



Sustainable Finance Working Group

Presidency & Co-Chairs Note on Agenda Priorities

SFWG Background: Informing and Accelerating the G20 Sustainable Finance Agenda

Launched in 2016 during China's G20 presidency, the Green Finance Study Group was mandated to identify institutional and market barriers to green finance and develop options on how to enhance the ability of the financial system to mobilize private capital for green investments. In 2018, its remit was expanded to consider additional aspects of sustainable development alongside environmental ones and the group was renamed "Sustainable Finance Study Group (SFSG)". During 2016-18, the Group facilitated the formation of a global consensus on the need to scale up green finance, and focused global attention to a range of key topics for the development of sustainable finance worldwide.

While the share of financial assets contributing to sustainability has increased over the past years, it still represents less than 10% of global financial assets¹. Sustainable finance² is facing new and complex barriers as the practice evolves. One of the key challenges, among others³, is that the rapid increase in the number of domestic, regional and global initiatives has created a fragmented landscape, which hinders progress in mobilizing private sector financing for the global climate agenda and the SDGs, in part due to inconsistent rules and communication approaches. The COVID-19 crisis has also highlighted the urgent need to improve the stability and efficiency of the financial markets by adequately addressing sustainability risks, including climate, environment, biodiversity and social-related ones. Similarly, there is an urgent need to coordinate on the use of public finance and policies that can mobilize finance—including development finance, fiscal policies, carbon pricing, and more—to avoid fragmented initiatives that might hamper or reduce the effectiveness of such efforts.

Acknowledging these new challenges, and in order to provide a forum for G20 leadership on the mobilization of private finance and effective deployment of official sector finance to support international sustainability goals, the Italian presidency has decided to re-establish the SFSG and to anchor its agenda on the three G20 priorities: People, Planet and Prosperity.

On February 25th, G20 Finance Ministers and Central Bank Governors endorsed the reestablishment of the SFSG. The Italian Presidency invited China and the United States of America to co-chair the SFSG and the United Nations Development Programme to serve as the Secretariat.

Finally, on 7 April 2021, recognizing the urgent need and G20 ambition to address challenges to promoting sustainable finance, G20 Finance Ministers and Central Bank Governors upgraded the group to become the "**Sustainable Finance Working Group**"⁴.

G20 Sustainable Finance Roadmap

There is a need for the G20 to establish a framework that identifies the key elements of a financial system that is aligned to the objectives of the 2030 Agenda and the Paris Agreement. Developing a long-term sustainable finance roadmap for the G20 will help (1) focus the attention of the international community to progressively advance these key elements, (2) inform the work priorities of other stakeholders and international organizations, and (3) help identify where the SFWG can help advance the elements and shape the SFWG's current and future workplans.

Approach and deliverables

It is proposed that the SFWG develop, in a collaborative manner, an evidence-based multi-year G20 Roadmap for Sustainable Finance starting with an initially climate-focused roadmap as a key deliverable for 2021.

The roadmap will present, at high level, the rationale for a series of relevant challenges (see Annex A) that need to be addressed in the financial system to help achieve sustainable development for all and advance the international work relevant to the agenda. To address the challenges identified, the roadmap will present, in a succinct way, the high-level issues, major gaps and barriers, key actions to address them, and milestones to complete those actions. It will articulate the relevant international work and their roles. In 2021, the SFWG will consider addressing those challenges in order to promote climate-aligned finance, including finance that supports biodiversity conservation, and social aspects of the SDG agenda. This aligns with the international priorities in 2021 arising from UNFCCC COP26 and CBD COP15 and helps prioritize key policy issues, considering that the SFWG is only being reestablished in 2021 and embarking on an ambitious workplan for the year. In future years the SFWG, in line with international priorities and as defined by the G20 Presidencies, could devote more resources to more detailed coverage on issues such as biodiversity or wholesale (i.e., from climate to all sustainable finance).

While setting a long-term vision and articulating relevant work across international bodies, the roadmap will also help the G20 SFWG identify specific priorities it will address in its annual workplan.

The roadmap will be developed by the SFWG members in a transparent way throughout an inclusive drafting process and will allow for flexibility and adaptation as international work and priorities on sustainable finance progresses over time. The deliverable for 2021 will be built based on (1) past work by the SFWG and other international fora that have identified sustainable finance priorities, (2) discussion of priorities among SFWG members, and (3) a stocktake of international workstreams relevant to promoting climate-aligned finance. Additionally, stakeholder engagement, including through three high-level events and technical consultation with experts, will provide substantive input for the development of the roadmap:

- G20 Tax Symposium⁵
- G20 Venice Conference on Climate⁶
- G20 Sustainable Finance Private Sector Roundtable⁷

In future years, the SFWG (1) will annually report progress against the roadmap via the SFWG's synthesis report, (2) can further elaborate the roadmap, adapting it and/or expanding it to cover sustainability topics beyond climate change, and (3) update the roadmap as necessary and use it to define work the SFWG could do to address emerging challenges and accelerate or amplify work articulated in the roadmap.

