G20 BRASIL 2024

BUILDING A JUST WORLD
AND A SUSTAINABLE PLANET

First Sustainable Finance Working Group (SFWG) Meeting Summary

VIRTUAL, 5-6 FEBRUARY, 2024

Co-Chairs' and Presidency Summary[1]

Introduction

The first G20 Sustainable Finance Working Group (SFWG) meeting under the Brazilian Presidency was held virtually on the 5th and 6th of February 2024. The Presidency opened the meeting and emphasized Brazil's commitment to an innovative and legacy-building agenda across four priority areas:

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

The Presidency representative highlighted Brazil's immense biodiversity, making it fitting to spearhead sustainability efforts and outlined their strategic sustainability pillar, aiming to foster inclusive, green growth in Brazil.

The SFWG Co-Chairs underscored the critical climate decade and Paris Agreement alignment imperative. They positively noted the robust agenda and the importance of stakeholder engagement for informing policymaking and mobilizing finance.

Further, the Co-Chairs outlined three key features to be embedded in the work under the 2024 priorities - building consistency on past G20 work, deepening collective understanding, and developing action-oriented recommendations. Facing expanding sustainable finance complexity, they called for continued knowledge partner inputs.

Session 1: Optimizing International Environmental and Climate Funds

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

The Presidency opened the session by underscoring the critical importance of scaling up climate finance flows to developing countries and optimizing the multilateral climate funds to improve access, reduce inefficiencies, and drive impact. The Presidency outlined plans for an independent high-level expert group to comprehensively review the four major funds (Green Climate Fund [GCF], Global Environment Facility [GEF], Climate Investment Funds [CIF], Adaptation Fund [AF]) operations and provide actionable recommendations to streamline them. The Co-Chairs welcomed this priority as a potential major G20 deliverable, aimed at making the overall climate finance architecture more fit-for-purpose and responsive to needs.

All the member countries supported the independent review of climate funds, with countries making recommendations for the scope of the review to be undertaken under this priority. Members emphasised the importance of the experts' independence. Other members called for the expert panel to engage with a diverse range of stakeholders, especially those outside the G20, including least-developed countries, African states, and small island developing states, to help ensure their perspectives are considered in the review.

A member highlighted the need for coordination at the country or sector level through country platforms, and the potential for synergies with the G20 Taskforce on a Global Mobilization against Climate Change discussions. A member highlighted the review's relevance in the broader context of international architecture and the evolving climate strategies of MDBs, advocating for recommendations that are adaptable to the changing landscape. Members emphasized several synergies across other G20 workstreams, including the G20 Taskforce on a Global Mobilization against Climate Change and International Finance Architecture Working Group discussions. Some members stressed the need to leverage momentum from the MDB reform agenda, including praising the Capital Adequacy Framework (CAF) model as an exemplary approach for SFWG membership's engagement with the review process. Multiple members suggested developing clear terms of reference to avoid overlaps with the UNFCCC and other working groups. Some members highlighted the importance of complementarity between the review and the funds' commitment to enhance access to climate finance.

A member recommended addressing the broader fragmentation within the climate finance architecture, noting that beyond the four main funds under review, a recent paper identified a total of 81 existing climate funds. Another member suggested increasing the scope of the review to include the new Fund for loss and damage.

Members offered several areas of technical expansion for the review, such as not only streamlining the operations of climate finance entities or funds but also addressing non-financial aspects that contribute to funding frictions. These include the extraterritorial effects of regulations, such as compliance with disclosure requirements and taxonomies from different countries, which can complicate the climate finance architecture. One member advocated for the inclusion of risk management analysis in the evaluation of climate funds, particularly concerning their loan and guarantee operations, underscoring the importance of financial risk management within the finance track's scope. Some members suggested the review focus on the harmonization of policies and procedures among the funds.

