G20 BRASIL 2024

BUILDING A JUST WORLD AND A SUSTAINABLE PLANET

G20 Sustainable Finance Working Group Presidency and Co-chairs Note on Agenda Priorities

BRASÍLIA, 4 JANUARY, 2024

Introduction

Keeping with its mandate, the G20 Sustainable Finance Working Group (SFWG) is engaged in accelerating the global sustainable finance agenda. Launched in 2021, the Sustainable Finance Roadmap ('Roadmap') provides the SFWG with a multi-year blueprint to inform the broader G20 agenda on climate and sustainable finance and formalize future work plans. In the triennium 2021-23, the SFWG has actively contributed to advancing international work to help scale up private and public sustainable finance, thereby accelerating the implementation of the Paris Agreement and the 2030 Agenda for Sustainable Development.

In 2022, the SFWG focused on three priorities, including developing a transition finance framework and improving the credibility of financial institutions' net-zero commitments. In 2023, the SFWG developed the G20 Technical Assistance Action Plan (TAAP) and put forward recommendations on three priorities. Those included mechanisms for the mobilization of timely and adequate resources for climate finance, enabling finance for the Sustainable Development Goals (SDGs—specifically by scaling up social impact investment and improving nature-related data and reporting), and capacity building of the ecosystem for financing sustainable development.

Under the G20 Brazilian Presidency in 2024, the SFWG will build on prior achievements and work on the following four priorities, as agreed by the G20 Finance and Central Bank Deputies on December 14th, 2023:

- Optimizing the operations of the International Environmental and Climate Funds to deliver sustainable finance.
- Advancing credible, robust and just transition plans.
- Analyzing implementation challenges related to sustainability reporting standards, including for SMEs and EMDEs.
- Financing Nature-Based Solutions.

In addition, at the 2023 4th SFWG meeting in Varanasi, India, SFWG members agreed on the importance of continuing to track the progress of current initiatives. Therefore, under the Brazilian Presidency, the SFWG will continue to track and report progress on the actions of the Roadmap, including country-specific activities.

The recommendations emerging from the work undertaken under the priority areas mentioned above as well as information on the progress on the implementation of the Roadmap will be captured in the 2024 G20 Sustainable Finance Report.

SFWG 2024 Workplan

Priority 1. Optimizing the operations of the International Environmental and Climate Funds[1] to deliver sustainable finance

Background

Addressing climate change mitigation and adaptation costs as well as biodiversity protection needs of developing countries will require trillions of dollars in investments over the coming decade. According to an assessment of the UNFCCC's Standing Committee on Finance, as of May 2021, developing countries needed nearly 6 trillion dollars to implement their climate action plans by 20302.

Vertical funds[3] focused on global environmental issues include the Green Climate Fund (GCF), Global Environment Facility (GEF), Climate Investment Funds (CIF), and the Adaptation Fund (AF). Financial Intermediary Funds (FIFs) at the multilateral development banks (MDBs) have also emerged as important dedicated financing mechanisms to help mobilize and channel such large-scale investments. These vertical funds represent one of the largest sources of targeted multilateral catalytic finance for climate and the environment. They are distributed through implementing partners who enter co-financing arrangements, providing risk mitigation instruments and capacity-building support for projects and programs in line with global agreements, protocols, and conventions.

Vertical funds form a critical part of the evolving international financial architecture and can play a pivotal role in scaling up sustainable finance. This can include more proactive participation in blended finance, more effectively supporting capacity building for sustainable finance, improving operational efficiency of these funds, and enhancing complementarity, coherence and collaboration to promote sustainable finance. Given the growing complexity of

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[1] Global sustainable funds include Convention funding mechanisms (Green Climate Fund - GCF, Global Environment Facility - GEF), as well as the Climate Investment Funds (CIFs) and the Adaptation Fund.

