# First G20 Sustainable Finance Working Group (SFWG) Meeting

## 25 January 2022

## Co-Chairs' Summary[1]

### *Introduction*

The first G20 SFWG meeting under the Indonesian Presidency was held on 25th January 2022 in a virtual format.

The Presidency opened the meeting by thanking the Italian Presidency and the co-chairs (United States and China) and reminded delegates that as the world looks forward to achieving an inclusive, green and sustainable global economic recovery, sustainable finance has become a key enabler to "Recover Together, Recover Stronger". Given its relevance, Sustainable Finance has become one of the six priority agendas of the Indonesian G20 Presidency in 2022. The Presidency also noted the importance of coordinating with other G20 working groups, both in the Finance and Sherpa track, in sustainable finance-related topics in order to ensure complementarity and avoid duplication of efforts. In this context, the Presidency informed delegates that discussions have started with the Infrastructure Working Group (IWG) and the Development Working Group (DWG).

The Co-chairs acknowledged the two significant outputs delivered in 2021 during the Italian Presidency, namely the G20 Sustainable Finance Roadmap ("the Roadmap") and the Synthesis Report. Co-chairs highlighted the need to further institutionalize the SFWG in the G20 architecture to strengthen its role in coordinating the relevant international work on sustainable finance, and to leverage and accelerate much-needed action on the sustainable finance priorities identified in the Roadmap. While underscoring the critical role of the knowledge partners (KPs) in the group, co-chairs acknowledged member feedback to make the group's deliverables more member-driven. In response, co-chairs would still welcome the work of KPs as inputs to inform the group's discussions, while also providing members more opportunity to contribute to the group's deliverables.

The meeting had two sessions. Following the introduction by the Presidency, in the first session the SFWG Secretariat and the co-chairs jointly presented the draft 2022 SFWG workplan. The workplan detailed an exercise to report and critically evaluate the progress of international organizations (IOs), networks, initiatives, and other stakeholders in addressing the priorities identified in the Roadmap, and outlined three areas of direct work for the SFWG to conduct during the year:

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

Co-chairs also emphasized the complementarity between the proposed deliverables alongside with work already being carried out in other forums.

In the second session, members were invited to comment on the proposed workplan.

### *SFWG Member Discussion*

[1] This summary does not seek to present a consensus view, but reflects diverse feedbacks expressed by members during the meeting.

### *1. Reporting on the G20 Sustainable Finance Roadmap Progress*

The SFWG Secretariat started the session with a brief overview and highlighted the possibility of developing an online platform to facilitate and improve the reporting of progress on sustainable finance issues. This platform would be structured to capture the progress from international organizations and other G20 working groups, across the Finance and Sherpa track, to address the priorities identified in the Roadmap. In practice, the Secretariat proposed to create a publicly accessible repository on the SFWG website, for materials collected in the roadmap reporting exercise that will allow for a better navigation and management of information, in years to come. G20 jurisdictions could also be invited to submit updates on sustainable finance developments on a voluntary basis to this online repository. The G20 2022 Sustainable Finance Report would summarize some of the key actions/activities that highlight the progress being made by IOs, initiatives and G20 working groups, list contributors to the reporting exercise, and point to the more detailed information available on the online repository.

During the ensuing discussion, in general, members broadly concurred on the importance of this exercise. Some members advocated for a more active role by the SFWG to drive implementation of the Roadmap rather than just focusing on monitoring and called for making this exercise more concrete, action-oriented and forward-looking. Additionally, some members proposed that this workplan should not be just a single ex-post assessment but have a more open and integrated approach to encourage synergies with other G20 working groups, especially from the Finance track in order to support the implementation of the actions of the Roadmap.

### *2. Developing a framework for transition finance and improving the credibility of financial institution commitments*

Co-chairs highlighted that the lack of transition considerations in current tools and approaches to align investments to sustainability goals is hindering financial institutions from investing in the much larger part of the global economy needed to support the climate transition, including currently carbon-intensive companies, even if these companies have credible decarbonization plans. Co-chairs outlined a proposed high-level framework to help facilitate financing to support the climate transition and suggested it should include at least five key components: 1) Identification of transition activities, 2) Corporate- and project-level reporting, 3) Transition-relevant financial instruments, 4) Potential policy incentives, and 5) Identifying and mitigating social and economic impacts.

Co-chairs also clarified that the SFWG does not intend to develop detailed taxonomies or disclosure requirements, which require pooling of resources from a much larger number of specialists outside of central banks and ministries of finance. Rather, the objective for this year is to provide some high-level principles and options for jurisdictions to consider while developing domestic approaches to these and other issues related to financing the transition.

