Third G20 Sustainable Finance Working Group (SFWG) Meeting

14-15 June 2022

Co-Chairs' Summary[1]

Introduction

The Third Sustainable Finance Working Group's Meeting (3rd SFWG) under the Indonesian G20 Presidency was held in Bali on 14 – 15 June 2022, in a hybrid mode, hosted by the Ministry of Finance and Bank Indonesia, co-chaired by the U.S. Department of the Treasury and the People's Bank of China, and moderated by UNDP as the SFWG Secretariat. Prior to the meeting, a first draft of the G20 Sustainable Finance Report 2022 was circulated among SFWG members.

Ms. Anita Iskandar, Director of International Affairs, Directorate General of Customs and Excise, Ministry of Finance and Mr. Harris Munandar, Director of International Department, Bank Indonesia, delivered the opening speech on behalf of the Indonesian G20 Presidency. In the remarks, they reaffirmed the G20's commitment to advance the SFWG agenda despite pandemic and geopolitical tensions have led global economic slowdown, where G20 Finance Ministers and Central Bank Governors (FMCBGs) expressed broad support for the SFWG workplan, including the high-level framework for transition finance, work to improve the credibility of financial institutions' commitments, and efforts to explore sustainable finance instruments beyond bonds and loans, provide support to small and medium sized enterprises (SMEs), and build capacity in developing countries. In order to encourage and support the green transition, Indonesia has put attention on clean energy transition and its implementation, including intensive discussion on accessibility and affordability of transition finance.

During the two-day meeting, members discussed intensively the following topics: (i) discussing policy levers that incentivize financing and investment that support the transition; (ii) developing a framework for transition finance and improving the credibility of financial institutions' commitments; (iii) scaling up sustainable finance, with a focus on accessibility and affordability; and (iv) monitoring progress on the G20 Sustainable Finance Roadmap.

SFWG Member Discussion

Members welcomed contributions and case studies from knowledge partners and stressed the need for members to be able to continue contributing to and informing the discussions through case studies, noting that shared learning and identification of best practices are critical to mainstream sustainable finance.

Developing the G20 Transition Finance Framework

Co-chairs introduced the first draft of the transition finance framework and invited presentations of case studies from Switzerland, South Africa, and Italy, as well as an expert view from the

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

Energy Transition Commission on transition pathways and International Platform on Sustainable Finance on alignment approaches.

Overall, there was broad support for the key pillars identified in the framework for transition finance - (i) identification of transition activities and relevant investments, (ii) reporting of information on transition activities, (iii) developing transition finance instruments, (iv) policy incentives, and (v) measuring and mitigating negative social and economic impacts. Members appreciated that the report has already incorporated various inputs and provided comprehensive recommendations, which need to be clear as to whether they are targeted at private sector or policy makers. However, some members called for greater ambition in the recommendations.

Members agreed that a framework will help guide the G20 efforts toward climate transition and supported the development of a flexible and dynamic framework. They also stressed that the framework shall be practical, credible, and science-based, while underlining the importance for the framework to be inclusive, voluntary, non-binding and consider national circumstances. Some members made specific recommendations about how to integrate transition considerations into alignment approaches and called for work to further improve global comparability and interoperability of alignment approaches, including efforts to improve interoperability of taxonomies.

Members also mentioned the importance of addressing the social and economic impact of the transition and supporting SMEs and vulnerable groups by way of capacity building, reskilling, and retraining. Some members advised highlighting the work of NGFS on analyzing the macro-economic implications of different policy choices, while also noting the importance of considering central banks' mandate while discussing transition strategies. In that context, the IMF underscored the need for a risk management framework for the financial institutions to make sure that the transition does not jeopardize financial stability. Some members argued that disclosing on scope 3 GHG emissions would require engagement across a wide set of internal and external stakeholders and will lead to increased cost. Therefore, they noted that maturing on this aspect in a phased manner would be critical for developing and emerging countries. Finally, some members reminded that countries having made different commitments (i.e., NDCs) under the Paris Agreement, respective transition pathways, including their time horizon, may not be same for all.

On Improving the Credibility of Financial Institutions' Climate Commitments

Co-chairs introduced the main findings in the draft report, including background and market overview related to climate commitments by financial institutions (FI), capacity constraints faced by FIs in developing countries, and initial recommendations to enhance commitments by FIs.