2 Executive summary by the Standing Committee on Finance of the first report on the determination of the needs of developing country Parties related to implementing the Convention and the Paris Agreement. Available at: https://unfccc.int/sites/default/files/resource/54307_2%20-%20UNFCCC%20First%20NDR%20summary%20-%20V6.pdf

3 Major environmental vertical funds include the Green Climate Fund (GCF), the Global Environment Facility (GEF), the Climate Investment Funds (CIF) administered by multilateral development banks, and the Adaptation Fund (AF) under the Kyoto Protocol.

international financial architecture, identifying ways to simplify the system is imperative to attract private sector co-financing and better serve beneficiaries. During COP28, the heads of the AF, CIFs; GEF and GCF issued a joint declaration, thereby committing to develop an ambitious and concrete action plan to enhance access to climate finance and increase the collective impact of their actions.

Objectives and Approach

The international architecture of sustainable finance encompasses a vast number of institutions related to UN Conventions[4], multilateral development banks (MDBs), UN agencies, multilateral trust funds and other public and private actors. Multilateral environmental agreements provide guidelines for these institutions that serve as their respective financial mechanisms. The funds have different structures, procedures, and governance processes. They work with different subsets of implementing partners. The field of international sustainable finance currently allows for much fragmentation and inconsistencies in the process of acquiring loans. A review of the operations of different funds could reveal opportunities to streamline access to climate financing, potential complementarities, and build coherence across the system.

A G20-led reflection to review the review the operations (i.e., practices and processes) of these funds with the objective of simplifying access by developing countries could be crucial for them to better leverage private capital. In the context of scarce public resources, the use of these funds to scale up public and private sector contributions could be catalytic for developing countries to achieve ambitious goals related to the climate, biodiversity, and environmental and social protection.

Considering its convening power on global economic and financial issues and its recent agenda on sustainable finance, the G20 provides a useful platform to initiate discussions in this area. Addressing gaps, including inefficiency in the channeling and delivery of finance through optimizing fund operations will be key to enhancing strategic impacts. There is ample scope to optimize the operations of environmental and climate funds, reduce inconsistencies in the

[4] The financial mechanisms of the UNFCCC and the Paris Agreement comprise the Global Environment Facility (GEF) and its associated Least Developed Countries Fund and Special Climate Change Fund, as well as the Green Climate Fund (GCF). Further, the Adaptation Fund serves the Paris Agreement and the Kyoto Protocol but is not part of the financial mechanism of the UNFCCC.

system, and facilitate co-financing with MDBs, while leveraging and amplifying scarce public resources and attracting more private capital.

The review of practices and processes of global vertical environmental funds, links directly to the G20 Sustainable Finance Roadmap Focus Areas 1 and 4 on market development and the role of IFIs. The SFWG has addressed the role of IFIs in sustainable finance through a dedicated priority in 2021 and within other of the group's priorities in 2022 and 2023. The SFWG will coordinate and ensure complementarity of outcomes with the Brazil G20 Task Force for Global Mobilization Against Climate Change and other international bodies working on the matter.

Suggested input papers

An independent High-level Expert Group will guide the development of a report looking to compile existing research and literature on environmental and climate vertical funds' financial and operational models. It will focus on the four main climate and environmental funds: the Global Environmental Facility (GEF), the Green Climate Fund (GCF), the Climate Investment Funds (CIF), and the Adaptation Fund. It will include an analysis with four components: 1. how to optimize the access to these funds, specifically regarding (i) the accreditation process; (ii) project preparation requirements, including project assessment criteria; and (iii) disbursement requirements, all while respecting funds' individual mandate, operational arrangements, and policies; 2. enhancing complementarity and collaboration to promote sustainable finance; 3. identifying challenges of participating in blended finance and providing recommendations for overcoming these difficulties; 4. prioritizing the actions of supporting capacity building for sustainable finance. The report will be presented to the SFWG by the 3rd SFWG meeting.

Deliverables

A set of actionable recommendations from the G20 on optimizing the operations of International Environmental and Climate Funds in delivering sustainable finance

Priority 2. Advancing credible, robust and just transition plans

Background

Mitigating global climate change and transitioning towards low- or net zero GHG emissions and resilient economies will require significant investment, estimated at USD 4-6 trillion annually until 2030.[5] Transitions to low- or net zero-emission economies may also generate a need to skillfully address potential negative economic and social consequences.

