G20

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FIRST SUSTAINABLE FINANCE WORKING GROUP MEETING

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Presidency and Co-Chairs Note on Agenda Priorities

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SUSTAINABLE FINANCE WORKING GROUP

Presidency and Co-Chairs Note on Agenda Priorities

I. INTRODUCTION

The G20 Sustainable Finance Working Group (SFWG) aims to mobilise sustainable finance to help ensure global growth and stability and promote the transition towards greener, more resilient and inclusive societies and economies. The SFWG is mandated to identify barriers to sustainable finance and develop voluntary and inclusive options for aligning financing and policies to the goals of the Paris Agreement and Sustainable Development Agenda 2030. While the share of financial assets contributing to sustainability has increased over the past years, it still represents less than 5% of global financial assets[1]. Scaling up sustainable finance – including aligning financial flows to the goals of the Paris Agreement and the Sustainable Development Goals (SDGs) and mobilising resources remains an important priority.

The SFWG acknowledges that countries are at various growth trajectories and therefore the SFWG should avoid one-size-fits-all approaches. The G20 Sustainable Finance Roadmap, endorsed by G20 Leaders' Summit during the Italian Presidency, recognises the full range of sustainability issues and is the basis to best reflect the G20's sustainable finance priorities in the coming years. Such priorities should include a greater focus on options to scale up finance to support a just and affordable climate transition, and on expanding the scope of sustainable finance to cover a number of important SDGs including and beyond the initial climate focus. As mentioned in the Roadmap, "the SFWG will coordinate with other G20 working groups across the Finance and Sherpa tracks to advance the Roadmap and adapt it over time".

Accordingly, the SFWG under the G20 Indian Presidency 2023 will undertake work on the following three priority areas:

1. Mechanisms for mobilisation of timely and adequate resources for climate finance;
2. Enabling finance for the Sustainable Development Goals; and
3. Capacity building of the ecosystem for financing toward sustainable development.

As an issue that cuts across several priority areas, the SFWG will deepen and build on its previous work by pursuing work to identify and overcome data-related barriers to

[1] 2021 Synthesis Report, G20 Sustainable Finance Working Group https://g20sfwg.org/wp-content/uploads/2021/11/Synth_G20_Final.pdf

scaling investments for climate action and SDGs. Capacity building shall be an important aspect throughout this discussion and duly consider the need for proportionality, as appropriate.

As a component of this work, there will be a dedicated side event to discuss how to overcome data-related barriers to climate-aligned investments[2], and also support the advancement of other ongoing data-related initiatives. The lack of data and related challenges for consistent, comparable metrics, limits private and public capital providers' ability to identify or communicate the climate and sustainability alignment of these investments.

The recommendations emerging from the work undertaken under the priority areas mentioned above will be captured in the 2023 G20 Sustainable Finance Report.

In addition to the 3 priority areas indicated below and as encouraged by G20 Bali Leaders' declaration, the SFWG will continue to monitor and illustrate ongoing and future progress made on the Roadmap and provide updates to the online dashboard and repository. Hence the SFWG will collect feedback from international organizations (IOs), networks, other initiatives, G20 working groups, and G20 members on a voluntary basis.

II. SFWG 2023 WORKPLAN

The SFWG will conduct work through the three work streams under India's G20 Presidency in 2023.

Priority 1: Mechanisms for mobilisation of timely and adequate resources for climate finance

a) Background

Climate Change poses physical as well as transition risks through both micro- and macroeconomic transmission channels. All countries recognise the need for accelerated climate action. About USD 4 trillion per year needs to be invested in renewable energy up until 2030 to be able to reach the goal of net zero emissions by 2050.[3] A separate

[2] The 2022 Sustainable Finance Report noted several challenges, such as the lack of enabling environment and professional capacity for net-zero transition planning, the lack of key inputs for target setting and transition planning, pressures to relax pledges to maintain short-term profitability, and difficulty in accounting for the managed phase-out of high-emitting assets, among others.

