NOTE ON AGENDA PRIORITIES

SUSTAINABLE FINANCE WORKING GROUP

PRESIDENCY AND CO-CHAIRS
NOTE ON AGENDA PRIORITIES
INTRODUCTION

The re-establishment of the Sustainable Finance Study Group by the G20 in 2021 followed by its elevation to the Sustainable Finance Working Group (SFWG) puts a timely emphasis on the global green and sustainable economic recovery. In 2021, the SFWG held fruitful discussions on a wide spectrum of topics relevant to the international sustainable finance policy-making agenda and developed the G20 Sustainable Finance Roadmap ("the Roadmap"), articulating the G20’s sustainable finance priorities across five focus areas to help guide the work of relevant G20 workstreams, member states, international organizations (IOs), and other international networks and initiatives. In 2021, the SFWG undertook work on three of the priority issues identified in the Roadmap, and presented the results of its analysis in the SFWG’s 2021 Synthesis Report ("the Synthesis Report"). Together, the Roadmap and the Synthesis Report advanced sustainable finance policy making in support of the goals of the Paris Agreement and the objectives of the 2030 Agenda.

As discussed during the December 8th-9th Deputies meeting, the SFWG will undertake work on the following three key topics in 2022:

1. Developing a framework for transition finance and improving the credibility of financial institution commitments;
2. Scaling up sustainable finance instruments, with a focus on accessibility and affordability; and
3. Discussing policy levers that incentivize financing and investment that support the transition.

The recommendations emerging from this work will be captured in the 2022 G20 Sustainable Finance Report, which will also include a summary of progress on the actions of the Roadmap, as further described below.
SFWG 2022 WORKPLAN

Reporting on the G20 Sustainable Finance Roadmap Progress
As established in the Roadmap, the SFWG will conduct an annual monitoring exercise to capture the progress in addressing the priorities identified in the Roadmap. The monitoring exercise will primarily review work being done by G20 working groups (across finance and Sherpa tracks), IOs, and other international networks and initiatives, in relation to the actions detailed in the Roadmap. The monitoring exercise will encompass information gathering on achievements made on all 19 Actions detailed in the Roadmap. This will result in a robust annual report that provides, as a public good, a more granular view of the ongoing sustainable finance work that will allow jurisdictions and international organizations alike to more efficiently coordinate, seek out potential partners, and identify where further work is needed. The SFWG will critically evaluate the results of this exercise and use it as key input to guide the group’s future work and identify particularly useful progress to highlight or directly leverage. The SFWG will coordinate with the Financial Stability Board.

Approach and Deliverables:
- Inputs to the report would include:
  - Soliciting updates from international organizations to assess progress made on each of the Roadmap’s 19 Actions, and;
  - Welcoming SFWG members inputs on relevant country-level progress.
- The report could include elements such as:
  - Highlighting the specific actions that have seen meaningful progress through international work and those that need further support, and;
  - Developing a publicly accessible repository for materials referenced in the Roadmap reporting exercise.

In addition to the annual reporting exercise on progress made in 2022, the SFWG will also conduct work through three workstreams this year:
1. Developing a framework for transition finance and improving the credibility of financial institution commitments

Background
Despite the rapid growth of the green and sustainable finance market in recent years, its proportion in total global financing remains very low (at around 10% in some large economies\(^1\)), partly due to the fact that current alignment approaches, including green and sustainable finance taxonomies, generally focus on "pure green" activities and investments or those with immediate environmental benefits. However, the financial sector will also need to be able to support a much larger part of the global economy to support the climate transition, in particular including currently GHG-intensive sectors. Enabling such financial flows would need concerted efforts from a wide range of stakeholders – including governments, central banks, firms, financial institutions and multilateral institutions. In particular, financial institutions have a unique role to play in accelerating the process through their commitments to supporting climate transition. Many financial firms have made net-zero commitments, representing a potentially huge shift in investment to support the climate transition across all jurisdictions and firms, including to emerging markets and developing economies. Without a proper framework for transition finance and implementation of financial institution commitments, two problems could occur: either 1) certain sectors or firms will be unable to get financing to support their transition, thus fail to decarbonize or be forced to exit from the market, leading to stranded assets, unemployment, supply shortages, or other effects of a disorderly transition; or 2) GHG-intensive firms or sectors will secure financing via "green washing," damaging the reputation and functioning of the green and sustainable finance market.