The significance of transition plans is concurrently growing in importance for the private sector, central banks, supervisory bodies. The current landscape is marked by a lack of transition plans and a diversity of transition plan approaches that differ in their scope and use-cases, potentially hindering stakeholders' capacity to evaluate transition plans. The Brazilian Presidency of the G20 has placed the fight against climate change, poverty and social inequality at the core of its mission. In this context, the SFWG aims to provide greater impetus to further develop the transition finance framework by working on credible, robust and just transition plans.

Transition finance, as discussed in the 2022 G20 Sustainable Finance Report and for the purposes of the SFWG 2024 Workplan, refers to financial services supporting the whole-of-economy transition, in the context of the SDGs, towards lower and net-zero emissions and climate resilience, in a manner aligned with the goals of the Paris Agreement. Under Indonesia's G20 presidency in 2022, the SFWG produced the G20 Transition Finance Framework ('Framework') which was endorsed by G20 leaders. It provides a series of high-level principles and recommendations for policymakers and stakeholders to advance financing the transition to a low- or net zero GHG economy. Many G20 members have expressed interest in carrying forward the work on transition finance during Brazil Presidency, thus contributing to implementation of Roadmap Action 18.

Objectives and Approach

With the goal of facilitating the transition towards low- or net zero GHG and resilient economies that leave no one behind, the SFWG will (i) develop high-level principles for transition plans, and (ii) reflect on what defines a 'just'

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[5] UNEP (2022). Emissions Gap Report 2022 (p. XXVI). https://www.unep.org/resources/emissions-gap-report-2022

transition and provide guidance on how financial institutions and corporations can deepen the 'just' component of transition plans.

This work will build on the G20 Transition Finance Framework, with an in-depth view of Pillar 5 "Assessing and Mitigating Negative Social and Economic Impact of Transition activities and investments" and in particular Principles 20, 21 and 22.[6]

Suggested input papers

- Review of existing guidelines for financial institutions and corporations to develop transition plans, and cases studies of corporate and financial institution transition plans to identify aspects that are credible, robust and supporting a just transition.
- Review of existing guidelines for transition plans with a focus on different use cases. Stocktake of existing methodologies for identifying and assessing possible negative social and economic impacts of transition activities and investments.
- Review of existing definitions of the 'just' dimension of transition finance and related supporting tools and sector use cases, with a focus on their applicability across different sectors and economies and just transition.
- Input paper on enhancing social risk assessment in transition finance.
- Input paper on how to enhance availability of social data for financial institutions to mitigate negative social and economic impacts.

Deliverables

- A set of high-level principles for transition plans that accommodates different use-cases and acknowledges different jurisdictional frameworks.
- Recommendations on just transition for jurisdictions and IOs focusing on how to assess and mitigate negative social and economic impacts of financial institutions and corporate transition activities and investments.

[6] Principle 20: Encourage fundraisers to assess and mitigate potential impacts of their transition plans or other strategies. Principle 21: Develop demonstrate cases of just transition. Principle 22: Strengthen the dialogue and cooperation between government agencies, employers and workers representatives, market regulators, academia, civil society and private sector stakeholders to define a comprehensive strategy to mitigate negative economic and social implications.

Priority 3: Analyzing implementation challenges related to sustainability reporting standards, including for SMEs and EMDEs

Background

Currently, a growing number of stakeholders are demanding greater transparency, comparability and standardization of companies' sustainability disclosures. International standard setters have responded to this call by publishing standards for reporting on these themes.

At the international level, the first two IFRS International Sustainability Standards Board (ISSB) Standards (IFRS S1 and S2) were published in June 2023 and were endorsed by the International Organization of Securities Commissions (IOSCO). IOSCO called on members to consider ways in which they might adopt, apply or otherwise be informed by the ISSB Standards, emphasizing that individual jurisdictions have different domestic arrangements regarding the consideration of international standards. Several sustainability disclosure regulations were developed over the past years at the jurisdictional level as well and will affect firms outside of their territories. Much work is done to map how different disclosure regulations compare with each other. The SFWG proposes to build on this with a specific focus on proportionality provisions of G20 members' regulations and of international standards such as the ISSB, regardless of whether they are voluntary or mandatory.

