

Second G20 Sustainable Finance Working Group (SFWG) Meeting

30-31 March 2022

Co-Chairs' Summary¹

Introduction

1) *Introductory Remarks*

The second G20 SFWG meeting under the Indonesian Presidency was held on the 30th and 31st March 2022 in a virtual format.

The Presidency reiterated its commitment to deliver concrete outcomes that will contribute to sustainable recovery and reach the shared goals on climate and sustainability. The Presidency reminded members and guests of the key actions on sustainable finance agreed to by Finance Ministers and Central Bank Governors (FMCBGs) in the meeting held last February, namely to make progress implementing the G20 [Sustainable Finance Roadmap](#) (“the Roadmap”), taking actions to enable transition finance, scaling up sustainable finance markets and improving access in affordable ways as well as welcoming the growing role of private sectors in accelerating sustainable recovery.

The co-chairs explained the ongoing discussions they have been having with knowledge partners to inform the discussions of the meeting. The co-chairs also underscored the urgency of the work being done by the SFWG and the critical role that finance ministries and central banks will play in the context of the latest assessment of climate change published by the IPCC.

2) *Structure of the Meeting*

The second SFWG meeting focused on two of the three workstreams of the 2022 SFWG workplan: workstream 1) Developing a framework for transition finance and improving the credibility of financial institution commitments; and workstream 2) Scaling up sustainable finance instruments, with a focus on improving accessibility and affordability. Members heard from relevant knowledge partners, as well as selected case studies from G20 jurisdictions and the Asian Development Bank. In addition, a specific session on the second day was dedicated to hearing from relevant G20 working groups and other international networks on their work addressing G20 priorities articulated in the Roadmap.

SFWG Member Discussion

Members congratulated the Presidency, co-chairs and the Secretariat in designing a thought-provoking line up of insightful contributions from knowledge partners, who are at the forefront of sustainable finance and transition discussions. In particular, several members appreciated the case study session that was arranged on the first day and stressed the need for members to be able to continue contributing and informing the discussions and policy agenda through case studies, noting that shared learning and identification of best practices are critical to mainstream sustainable finance.

The importance of the NGFS work on biodiversity was also cited by a few members in reference to the difficulties in achieving sustainable finance objectives without full consideration of biodiversity impacts. The group took note

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

of the timely launch of the ISSB draft consultation to develop a comprehensive global baseline of sustainability disclosures and looked forward to more progress in the development of the standards.

1) Reporting on the G20 Sustainable Finance Roadmap Progress

The Coalition of Finance Ministers for Climate Action introduced their 2022 work program and explained the key synergies of their workplan with the five focus areas of the Roadmap. NGFS focused on its contribution to focus areas 1, 2, 3 and 5 of the Roadmap. IADB highlighted the MDB's six building blocks (or core areas) for aligning with the Paris Agreement and explained the climate finance commitments from MDBs across economies from 2018 to 2020. Three G20 working groups (IWG, CSWG, DWG) provided an update on their agenda and their synergies with the SFWG work.

Members expressed their support for other relevant G20 working groups or international initiatives to present their respective work plans, noting these efforts as a form of coordination and cooperation to ensure the implementation of the Roadmap, while some raised their concerns of duplication and raised the risk of inconsistent messaging on sustainable finance from the G20 to the private sector and other external stakeholders, suggesting that sustainable finance-related work shall be mainly discussed within the SFWG.

Some members expressed support for the submission of voluntary member updates on sustainable finance progress and emphasized the need for and urgency of greater commitment to accelerate implementation of the Roadmap.

2) Developing a framework for transition finance and improving the credibility of financial institution commitments

a) Developing a framework for transition finance

The co-chairs briefly made key observations within this workstream pointing to a) the need for a framework for transition finance, b) emerging practices and developments in transition finance and c) the importance of the five key elements identified in developing the framework for transition finance.

As discussions unfolded, members acknowledged the importance of developing a robust transition framework and its critical role in achieving orderly transition. Some members emphasized the need to develop a comprehensive and practical framework that is able to support individual jurisdictions approach to financing the climate transition and accommodate local contexts, including taxonomy-based or non-taxonomy-based approaches to provide guidance for financial firms, issuers and investors on transition finance. In either ways, members generally noted the framework should enable the provision of credible transition pathways and disclosure of transition information, in order to address concerns on green- or transition-washing risks. In this context, some members stressed the urgency to have clear guidance on transition plans and mechanism to monitor their implementation including by the measurement of the outcome of the mitigation impact such as reduction of carbon emission, carbon intensity, just transition and so on.

