G20 SUSTAINABLE FINANCE WORKING GROUP PRIVATE SECTOR ROUNDTABLE 27-28 APRIL 2022

OVERVIEW

The G20 Sustainable Finance Private Sector Roundtable was held on 27 and 28 April 2022. It provided a platform to inform the G20 Sustainable Finance Working Group (SFWG) agenda by learning from the varied experiences of the private sector and promoting synergies between the private and public sector.

This note captures key messages of each of the sessions and keynote speeches and summarizes the main outputs related to the following topics:

A. Developing a framework for transition finance;
B. Improving the credibility of financial institution net-zero commitments; and
C. Scaling-up sustainable finance, with a focus on accessibility and affordability.

KEY MESSAGES FROM PARTICIPANTS

Develop climate-aligned investments, including by developing credible transition planning, sectoral pathways, and/or taxonomies. Reinforce interoperability between taxonomies and alignment approaches, for financial institutions to gain clarity on sustainable investments. As banks and other institutions service clients globally, clear guidance would ensure avoidance of greenwashing and foster faster capital flow aligned with transition requirements in different jurisdictions.

Expand sustainability-related disclosure requirements. There was strong support for the draft sustainability and climate disclosure standards released by the ISSB[1]. Many of the speakers attested to the timeliness and urgency of implementing disclosure requirements to fight greenwashing and raise awareness among stakeholders, and urged initiatives to improve data on other sustainability issues, such as social, natural capital, and bio-diversity. It was also emphasized to improve data quality and accessibility, which would help support investor decision making, plan for decarbonizing pathways, support modelling exercises, scenario analysis and stress testing.

Make sustainable finance instruments more accessible and affordable for SMEs, and create targeted financial products to support the transition momentum. As green products for SMEs and other under-financed demographics scale, speakers expected barriers to decline and their participation to increase in green transformation.

Consider socio-economic impacts of the transition towards more sustainable economies, which will likely be non-linear and have knock-on effects, disproportionately affecting billions living in vulnerable contexts. Participants felt that there is a joint onus on both public and private sector to be more mindful

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[1] https://www.ifrs.org/news-and-events/news/2021/11/ifrs-foundation-announces-issb-consolidation-with-cdsb-vrf-publication-of-prototypes/

of the people element in deliberations related to the transition and minimize negative consequences created in the process.

Encourage capacity-building. Financial sector professionals will need training and sustained support to gain expertise on sustainable finance and small businesses will need support from financial services in their transition to navigate amidst increased regulatory requirements. Several solutions were put forward such as specialist training course for employees or partnership with international organizations.

FURTHER DETAILS

A. Developing a framework for transition finance

Despite the rapid growth of the green and sustainable finance market in recent years, where the private sector has been playing a critical role, its proportion in total global financing remains very low. In the meantime, there is a huge demand of financial support for an orderly, just and affordable climate transition**.** This session focused on understanding how private sector experience can be leveraged to support climate transition and complement the efforts of the public sectors in promoting transition.

Planning for the transition: an urgent need of collective action

Transitioning is a journey which requires collective efforts. It should be recognized that financial institutions' clients and community face different challenges and opportunities, depending on the size, the industry and countries in which they operate and the different regulatory impacts that they may face.

Financial institutions must work with stakeholders to assist them in the transition planning and help minimize negative consequences resulting from the transition. First, financial institutions need to be transparent on their net zero goals and targets and communicate clearly their intentions to their customers. Secondly, financial institutions have an important role to support their clients' transition and alignment to a net zero pathways. Thirdly, financial institutions can help clients, especially small business owners and marginalised communities, by identifying new financial products and opportunities that cater to their needs.

The climate transition can also potentially generate great opportunities for the private sector, including financial firms. Besides the positive impacts arising from a community centred approach, the climate transition presents opportunities to potentially increase customers, improve risk management, and push firms to innovate as they adopt more sustainable ways of doing business.

In order to leverage private firms to scale up support to climate transition, one of the ideas floated by a panel member included developing mechanisms by public sector to validate the just and affordable transition plans of the private sector by third parties, to ensure that financing for those types of investments can be considered robust. On taxonomies, most speakers supported sector-based approaches, with due considerations for local circumstances as well.