[3] World Energy Outlook 2022, International Energy Agency

source estimates that investment of at least USD 4–6 trillion[4] per year will be required for a global transformation to a low-carbon economy. Thus, the importance of meaningful climate action cannot be overemphasised.

The public and private sectors have vital roles in financing climate mitigation and adaptation. Private finance can be catalysed by leveraging public support through mechanisms that de-risk and unbundle complex projects. The scale of financial resources required to meet global challenges necessitates exploring innovative ways to mobilise private sector financial resources through a mix of concessional and non-concessional loans, equity participation, guarantees, dedicated trust funds, and blended finance. Instruments like blended finance offer flexibility in raising resources and rebalancing the risk-reward structure.

Blended financing operations, including de-risking facilities offered by national and regional governments and MDBs, can play an important role in catalysing private sector financing for climate actions. Successful experiences from some jurisdictions and MDBs suggest that well-designed blended financing and de-risking facilities can crowd in dozens of times of private investment compared with the public funds invested. However, the current scale of blended financing and de-risking operations for sustainable investment, especially those for developing countries and emerging market economies, remains hugely constrained.

Mobilising adequate finance for climate change requires multiple policy levers, involving the full range of available tools, including price and non-price measures depending on individual country circumstances. Prioritisation, sequencing and the weight of expectations on these sets of measures will vary across countries. Price, non-price policy and regulatory levers have their respective role in incentivizing sustainable investment decisions, enabling countries to pursue the low-emissions development pathway. Non-price-based policy levers that focus on incentivizing climate investments form an essential component of climate policy tools.

Another key aspect of climate financing that has not caught enough attention from policy makers in the past, is how to mobilize financing for development and deployment of green and low-carbon technologies. Scientists have told us that nearly half the decarbonization technologies for net zero are not yet readily available or commercially viable. Thus, a large amount of risk capital – capital that can tolerate risks but expect to yield higher long-term financial rewards – need to participate in sustainable finance and support climate actions. Options to improve the identification of technologies with environmental and

[4]United Nations Environment Programme. 2022. Emissions Gap Report 2022: The Closing Window – Climate crisis calls for rapid transformation of societies. Nairobi: United Nations Environment Programme

climate benefits, incentivize long-term capital participation could be useful to channel greater capital flows to green and low-carbon technologies.

b) Objective and approach

The SFWG under this pillar intends to develop a shared understanding on a) mechanisms for the mobilisation of timely and adequate resources for climate action, including via expansion of de-risking facilities, b) enhanced role of multilateral financial institutions and c) policy measures and financial instruments for catalysing the rapid development and deployment of green and low-carbon technologies.

i. The SFWG should review the current practices of mobilising financial resources, including blended financing mechanisms with a focus on de-risking facilities, identify the specific bottlenecks that have constrained their expansion, and develop recommendations on how to scale up blended finance and de-risking facilities for investments for climate action.
ii. The role of MDBs also needs to be emphasised in this context. The G20 Independent Review of MDB's Capital Adequacy Frameworks report recommends several measures to increase MDB financing capacity. Working with IFA WG, the SFWG can identify issues that have constrained the scaling up of MDBs' de-risking operations for climate actions and develop recommendations for enhancing the role of MDBs for de-risking climate projects in developing countries and emerging market economies.
iii. Incentives and financial solutions are needed to mobilize capital for development/ deployment/demonstration of green and low-carbon technologies, and moving technologies from the lab to the market. The SFWG will identify institutional and technical gaps that have led to limited private sector participation and develop recommendations on incentives and financial instruments that would enable greater capital flows to support green and low-carbon technologies.

c) Potential deliverables

Under this workstream, the SFWG will develop a set of options, contained in the *2023 G20 Sustainable Finance Report*, to support climate investments, including ways to expand de-risking facilities, as well as policies and financial instruments to support private capital for investment in green and low-carbon technologies. In this regard, the enhanced role of multilateral financial institutions will also be discussed. A number of technical workshops will be organized to bring together stakeholders from advanced economies (AEs) and emerging markets (EMs), such as PE/VC funds, start-up accelerators, and relevant government agencies to share best practices and lessons learned for jurisdictions to consider, with an emphasis on SMEs' challenges in accessing climate finance.