Additional efforts from companies to enhance their sustainability disclosures using internationally recognized frameworks or standards can bring benefits, such as lower funding costs, higher valuations and more capital inflows. While the total volume of assets under management in funds related to sustainability is difficult to measure, estimates are in the tens of trillions and growing[7]. ESG investments, which do not encompass all sustainable investments, have reached US$ 18.4 trillion in 2021 (PwC, 2022). According to IMF researchers, ESG investments now make up almost 18 percent of foreign financing for emerging markets excluding China, quadruple the average for recent years (Gautam, Goel, Natalucci, 2022). Disclosing social and environmental metrics are increasingly

[7] PwC. Asset and Wealth Management Revolution Report. 10 October 2022. Available at: https://www.pwc.com/gx/en/news-room/press-releases/2022/awm-revolution-2022-report.html ; Gautam, Goel, Natalucci (IMF). Sustainable Finance in Emerging Markets is Enjoying Rapid Growth, But May Bring Risks. 1 March 2022. Available at: https://www.imf.org/en/Blogs/Articles/2022/03/01/sustainable-finance-in-emerging-markets-is-enjoying-rapid-growth-but-may-bring-risks

important to attract this capital, and to maximize benefits throughout the economy, SMEs everywhere and firms in EMDEs, especially the poorest, must not be left behind.

SMEs and firms in EMDEs may face issues to implement disclosure requirements[8] as well as indirect challenges arising from their participation in value chains. Companies in some jurisdictions may need to disclose information both from suppliers and consumers. Consequently, SMEs and EMDEs also may face costs to comply with non-mandatory guidance, at the potential risk of being excluded from value chains. Thus, it is important to address challenges via accessing capacity building, "more efficient use of available information" and leveraging digital technologies in order to address disproportionate burdens on small and medium-sized enterprises," as highlighted in Action 9 of the Roadmap.

Objectives and Approach

Therefore, the Brazilian Presidency intends to delve deeper into the analysis of not only the benefits but also the challenges regarding the implementation of sustainability reporting standards faced by both SMEs and other firms in EMDEs, so that these reporting standards can work for all. The expected workflow is twofold: (i) a paper on the benefits and challenges of implementing current sustainability reporting standards for SMEs and EMDEs and (ii) a comprehensive stocktaking of digital and other tools for enhanced sustainability reporting.

This priority links to the Roadmap's Focus Areas 2 (Data) and 3 (Risks) on sustainability disclosures in the context of SMEs and EMDEs.

Suggested input papers

- Input paper on the sustainability-related, indirect reporting obligations of companies in supply chains suggested by international standards including IFRS S1 and S2, GRI, and other emergent standards, as well as related regulation and proposed regulation in G20 jurisdictions.

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[8] In its 2021 Synthesis Report, the SFWG recommended that the IFRS Foundation consider issuing sustainability reporting guidance for SMEs, similar to its "IFRS for SMEs" guidance dealing with accounting standards. The IFRS should cooperate with other sustainability standard-setters that are also working on SMEs disclosures. International organizations could promote the development and usage of digital technology solutions for sustainability reporting tailored for SMEs.

- Input paper from relevant standard-setter(s) working on sustainability reporting standards about how existing standards seek to incorporate the principle of proportionality and/or capacity building efforts to assist jurisdictions who are seeking to implement sustainability standards.
- Input paper with a comprehensive stock take of digital and other tools for enhanced sustainability reporting.

Deliverables

Recommendations for relevant stakeholders, as appropriate, on addressing challenges for SMEs and EMDEs to implement sustainability reporting that works for all.

Priority 4: Financing Nature-Based Solutions (NbS)

Background

The concept of NbS[9] was formally adopted on March 2, 2022, at the United Nations Environment Assembly 5, through UNEA Resolution 5.2. The resolution recognizes the important role of NbS in the global response to climate change, their social, economic, and environmental benefits, and their role in achieving the SDGs. Financing NbS will be critical for our effort to reverse nature and biodiversity loss and address climate change. The financial instruments for NbS include the use of risk-sharing instruments, blended finance instruments, and other forms of leveraging private capital to investments that generate benefits for climate, biodiversity conservation, and the social development of local communities.