Members also welcomed further discussions in future meetings on how the group will develop high level principles on identifying transition-aligned investments. Some stressed that the framework should not only aim at clarifying different approaches and options for financing the climate transition, but also consider jurisdiction-specific contexts and considerations. The need to consider potential localized negative economic and social impacts and the just transition, by integrating social and governance dimensions was also emphasized, with several references to the work presented by ILO. As for transition finance instruments, some members and KPs noted the development of transition-related debt instruments, and highlighted progress in developing other tools such as transition funds and the need for risk mitigation products. Members also discussed practical options for integrating social consideration into the transition finance framework, including the possibility of including employment-related measures in companies' transition plans, reporting and KPIs for transition finance products.

b) Improving the credibility of financial institution commitments

Several members support strengthening the transparency, accountability and credibility of net zero commitments by the financial sector. Some members emphasized the necessity to develop best practices on assessing and monitoring these commitments, while still being realistic and practical about the need to consider emerging

market-led efforts for net-zero commitments and implementation and emphasized the voluntary-nature of such commitments. The key tools mentioned by some members to strengthen accountability included improving transparency and reporting, for example through entity-level disclosure of commitment and progress (supported by emerging disclosure standards such as the work done by ISSB and other jurisdictions) and developing measurement of the outcome of emission reduction and other transition KPIs, such as just transition. Given the differences in preparedness and country circumstances, some members raised doubt on the need to develop and implement common standards and proposed that work on FI commitment to net zero could focus on identifying and developing tools to set out credible net-zero commitments, transition plans and near-term target-setting.

Several members expressed support for the work being done by the GFANZ in the context of developing best practices on assessing and monitoring of financial institution commitments. Some members, however expressed concern about the applicability and universality of its work in the context of developing and emerging economies, noting the challenge for their financial institutions to make 2050 net-zero commitments where national targets for carbon neutrality extend beyond 2050. Some members also noted that the lack of capacity to conduct carbon accounting at firm and FI level, and the lack of work on climate and transition scenarios suitable for developing countries, posed additional challenges for developing country FIs in making net zero commitments. GFANZ clarified that setting out a credible transition plan and near-term targets is similar regardless of the end point.

3) Scaling up sustainable finance instruments, with a focus on improving accessibility and affordability

Several members highlighted the timeliness and necessity of this workstream, pointing out to the importance of de-risking facilities, capacity-building and advocated for greater coherence and coordination while mobilizing capital from private and public sources. Some members also urged the group to give due considerations to sustainability objectives other than climate while framing discussions on SDG-aligned instruments. Two of the often-repeated arguments by members within this workstream centered around further strengthening public-private cooperation in raising ambition around sustainable finance and scaling up sustainable finance instruments for SMEs, particularly within EMDEs. Some members welcomed the OECD work on ESG ratings.

Several members wished to diversify the conversation on sustainable finance instruments and for the SFWG to devote more attention to the barriers and solutions to scaling equity instruments, de-risking facilities, and other blended-finance instruments, especially those provided by MDBs, opining that discussions have thus far focused predominantly on sustainable bonds.

Closing remarks and next steps

The co-chairs highly appreciated the array of diverse perspectives from knowledge partners leading up to the preparation and during the meeting. They acknowledged the feedback from some members that flexibility should be provided for members to select suitable approaches to finance the transition, and a flexible approach is needed to recognize that different countries have different timelines for net zero commitments, given the distinct national trajectories of each country. They took note of the new initiatives by ISSB, scenario analysis work by NGFS and underscored the fundamental need to explore solutions to reduce funding costs for SMEs in accessing sustainable finance instruments.

While closing the meeting, the Presidency reiterated the call for setting a solid foundation to support financing of the transition and stressed the need to ensure credible, transparent and accountable transition plan and strategy, especially to leverage and promote financial institutions' commitment. Furthermore, the Presidency emphasized the importance of advancing the implementation of the Roadmap and recognized that continued support from International Financial Institutions and MDBs is necessary. Other additional points, summarized by co-chairs and raised by various members, that warranted discussion included greater emphasis on financing SMEs, integrating social consideration into transition framework, importance of credible ESG data & ratings, disclosure, country platform and capacity building to support transition finance and process.

The Presidency closed the meeting by thanking all delegates and invited all to attend the third SFWG meeting, tentatively scheduled for June 2022². The dates for the 2022 G20 Sustainable Finance Private Sector Roundtable, scheduled for April 27 and 28 were also announced.

² Scheduled for 14-15 June 2022