Third Sustainable Finance Working Group Meeting Summary
9th to 10th July 2024
Co-Chairs' and Presidency Summary[1]

Introduction

The third G20 Sustainable Finance Working Group (SFWG) meeting convened in Belém on July 9th and 10th 2024, following a side event on financing Nature-based Solutions (NbS). After extending a warm welcome to the delegates, the Presidency and Co-Chairs reflected on the progress made so far this year. They conveyed a positive outlook regarding the timeliness and quality of the recommendations that the group is expected to produce.

Session 1: Optimizing the operations of the International Environmental and Climate Funds to deliver sustainable finance

The session started with a presentation from Josué Tanaka – Chair of the independent High-Level Expert Group (iHLEG) about the progress of the independent review of the operations of the vertical environmental and climate funds. The iHLEG circulated its first draft with members before the meeting and integrated feedback from the consultation with SFWG members, with comments from more than 21 entities. After presenting facts and figures, the following 5 "levels" or groups of recommendations were presented:

1. Foster scale, coherence and effectiveness of climate finance.
2. Increase vertical climate and environmental fund (VCEF) finance mobilization.
3. Implement integrated VCEF country-driven approach.
4. Pursue harmonization across VCEFs.
5. Enhancing individual fund access and efficiency.

The interventions on Priority 1 started with remarks from the representatives of the climate funds. The Global Environment Facility (GEF) mentioned the importance of complementarity via having different focus areas and leveraging advantages of each fund. It expects the iHLEG final report to influence its new cycle of replenishment, the GEF-9. Referring to direct access entities, the Green Climate Fund (GCF) said that partnerships are crucial and need to be reformulated, including higher country ownership, capacity building activities and readiness programs for multi-year projects. The GCF stressed that the speed of delivery between approval and disbursement needs to increase, access needs to be simplified, the use of financial instruments must be flexible. The importance of the balance between mitigation and adaptation was raised. The Adaptation Fund took that statement further by highlighting the catalytic role of adaptation actions, mentioning the importance of scaling up financing impact. The AF established new funding modalities since the last SFWG meeting looking to enhance local-led adaptation innovations. Finally, CIFs remarks focused more on the report itself,

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

suggesting that it should include more context about each fund and a deeper analysis of the global situation, besides the factual presentations that it already has. Overall, the representatives welcomed the progress made by the iHLEG and looked forward to receiving the final report.

In their interventions, members gave feedback on the form and content of the report, as well as their views on the issue of optimization of the operations of the funds.

Regarding the format

Members made considerations about the structure or frame of the report, its length, and what would be the appropriate level of granularity of the information being presented. Some members would prefer a shorter and simpler report while others believed the length and level of detail were adequate.

Regarding the content

A few members favorably mentioned increasing the size of concessional finance, and several emphasized the need for impact maximization regardless of capital increases, along with the assessment of the risk appetite of each fund and the role of concessional – or catalytic – capital with regard to it. Several members emphasized the importance of exploring local currency finance and the possibility of the funds and MDBs working together to create an enabling system for scaling up sustainable finance.

It was suggested that the funds' capital mobilization capacity should be given with a clear distinction between public and private capital. The issue of mobilization of private capital was raised multiple times. One member stated that the "big picture" could be better developed in the report, including the relationship between the funds, MDBs, CRAs, and financial models, while others also added that there should be a comprehensive analysis of problems of disbursement and an explanation of why finance is not flowing to the countries that need it. Facilitating accreditation of direct access entities and harmonizing accreditation procedures were regarded as timely efforts. However, while one member mentioned that there should be a system of retiring accredited entities that did not deliver, another suggested that national institutions, accredited or not, should be able to use readiness funds.

Several members welcomed the passages that related climate and biodiversity, climate and nature, and mitigation and adaptation measures. A focus on LICs was suggested as an important addition by a few members.

Regarding the recommendations

Some members expressed the preference for strong and ambitious recommendations to be echoed beyond the G20 members, and some mentioned that recommendations' language should allow for flexibility to be adapted to national contexts. While some members cautioned against recommendations that may be too prescriptive, especially regarding specific instruments, others expressed preferring more readily attainable and very specific recommendations. All intervenors mentioned that there should be concrete, actionable recommendations.

