G20 SUSTAINABLE FINANCE WORKING GROUP
PRIVATE SECTOR ROUNDTABLE
6th March 2024

Overview

The G20 Sustainable Finance Private Sector Roundtable was held on March 6th, 2024. It convened representatives from central banks and ministries of finance, financial institutions, corporates, and academia.

The online event featured three distinct roundtables, each dedicated to informing three of the four specific SFWG 2024 priorities:

- Advancing credible, robust, and just transition plans;
- Analyzing implementation challenges related to sustainability reporting standards, including for small and medium-sized enterprises (SMEs) and Emerging Market and Developing Economies (EMDEs); and
- Financing Nature-Based Solutions (NbS).

Roundtables were organized in partnership with, respectively, The Institute of International Finance and the London School of Economics and Political Science, CDP and UNEP-FI. This note captures the main outputs of the presentations and discussions.

Roundtable I. Advancing credible, robust, and just transition plans.

The roundtable discussions emphasized the challenges of fragmentation and the need for better understanding of what constitutes credible and robust transition plans to scale-up capital mobilization for a just transition, and the G20's critical role in providing high-level principles for transition plans to align approaches internationally.

Speakers discussed the following topics:

Determining the credibility of transition plans: The growing focus on **credible transition planning** was a central theme of discussions, which highlighted the challenges in developing credible and robust transition plans, and the difficulty in assessing their credibility and determining who should do so.

Speakers dived into debates around **what financial sector transition plans should include** and how the information in them should be communicated and used considering the wide range of stakeholders involved ranging from regulators to policy makers, corporates, investors, and civil society. The discussion highlighted on-going efforts for building consensus around common building blocks for transition plans. Among others, a speaker raised that the Glasgow Financial Alliance for Net Zero (GFANZ) has identified ten core elements of credible, comprehensive and comparable transition plans, grouped under five key themes, namely: foundations (objectives and priorities), implementation strategy, engagement strategy, metrics and targets; and governance.

While good practices exist, **developing credible and robust transition plans was described as challenging** due to resource requirements, reputational risks, data gaps, reliance on assumptions, lack of agreement on appropriate metrics, and lack of standardization. The investor perspective highlighted the criticality of transition readiness and the evolving business practices towards sustainability, acknowledging that there are numerous pathways to achieving global net-zero emissions, but coordination remains limited. A speaker emphasized the importance of calibrating frameworks to the realities of emerging markets, addressing differences in emission patterns, and avoiding fragmentation.

Inherently strategic nature of transition plans: The **difference between transition planning and climate risk management** was tackled. Transition plans were presented as effective long-term business strategy, largely qualitative in nature. As such, metrics like financed emissions cannot be taken as a proxy for climate risk. Climate and transition risk assessment remains part of the broader risk management function of financial firms. It was suggested that transition planning and climate risk management be distinctly approached to effectively address the complexities of each. A speaker also mentioned the shift from a sole risk focus to identifying transition finance opportunities for growth.

Just transition as a Core Component: **Incorporating a 'just transition' into transition plans was said to be crucial for simultaneously achieving climate, nature and social objectives**. The discussion highlighted the need for inclusivity and consideration of social implications in transition planning. It was argued that expanding beyond an energy-centric view can enhance opportunities, for example through nature-based solutions.

Capital mobilization – Linking transition planning and transition finance: A key goal of transition plan development and implementation is **capital mobilization highlighting the link between transition planning and transition finance.** Participants discussed how engagement with clients could help facilitate the transition. Some participants noted that taking a whole-of-firm approach was useful, and that it was important to assess not only where firms are today, but also their potential to transition**.** Participants also mentioned that governments can help mobilize capital to transition finance by issuing sovereign bonds labeled as transition products. This can both align the government actions with national transition plans and also pave the way for sector-specific transition pathways, which could in turn lead to a comprehensive transition taxonomy that can also be used by the private sector in capital markets.