Priority Areas for 2021:

The proposed focus areas for SFWG's direct work in 2021, as in future years, will address selected key priorities in the roadmap. The proposed focus areas for 2021 are selected by taking into consideration their relevance, urgency and need for global coordination, in light of the on-going international work from IFIs, IOs, and financial stability and regulatory networks. While the initial roadmap delivered in 2021 will focus on climate, the areas for direct consideration will consider sustainability more broadly, therefore including its environmental, biodiversity and social dimensions. The priority areas for 2021 include areas where deeper consideration of current practices would help inform the SFWG's future expanded roadmap.

A. Overcoming informational challenges by improving sustainability disclosure and reporting

Responding to increasing investor demand for information on sustainability risks and opportunities, a large number of sustainability reporting frameworks, standards, principles and tools have sprung up in the last ten years – at global, regional, national, and even corporate levels – by public and private entities. This surge creates a fragmented landscape that hinders transparency, can limit investor appetite to examine the impact of their portfolios, and can generate a reporting burden especially for SMEs seeking sustainable finance.

Multiple actors have voiced the need for a single, comprehensive global reporting framework (e.g. IIF, GISD, OECD, UN FfD), and several organizations have launched initiatives to improve global sustainability disclosure and/or reporting standards and enhance their comparability (e.g., IPSF, IOSCO, EFRAG, IFRS, CDP, CDSB, GRI, IIRC, SASB, WEF, IMP, etc.). Amidst this context, the Task Force on Climate-related Financial Disclosures (TCFD) has emerged as a key framework for public companies and other organizations to report on climate-related financial risks and opportunities and a lens through which much of the international work being carried to advance global sustainability reporting for climate is looked at.

There is broad consensus from both financial actors and market regulators on the need to improve consistency, comparability, and reliability of sustainability reporting. There is a particular focus currently on improving the reporting of financially-material climate-related information, but also significant interest in addressing broader sustainability reporting. Some of these aspects of broader sustainability reporting may not necessarily influence investor decision-making but can play a role in providing information to a wider group of stakeholders, including consumers, non-governmental organizations, and official sector policy makers.

For example, inspired by TCFD, the Informal Working Group⁸ for The Taskforce for Nature-Related Financial Disclosures (TNFD) is also looking to provide a corporate reporting framework on risks, as well as dependencies and impacts, from nature degradation, especially regarding biodiversity.

Approach and deliverables for 2021

Complementing the work commissioned by the G20 to the FSB and IMF as well as the work being carried out in other international forums, in 2021 the SFWG will consider how sustainability disclosure and reporting –including ESG data analysis- could be improved over time.

The SFWG will:

- Review existing international initiatives and work done, or currently being undertaken, by other organizations to take stock of or otherwise assess the state of sustainability reporting across jurisdictions.
- Develop a high-level analysis and recommendations on how to achieve consistency and reliability in sustainability reporting standards and in ways to implement them over the medium term, taking into consideration national and regional specificities.
- Consider how such practices influence risk assessment and the mobilization of sustainable finance, including the implications for SMEs and developing economies.

The SFWG will also look into the following more specific issues under this focus area and suggest ways to address them:

- Synergies between sustainability reporting and financial reporting;
- The role of digital solutions to improve sustainability disclosure and reporting and capture information for entities that might fall outside the scope of disclosure and reporting regulations ;
- Reporting on nature-related impacts, risks and dependencies;

B. Improving compatibility of approaches to identify, verify and align investments to sustainability goals

Various approaches - including definitions, taxonomies, principles, labeling, benchmarks, and verification and certification schemes—for identifying green or sustainable investments and financial instruments have sprung up in the last few years at national, regional and international level. For example, according to the International Organization for Standardization (ISO), there are already some 200 approaches to identifying green/sustainable investments utilized by countries, markets, FIs or corporates. These are meant to help the financial industry better align financial flows with the SDGs and goals of the Paris Agreement. However, the proliferation of these approaches in an un-coordinated fashion may generate market fragmentation and lead to risk of green washing, thus hindering the efforts to align financial flows to the SDGs and goals of the Paris Agreement. Hence, there is a need to improve consistency, interoperability, and transparency of approaches to identify sustainable finance opportunities and to allow some flexibility for economies to adapt to their situations.