Some members mentioned that while reducing fragmentation is important and beneficial, the funds should keep their independence, different goals and distinct mandates. A member expressed that the recommendations fell short of their expectations, which included a clear roadmap for their implementation.

Several members noted that it would be helpful for the IHLEG to prioritize recommendation with respect to short-, medium-, and long-term implementation.

The session ended with an overview of the next steps of the creation of the report by the iHLEG and the role of the SFWG members in assessing it.

Session 2: Analyzing implementation challenges related to sustainability reporting standards, including for SMEs and EMDEs

In their opening remarks, the Presidency recalled that many regulators already are or will establish sustainability disclosure regulations and therefore are or will be faced with the firms' abilities to disclose, making this a timely topic.

Three presentations were made to support the discussion:

- Improving sustainability corporate reporting for Italian non-listed SMEs: the «ESG Dialogue»[2]
- Sustainability Disclosure Regulations: Mexico[3]
- Implementing sustainability reporting requirements that work for SMEs[4]

After the presentations, the SFWG members made their interventions. Many members expressed support for the efforts to encourage global adoption of internationally consistent sustainability reporting standards, particularly the ISSB standards, while acknowledging the ongoing challenges faced by firms, especially SMEs and firms in EMDEs.

All members agreed that capacity building is needed. Some members noted capacity building is needed generally, not only SMEs and firms in EMDEs, as global firms are still learning about sustainability.

While generally agreeing on the importance of closing sustainability data gaps and acknowledging the importance of SMEs in most economies, members also generally agreed that a phased approach to implementing sustainability disclosure regulations for SMEs and EMDEs, whether through adoption reliefs or phases in time, is necessary.

[2] By Luca Ferrais, Director of Sustainable Finance, Italian Ministry of Finance.
[3] By Juan Cárdenaz, Manager of the Macroprudential Assessment and Oversight Division, Mexico.
[4] By lore-Anne Messy, Senior Counsellor, Directorate for Financial and Enterprise Affairs, OECD.

There was discussion around the issue of overburdening reporting costs listed double (or multiple) reporting burden when a firm is required to disclose under different regimes, spillover requirements from firms in the value chain, and lack of capacity, as problems.

To address some of those issues, interoperability and harmonization of disclosure requirements were supported by many members, with some advocating for a common standard or key set of ESG metrics. There was general agreement in favor of promoting interoperability and comparability.

Digital solutions, as well as challenges associated with them, were also mentioned. Different ideas were given, including a system for sharing data and forms of data integration, the development of online tools and templates to reduce perceived complexity of reporting, and the possibility of technology transfer to enable more challenged jurisdictions to implement solutions.

The Presidency and Co-Chairs ended by thanking the knowledge partners for their presentations and made optimistic remarks about the progress in the area.

Session 3 Financing Nature-Based Solutions

The Presidency opened the session recalling that group's goal with this Priority is to significantly scale up financing for nature-based solutions (NbS) to meet the growing demands of biodiversity conservation and climate action . The Presidency also noted that SFWG members, during the side event convened the day before, benefited from a detailed presentation of the 12 case studies put forth by the Climate Policy Initiative (CPI) in their input paper. CPI's study and SFWG discussions pointed toward the importance of public policy, blended finance, and stakeholder engagement for the success of NbS projects. Co-Chairs reiterated the importance of creating and showcasing financial instruments and structures that are fit for purpose for financing nature-based solutions.

Two presentations followed:

- Toolbox of Blended Finance Cases in Nature-based Solutions[5]
- Charting an International Agenda for Sustainably Financing Nature-Based Solutions: challenges, opportunities and policy priorities for inclusive growth and sustainable development[6]

During their interventions, members discussed multiple issues related to financing NbS, from its environmental benefits to the importance of engagement and collaboration to data challenges, to the importance of technical assistance and specific financial instruments.