A member suggested that the expert panel identify actionable steps for climate funds across short-, medium-, and long-term horizons to expedite climate finance to developing countries. Another member called for developing clear recommendations to optimize fund operations, including improving the accreditation process for national agencies and prioritizing projects aligned with national priorities. A member recommended that the SFWG provide clear guidance on managing the risk premium typically faced by emerging and developing economies (EMDEs) when accessing resources.

Finally, the GCF, an invited participate, mentioned its "50 x 30" vision, aiming to enhance access to climate finance, support vulnerable communities, mobilize private sector investments, and reform its partnership model, including the accreditation process. Secondly, it highlighted the internal reforms being implemented, such as the establishment of an efficient GCF task force focused on simplifying procedures, realigning organizational structures with strategic priorities, and adopting a regional approach to better meet the specific needs of different regions and countries. Lastly, externally, the GCF is working to enhance collaboration with other climate funds and the broader international climate finance architecture, aiming to strengthen complementarity and coherence and move towards harmonized procedures to simplify access to finance.

Session 2: Advancing Credible, Robust and Just Transition Plans

The Presidency opened the session by emphasizing the importance of credible, robust, and just transition plans in securing financing, mitigating climate risks, and enabling a smooth economic shift. Further, the Presidency proposed sectoral case studies in steel and cement sectors to inform the agenda.

Co-Chairs welcomed the 3-pronged approach which builds on previous SFWG work to (i) define core aspects of transition plans as a whole (ii) enable a focused discussion on what just transition means, and (iii) apply the work to case studies. They highlighted that plans can be developed at multiple levels but that the SFWG should focus on financial institutions and corporations, and encourage considering economic stability, financial risks, climate adaptation needs, and differing country contexts. They also reinforced that principles of transition plans should accommodate different use-cases and acknowledge different jurisdictional frameworks.

The session was opened for the members with two presentations, one on principles of credible, robust, and just transition plans[2], and another on just transition principles and elements[3].

Members' interventions supported work on principles of transition plans. Many members emphasized the importance of harmonizing approaches and interoperability to enhance the credibility of transition plans. A member stressed the need for the integration of transition planning into assurance frameworks and the significant role of standard-setting bodies. A member identified three aspects to explore related to 'credibility': (i) internationally consistent frameworks that apply economy-wide, reflect both mitigation and adaptation, and consider the differentiated needs across jurisdictions; (ii) the strategic nature of transition plans, including clear statements of ambition, action plans, and accountability mechanisms; and (iii) ensuring that transition plans align with science-based pathways, are subject to validation, and are just.

A member advocated for the inclusion of carbon intensity metrics, such as emissions per capita or per million of financing for financial institutions, in developing transition plans. This approach aims to ensure fairness and maintain competitiveness across nations and institutions in the transition towards a low-carbon economy. Some members also stressed that it is important to do transition

[2] by Ms. Sonja Gibbs (Managing Director and Head of Sustainable Finance, Institute of International Finance)
[3] by Dr. Sun Yixian (Senior Lecturer, Department of Social & Policy Sciences, Centre for Development Studies, University of Bath)

planning for the whole-of-economy, not just for the financial sector, and by considering the sectoral and country contexts.

Members also expressed support for work on principles for just transition. A member emphasized the need to analyze the economic and social consequences of transition activities, highlighting the importance of proportionality, flexibility, and considering country-specific circumstances. A few members also stressed the importance of the balance between climate mitigation and adaptation. The member stressed the importance of not impeding trade, the need for financing, and ensuring access to affordable financing for emerging markets and developing economies, advocating for these aspects to be included in high-level principles.

A member advocated for equitable strategies such as scenario analysis to assess technological risks and opportunities and climate policy impacts on energy availability and prices, and for assessment and monitoring policies to mitigate social impacts. He suggested using resources from carbon pricing and reallocating fossil fuel subsidies to support vulnerable groups, ensuring a just and effective transition.

Many members cautioned duplicating existing efforts, such as, with the G20 Employment Working Group, where just transition is also a focus, and coordinating with other international work streams such as FSB's transition planning working group.