Approach and deliverables for 2021

- Conduct a stocktake of existing and emerging approaches, including taxonomies used to identify sustainable and transition finance opportunities. The stocktake would consider official sector and private sector led approaches used across both G20 and non-G20 economies. Key outcomes of the stocktake would include helping G20 members understand the different objectives of the different approaches and tools, as well as their technical underpinnings which determine which investments are considered sustainable.
- Develop a high-level analysis and/or recommendations on best practices and how to enhance consistency, comparability, interoperability, and transparency in existing approaches, and in the development of new ones, including taxonomies.

C. Role of International Financial Institutions in supporting the Paris Agreement

IFIs, including MDBs, contribute to catalyze investment from private actors in countries most in need by reducing political and financial risks and providing counter-cyclical responses during times of crisis. Through their assistance programs, they can also give emerging market banks the capabilities to originate new financial vehicles for climate transition (e.g. green and social bonds). Over the past years, the multilateral development outflows came close to USD 200 billion per year⁹. Given the importance of their financial support, the alignment of their portfolio is a key determinant of developing countries transition towards climate neutrality. Specific attention should be given to ensure balance/synergies between achieving climate objective and increasing other dimensions of sustainable development, and in particular job creation and COVID responsiveness.

IFIs, including MDBs, have affirmed their determination in reorienting all financing flows towards sustainability, particularly to align with the goals of the Paris Agreement. The MDBs and International Development Finance Club (IDFC)¹⁰ committed in 2017 to align financial flows with the Paris Agreement and, together, in 2018 announced a joint framework¹¹ to achieve this.

G20 members have a key role with regards to reshaping the mandate of these stakeholders, both as shareholders and borrowers. Hence, the value for the SFWG to amplify the work that IFIs, including the MDBs, are already doing to accelerate the transition of their portfolio towards strategies aligned with climate transition and the Agenda 2030 more broadly is compelling.

Approach and deliverables for 2021

Leveraging the work on MDB alignment to Paris Agreement being advanced through the MDB Taskforce¹², the SFWG could:

- Review and report on the status of the alignment of MDB's operations (i.e., financial flows and capacity building activities) to the goals of the Paris Agreement and their efforts to develop Nationally Determined Contributions (NDCs) and other relevant action plans with country partners.
- Discuss and suggest ways to (1) further accelerate IFI institutional alignment to the goals of the Paris Agreement, considering the mandate of the IFIs to address poverty and considering their role in addressing the SDGs, (2) further enhance complementarity of climate-related support among IFIs and between IFIs and other international organizations.

D. Deliverables and timeline

The key deliverables and a tentative timeline of the SFWG meetings and symposiums are listed in table 1 and 2 for your reference.

Table 1: 2021 SFWG Deliverables at a Glance

Key Deliverables	Contents	Note
1) Roadmap for Sustainable Finance, starting with climate in 2021.	Cover 10+ key issues, actions needed to address them, and articulation of international work to achieve those actions.	3-4 page summary, plus succinct additional materials and tables as needed to convey results of the stocktake and map out actions and milestones.
2) SFWG Synthesis Report	Include a chapter on recent progress (i.e. the progress report) and chapters covering the three priorities areas	About 20-25 pages
3) Other deliverables	Several input papers by knowledge partners	Each around 20 pages

Table 2: Timelines of 2021 SFWG Events

1st SFWG meeting	Discussion and agreement on the SFWG Agenda	March 26 th
SFWG delegates consultation	Roadmap inputs by SFWG members	April 9 th
	Consultation results shared with SFWG members	April 26 th
1st Roadmap Workshop	Presidency, Co-chairs and IOs workshop to discuss G20 SFWG roadmap.	May 6 th
G20 Sustainable Finance Private Sector Roundtable	Private sector technical event on SFWG Agenda priorities including a session to discuss the roadmap on the 13 th	May 17 th - 18 th
2nd Roadmap Workshop	Presidency, Co-chairs and IOs workshop to discuss G20 SFWG roadmap	3 rd week of May (24 th or 28 th TBC)
Draft Roadmap Report	Send draft roadmap report (i.e. draft structure and initial stocktake of international work) Co-chairs and Presidency for approval	June 7 th