Assessing and mitigating social and economic impacts of the transition

Participants emphasized that it was important to assess and mitigate potential negative impacts in the process of climate transition, including at community level, country level and financial product levels.

At the local level, the climate transition could have negative impacts on economic and social dimensions, such as the contraction of employment in many economic activities due to phase down of fossil fuels and the transformation of emission-intensive sectors. This will potentially have implications for the welfare of communities that are heavily dependent on them.

At the country level, many developing countries will need to avoid carbon lock-in effects in existing carbon-heavy technologies and to leapfrog the development trajectory focused on green and sustainable growth. Countries whose prosperity is intrinsically tied with use of natural resources such as fishing, forestry are particularly vulnerable. For low-lying areas in the world, rising sea levels can have devastating impact, both economically and socially if displacement of habitat occurs.

At the financial product level, participants commented on the lack of sustainability-linked KPIs for transition finance products. Liquidity of green financing has increased significantly; however financial institutions would need more guidance to develop other KPIs, especially social ones, for instance linking job creations and unemployment to investments.

B. Improving the credibility of financial institution net-zero commitments

The session heard from several financial institutions, including asset managers, banks and insurers on the challenges faced by them and their clients when setting and implementing net zero commitments. Speakers deliberated on the existing landscape under which the net zero commitments are implemented and why a systemic approach can support more private sector firms to initiate their net zero journey.

As per the latest IPCC Report[2], 'limiting warming to around 1.5°C (2.7°F) requires global greenhouse gas emissions to peak before 2025 at the latest, and be reduced by 43% by 2030'. Recognizing the urgency of immediate collective actions, there was a consensus among the panel to accelerate corporate climate action, supplemented by client engagements and capacity building in different markets to avert a climate catastrophe. While some panellists argued for a 'carrot and stick' approach to encourage higher levels of corporate participation, some argued in favour of embedding broader sustainability targets into KPIs and senior executive pay. The session advocated for higher levels of international cooperation and leveraging global international alliances to further galvanize climate-positive actions, supported by public and private sector collaborative mechanisms.

Data limitations was identified as the one of the key challenges faced by financial institutions when setting and implementing their net zero goals. Access to data was critical to gain a thorough understanding of portfolio or financed emissions before organisations can develop their carbon-neutral pathways. Calculations of a baseline of financed emissions form the backbone of decarbonization pathways that financial institution needs to take in order to achieve net zero targets, while the quality of data, both internal and external, influences the soundness of the analysis. In the absence of credible data, some institutions resort to approximations while others are discouraged to publish relevant climate information. Several speakers reiterated the importance of mandatory disclosure of climate information by private firms, especially scope 1 and scope 2 emissions, which can be utilized by financial firms to estimate their scope 3 emission data.

The second challenge concerned target-setting, especially the importance of creating intermediate targets plans, that can complement the net zero ambitions set for the long horizon. The challenge for the industry with regards to intermediate targets is translating targets into concrete actions at the level of a portfolio and asset-class, without generating unintended consequences. Companies operating in different jurisdictions are at different stages in their climate journeys, in the same way that

[2] https://www.ipcc.ch/2022/04/04/ipcc-ar6-wgiii-pressrelease/

different countries have different starting points such as different energy mix. These factors can influence the way financial institutions prioritize their intermediate milestones. Companies are making capital plans, which are sometimes based on policy, technology or even consumers preferences. This is about real transformation of business, of moving from a paradigm of climate ambition and commitment-making to a paradigm of implementation and real economy change. In essence, companies have to be mindful whether their choices are likely to improve or erode financial performance. This, according to the panel has become an analytical frontier for the industry.

In addition, financial institutions are facing capacity constraints and have limited access to relevant tools and methodologies for setting and implementing net zero commitments. Setting out credible transition plans, and tracking the decarbonization trajectories of an institution's portfolio is complex, and there is currently limited consensus on which tools and metrics to use or how to apply them. While discussing the lower participation from financial institutions in developing markets, some speakers attributed it to lack of common understanding of key definitions, limited robust and forward-looking emissions data availability, and unavailability of sectoral pathways that set out a clear roadmap for decarbonization in a given industry. It was also stressed by one invited speaker that current standards and methodologies do not differentiate between circumstances and sector-specific nuances of developed countries versus developing countries, thereby falsely advocating one pathway for all companies and sectors.