Co-chairs noted that one of the most striking developments in recent years has been the proliferation of commitments that are being made by private institutions to achieve net-zero status and other related sustainability goals. Effectively these commitments represent a potentially huge shift in financial flows to support climate transition across all jurisdictions, including in emerging markets and small and medium enterprises (SMEs). Therefore, co-chairs proposed that this year, the SFWG can do work to help support effective implementation of those commitments. That includes 1) analyzing current commitments to help improve understanding of what these financial institutions commitments mean, 2) learning about and developing recommendations to help guide private sector-led initiatives on market practices related to climate transition financing efforts, and 3) developing recommendations for how the public sector can best assess how the financial services sector is making progress in achieving their commitments.

In general, members supported the timeliness and need for developing the transition finance framework. Some members deliberated on the need to include entire economy transition efforts and not just specific sectors. A small number of members noted this work should take into account different national circumstances. Some members emphasized that the transition finance framework should be broadly applicable across all major investment alignment approaches. Other members mentioned that the framework should not only support smooth and gradual transitions but also help jurisdictions consider how to mitigate potential unintended consequences such as higher inflation, slower growth rates, or any unintended consequences on global energy, security, and financial systems.

Some members also emphasized that financing intended to support the transition should help crowd out the financing of unsustainable activities while preventing greenwashing and not impeding delivery on the green financing agenda. Commenting on the role of different stakeholders in enabling financial flows to finance the transition, a few members mentioned that such an explicit role is generally not within the mandate of central banks. In relation to developing the framework, some members stressed on the importance of consistency, drawing on existing work and ensuring that the framework is linked to Paris-aligned transition pathways at country sector level and based on science-based targets. Other members noted that the work relating to the transition should take into account national trajectories of transition developed to meet commitments under relevant conditions. Others encouraged the SFWG to focus on ways to improve the monitoring of financial institutions exposures to sustainability related risks, addressing existing data gaps and promoting alignment of approaches, methodologies and disclosures. It was also underscored that the framework should be a principle-based tool and should not be developed using a prescriptive approach. A few members emphasized that the framework should be voluntary and non-binding.

On the deliverable focusing on improving the credibility of financial institution commitments, there was a broad recognition from many members that the financial sector can play an important role in the transition and that the SFWG can be helpful in promoting the credibility of such commitments. Some members noted that the group should try to avoid duplication of international efforts in light of the intersection of its work with that of the Glasgow Financial Alliance for Net Zero (GFANZ) among others. Considering that net-zero and other sustainability commitments are voluntary in nature, it was urged that recommendations should continue to commend good behavior and avoid being overly prescriptive. A few members expressed cautions that work on private sector pledges should not go beyond the mandate of the SFWG, with some members noting that such commitments are voluntary.

### *3. Scaling up sustainable finance instruments, with a focus on improving accessibility and affordability*

The workplan was presented by so-chairs mentioning how the sustainable finance market has grown rapidly, yet highlighting how most sustainable finance instruments have been issued in developed economies. Co-chairs mentioned that developing countries face greater challenges in accessing the sustainable finance market at affordable costs. In addition, SMEs have not been actively participating in the sustainable finance market, although greening SME's operations would potentially be critical to achieving sustainability goals. Therefore, for this year, the SFWG intends to develop a policy toolbox highlighting ways to scale up sustainable finance markets with a focus on improving accessibility and affordability and with special attention to developing economies and SMEs.

Co-chairs mentioned this work would involve two aspects: 1) identifying, with a focus on emerging markets and SMEs, the barriers to affordable access to sustainable financial instruments, including, e.g., international financing facilities, de-risking mechanisms and sustainable bonds or loans, and scaling up local sustainable financial markets, including through policy frameworks and financial instruments and 2) developing recommendations to address these challenges identified. This could include ways to enhance access to the global sustainable financial markets and instruments, options to reduce sustainable financing costs, including via de-risking facilities and policy incentives, and; options to develop or scale up local sustainable financial markets through capacity building programs, including assistance on development of sustainability alignment approaches, disclosure requirements, and public policies.

