to green projects, such as difficulties in internalizing environmental externalities, information asymmetry (e.g., between investors and recipients), inadequate analytical capacity and lack of clarity in green definitions. Others are more generic to most long-term projects in some markets, such as maturity mismatch.

Options to address these challenges are emerging. Many countries have adopted measures such as taxes, subsidies and regulations to deal with environmental challenges. These actions make significant contributions to enhancing green investment, but overall the mobilization of private capital remains insufficient. Over the past decade, various complementary financial sector options have emerged in many G20 countries, from both private and public actors, to support the development of green finance. These include, among others, voluntary principles for sustainable lending and investment, enhanced environmental disclosure and governance requirements, and financial products such as green loans, green bonds, green infrastructure investment trusts,¹ and green index products. International collaboration among central banks, finance ministries, regulators and market participants is also growing, focused in large part on knowledge sharing of country experiences and capacity building.

The GFSG has been launched under China’s Presidency of the G20. Its mandate is to *“identify institutional and market barriers to green finance, and based on country experiences, develop options on how to enhance the ability of the financial system to mobilize private capital for green investment.”* An initial program of five topics has covered three sectoral issues namely banking, the bond market, and institutional investors, as well as two cross-cutting topics, i.e., risk analysis and measuring progress. The GFSG recognizes, due to differences in local conditions, some options that are considered as good practices in one country may not be suitable for another country. It therefore has focused on stocktaking, knowledge sharing, and developing voluntary options for countries to choose from and for bilateral/multilateral collaboration. The GFSG has reviewed various

country experiences and market practices, engaged with market participants, benefited from active participation from international organizations, and drawn contributions from research institutions. It has also worked closely with other international initiatives and G20 work streams, notably the Financial Stability Board (FSB) Task Force on Climate-related Financial Disclosures and the G20 Climate Finance Study Group (CFSG).

Emerging from the GFSG's work are a number of options for the G20 and country authorities, for consideration for voluntary adoption, to enhance the ability of the financial system to mobilize private capital for green investment. Key options are highlighted below:

- 1. Provide strategic policy signals and frameworks:** Country authorities could provide clearer environmental and economic policy signals for investors regarding the strategic framework for green investment e.g., to pursue the Sustainable Development Goals (SDGs) and the Paris Agreement.
- 2. Promote voluntary principles for green finance:** Country authorities, international organizations and the private sector could work together to develop, improve, and implement voluntary principles for and evaluate progress on sustainable banking, responsible investment and other key areas of green finance.
- 3. Expand learning networks for capacity building:** The G20 and country authorities could mobilize support for the expansion of knowledge-based capacity building platforms such as the Sustainable Banking Network (SBN), the UN-backed Principles for Responsible Investment (PRI), as well as other international and domestic green finance initiatives. These capacity building platforms could be expanded to cover more countries and financial institutions.
- 4. Support the development of local green bond markets:** On request of countries that are interested in developing local currency green bond markets, international organizations, development banks and specialized market bodies could provide support via data collection, knowledge sharing and capacity building. This support could include, in working with the private sector, the development of green bond guidelines and disclosure requirements as well as capacity for verifying environmental credentials. Development banks could also play a role in supporting market development, for example by serving as anchor investors and/or demonstration issuers in local currency green bond markets.
- 5. Promote international collaboration to facilitate cross-border investment in green bonds:** Country authorities or market bodies could promote cross-border investment in green bonds, including through bilateral collaboration between different green bond markets, where market participants could explore options for a mutually-accepted green bond term-sheet.
- 6. Encourage and facilitate knowledge sharing on environmental and financial risk:** To facilitate knowledge exchange, the G20/GFSG could encourage a dialogue, involving the private sector and research institutions, to explore environmental risk, including new methodologies related to environmental risk analysis and management in the finance sector.
- 7. Improve the measurement of green finance activities and their impacts:** Building on G20 and broader experiences, the G20 and country authorities could promote an initiative to work on green finance indicators and associated definitions, and to consider options for the analysis of the economic and broader impacts of green finance.

¹ Investment trusts are a form of closed-end (i.e. they issue a fixed number of shares) collective investment that can facilitate a longer-term investment horizon compared to open-ended investment vehicles. Investment trusts are traded on exchanges, managed by fund managers, and often organised along thematic lines.