The roundtable provided multifaceted avenues to manage the challenges faced by the private sector:

- **Disclosure requirement**
  - Commenting on the sustainability standards [3] released by ISSB for consultation, speakers favoured **proportionality on disclosure**, especially for SMEs, while maintaining mandatory disclosures are effective tools to encourage institutional sustainability.
  - Participants supported the **convergence** of data, metrics and methodologies on disclosure to have more impact.
- **Target setting and operationalization**
  - A number of speakers emphasized the need for a **science-based, credible and implementable net-zero target**, development of sectoral pathways and technologies, along with differentiated approaches based on client's businesses.
  - In order to operationalize short-term and medium-term targets, financial institutions are urged to pivot to simplified and replicable **innovative structures, products and partnerships** that can bypass time-consuming traditional mechanisms.
- **Capacity building and enabling environment**
  - There is a need for greater focus on **client engagement and capacity building,** on both the risks and opportunities, through education and upskilling among others, especially for clients early on in their sustainability journey.
  - Speakers recommended using a **framework approach** to help clients in their transition journeys, with principles tailored to industries and sectors and performing detailed analysis of requirements for each sector.
  - Discussions on ESG need to empower all workforce and at frontline levels.
- **Support net-zero alignment in more jurisdictions**
  - Speakers also stressed the need to support ambitious voluntary financial sector commitments and net-zero alignment in more jurisdictions, including by providing capacity building, improving comparability, transparency and broad-based access to relevant tools and methodologies by financial institutions for setting and implementing net zero goals.

[3] https://www.ifrs.org/news-and-events/news/2022/03/issb-delivers-proposals-that-create-comprehensive-global-baseline-of-sustainability-disclosures/

Relevant tools and methodologies also need to be compatible with the needs and context of financial firms, including from both developed and developing countries, for setting and implementing net zero goals.

C. Scaling-up sustainable finance, with a focus on accessibility and affordability

Key themes in the session centred around barriers in accessing, in affordable ways, sustainable financial instruments and innovations being used by market players currently to overcome some of these barriers. This session aimed at discussing how jurisdictions can frame policies and regulations to enhance SMEs and developing countries access to sustainable finance so they can better contribute to financing the transition.

Improve SMEs access to sustainable finance instruments

Firms across jurisdictions continue to face challenges in accessing sustainable finance markets, which are magnified for SMEs, which often form the backbone of many economies. Some of the key barriers still faced by SMEs include:

a) **Difficulty in obtaining general loans,** due to the lack of economies of scale, high transaction costs, and the inability to provide accounting records or post collateral. Banks also incur higher administrative costs when lending to SMEs, especially those in rural areas.

b) **Transaction costs for accessing green loans.** Green finance have a higher proportion of administrative and evaluation costs than general loans and these loans tend to be smaller in size. Environmental performance is not usually a part of bank assessment of SME loans, and banks usually lack the human capital needed to evaluate specific needs of small businesses.

Speakers recommended various strategies for different stakeholders to combat the challenges faced by SMEs, including but not limited to:

- For governments and other public sectors:
  - Exploring **potential subsidies** when providing loans to SMES in order to mitigate credit risks.
  - Providing banks with a **clarity** about the requirements for what can be considered as a green loan will help to reduce bank supervision costs.
  - Improving the quantity and quality of sustainability **data** so that market participants can better assess risks and measure impact.
- For banks and other financial firms:
  - Using **targeted and comprehensive ESG strategy** that can be used by a wide-range of clients, including smaller firms.
  - Developing **standardized and easy-to-implement products** such as standardized loans, deposit solutions, risk management solutions for SMEs.
  - Encouraging financial institutions to use a **decentralized ESG approach** to ensure SMEs access to products and ability to talk to their local bankers about their needs.
  - **Building capacity for SMEs beyond financing needs**, for instance on regulatory standards, reporting standards, carbon accounting, organizational set-ups and so on.
  - Working with other financial institutions to **harness synergies** and leverage each other's strengths to help provide value-added services to SMEs.
- For SMEs:
  - It is pertinent to note that **reporting improves transparency**, which is conducive to relative ease in accessing finance.