Monetary Authority of Singapore was invited to present a case study from central bank's perspective on how policy levers are used to support FIs' climate commitments and transition. Climate Policy Initiative was invited to make a presentation on the stocktaking of net zero commitments by global FIs, focusing on four areas of commitment by FIs: pace, coverage, concentration, and quality. The number of commitments has continued to grow in 2022, but pace of new commitments is slowing down. Only a portion of assets are covered by interim targets, the concentration of commitments is greater in OECD countries with recent growth across the globe and in non-OECD countries, and there are shortfalls in quality of commitments. Aviva gave a presentation on its net zero commitment to 2040 and lessons on what makes a credible commitment.

Members discussed potential actions to improve the credibility and accountability of FIs' commitments. In this context, OECD underlined the need for a more systemic public surveillance of financial sectors' commitment towards decarbonization. Some members supported progress on monitoring and measuring progress against commitments, while others argued that it was too early to create monitoring systems, especially in developing countries. One such action as highlighted by the OECD is monitoring and measuring progress of the commitments. Several members suggested the use of an independent agency or third party to monitor these commitments. However, a few members said monitoring might not be the first course of action to take to improve credibility of commitments, and many emerging market members underlined the capacity constraints, mainly related to collection and verification of emissions data. Members also stressed that it is important to start with the basics, such as disseminating the concept of net zero, explaining its importance, and capacity building, especially for emerging market economies. Some members and a co-chair added that without the basics, moving to monitoring or surveillance is unrealistic for many developing countries, and hence the SFWG should avoid recommending a global system of monitoring or surveillance.

On Scaling-up Sustainable Finance, with a Focus on Accessibility and Affordability

Co-chairs summarized some of the barriers to scale up sustainable finance, particularly in developing countries, including lack of awareness and expertise, lack of alignment approaches including taxonomies, a lack of high-quality sustainability data, lack of international assistance, ack of green or sustainability-aligned demonstration projects, and limited choice of suitable sustainable financing instruments for certain firms, such as SMEs. It was also highlighted that the de-risking facilities offered by the MDBs are small relative to the demand, which is partly because of lack of expertise or lack of incentives within the MDBs who also value their credit ratings. Co-Chairs then recalled some of the recommendations proposed in the draft report, including devoting greater resources and expertise to de-risking operations, enhancing capacity building, asking MDBs to explore alternative sustainable financing mechanisms, encouraging country authorities to enhance disclosure requirements and build infrastructure necessary for promoting green loans and green bond market development.

World Bank presented on the use of guarantees in scaling-up sustainable finance and stressed that efforts are underway to innovate new products and to adapt existing ones to attract private investments in new areas such as climate risk mitigation. Members noted that the scale of blended finance facilities remains small, thus effort is needed to address the challenges facing the market, such as the constraints faced by MDBs to building out de-risking programs, managing complex relationship among donors for upscaling blended finance, and addressing the high cost of blended finance operations due to small transaction size, slow disbursement, and complexity of transactions. The World Bank, responding to comments from Members, said that guarantees are most effective only when the projects are bankable. If projects are not bankable, other instruments such as concessional financing are more appropriate.

Members pointed out that most of the barriers and recommendations are largely focused only on the supply side, and consideration should be given to the demand side as well. Members highlighted the importance of enhancing digital technologies to reduce costs of sustainable finance operations, especially SMEs, and encouraged governments to develop guidelines for the sustainable supply chain financing (SSCF) and assist firms to adapt the SSCF to lower the funding cost for smaller suppliers. Members also mentioned that central banks can take actions, where within their mandate, to encourage the development of market instruments.

In addition, many members highlighted the role of local FIs in providing financing to those SMEs and local businesses, as well as the role of MDBs and IOs in capacity building for those local FIs through technical assistance and guarantee products. Members also highlighted ways to improve accessibility by using the banking and insurance system, with the involvement of local banks as partners for blended finance. The IMF pointed out that carbon pricing is very important to generate incentives for private investment in low carbon projects. Along with that, market-based financing structures, such as innovative products with two or three tranches of differing risks, could also be used by the public sector to incentivize private investments.

On Monitoring Progress on the G20 Sustainable Finance Roadmap

The SFWG Secretariat summarize the progress made by international organizations, networks and initiatives on each of the five focus areas of the Roadmap and underlying 19 actions, which would be included in the G20 Sustainable Finance Report 2022. Many members welcomed the plan for an online dashboard to track progress from IOs, other networks and initiatives, and private sector actors to address the priority actions identified in the roadmap. Several members also expressed interest in submitting voluntary updates on jurisdiction-level progress on sustainable finance, and further emphasized the voluntary nature of this reporting effort. Some members also mentioned that it is important to note that the SFWG would not assess the efforts of individual jurisdictions to promote the group's sustainable finance agenda, and so not participating in the dashboard would not imply that the country is not making progress to address the priorities identified in the Roadmap.