As a complementary event, the Presidency will organise and host a workshop on "Non-Pricing Policy Levers to Support Sustainable Investment" to discuss the different models the countries deployed, the policies and their sequencing they adopted, and share experiences on what worked for them and what didn't etc. After obtaining the consent of the speakers, a compendium comprising the discussions at the workshop will be compiled and shared with members.

Priority 2: Enabling finance for the Sustainable Development Goals

a) Background

The Covid-19 crisis has widened the Sustainable Development Goals financing gap from an estimated USD 2.5 trillion to USD 4.2 trillion annually due to the reduction in SDG spending, including, crucially, private sector spending[5]. This has magnified the "scissors effect" of the SDG financing gap by increasing financing needs and decreasing the availability of resources. The pandemic has also demonstrated that social issues such as health can create short-term shocks with long-term consequences and derail the progress toward narrowing the SDG financing gap.

The Sustainable Development Report (2022)[6] states that from 2015 to 2019, the world progressed on the SDG Index at an average rate of 0.5 points a year[7]; and that in 2021 and 2022, the world made no progress on the SDGs[8]. This is too slow to achieve the SDGs by 2030, while progress varies among the 17 goals.

With only seven years left to achieve Agenda 2030, scaling-up of sustainable finance is urgently needed to respond to the challenges of a changing world. The SDG financing gap is approximately 1% of the total assets held by banks, institutional investors, and asset managers, which recently stood at their highest value since before the global financial crisis at USD 379 trillion[9].

Sources available for financing sustainable development include domestic resource mobilisation, official development assistance, non-concessional finance through MDBs and bilateral sources and private capital flows. These multiple sources of funding can be used to enable greater investment toward achieving the SDGs, which can deliver higher levels of growth. However, the sustainable finance market has been mostly focusing on the environment and climate aspects of the SDGs in the past few years, leaving other goals less financed. While making initial progress on tackling climate and select environmental issues, the SFWG needs to deploy greater efforts towards other SDGs which in some jurisdictions may have greater challenges attracting private sector financing because of a diverse range of factors.

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[5] Global Outlook on Financing for Sustainable Development 2021: https://www.oecd.org/development/global-outlook-on-financing-for-sustainable-development-2021-e3c30a9a-en.htm

[6] https://dashboards.sdgindex.org/

[7] The SDG Index is an assessment of each country's overall performance on the 17 SDGs, giving equal weight to each Goal. The score signifies a country's position between the worst possible outcome (score of 0) and the target (score of 100).

[8] Sustainable Development Report 2022: https://s3.amazonaws.com/sustainabledevelopment.report/2022/2022-sustainable-development-report.pdf

[9] OECD (2022), Global Outlook on Financing for Sustainable Development 2023: No Sustainability Without Equity, OECD Publishing, Paris

In this context, to complement and further expand the work advanced during the Italian and Indonesian presidencies, the SFWG will work potentially in collaboration with the Development Working Group, to explore options for enabling enhanced financing for select non-climate SDGs, via conducting case studies on topics such as biodiversity finance[10], nature related data and reporting and impact investing that contribute to achieving social-related SDGs.

b) Objective and approach

In this context, in 2023, the SFWG intends to share policy experiences and market practices and collate the views of the G20 membership on how to enable financing of a broader selection of SDGs.

The SFWG, in collaboration with knowledge partners, would also focus on a few important additional areas (e.g., reporting of nature-related information, and impact investing as a tool to address specified social issues), which will contribute to an analytical framework for financing select SDGs to complement the G20 Sustainable Finance Roadmap. In doing so, the SFWG aims to illustrate a pathway to support the implementation and integrity of sustainability-aligned investments, and will continue work to support the transparency of sustainable finance to areas including and beyond climate.