Comprehensive Approach to Transition Planning: According to speakers, **the financial sector cannot drive transition on its own**, and that a financial firm's ability to meet its transition plan would depend on actions taken by clients and portfolio companies. Participants noted the need to make sure that corporate, financial and national transition plans complement each other and drive the necessary changes in consumer and corporate behavior. Coordination among policymakers, regulators, and supervisors is key to creating an enabling environment which addresses both supply and demand-side considerations. It was suggested that the G20 could converge around and support the widespread adoption of a common "building block" approach to transition planning that addresses the common and varying needs of different stakeholders.

International and Domestic Policy Alignment: The policy environment needs to be right for transition plans to be both ambitious and effective as companies and financial institutions can benefit from on government-led efforts on transition planning, which could include transition taxonomies, economy-wide and sectoral plans and pathways, or a combination thereof, by providing useful information that capital allocation decisions. **Aligning international and domestic policies** is another key catalyst for scaling up capital in support of a just transition. UK's domestic policymaking was discussed as a great example of focusing on aligning policies with global approaches. The significance of policy coherence between global and local levels was underscored to ensure efficient mobilization of resources towards achieving net-zero targets and supporting just transition mechanisms.

Speakers confirmed that **the G20 can drive international alignment in approaches to transition plans**. The SFWG work in developing high-level principles for transition plans will play a valuable role. This will support credibility of the plans and ultimately, help the flow of transition finance. Some participants mentioned that transition plans will be most effective if connected to national climate strategies and policy frameworks – and that the UNFCCC's new Just Transition Work programme provides a strong foundation for integrating just transition in NDCs.

Roundtable II. Analyzing implementation challenges related to sustainability reporting standards, including for SMEs and EMDEs.

The roundtable discussion focused on analyzing the benefits and challenges of current or planned sustainability reporting standards, especially for SMEs and in EMDEs, as well as exploring how these standards incorporate the principle of proportionality while remaining effective for all stakeholders.

The **discussion started with the emerging reporting frameworks and standards for SMEs across emerging economies**, with a focus on the benefits that firms in emerging economies derive from these frameworks and standards, and the associated implementational challenges posed by them.

Speakers discussed the following topics:

Implementation challenges: A speaker designated as the primary implementation challenge the **proliferation of formats and platforms available to support access to the right information for different use cases.** It was mentioned that it leads to fragmentation in the market which results in reporting burden and increased compliance costs, particularly for MSMEs. Hence a call for greater alignment and interoperability among the frameworks and platforms. The challenge of **putting confidential data in public domain** was highlighted by several speakers. The **lack of sector specific capacity of SMEs** to understand and implement the reporting requirements/standards was also stressed upon. In this context, the example of the Private Company Data Connect platform was put forward. The platform leverages the ESG Integrated Disclosure Project (IDP) template to collect data from private company borrowers and manage a workflow that allows borrowers to control who views their disclosures.

Trade-offs in types of disclosure: Emerging frameworks are increasingly demanding details on quantitative data/metrics around climate risks. In this context, a speaker noted that quantitative disclosures may typically be more useful than qualitative ones, as the latter require more resources and expertise to parse. It was mentioned that upcoming standards, such as the EU ESRS and IFRS S1 and S2, have a higher proportion of qualitative disclosures, potentially disadvantaging smaller companies and those in emerging markets aiming to disclose. A speaker **cautioned against jurisdiction-specific metrics**, as they tend to not to be used by international investors, and suggested jurisdictional regulators to consider the cost and benefit of jurisdiction-specific disclosures.

It was noted that SMEs can be included in the value chains of large companies, and that fragmented standards can create additional costs for those firms. Yet, different jurisdictions are at different stages of maturity in terms of adopting sustainability reporting. Challenges were also raised related to getting the scope 3 emissions data from value chains and running a scenario analysis.