There is an urgent need to develop a high-level framework for transition finance, to help enable the financial market to support an orderly, just, affordable, and

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The role of financial institutions in the global economy is crucial for achieving a sustainable and equitable transition of the global economy towards sustainability, including the goals of the Paris Agreement and 2030 Agenda. As recognised in the Roadmap, G20 members have formed a strong consensus to develop a common understanding on the key elements to support financing the climate transition, such as taxonomies and other alignment approaches; disclosure; financial instruments; and policy incentives to support the transition. The development of a framework for transition finance will seek to integrate climate considerations, with a focus on climate transition, through the financial system.

There is also an urgent need to engage with private sector efforts to scale-up financing for the climate transition through voluntary net-zero and related commitments. Over the past year, many financial firms have made voluntary commitments to net-zero and other climate finance goals, representing an opportunity to make a large shift in investment to support the climate transition. The public sector can leverage this opportunity by helping to establish best practices to implement net-zero and related commitments. This SFWG work complements the framework for transition finance by looking at the supply of capital from private financial institutions. The SFWG will engage with the private sector and other stakeholders, to explore how to improve the implementation and assess progress (in the aggregate) of financial firms’ net-zero and related financing commitments, to help secure the necessary supply of capital over the next few decades.

Approach and Deliverables:
In order to help scale up financing that can help countries in their climate transition, this year, the SFWG, will produce two complementary, transition-focused deliverables. This work will be informed by a series of international events / roundtables with the private sector and other relevant stakeholders.

In collaboration with knowledge partners (KPs), develop a high-level transition finance framework. The SFWG will draw connections to work that other groups are doing and will also provide options for jurisdictional implementation of Principle 6 in Action 1 of the Roadmap. The framework for transition finance could include...
developing voluntary principles and/or provide menus of options across five main elements:

1. **Identification of transition activities** - Identify and provide principle-level guidance, that can be applied across alignment approaches (e.g., taxonomies, principles, metrics), to define the scope and, as appropriate, provide classification of economic activities that can support an orderly, just, affordable, and equitable climate transition. The identification of transition activities should be based on credible technical pathways for major carbon-intensive sectors to decarbonize toward net zero;

2. **Corporate- and project-level reporting** - Identify reporting practices most related to transition considerations (e.g., disclosing transition plans, milestones, and progress), including for currently high-GHG firms or sectors and for financial institutions, and map relevant international work;

3. **Transition-relevant financial instruments** - Develop a menu of options - such as thematic bonds or loans, early stage and growth capital, or carbon market instruments - and identify constraints and options for supporting their use (Note: this will complement the workstream on sustainable finance instruments more broadly);

4. **Potential policy incentives** - Develop a menu of voluntary policy options, which could include fiscal (such as subsidies and de-risking facilities) tools, financial sector policy, or some other sectoral policies, that could be used to help incentivise investment in and funding to support the transition, and;

5. **Identifying and mitigating social and economic impacts** - Consider measures to identify and mitigate potential negative social and economic impacts of the transition.

Along with the high-level framework, the SFWG may review case studies to better understand and to demonstrate the actual working of the five key elements in a given jurisdiction or sector.
Work with knowledge partners to review the current state of financial institution net-zero pledges and other commitments related to financing the climate transition, develop recommendations on best practices, and explore options to track implementation progress. As will all of the SFWG work, this work will include private sector and other stakeholder engagement, and will include three key elements:

1. **Analyze current commitments** — the SFWG will work with partners to build on and update existing analysis to understand, for example, the types of commitments, the types of FIs undertaking them, what the commitments comprise (e.g., portfolio, specific financing goals, interim target), and what financial institutions are doing to operationalize and meet those commitments;

2. **Make recommendations, as appropriate, on developing market practices** — Based on the analysis and further work related to the transition framework (see above), the SFWG will consider general recommendations to enhance the integrity of financial institution commitments as market participants are learning to work on best practices and could identify voluntary options that jurisdictions, firms, and other stakeholders could take to help facilitate credible financial institution transition, and;

3. **Assess ongoing progress** — The SFWG will, working with knowledge partners, consider how to best monitor the state of such commitments, which could include recommendations to support emerging national financial sector net-zero monitoring efforts, and/or establishing other mechanisms to assess progress.
2. Scaling up sustainable finance instruments, with a focus on improving accessibility and affordability