Catalytic role of digital finance in accelerating sustainable finance

Digital finance will increasingly play a key role in enabling sustainable finance. With underlying digital & fintech infrastructure and rapid real time data flows on use of proceeds, it would be easier to scale green bonds and carbon markets. In developing economies, digital finance solutions could help unlock access to and provide financing for clean energy, potable water and sustainable SMEs.

Developing new digital market infrastructure can support SME access to finance in capital markets, including sustainable finance. For example, crowdfunding tools enable citizens to directly finance impactful project or raise money for their own.

Leveraging public sectors to improve private sector's access to sustainable finance, especially in developing countries

Two types of sustainable projects were identified at the roundtable that need help from the public sector to improve access to private funds, both from domestic and international markets.

a) projects require large upfront expenditures and are too risky for the private sector, such as renewable energy projects using new technologies. These projects require grant support, concessional lending, or technical assistance from the government or development partners to attract private capital.
b) projects that generate significant positive externalities but relatively low private investment returns, such as investment in electricity grids.

The public sector, including governments, MDBs and the development community more broadly can be leveraged to help improve private sectors' access to sustainable finance, which will require actions at the global and national levels, including but not limited to:

- Supporting domestic financial firms to **bridge global and local financial institutions**, to crowd in public, private and international sources.
- Developing an enabling **legal and policy environment** for SMEs.
- Providing more **technical assistance and capacity-building** that support feasibility design, market assessment standards and pipeline development.
- Scaling **catalytic grants, concessional loans and blended financing mechanisms** to help SMEs build proof of concept and create a track record before they can pitch investors.
- Enhancing **interoperability of taxonomies, for those jurisdictions that have adopted such an approach,** to facilitate international capital flows.
- Innovating **new forms of financial intermediation** that are more fit for purpose for the risk return profile of emerging markets, which could include national transition vehicles that are being set up in, in some countries.

ANNEX – EVENT AGENDA

Day 1 - 27 April 2022

06.00 p.m. – 10.00 p.m. Jakarta Time

6.00-6.20PM/ Opening

Welcome remarks: Wempi Saputra, Assistant Minister of Finance for Macroeconomy and International Finance, Ministry of Finance, Indonesia

Keynote: Pak Suminto, Assistant of Minister for Financial Services and Capital Market, on behalf of Sri Mulyani Indrawati, Minister of Finance, Republic of Indonesia

Opening Address

- Larry McDonald, Deputy Assistant Secretary, US Treasury
- Ma Jun, Advisor to Governor, People's Bank of China

Housekeeping: Marcos Neto, Head of the SFWG Secretariat and Director for UNDP's Sustainable Finance Hub

Theme 1: Developing a framework for transition finance

06.20-06.30PM/ Keynote: Promoting an orderly, just, and affordable transition

- Sonja Gibbs, Managing Director and Head of Sustainable Finance, Institute of International Finance (IIF)

06.30-07.30PM/ Roundtable 1: Exploring private sector experience scaling up finance to support the climate transition and views on ways the public sector can support private sector investment for an orderly, just and affordable transition (instruments, information/reporting requirements, identification of transition opportunities, etc.)

- Moderator: Jeremy McDaniels, Senior Advisor, Sustainable Finance at Institute of International Finance (IIF)
- Helge Muenkel, Chief Sustainability Officer, DBS Bank
- José Pugas, Partner & Head of ESG, JGP
- Ebru Dildar Edin, Executive Vice President, Garanti Bank
- Rino Donosepoetro, Vice Chairman for ASEAN and President Commissioner of Indonesia, Standard Chartered

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07.40-08.40PM/ Roundtable 2: Exploring financial institution experience with measures to mitigate potential negative economic and social impacts of the transition on communities

