Joint Framework Working Group and Sustainable Finance Working Group side event | 19 – 20 May 2025 (virtual)

CO-CHAIRS' SUMMARY

The Joint Framework Working Group (FWG) and Sustainable Finance (SFWG) Working Group side event under South Africa's G20 Presidency was held virtually on 19 and 20 May 2025. For the first time, delegates from both the FWG and SFWG convened in a joint format to explore synergies between the two groups towards a holistic approach to scaling up sustainable finance and reducing climate-related risks. The joint meeting discussed the role of macroeconomic policies and structural reforms in reducing climate-related risks and creating an enabling environment for sustainable investment, especially in the context of heightened global policy uncertainty and weaker economic growth prospects. This note serves as the output from the meeting and will inform discussions by Finance Ministers and Central Bank Governors (FMCBG) as well as the deliverables of the FWG and SFWG throughout this year.

On Day 1, the meeting began with presentations from international organisations (IOs), which provided analysis and evidence to help steer the discussions. The International Association of Insurance Supervisors (IAIS) highlighted the risks to financial stability posed by the growing gaps in insurance coverage for physical losses and their second-order impacts, noting, among other data, that insurance gaps for natural catastrophes accounted for 57% of total economic losses in 2024. The Organisation for Economic Co-operation and Development (OECD) presented a report under development with the African Development Bank on scaling up finance and investment for climate adaptation globally in the context of limited fiscal space, focusing on essential sectors such as agriculture, infrastructure, energy, water, and early warning systems through adequate enabling policies and regulatory frameworks, capacity building and support to improve project preparation and implementation. The European Commission (EC) provided findings on three structural barriers to investment, including regulatory uncertainty and fragmentation, the lack of domestic expertise in green skills, and operational barriers at the project level. The EC also outlined progress made to date in addressing these issues through the G20 Technical Assistance Action Plan and explored the macroeconomic impacts of climate change. The Network for Greening the Financial System (NGFS) outlined new scenario analysis and findings on the short-term impact of climate change on macroeconomics and mitigation policies, highlighting how delayed transitions lead to more pronounced output losses and inflationary pressures across these scenarios. The OECD also provided analysis on the role of product and labour markets in supporting the climate transition, highlighting how barriers to entry in upstream sectors, poor education performance, high levels of informal employment, and lack of social safety nets hinder the allocation of resources and increase transition costs. Economies also face other major challenges such as declining productivity and rising old-age dependency ratios, underscoring the importance of more effective policy coordination and implementation.

On Day 2, members discussed how to support an enabling environment to scale up sustainable finance and reduce climate-related risks, sharing their own experiences of doing so. Remarks made by members cut across both the FWG and SFWG remits and highlighted the value of closer cooperation between the groups. In general, members noted that:

- Climate change poses significant risks to the macroeconomy, making macroeconomic policy foundational in addressing this risk. In particular, strong institutions, fiscal sustainability and credible monetary policy can underpin increased flows of green investment and reduce capital costs.
- Issues of climate change, economic growth, and financial stability are interconnected and mutually reinforcing. Increasing global uncertainty makes addressing the climate-finance gap more urgent and challenging.
- Insurance protection gaps could pose significant macroeconomic risks. Recognising this, action should be taken to support the development of comprehensive disaster risk management strategies, including through improved access to reinsurance markets, adaptation finance and strengthened public-private collaboration.
- The role of the public sector in designing measures to reduce uncertainty (particularly around regulation) and in integrating climate-related risks into financial decision-making is key to providing clear long-term direction for the private sector. This can be achieved through clear, predictable, and transparent policies. Numerous members provided examples of private sector engagement platforms, public-private initiatives, and efforts to build domestic skills and capabilities.
- Transparent data and standards, including data reporting by the private sector, help set the stage for private finance to meet the needs of the economy, in addition to supporting risk management more broadly. Members noted the importance of disclosure standards, taxonomies, transition plan guidelines, and the need for interoperability.

From a macroeconomic perspective, many members picked up on the scale of the challenge that climate change itself presented, not only to the economic outlook, but also in terms of financial stability risk. Some members also noted the uneven distribution of risk within and between countries. On policy responses, members generally highlighted how sustainable finance can support a just climate transition and outlined their efforts to address barriers in this space.

Overall, the member discussion highlighted varied policy responses tailored to country-specific circumstances. Underlying this, however, was a shared understanding of the financial risks posed by climate change and the need to take comprehensive action.