The solutions are complex and often do not reach the projects that need them. According to UNEP[10], in 2022, global investment in NbS totaled approximately USD 200 billion, with private finance contributing only 18%, while finance flows to activities directly harming nature were more than 30 times larger. Finance flows to NbS must almost triple from current levels to reach the USD 542 billion/year investment in NbS needed by 2030 and quadruple by 2050 to reach USD 737 billion/year to meet the Rio Convention targets. To bridge this gap, it is essential to understand how each available financial instrument can be used to its fullest potential.

Objectives and Approach

The objective for this priority is to explore how to scale up the financing of NbS, including through debt-for-nature swaps and risk-sharing instruments such as blended finance.

The proposed workplan for this priority is as follows: (i) collect cases of financial instruments used to finance NbS across restoration, bioeconomy, agro forestry, and conservation and in various geographies including Latin America, Small

[9] The UNEA Resolution "Decides that nature-based solutions are "actions to protect, conserve, restore, sustainably use and manage natural or modified terrestrial, freshwater, coastal and marine ecosystems which address social, economic and environmental challenges effectively and adaptively, while simultaneously providing human well-being, ecosystem services, resilience and biodiversity benefits".

[10] UNEP, Global Canopy, The Economics of Land Degradation Initiative (2023). State of Finance for Nature 2023. Available at: https://www.unep.org/resources/report/state-finance-nature

Island States, Africa and Asia and identify success factors and potential for replication; (ii) identify barriers to the scaling up and/or the replicability of NbS , and (iii) develop recommendations to avoid harm to nature.

In line with the Roadmap objective of further integrating other aspects of sustainability, including nature and biodiversity, the financing of NbS touches upon multiple areas of the roadmap. It is affected by the availability of consistent, comparable, and decision-useful information on sustainability risks, opportunities and impacts (Focus Area 2), and assessment and management of climate and other sustainability risks, focusing on risk of nature degradation (Focus Area 3). This priority builds on the 2022 work on nature-related data and reporting. It will be affected by IFI's financing frameworks and different pricing and non-pricing policy levers (Focus Area 4).

Suggested input papers

- Cases studies presenting innovative financial instruments for NbS, their use-case, challenges and conditions for successful scaling-up. Cases on blended finance mechanisms and debt-for-nature swaps are especially welcomed.
- Recommendations for tailoring existing financial solutions and to best support the specific needs of NbS.

Deliverables

- An online inventory of NbS financial instruments and case studies will showcase the financial instruments, conditions for success factors and recommendation for scaling-up.
- Recommendations for addressing the challenges to scaling up NbS financing, especially in developing countries, thus contributing to climate resilience, biodiversity conservation, and local community development. It will include recommendations for adapting existing financial solutions, such as blended finance instruments, to the specific needs of NbS.

Inputs to the 2024 SFWG agenda

In addition to input papers, several side events will be organized to inform the 2024 agenda, the implementation of previous years recommendations, and the further exploration of legacy issues. The topics will be SDG Finance in urban contexts, carbon markets, local currency financing, and Technical Assistance Action Plan (TAAP) Implementation Mechanism (IM), besides the yearly private sector roundtable.

Key event dates

Dates*	Meetings	Location*
February, 5-6	1st SFWG meeting	Online
February, 26-27	2nd FCBD meeting	São Paulo
February, 28-29	1st FMCBG meeting	São Paulo
March, 5-6	SFWG Private Sector Roundtable	Online
April, 1-2	2nd SFWG meeting	Brasilia
April 16-17	3rd FCBD meeting	Washington, USA
April 18	2nd FMCBG meeting	Washington, USA
July, 9-10	3rd SFWG meeting	Belém
July, 22-23	4th FCBD meeting	Rio de Janeiro
July, 25-26	3rd FMCBG meeting	Rio de Janeiro
September, 9-10	4th SFWG meeting	Rio de Janeiro
October, 22-23	5th FCBD meeting	Washington, USA
October, 24	4th FMCBG meeting	Washington, USA
November, 18-19	G20 Leaders' summit	Rio de Janeiro

*Dates and locations of SFWG meetings beyond March 2024 are tentative.