Figure 1: Illustrative analytical Framework for aligning finance with the SDGs

SDGs / Pillars*	Climate	Clean Water	Clean Energy	Health	Education	No Poverty	Gender	Inequality	Life in Water	Life on Land	XX
FA1/a. Alignment approaches											
FA1/b. Financial instruments				Impact investment							
FA2. Comparable, consistent and decision-useful information (i.e., disclosure/Data)									Nature-related data and reporting		
FA3. Risk assessment/mgt											
FA4. Policy incentives											

Orange cells point where the work is most advanced, but not mature yet. Other cells point where work is less mature. Red cells highlight, among these other cells, the areas of focus for the SFWG in 2023.

* Pillars of the illustrative framework are based on the G20 Sustainable Finance Roadmap focus areas as they constitute needed areas of work to build an adequate environment for enabling finance for SDGs.

Figure 1 shows an illustrative framework for tracking financing considerations for more SDGs in the medium term beyond climate. The objective is to complement what sustainable finance has been focusing on in the past years, which includes climate and

[10] Mobilizing Private Finance for Nature. A World Bank Group paper on private finance for biodiversity and ecosystem services," 2020, available at https://openknowledge.worldbank.org/handle/10986/35984

select environmental issues covered by the three SDGs (climate, clean water, and clean energy -as highlighted in orange). Specifically, there is a need to explore how to enable private finance to support other SDGs (such as health, education, poverty, gender, and life in water and on land – namely biodiversity). Due to the technical and institutional complexity, it is not possible for the SFWG to tackle all SDGs and levers in the short term, but it is worth the effort to conduct a few case studies based on emerging market practices.

Two areas deserve more attention for this year's SFWG work on non-climate SDGs (highlighted in red in Figure 1).

- First, **nature-related data and reporting**. This topic has already been studied extensively by networks such as TNFD, and work has been conducted on nature-related risk analysis by the NGFS. All of these call for better data and reporting on nature-related information to allow financial institutions and companies to, as appropriate, incorporate nature-related risks and opportunities into their investment decisions and risk management practices.

- Second, **social impact investing** refers to investments made by companies, organizations, and investment funds with the intention to generate a measurable, beneficial social impact alongside a financial return[11]. In the past few decades, social impact investing has been practiced by some institutional investors, including pension funds and endowments based in some OECD countries, but has not been widespread among investors based in developing countries while it could support the financing of social sectors in these countries where government's fiscal capacity is often constrained. The SFWG would focus on the financial instruments in use or development for social impact investments (including improvements needed in terms of impact measurement, disclosure and government incentives).

In 2023, building on the ongoing work on climate change identified in Figure 1, the SFWG plans to kick off its research on financing non-climate SDGs by focusing on the above mentioned two areas, and based on these case studies and lessons learned, discuss extending the coverage of sustainable finance to more areas of its framework and complementing the SFWG Roadmap.

c) Potential Deliverables

[11] These social impacts could, for example, take the form of creating jobs and delivering better education and health services for low-income segment of the population and women, thereby reducing poverty and social inequality.

i. The SFWG will work on developing an Analytical Framework for SDG-aligned Finance to complement the SFWG Roadmap by:
   - Conducting a stocktaking analysis of the measures taken so far to identify and report nature- and biodiversity-related risks and opportunities, including how the issue has been approached in practice, and the initiatives presently underway (e.g., by TNFD). Based on the stocktaking analysis, the SFWG will make recommendations to the stakeholders on how to improve data and reporting on nature-related information in the future, keeping in mind country-specific circumstances.
   - Conducting a stocktaking analysis of social impact investing with a focus on investment instruments (e.g., impact investment bonds) and, as appropriate, make recommendations to governments and international organizations/networks on how to scale up the adoption of social impact investment instruments.

ii. Compiling a compendium of case studies of best practices on financing for SDGs by jurisdictions, IOs and private sector, as an outcome of a side event.