Case study: China's upcoming regulation on climate related disclosures. Approaches that the Shanghai Stock Exchange (SSE) has adopted while setting up the self-regulatory guidelines for sustainability reports were detailed. It was highlighted that, in addition to disclosing climate, related governance, strategy, impact, risk and opportunity management metrics and targets, Chinese companies are required to further disclose matters like climate adaptability, transition plan, total greenhouse gas emissions, emission reduction measures, and carbon emission-related opportunities. 47% of the total listed companies on the SSE published their 2022 sustainability reports which resulted in increased financing and in issuance of green and sustainability related bonds. To address the proportionality aspect, SSE guidelines aim to strike a balance between mandatory and voluntary disclosures and between qualitative and quantitative disclosure. Reporting entities are required to disclose both qualitative and quantitative information on certain important topics to facilitate cross-sectional and time series comparisons for investors and stakeholders. The guidelines also entail transition period arrangements and adoption relief provisions thus enabling reporting entities to build capacity in sufficient time.

Building capacities of corporates to understand the right tools available. A speaker highlighted the existing 150 capacity building resources on ISSB knowledge Hub to support preparers at all stages and sizes. While ISSB standards are primarily developed for larger companies, it was highlighted that they aim to provide support to smaller companies as well. ISSB Standards have provision to provide capacity building by assisting SMEs and the smaller companies in global value chains and the companies operating in jurisdictions where capital markets and legal and enforcement systems are less developed and have less experience with sustainability reporting. It was also informed that ISSB has published a guide to support jurisdiction for adoption or use of the standard. In the future, the development of a sustainability disclosure standard specifically for SME could be considered by the ISSB given the uptake in demand.

Challenges around information needed for carbon accounting specifically for EMDEs. A speaker elaborated on entity level attribution of the global carbon footprint and the associated importance of SMEs which form a key supplier base at the global level. This requires building a base that allows for appropriate input data and appropriate tool development. Specific digital tools and data resources that have proven effective in helping SMEs and small businesses in emerging economies were mentioned, taking as an example the Project green print, which is a collaboration focused on SME disclosure in Singapore.

As the session concluded, panelists responded to audience questions, addressing topics such as the mutual acceptance of verification frameworks for sustainability reports and the sufficiency of existing disclosure standards in explaining the relationship between capital expenditures, operating expenses, and just transition plans. The discussion emphasized the need for collaboration, capacity building, and the development of interoperable standards and digital tools to support SMEs and businesses in emerging markets in their sustainability reporting journey.

Roundtable III. Financing Nature-Based Solutions

This roundtable focused on how to accelerate finance and investments towards NbS and engage the private sector. According to UNEA, nature-based solutions (NbS) 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 and resilience and biodiversity benefits"* (UNEA, 2022).

The moderator introduced the session by emphasizing the topic's relevance. Financing NbS is essential for achieving the 1.5°C target outlined in the Paris Agreement and plays a critical role in meeting future global food demand while mitigating global warming. Total finance flows to NbS from the public and private sector represent less than 1% of global GDP. Public finance flows to NbS were less than 10% of public spending on environmentally harmful subsidies in 2022.

Therefore, the importance of creating enabling policies by governments – from putting a price on carbon, to reforming agricultural fiscal policies and environmentally-favourable trade policies – as well as regulations cannot be overstated, as they are crucial for unlocking capital and scaling up investments.

It was exposed that NbS is currently experiencing a similar situation to what renewable energy faced a few decades ago, characterized by few concrete actions and costly transactions. Just as with renewable energy, it **is expected that increasing investments in financing NbS will help lead to scale by building investor confidence and proving out the business models**. The journey towards more sustainable land use and food production has only just begun, and there is still a long road ahead.

Speakers discussed the following topics:

Global frameworks & data: one of the **key measures in order to foster finance to NbS is the creation of consistent and robust global frameworks**. In September 2023, TNFD released its framework that not only acts as a means to apply sound risk management, but also seeks to unlock opportunities for new investments. The work took 2 years to complete, is relevant for a vast diversity of geographies and sectors and includes the participation of 320 early adopters, with 120 being financial institutions. Other regulatory tools, such as the International Capital Market Association framework for sustainable bonds have also been created. However, **continuing work for the development of market regulations can be an important tool**.