To have a clear discussion and also to avoid greenwashing, some members requested that specific definitions be used in Priority 4, namely, the UNEA definition of NbS and

[5] By Barbara Buchner, Global Managing Director, Climate Policy Initiative (CPI).
[6] By Patrick Ndzana Olomo, Head Economic Policy and Sustainable Development, African Union.

other relevant international conventions. Some members suggested that jurisdictions should include the concept of NbS in their green taxonomies.

Some members suggested including ecosystems-based approaches in the recommendations. Some said that the relationship between nature degradation, climate change and biodiversity loss, as well as how nature-based solutions to climate adaptation, could be explained in the text, highlighting how NbS can contribute to different environmental goals at once through enabling and increasing ecosystem services. This would help to allow the full economic value of NbS to be understood. Some members also noted that with nature-harmful financing flows are 10 times larger than nature-positive financing flows. This comparison provides an additional dimension to NbS financing.

For the reasons stated above, one member argued that the recommendations could go beyond their current project focus to also address systems level investing and pricing issues. For example, the influence of nature-harmful subsidies and their effect on NbS financing could be mentioned in the text.

Regarding financing challenges, while some members reiterated the objective of scaling up NbS financing, others mentioned that a favourable view on small scale projects and grants should be included in the report. Some members were in favour of including carbon markets, biodiversity credits and debt for nature swaps. Regarding the latter, some members pointed out that it is a scalable solution, while other members cautioned against suggesting it in the report.

Some members mentioned that some challenges are more common among EMDEs, including regulatory and legal issues, and lack of predictability, on the one hand, and lack of resources and of technical capacity, on the other. Technical assistance and an increased share of private sector capital participation were suggested as solutions to some of these issues.

One issue that was common across countries, based on members' comments, is the data challenge, from collection to comparability. Some members recognized the positive impact of certain initiatives, including TNFD, NZDPU, and NGFS's work in this area. Impact measurement and disclosure could help attract private capital, as some members argued. Also applicable to all countries, some members mentioned that NbS financing should be in line with country priorities, and that country platforms should support adaptation as well as mitigation.

Finally, engagement and collaboration between MDBs, jurisdictions and local communities were viewed as crucial by all, following the conclusions of CPI's report. It was also suggested that lack of trust of actors on the ground is a major barrier for them.

The Presidency and Co-Chais closed by acknowledging the importance of considering NbS within long-term development plans by jurisdictions and ensuring stakeholder engagement from the start of the development of the financing mechanisms. the integration with local communities could provide flexible, driven and improved solutions that address local challenges and promote sustainable development transformation. The issue of definitions and quantifications mentioned by members was taken note of.

Session 4: Advancing credible, robust and just transition plans

The opening remarks touched upon the need for national contexts to guide transition planning, importance of sectoral issues, and some of the challenges related to these issues.

After the opening remarks, presentations about all subtopics of Priority 2 were made:

1. Developing high-level principles for transition plans.
    a. The UK's experience in encouraging uptake of transition plans[7]
    b. Overview of Japan's Green Transformation (GX) Program[8]
2. Developing recommendations for the "just" aspect of transitions, and how to address potential negative economic and social consequences.
    a. Sustainability Crossroads: Where Climate and Nature Meet Equity[9]
3. Conducting sectoral assessments and case studies on hard-to-abate sectors like cement and steel.
    a. Enhancing the social dimension in transition finance – towards a just transition[10]
    b. The role of policymakers in mobilising private finance and ensuring a credible and just transition in steel and cement[11]

After the presentations, the floor was opened for members' interventions about Priority 2 as a whole. In their remarks, members gave feedback on the format and content of the Chapter and subsections, as well as their views on the issues of P2.

Regarding the format

One member commented that the principles should relate directly to the challenges. Some members expressed preference for more succinct high-level principles, avoiding giving examples or explanations in their text, with respect to recommendations for just transition. Some members suggested that the recommendations be grouped by who each one is for.