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

The Presidency opened the session by highlighting their experience with implementing mandatory disclosure standards like the Task Force on Climate-Related Financial Disclosure recommendations and highlighted some implementation challenges such as low comparability of data, issue of proportionality and unequal detailing of information. The complexity of new standards risks widening the data gap among G20 members, particularly for small- and medium-sized enterprises (SMEs) and firms in emerging markets and developing economies (EMDEs). The Presidency emphasized the need for uniform application, proportionality, capacity building, and interoperability between disclosure standards to level the playing field and allow all countries to move forward together in the context of the Paris Climate Agreement, without raising barriers or creating trade protectionism.

The Co-Chairs emphasized that sustainability disclosure has been a topic for SFWG, which has supported efforts to enhance transparency, consistency and comparability of sustainability reporting, noting its multiple benefits such as access to capital, lower financing costs, enhanced reputation, and better risk management. However, they acknowledged the challenges that some SMEs and firms in EMDEs may face challenges in implementing sustainability reporting standards, including higher compliance costs and lack of capacity. Despite these challenges, various forces can push disclosure for SMEs, such as financial institutions raising their disclosure requirements and lead companies in the supply chain assisting SMEs in enhancing their disclosure capabilities. They outlined three main objectives for priority three: learning about the benefits and challenges of implementing sustainability reporting standards, taking stock of tools that facilitate reporting (including data sets), and recognizing that capacity building, efficient information processing, and digital technologies may be part of the solution set in moving this work forward.

The session was opened for the members with a presentation[4] which provided an overview of the landscape of the challenges related to sustainability reporting standards.

Members mentioned the importance of interoperability of sustainability reporting standards.

Many members acknowledged the significant progress made towards consistent sustainability reporting standards, such as the development of global and regional frameworks. However, they also noted the ongoing challenges for SMEs and EMDEs in adopting these standards, given their limited resources and capacity constraints. To address these challenges, some members stressed the need for proportionality in reporting requirements, capacity building initiatives, and the development of practical tools and guidance tailored to SMEs' needs.

Several members discussed their domestic efforts in developing simplified standards and frameworks for SMEs, such as voluntary standards and phased approaches to implementation.

Some members noted quality of disclosure is low among financial institutions and the challenge associated with reporting of scope III emissions. Several

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[4] by Svetlana Klimenko (Global Lead for Sustainable Finance and Lead Climate Finance Specialist for Latin America and the Caribbean, World Bank)

members updated their ongoing work to develop guidance for financial institutions in this sense.

Some members focused on the harmonization and interoperability of sustainability reporting standards to avoid market fragmentation and reduce reporting costs for companies operating across different jurisdictions. They cautioned against creating dual track or two-tier systems with different requirements for advanced economies and EMDEs, as this could lead to fragmentation and hinder cross-border capital flows.

To lower compliance burdens, it was suggested that enhancing data comparability and online accessibility could be an effective solution. Digital tools and fintech solutions were also highlighted as potential enablers for SMEs to meet reporting requirements more easily and cost-effectively. Some members shared their experiences in using digital platforms and incentives to support SMEs in their sustainability reporting journey.

Additionally, a few members emphasized the importance of considering the end-users of sustainability reporting and the potential unintended consequences, such as decreased investment appetite and increased cost of capital for EMDEs. They called for a balanced approach that takes into account the different circumstances and starting points of various jurisdictions while working towards a global common ground for sustainability reporting standards.

Session 4: Financing Nature-Based Solutions

The Presidency opened the session by outlining the primary goal of this priority: to investigate methods for increasing financing for nature-based solutions (NBS) through the analysis of various financial instruments. These instruments include blended finance, risk-sharing tools, and other means of leveraging private capital for investments that deliver benefits in terms of climate, biodiversity conservation, and the social development of local communities.

The analysis of financial instruments for NBS will contribute to the development of a toolbox that aligns with the priority of improving access to multilateral vertical funds and is also linked to the technical assistance action plan. To provide recommendations for adapting existing financial solutions to best support the specific requirements of NBS, case studies showcasing innovative financial instruments for NBS will be examined including debt-for-nature swaps and risk-sharing instruments such as blended finance.