	Send the report will be sent to delegates	June 14 th
2nd SFWG meeting	Discussion of (1) interim roadmap report, and (2) draft input papers on three focus areas	June 17 th
SFWG delegates consultation	SFWG members to send inputs on the interim roadmap report	June 24 th
	Integrate comments and circulate among KPs, co-chairs and Presidency by	June 29 th
Private sector consultation	Private sector consultation on the roadmap	July 6 th
3rd Roadmap Workshop	Presidency, Co-chairs and IOs workshop to discuss G20 SFWG roadmap	July 12 th
Material submission	Send full draft roadmap to delegates	July 19 th
3rd SFWG meeting	Discussion of full draft roadmap and draft synthesis report	July 27 th
SFWG delegates consultation	SFWG members to send inputs	August 3 rd
	Integrate comments and circulate among KPs, co-chairs and Presidency by	August 9 th
Material submission	Send full draft roadmap to delegates	September 1 st
4th SFWG meeting	Final negotiation of the synthesis report (executive summary) and roadmap	September 8 th

ANNEX A: Example of potential structure of sustainable finance roadmap

Public policies and incentives, including, e.g.:

- Role of emission trading systems and carbon pricing in supporting sustainable finance
- Fiscal issues that have an impact of sustainable finance
- Other policy tools (monetary/ financial / environmental policies)

Sustainability Finance Data Governance & Architecture, including, e.g.:

- Data Gaps
- Disclosure and Reporting
- Ratings and scoring

Risk management, including, e.g.:

- Env/climate risk analysis and management tools and approaches
- Supervision and regulation of sustainability risks
- Macroprudential approaches

Financial Market development and alignment, including, e.g.:

- Frameworks for identifying, verifying, and aligning investments with sustainability goals
- ESG investment of central banks, sovereign wealth funds and public pension funds.
- Private sector portfolio alignment approaches and metrics
- Financial product innovations
- Role of IFIs and NDBs in advancing sustainable finance and aligning with sustainability goals

End Notes

¹ The sustainable finance market count for USD 13 trillion over the USD 379 trillion of global financing assets. Source: Framework for SDG aligned finance, OECD & UNDP (2020)

² Sustainable finance can be broadly understood as financing as well as related institutional and market arrangements that contribute to the achievement of strong, sustainable, balanced and inclusive growth, through supporting directly and indirectly the framework of the Sustainable Development Goals (SDGs). Sustainable Finance Study Group, Synthesis Report, 2018.

³ GISD (2020). Renewed, recharged and reinforced. Urgent actions to harmonize and scale sustainable finance. OECD, UNDP (2020). Framework for SDG Aligned Finance.

<https://sdgfinance.undp.org/sites/default/files/Framework%20for%20SDG%20Aligned%20Finance%20OECD%20UNDP.pdf>

IIF (2020). Sustainable Finance Policy & Regulation: The Case for Greater International Alignment

NGFS (2020). Sustainable Finance Market Dynamics Report

⁴ The upgrade to a Working Group will be also reflected in an update to the 2016 Terms of Reference, to be proposed by the Italian Presidency.

⁵ The Italian Presidency has scheduled a High-Level Symposium on July 9th to launch a ministerial-level discussion. This symposium will address the role that tax policy can play to support the transition to a low-carbon global economy, promote green technologies and investments, and encourage the use of more efficient and less polluting energy sources.

⁶ The High-level Conference will take place under the auspices of the Italian G20 Presidency on July 11th, after the G20 Ministers of Finance and Central Bank Governors meeting. In addition to the G20 Presidency, co-organizers would include the IMF, UNDP (Secretariat of the re-established Sustainable Finance Study Group) COP26 Presidency, EBRD (2021 convener of regional development banks), AIIB (2021 convener of MDBs), AFD, FSB, the World Bank, OECD, NGFS, IIF and Mark Carney (in his position as climate finance envoy of the UN).

⁷ The Private Sector Roundtable will be specifically designed capture the input from the private sector on this year's SFWG priorities and identify high-level issues to be considered in the G20 SFWG Roadmap.

⁸ The IWG will establish a detailed two-year work plan for the Task Force, which is planned to launch in 2021.

⁹ OECD (2020). Multilateral Development Finance 2020. p81

¹⁰ <https://www.worldbank.org/en/news/statement/2017/12/12/together-major-development-finance-institutions-align-financial-flows-with-the-paris-agreement>

¹¹ <http://pubdocs.worldbank.org/en/784141543806348331/Joint-Declaration-MDBs-Alignment-Approach-to-Paris-Agreement-COP24-Final.pdf>

¹² In May 2017, a group of shareholders, requested MDBs to develop a harmonized approach to additionality in their efforts increase private investment to achieve the objectives of the 2030 Agenda for Sustainable Development. The Task Force consists of the African Development Bank Group (AfDB), the Asian Development Bank (ADB), the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), the Inter-American Development Bank Group (IDB and IDB Invest), the International Finance Corporation (IFC), the Islamic Development Bank Group (IsDB), Multilateral Investment Guarantee Agency (MIGA), and the New Development Bank (NDB). ADB currently leads a group looking to advance portfolio alignment to the NDC's.