Regarding the content

Members broadly agreed that transition plans should be aligned with the Paris Agreement, while some emphasizing that pathways should be limiting global warming to 1.5°C, and some stressed the principle of common but differentiated responsibilities

[7] By Miriam Laurance, Head of Global Issues, United Kingdom Ministry of Finance
[8] By Hirokazu Yamasaki, Deputy Director, Development Policy Division, International Bureau, Ministry of Finance of Japan, and Chizuko Takai, Director for Sustainable Finance, International Affairs Office, Japan Financial Services Agency
[9] By Marcos Neto, Assistant Secretary General and Director of Bureau for Policy and Programme Support, UNDP
[10] By Fernando Messineo Libano, Social Finance Technical Officer, ILO
[11] By Leonardo Gava Mataram, Senior Brazil Agriculture Transition Manager, Climate Bonds Initiative (CBI)

(CBDR). Some members raised that climate commitments made by financial firms and corporates on voluntary basis are a form of accountability. Some members mentioned the importance of consistency over time at the jurisdictional level in pursuing transition goals. One member pointed out that providing clear policy guidance would provide the private sector with predictability that could enable necessary investments for the transition, and also flagged the importance of the credibility of government plans in this regard.

In the discussion about transition plans by private firms, some members raised the importance of including financial planning, risk management and risk appetite considerations in transition planning. Meanwhile, some members raised the importance of the qualitative component of transition planning. The credibility of private firms' transition plans was also mentioned, and that firms should aim to be comparable and transparent when disclosing their transition plans. To some members, a large portion of a transition plan's value is to communicate a firm's intentions to their investors or other stakeholders, which makes the credibility of these plans even more relevant. Taxonomies, disclosures, global comparability, data discoverability and machine readability were mentioned by some members as important components for the usefulness of transition plans. Some members also noted that corporates and financial institutions of different sizes should have different approaches to transition plans and that the role of financial institutions in assisting their clients to implement a just transition should be emphasized.

Some members made further comments on the scope of Priority 2. For example, some members would like to include climate adaptation to transition plan considerations, and some would like nature risks to be incorporated on top of climate ones. Some members would like the just transition recommendations to be focused on jurisdictions, whereas others would like more guidance for regulators. Within the social considerations, all members agreed that employment issues are central and recommend considering reskilling, upskilling, and shifting the workforce. There was also broad agreement that stakeholder engagement is important to transition planning with a just component, and that engagement activities with communities and other stakeholder groups would be beneficial. Some members stated that just transitions require certain international cooperation including technology transfers, development aid, and other forms of assistance between countries or regions. Those topics are discussed in other G20 workstreams, which some members said the SFWG should be in alignment with, such as IFAWG, FWG, and TF-CLIMA.

Regarding the recommendations

The recommendations were generally welcomed. However, some members mentioned that private firms' transition plans should be created within the frameworks of their governing jurisdictions. For some members, it is not the time yet to focus on the standardization of transition plans or to introduce standards and methodologies to track progress. Finally, some members mentioned that a sectoral approach to transition planning is needed, and some reiterated that sectoral focuses are welcome, referring to the focuses on cement and steel presented at the beginning of the session.

Some members noted that there is no common understanding of just transition. In particular, some members stated that just transition recommendations would, need to be clearer on who each recommendation is aiming for, and that regulators should receive more guidance. In the meantime, some members are also against the idea of prescribing recommendations for private firms on just transition.

In their closing remarks, Co-Chairs mentioned that governments should provide clear objectives, strategies and pathways of decarbonization including via mitigation and adaptation, and welcome corporates and financial institutions to formulate credible transition plans taking country circumstances and international best practices into consideration. It was also mentioned that the recommendations should lay out what should be in transition plans and that those plans should be internationally more consistent and comparable. The creation of an enabling environment for job creation and other support for a shifting workforce was recognized as a necessity for the just transition.

Overall closing remarks and next steps

In their closing remarks, the Presidency and Co-Chairs thanked the delegates, knowledge partners, and their respective teams for their active participation and valuable contributions during the two-day meeting. The Presidency announced that the fourth SFWG meeting will be held in Rio de Janeiro on September 9th and 10th, 2024.