Priority 3: Capacity building of the ecosystem for financing toward sustainable development

a) Background

In many countries, there is a lack of adequate knowledge and a paucity of skilled professionals and workforce in the emerging area of sustainable finance, both in governments and private firms, particularly in developing countries. This has been recognised in the G20 Sustainable Finance Roadmap[12] and reaffirmed as one of the 2022 SFWG's outcomes. This is further compounded by a lack of uniformity and gaps as far as sustainability-related data to support sustainable investments are concerned. There is a need to address these constraints to support well-functioning sustainable private financial markets, and for skill development in identifying and managing sustainability risks and opportunities exists, especially in developing countries. There is also a paucity of skilled workforce for reporting and reviewing disclosures/ information on sustainability for entities.

To address these challenges, capacity building of the relevant stakeholders and technical assistance can act as a core tool to attract private capital to development projects.

a) Objective and approach

Developing a robust ecosystem of capacity building and technical assistance in sustainable finance is needed. It will help address costs and risks associated with exposure to new, uncertain, and fragmented markets, helping overcome technological uncertainty and the inability to build investment pipelines. While its main advantages are the ability to leverage capital and enable greater project viability, technical assistance activities can also indirectly lead to improved performance of investee enterprises, enhanced investment performance, improved local knowledge and capacity, and increased efficiency of local markets.

Therefore, in 2023, the SFWG intends to develop a G20 Sustainable Finance Technical Assistance Action Plan (TAAP), taking into account the findings of a stock-taking exercise aimed at identifying Technical Assistance gaps and priority needs. The TAAP will delineate a practical approach for IOs, MDBs, international NGOs, academia, the private sector and country authorities to create an ecosystem of capacity-building and technical assistance programs that will contribute to the scaling-up of sustainable finance, including facilitating investment in high-impact projects and enterprises (including SMEs), and

[12] Including in Action 9 (on sustainability reporting for SMEs), Action 14 (MDBs to support just climate transition of their clients), and Action 19 (overall for IOs and other technical assistance providers to coordinate and align their capacity-building efforts with the priorities identified in the Roadmap).

particularly in the emerging economies and LDCs**.** The SFWG could develop a private sector and a public sector action plan encompassing advisory service, operational assistance (e.g., supervising project implementation), and training.

The TAAP, developed by the SFWG, is expected to benefit the sustainable finance ecosystem by:

i. **Serving as a platform for information gathering and sharing from IOs, MDBs, jurisdictions, NGOs, academia and the private sector** on a range of topics related to capacity building, including critical areas where there are significant knowledge gaps on sustainable finance. As such it will (i) immediately increase the understanding of the current technical assistance provision and needs' landscape and (ii) help identify good practices and successful experiences to motivate their voluntary adaptation taking into consideration each country's circumstances and facilitate potential innovations.
ii. **Providing recommendations and actions to complement and scale up the existing offer with a set of TA programs that are: accessible, effective** (i.e., integrate a long-term perspective and ensure that capacities are retained, and knowledge becomes institutional), **agile** (i.e., reflecting changes in policies, technologies, and the state of transition) **and tailored to local contexts** (i.e., take into account countries' national development plans and climate ambitions to ensure that capacity building is grounded in and adapted to local/national priorities and realities).

The approach to develop the G20 Sustainable Finance Technical Assistance Action Plan (TAAP) would include the following:

i. Stocktaking and mapping of existing capacity-building activities & platforms targeting private sector professionals, public servants, policymakers, regulators, and financial institutions, providing an easy-to-use blueprint to navigate different capacity building resources available.
ii. Mapping of public and private sector demand for sustainable finance-related TA to help leverage relevant TA programmes from diverse providers.
iii. Identifying the existing sustainable finance skill gaps and analysing them to guide future actions, including the initial set of -focus areas of capacity building for the year 2023 as listed below.
iv. Develop recommendations for IOs, MDBs, International NGOs, and country authorities on how to scale up capacity-building services and explore ways to form a global network for sustainable finance capacity building.