Background

Achieving the goals of the Paris Agreement and the 2030 Agenda will require unprecedented mobilization of capital\(^2\) and global collaborative efforts to scale up sustainable finance markets, including by improving access to and affordability of sustainable finance, especially for developing economies and SMEs. However, firms across jurisdictions continue to face challenges in accessing sustainable finance markets. Scaling up these markets will require developing sustainable finance-specific market infrastructure which could include taxonomies and other market alignment tools, reporting, disclosure requirements, ESG data and metrics, and verification services that are necessary to attract international and domestic finance seeking sustainable investments, as well as addressing broader financial sector issues (e.g., lack of bankable projects, underdevelopment of capital markets, etc). For SMEs and firms in developing economies, these challenges are magnified. As an example, green, social and sustainable (GSS) bond issuance has grown exponentially over the past years\(^3\) but needs to continue scaling up exponentially\(^4\) to support the level of investment needed to achieve climate and sustainability objectives. Issuance to date has been concentrated in developed economies. The proportion of thematic bonds issues in EMDEs is steadily increasing, comprising around 16% of labelled GSS bond issuance in 2021\(^5\). Enhancing access to sustainable finance and growing the market as a whole, including through sustainable loans and bonds, can be beneficial to support resource mobilization while enhancing borrowers’ sustainability strategies, especially in developing countries where corporates tend to pull financial resources from lending rather than retained resources.

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\(^3\) As of June 2021, cumulative sustainable bond issuance has surpassed USD 3 trillion. Among all use-of-proceeds bonds, social bonds issuance has skyrocketed, increasing by 720% in 2020 compared to 2019.

\(^4\) Despite the recent sustainable debt market growth, only around 1% of total debt issuance globally is currently labelled as thematic debt.

\(^5\) Based on Bloomberg data
There are a number of actions policy makers can take, and multilateral support and commitment from the global community will be vital to assist, in scaling up sustainable finance markets, including improving access to and affordability of sustainable finance. Policy makers can assess and address sustainable finance specific and generic financial market development challenges within their jurisdiction. Multilateral support, for example from the MDBs, can help developing countries in their efforts to identify and implement policies and reforms to improve the enabling environment for domestically issued sustainable capital market instruments and bank lending, including but not limited to demonstration projects. Developing country authorities can also consider introducing incentives to spur GSS lending such as by covering some of the verification and monitoring costs for issuing sustainable bonds. Meeting the sustainability financing need may also benefit from developing or promoting new financial instruments, such as transition-focused instruments or de-risking tools.

A cornerstone of the path towards sustainable finance accessibility and enhanced domestic resource mobilization is tackling the technical skill shortages and insufficient staffing capacities, especially in emerging economies, to meet the financing demand. As many developing countries are also considering scaling up their local sustainable finance markets, it is important to build necessary capacity among all stakeholders, including financial regulators and other governmental agencies, financial institutions including banks, asset managers, insurance companies and institutional investors, as well as corporates and firms that could be potential issuers of sustainable finance products.

SMEs, which encompass the vast majority of all established businesses, must be included in financing the climate transition, but inherently face challenges accessing financing. That can include, e.g., responding efficiently to reporting requirements, and other sectoral issues related to limited capacity which will only be exacerbated as they look to shift toward sustainable financing. They may also face knowledge gaps about available technical solutions which may be seen as higher risk and therefore often difficult to finance. Additionally, enhancing the access
of SMEs to sustainable finance will create stakeholders in firms of every size while reemphasizing the whole-economy nature of financing the climate transitions.

Approach and Deliverables:
In line with Actions 5, 15 and 19 of the Roadmap, the SFWG could develop a policy toolbox highlighting ways to scale up sustainable finance markets, with a focus on improving accessibility and affordability. This work will:

- Identify the barriers faced with respect to:
  - Accessing, in affordable ways, sustainable financial instruments, including, e.g., international financing facilities, de-risking mechanisms and sustainable bonds or loans, with a focus on emerging markets and for SMEs, and;
  - Scaling up local sustainable financial markets, particularly in emerging market or developing economies, including through policy frameworks and financial instruments that can help finance the climate transition and green technologies.

- Develop recommendations to address these challenges identified, with a focus emerging markets and SMEs. This could include:
  - Ways to enhance access to the global sustainable financial markets and instruments, such as sustainable bonds and loans;
  - Options to reduce sustainable financing costs, recognizing pricing is largely market determined, including via internationally supported de-risking facilities and country authorities policy incentives, and;
  - Options to develop or scale up local sustainable financial markets and the required capacity building programs, including assistance on development of sustainability alignment approaches, disclosure requirements, and public policies.
This topic will complement the Development Working Group work on scaling up innovative tools such as SDG bonds in developing countries and its on-going work on “Scaling-up the Implementation of Innovative Financing Instruments (Blended Finance) for Sustainable Development”.