The workplan on scaling-up sustainable finance instruments received strong support from members. Some members, however, stressed the need to consider not just climate but other sustainability aspects within this workstream. Several members emphasized the importance of the workplan, specifically for SMEs and emerging markets, while some members urged that this topic should cover common challenges not only in emerging economies and SMEs but also in advanced economies. Others also stressed the important role that International Financial Institutions (IFIs), including Multilateral Development Banks (MDBs) play in advancing sustainable finance and with respect to a successful transition for developing and emerging economies. Some members also alluded to the fact that countries are not starting at same level and developing economies have other competing priorities, including education, infrastructure, and social inequalities. Therefore, country-specific circumstances should be considered when establishing priorities and carrying out the work under this workstream. One member also highlighted the SFWG should be the main vessel for carrying out this work, and the importance of avoiding overlaps or inconsistencies with other groups.

## 4. *Discussing policy levers that incentivize financing and investment that support the transition*

Co-chairs highlighted that as countries think about how to make progress to reduce greenhouse gas emissions, one of the critical areas for SFWG discussion and deliberation is the range of public policy levers that are available and how these affect customers, firms, investors and economic decisions. Admitting to the challenging and sensitive nature of this workstream, co-chairs mentioned that the collective experience of many different jurisdictions will be important to inform the thinking of the group. The range of policy levers that members could discuss and exchange views on would include but not be limited to carbon pricing, fiscal spending, monetary policy, environmental regulations, and subsidies and incentives.

Delegates were informed that efforts are being made to work closely with the Presidency to develop a forum with a robust agenda to facilitate a discussion between G20 member subject matter experts and with broader relevant stakeholders on the full range of policies being implemented or under consideration to meet climate goals and incentivize financing and investment that support a just and affordable transition, along with the implementation challenges faced in their jurisdictions. The forum is expected to take place in conjunction with the third SFWG meeting in the summer of 2022. Co-chairs proposed the SFWG undertake a stocktaking exercise of climate mitigation policies implemented or under consideration from each G20 member in advance of the forum to help facilitate a productive conversation and a robust discussion.

On the third agenda priority, many members supported the co-chairs' proposal to convene a policy forum, with a few members voicing hesitations or concern about the scope of the work. Some members stressed the importance of ensuring the conversation was inclusive of all emissions pricing and other non-pricing tools that formed jurisdictions' policy approaches, including subsidies and tax credits and explicit and implicit carbon pricing, among others. Some members encouraged the group to identify the pros and cons of different policy levers or assess the comparability of different approaches, while a few other members noted the need to avoid singling out or recommending any specific policies.

Several members strongly supported the proposal to conduct a stocktaking exercise to inform the forum, but a few members stressed that the suggested stocktaking topic, on climate mitigation policies, would go beyond the mandate of the SFWG. Some members argued that a public forum may not be the appropriate place to discuss recommendations on climate mitigation policies, and stressed that this work should be about a knowledge-exchange to provide momentum to tackle climate change. It was emphasized that this work should be carefully scoped to ensure it remains within the mandate of the SFWG. It was also suggested that any stocktaking should not only account for policies that have been actioned but also ask members what policies are under consideration. The issue of incentivizing commitments on climate finance from developed countries to facilitate climate actions was also raised by one member, though the co-chairs noted that the Roadmap explicitly states it "does not intend to lay new targets in…climate finance, and recognizes the UNFCCC is the primary forum for those discussions.

## *Closing remarks and next steps*

Members raised a number of additional points, including the crucial role of KPs in work carried out by the SFWG, the importance ESG and climate-critical data gaps, as well as transparency and reliability of ESG ratings.

The Presidency recognized members were broadly supportive of the proposed workplan. There was a broad consensus that the swift and concrete implementation of the Roadmap is important. The Presidency commented on a general consensus that the global financing needs to support the economy-wide transition necessary to meet the goals of the Paris Agreement and the objectives of the 2030 agenda is substantial. The emphasis to ensure interoperability of investment alignment approaches, such as taxonomies, net zero alignment methods, and other types of approaches, was also noted. It was highlighted that members generally shared the view that support from the financial institutions including through their commitments will be a significant way to accelerate transition pathways. Global collective efforts to scale up sustainable finance markets, including by improving access to and affordability of sustainable finance, is highly relevant for many members, especially for developing economies and SMEs. Members also see public policy levers, which take into account national circumstances, as critical drivers incentivizing market signals that influence sustainable investment decisions as important for discussion. The Presidency also recognized members' inputs on ways to engage with KPs to inform SFWG's work in 2022.

The Indonesia G20 Presidency closed the meeting by thanking the participants and reminded everyone that their feedback from the meeting would be carefully considered to continue the constructive discussion on the sustainable finance agenda during the drafting session at the 2nd G20 Finance and Central Bank Deputies (FCBD) and the 1st G20 Finance Ministers and Central Bank Governors (FMCBG) meetings in February 2022.