Related to this, there is a need to develop high quality data, to help banks and corporates mitigate risks, make decisions and create opportunities. **Reducing the data gap and providing accurate information for the market** can be a strong tool to promote financing to NBS.

Government agencies should work together to create favorable economic incentives: when it comes to regulations, it is important that governments (including Central Banks, Ministries of Finance as well as Ministries of Environment) **work together with the market to create the right incentives. Governments play a key role in terms of creating strong policies, providing frameworks and delivering trustworthy data**. NbS should be part of the public sector agenda, not only in terms of risk mitigation but also to create opportunities.

For example, governments can create policies to stimulate the creation, transfer, and sale of carbon credits, as ways to diversify and increase sources of revenues for those companies investing in NbS – if the right safeguards, baselines and accounting is applied. However, there remains a lot of uncertainty and lack of global and consolidated regulation. Biodiversity credits can be another promising new tool and means to create revenue for certain types of businesses, but is currently in development.

Role of blended finance: **Using public capital at concessional rates to crowd in private capital is key to financing NbS, especially in the absence of a strong track record of privately financed deals**. **Blended finance are structures where catalytic capital (capital that is patient, risk tolerant, and flexible in ways that differ from conventional investment) is used to mobilize commercial private sector by de-risking investments**. In order to provide catalytic capital, Governments, Multilateral Development Banks, vertical funds, Foundations and NGOs play a key role and should work closely with the private sector. As the requirements of different capitals may be the opposite, it's important that catalytic capital move forward and participate in the subordinate trenches and unlock investments.

From small pilot to scalable projects: moving from small, pilot transactions to large projects is key to creating an asset class and bringing in institutional investors, thus advancing the agenda and gaining market penetration. However, **lacking a price on nature is one of the big challenges to be faced**. Giving value to nature assets and understand NBAs opportunities needs be clear for investors and corporates. Collaboration among players - banks, NGOs, foundations, regulators, philanthropy, multilateral agencies, and banks - is needed. Global initiatives aimed at addressing those barriers include the International Advisory Panel on Biodiversity Credits, and the World Bank private sector lab which looks at the nature and climate nexus. A number of countries are also developing country platforms. Challenges are even bigger for small projects and emerging economies, as smaller and riskier transactions may face resistance from the private sector.

Stimulate companies to make nature part of their core strategy and mainstream investment with no negative impact on nature: for a large number of corporates and financial institutions, it may be difficult to make the link between nature degradation and the company's activity, as they may not understand the need for nature to keep providing services with a company's bottom line. **However, making nature part of the core strategy of a company can be a strong value creation tool for business (suppliers, offtakers, etc) as well as banks and investors**. For instance, soy buyers should know where their supplies come from and the impact on nature. On the other hand, farmers should be recognized for their efforts and **receive the right incentives** (e.g., financial, access to new markets, better conditions).

Debt Capital Market: another key element to **unlock investments in NbS is having access to the debt capital market**. A few sustainable transactions have already successfully tapped the market (sovereign and corporates). However, this number is still small. In order to promote access to capital market (especially for Emerging Countries), debt restructuring can be an important tool to refinance costly short-term debt with new debt with better conditions and use of proceeds dedicated to finance sustainable and social projects.

Nature-Based Solutions are yet a recent and small part of the corporate market, with a lot of learning and catching up to be done. It's a new business approach not considered in the past, and the learning curve is steep. However, **as the economic and social costs of degrading nature become increasingly clear, it is important for G20 nations to 'lead-by-example'. It was noted that the G20 members have evolved a lot in the past few years, and the agenda is moving, but innovation takes time, and it is important to act fast**. Nature considerations should be part of all business decisions made.