The Co-Chairs stressed the significance of this priority in tackling the unprecedented rate of nature and biodiversity loss. They highlighted three main points:

1. Financing NBS is well-aligned with the SFWG's analytical framework for SDG-aligned finance developed last year and can build upon discussions on blended finance.
2. NBS faces substantial financing needs, and like climate finance, it is often limited by real or perceived risks associated with the efficiency of capital markets, inadequate policy and regulatory environments, and a lack of projects. Additional measures should be taken to increase blended finance and facilitate risk-sharing operations for NBS, taking into account ongoing and future efforts by multilateral institutions, forums, and other G20 working groups.

- An integrated approach to nature and climate is crucial. Financing NBS can be cost-effective and meet other objectives including biodiversity, climate, and land degradation neutrality targets. For developing countries with limited fiscal budget, an integrated approach to finance nature and climate can speed up the effort to revert nature degradation.

The Co-Chairs also proposed that capacity building could assist jurisdictions in better understanding how to develop programs and projects related to financing NBS.

The session was opened to the members with a presentation[5] explaining the funding gap and financing challenges of NBS.

All the member countries supported the agenda for developing recommendations for financing nature-based solutions. Some members noted financing NBS is still at an early stage for many countries.

Some members shared examples of innovative NBS financing initiatives in their countries, such as biodiversity-themed bonds, loans linked to ecosystem services, and public-private foundations mobilizing resources for nature conservation. A member emphasized the necessity of these solutions mobilizing finance through international channels and exploring biodiversity credits and blended finance

[5] by Maria Netto (Executive Director of Instituto Clima e Sociedade)

while being cautious about debt-for-nature swaps. Another member advocated for scaling up finance with a focus on empirical learning from case studies and private sector engagement, alongside increased data availability and the assessment of project impacts. Several members called for metrics and common framework to assess outcomes, impacts and additionality.

The importance of an integrated approach to nature and climate was highlighted by several members, with some suggesting that the linkage between climate finance and nature and biodiversity finance could be an interesting area to explore. Many members also stressed the need for increased data availability and accessibility, improved disclosure and standardization, and the development of metrics to measure the impact and financial benefits of NBS.

Several members also emphasized the importance of considering the unique features of countries and the potential of mechanisms like debt-for-nature swaps to alleviate fiscal pressures, especially for EMDEs.

A few members cautioned against duplicating efforts with other G20 working groups, such as discussions on debt-for-nature swaps, and also highlighted the need for capacity building and international cooperation to mobilize financing from both public and private sources.

Session 5: G20 Sustainable Finance Roadmap Progress Monitoring

In the final session, the Secretariat provided an update on the progress report tracking. Picking up from the last meeting under the Indian Presidency, where discussions were held on improving the progress report by harmonizing reporting and including information on the effectiveness of efforts. The Secretariat is developing guidance on self-evaluation of the implementation actions' effectiveness to strengthen reporting coherence and address the heterogeneity in granularity, information conveyed, and format of the reports submitted by G20 members. Further, the Secretariat presented the scheduled side events for the year.

Other comments, closing remarks and next steps

Members raised several additional points related to the Terms of Reference (ToR) for the High-Level Expert Group. Members. A member suggested an investigation of the impact of sustainability reporting standards on access to credit and competitiveness.

The Co-Chairs and the Brazilian Presidency provided their closing remarks for the first SFWG meeting. They expressed their gratitude to all participants for their engagement and contributions. The Co-Chairs highlighted the broad agreement on the importance of priority one and the establishment of an expert panel, the support for developing principles for transition plans, developing principles for just transition, and applying these principles for just transition to specific sectors. They also noted the challenges and opportunities in implementing sustainability reporting, particularly the potential of digital tools and data, and the various tools that could help advance nature and biodiversity financing under priority four.

The Presidency announced the second SFWG meeting will be held on April 1-2, 2024, in Brasilia and encouraged delegates to attend in person.