- Moderator: Martha E. Newton, Deputy-Director Policy, ILO
- Kelvin Tan, Managing Director, Head of Sustainable Finance & Investments - ASEAN, HSBC
- Anjalee Tarapore, General Manager - Management Services & Investor Relations, HDFC Bank
- Oscar Njuguna, CEO, Nairobi Financial Centre

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Theme 2: Improving the credibility of financial institution net-zero commitments

08.50-09.50PM/ Roundtable 3: Exploring emerging voluntary practices in financial institution net-zero target setting and transition plans

- Moderator: Steve Waygood, Chief Responsible Investment Officer, Aviva
- Veronique Ormezanno, BNP Paribas' Head of Group Prudential Affairs, BNP Paribas
- Paul Bodnar, Global Head of Sustainable Investing, BlackRock
- Gurdip Singh, Chief Sustainability Officer, CIMB
- Marcelo Pasquini, Head of Sustainability, Bradesco
- Angelica Afanador, Program Manager and Latin America Regional Lead, PCAF

Closing Remarks

- Ma Jun, Advisor to Governor, People's Bank of China
- Larry McDonald, Deputy Assistant Secretary, US Treasury

Day 2 - 28 April 2022

06.00 p.m. – 10.00 p.m. Jakarta Time

06.00-06.10PM/ Opening
Welcome remarks: Dody Budi Waluyo, Deputy Governor of Bank Indonesia
Opening Address • Ma Jun, Advisor to Governor, People's Bank of China • Larry McDonald, Deputy Assistant Secretary, US Treasury
Housekeeping: Marcos Neto, Head of the SFWG Secretariat and Director for UNDP's Sustainable Finance Hub
Theme 2: Improving the credibility of financial institution net-zero commitments (contd.)
06.10-07.10PM/ Roundtable 4: Exploring the broader enabling environment to facilitate effective implementation of financial institution net-zero commitments, i.e., how financial institutions engage with/rely on sectoral pathways, real economy transition plans, and public policy • Moderator: Manuela Fulga, Banking Capital Markets Platform Curator, World Economic Forum • Celine Soubranne, Group Chief Corporate Responsibility Officer, Axa • Rosalind Gichuru, Group Marketing, Corporate Affairs and Citizenship Director, KCB Group • Jay Collins, Vice Chairman, Banking, Capital Markets, Advisory, Citi • Albert Lai, Climate Strategy Leader, Deloitte Carbon Care Asia
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Theme 3: Scaling-up sustainable finance, with a focus on accessibility and affordability
07.20-08.20PM/ Roundtable 5: Exploring policies, regulations, incentives, or improvement in rating methodologies, that could improve SMEs access to sustainable finance instruments • Moderator: Matthew Gamser, CEO, SME Finance Forum • Quan Yu, Vice President and Co-Chair of the Credit Risk Committee, Ant Group • Angel Dogherty, Co-General Director Sector Intelligence, FIRA • Gerald Podobnik, CFO Corporate Bank, Deutsche Bank • Elina Kamenitzer, Director of the Operations Support Department, European Investment Bank • Sankar Chakraborti, Chairman - SMERA Ratings & CEO - Acuité Group
08.20-08.40PM/ Fireside chat: Digital finance as a promising resource in increasing accessibility and affordability of sustainable finance • Achim Steiner, Administrator, UNDP • Bambang Brodjonegoro, President Commissioner, Bukalapak
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08.50-09.50PM/ Roundtable 6: Finding out the best mechanisms that public sectors in developing countries can leverage to improve the access of private sectors to sustainable finance in both domestic and international financial markets • Moderator: Mari Pangestu, Managing Director, Development Policy & Partnership, World Bank • Febrio Kacaribu, Head of Fiscal Policy Agency, Minister of Finance, Indonesia • Saeed Ahmed, Vice-President, East Asia, Southeast Asia and the Pacific, ADB • Nomindari Enkhtur, CEO, Mongolia Sustainable Finance Association • Sean Kidney, CEO, Climate Bonds Initiative • Timothée Jaulin, Head of ESG Development & Advocacy, Special Operations, Amundi
Closing Remarks
• Larry McDonald, Deputy Assistant Secretary, US Treasury • Ma Jun, Advisor to Governor, People's Bank of China

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