3. Discussing policy levers that incentivize financing and investment that support the transition

Background
The Roadmap recognized the importance of public policy to send market signals that influence sustainable investment decisions, and to incentivize the participation of private capital in sustainable investments.

Well-crafted public policies to mitigate greenhouse gas emissions are a critical driver in shifting customer, firm, and investor economic decisions. Options of such public policy levers include fiscal spending, subsidies, monetary policy instruments, regulations, carbon pricing and carbon markets, among others.

Global discussions help to build a conducive political climate for such actions, facilitate best practice sharing, and potentially ease regulatory burdens on the private sector. G20 members are diverse and have to account for different domestic considerations, and therefore, will pursue policy levers in their jurisdiction-specific context. Taking this into consideration, developing a common understanding of various climate mitigation policies currently in place will provide a solid foundation for future SFWG work to help jurisdictions understand the advantages or drawbacks of various policy options, and provide a basis for international cooperation on climate mitigation policy issues where appropriate.

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6 The DWG has developed a set of principles for sustainability bonds and highlighted remaining issues with the identification of assets and risks of SDGs washing
Approach and deliverables:
In Action 16 of the Roadmap, the G20 highlighted that it would work with various stakeholders to analyse the implications of a range of public policy levers on market signals that could influence sustainable investment decisions. Working with appropriate IOs and international networks, in 2022, the G20 Presidency will convene a forum among subject-matter experts to discuss a range of policy levers that can reduce greenhouse gas emissions and incentivize financing and investment that support a just and affordable transition, recognizing that appropriate policy mixes will be decided by each member, while acknowledging the difference in national circumstances.

In this context the SFWG will:
- Support inputs to the G20 Presidency convened forum, including a stocktaking exercise on climate mitigation policies implemented across G20 jurisdictions, that incentivise financing and investment to support the transition;
- Discuss and include where relevant Forum recommendations in the appropriate sections of the SFWG’s report, and;
- Identify specific areas where the SFWG can carry forward the work and priorities highlighted in the forum.
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: 2022 SFWG Deliverables at a Glance

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<tr>
<th>Key deliverables</th>
<th>Content</th>
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| SFWG Report      | o Assess progress against the Roadmap  
|                  | o Framework for Transition Finance⁷  
|                  | o Conclusions on improving the credibility of financial institution net-zero (and other related) commitments⁸  
|                  | o Scaling up sustainable finance instruments, with a focus on improving accessibility and affordability  
|                  | o Results of the stocktake on policy levers, conclusions from Policy Levers Forum, and recommendations for future work | o About 5 pages for each chapter  
|                  | | o An annex on summary and detailed content for each of the 19 Roadmap actions |

⁷ Depending on the inputs and case studies received, the framework for transition finance could be developed into stand-alone document.
⁸ Depending on the inputs and case studies received, the analysis and recommendations on improving the credibility of financial institutions net-zero commitments could be developed into stand-alone document.
### Table 2: Timeline of 2022 SFWG Events

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<tr>
<th>Key deliverables</th>
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<tr>
<td>1st SFWG meeting</td>
<td>Discussion on the SFWG Agenda and knowledge partners</td>
<td>25th Jan (virtual)</td>
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| 2nd SFWG meeting and Private sector roundtable | • Discussion of Roadmap progress  
• Presentation of and discussion of information to support SFWG direct work for 2022.  
• Discussion of the transition finance framework | 30th -31st March (virtual) |
| Private Sector Forum | Two-day forum to engage with private sector on sustainable finance, with a focus on the work of the SFWG. | Date and location TBD |
| 3rd SFWG meeting and International Policy Levers Forum | International Policy Levers Forum (1st June)  
• The conference on policy levers, as one of the SFWG deliverable  
3rd SFWG meeting (2nd-3rd June)  
• Discussion of Roadmap progress  
• Presentation and discussion of information to support SFWG direct work for 2022  
• Discussion of a draft SFWG report | 1st-3rd June (Jakarta) |
| 4th SFWG meeting | Finalization of the SFWG report | TBC in September (location TBD) |
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