Some suggested including best practices from different jurisdictions as a part of the final report. Members encouraged the SFWG Secretariat to make the G20 Sustainable Finance Report 2022 more action-oriented and specify the audience the recommendations are intended for.

Among many of the IOs invited to present update on their progress on the Roadmap, the Financial Stability Board (FSB) provided an update on the progress of the FSB roadmap for addressing climate-related financial risks. It was highlighted that the FSB's work focuses on the coordination of national and regional financial authorities, standard setting bodies and NGFS on climate-related financial risks. Some members cautioned that we need to consider the availability of scenarios to do that.

The International Sustainability Standards Board (ISSB) presented its progress in developing standards for a global baseline of sustainability disclosures, including the publication of two major drafts for public consultation before 29 July 2022 and to be issued by the end of 2022. It was highlighted that the ISSB has established a working group to enhance compatibility between global baseline and jurisdictional initiatives. In response to questions on the issue of SMEs in its work, the ISSB clarified that the new board will consider the proportionality for SMEs as well as timelines for adoption, and these are front and center decisions that the new board has to make about the standards. Responding to the question on engagement with jurisdictions to make sure that there is consistency with jurisdictional frameworks, the ISSB said that consultations with various jurisdictions is taking place on that.

The Taskforce on Nature-related Financial Disclosures (TNFD) updated progress in membership and knowledge partners, and the release of beta version framework for nature-related risk-management and disclosures. The TNFD will also work with NGFS on biodiversity risk scenarios. Responding to a question on helping FIs to publish credible nature positive transition plans and forward-looking nature alignment metrics, TNFD said that metrics development work is ongoing to measure both negative and positive impacts on the nature.

The G20 Framework Working Group (FWG) Co-chair presented its priorities on climate, including: i) focus on the costs and benefits of net-zero transitions across countries, and ii) exploration of the challenges associated with systematic integration of climate risks into global risk monitoring. Action 13 of the Roadmap called for the SFWG and FWG to work together on climate change. In May 2022, the FWG produced a technical note on the macroeconomic implications of climate change and associated mitigation policy options, which received agreement among its members that there were economic benefits of early climate change mitigation who also noted that countries would need to employ mitigation policy measures depending on national circumstances.

Reflections on the Policy Levers Forum

Members were also invited to provide reflections to the G20 Forum on International Policy Levers for Sustainable Investment (held back-to-back with the 3rd SFWG meeting). Many emphasized on the need of tools and approaches to achieve an orderly, just, and affordable climate transition and supported the broad comments that “no one size fits all” - each country has different optimal pathways and policy mixes, given different country circumstances.

While several members welcomed the IMF/OECD work on effectiveness and efficiency of non-pricing tools, some members opposed the idea of a uniform international carbon price and emphasized that the discussion on the appropriate carbon price floor should balance the level of economic development across jurisdictions and consider national circumstances. Several emerging economies cautioned the participants on adverse distributional effects and international economic spillovers of certain carbon pricing mechanisms. It was also mentioned that while carbon pricing has a role to play in reducing emissions, emerging economies still have a significant potential for profitable transition projects that do not require an introduction of carbon price. Members agreed on the value-added of the experience-sharing exercise of the forum, with several countries reaffirmed that the UNFCCC is the leading forum for the negotiation on climate change issues and advised not to duplicate the work of the UNFCCC, it was noted that valuable discussions are also happening in the G20 Sherpa Track, and that the G20 finance track needs to participate within the limits of its expertise.

The G20 Presidency will develop a Presidency Note to summarize discussions from the Policy Levers Forum, some of which will also be reflected in the G20 Sustainable Finance Report 2022.

Closing Remarks and Next Steps

Members were invited to provide written comments to the draft G20 Sustainable Finance Report, which will be revised and circulated for comments prior to the 4th SFWG meeting in September.

The meeting was closed by Mr. Harris Munandar, Director of International Department, Bank Indonesia, representing the Indonesian G20 Presidency. Mr. Munandar stated that the Presidency is committed to ensuring collective actions and developing best practices for concrete deliverables in the SFWG to achieve the 2030 Agenda for Sustainable Development Goals and the Paris Agreement, while looking forward to further discussions at the 3rd G20 Finance Ministers and Central Bank Governors’ Meeting, which will be held in Bali in July.