The initial set of the G20 Sustainable Finance TAAP focus areas is expected to include the following:

- **Transition finance framework and instruments**: Based on the G20 Transition Finance Framework developed in 2022, the TAAP may pursue work on how to assist countries in developing and implementing local versions of transition finance policy frameworks.
- **Climate and sustainability data gaps:** The TAAP may pursue work on how to support capacity building efforts with a specific focus on closing climate and sustainability data gaps and improving data availability and methodological consistency.
- **Other focus areas**, as deemed appropriate, such as: assisting countries build capacity to develop sustainable finance alignment approaches, disclosure policies, incentive policy design, or the design of bankable projects.

b) Potential Deliverables

i. G20 Sustainable Finance Technical Assistance Action Plan (TAAP)

ii. G20 SFWG side-event: Round table discussion with policy makers, IOs, regulators and Private Sector to assess the capacity building needs for scaling sustainable finance.

III. KEY EVENT DATES

Date*	Task/Meeting/Event	Location*
13-15 December 2023	1st Finance and Central Bank Deputies Meeting (FCBD)	Bengaluru
2-3 February, 2023	1stSFWG Meeting • Side event on Priority 3 Capacity building of the ecosystem for financing toward sustainable development	Guwahati
21-22 February 2023	2nd FCBD Meeting	Bengaluru
23-25 February 2023	1st Finance Ministers & Central Bank Governors (FMCBG) Meeting The following will be sought • Mandate a chapter on the mechanisms for mobilisation of timely and adequate financial resources for climate finance with a focus on expansion of de-risking facilities and enhanced role of MDBs in the SFWG report (Priority 1) • Mandate to draft a stocktake analysis detailing current research and methodological gaps to align and mobilize investments to select SDGs, beyond climate. (Priority 2) • Mandate to deliver draft Technical Assistance Action Plan (TAAP) (Priority 3)	Bengaluru
21-23 March, 2023	2nd SFWG Meeting • Workshop on non-price policy measures that incentivize sustainable finance, and development of a compendium • Side event on Enabling finance for the Sustainable Development Goals	Udaipur
20 April 2023	2nd FMCBG Meeting	Washington
19-21 June, 2023	3rd SFWG Meeting • Side event on best practices and recommendations of policies and financial instruments to catalyse the development and deployment of green and low carbon technologies	Mahabalipuram

	• Side event on identifying and overcoming data- and metric- related barriers to scaling climate-aligned investment and other sustainability data issues. Input to the meeting: draft 2023 G20 Sustainable Finance Report	
21-23 July 2023	3rd FCBD Meeting	Gandhinagar
24-25 July 2023	3rd FMCBG Meeting The following endorsements will be sought: • The compendium on non-price policy measures that encourage a change in production and consumption behaviour (priority 1) • Chapter on the mechanisms for mobilisation of timely and adequate financial resources for climate finance with a focus on expansion of de-risking facilities and enhanced role of MDBs in the SFWG report (priority 1) • Stocktake analysis detailing current research and methodological gaps to align and mobilize investments to select SDGs, beyond climate. (priority 2) • The TAAP (priority 3)	Gandhinagar
28-29 August, 2023	4th SFWG Meeting	Varanasi
5-6 September 2023	4th FCBD Meeting	Delhi
9-10 September 2023	Leaders' Summit	Delhi
10 October 2023	5th FCBD Meeting	Marrakesh
11-12 October 2023	4th FMCBG Meeting	Marrakesh

Dates and locations beyond March 2023 are tentative

IV. LEGACY ISSUES TO BE CONTINUED

While the priorities above reflect areas where the Indian Presidency proposes to focus discussions of the SFWG in 2023, there are legacy issues on which the Indian Presidency will support regular updates from IOs as and when the need arises. This will include progress on G20 Sustainable Finance Roadmap.