



1st Finance and Central Bank Deputies (FCBD) Meeting

SESSION III: SUSTAINABLE FINANCE

KEY OBJECTIVES:

- present the Brazilian priorities for the Sustainable Finance Working Group (SFWG);
- consider challenges; and
- seek members' views on priorities and the workplan.

Brasília, December 2023

I. OUTLOOK AND STRATEGIC VISION

In 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' 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 toward sustainable development.

Under the G20 Brazilian Presidency in 2024, the SFWG will build on prior achievements and work on the following four priorities:

- Optimizing access to international environment and climate funds.
- Advancing credible, robust and just transition plans.
- Implementing sustainability reporting requirements that work for all, including 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.

II. PRIORITIES FOR THE SUSTAINABLE FINANCE WORKING GROUP IN 2024

Priority 1: Optimizing access to international environmental and climate funds

Addressing climate change mitigation and adaptation costs as well as the biodiversity protection needs 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 need nearly 6 trillion dollars to implement their climate action plans by 2030.

Vertical funds focused on global environmental issues include the Green Climate Fund (GCF), the Global Environment Facility (GEF), Climate Investment Funds (CIF), and the Adaptation Fund (AF). Financial Intermediary Funds (FIFs) at multilateral development banks (MDBs) have also emerged as important dedicated financing mechanisms to mobilize and channel such large-scale investments. These vertical funds together represent one of the largest sources of targeted multilateral catalytic financing 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 are a critical part of the evolving international financial architecture. Besides some governance issues, improving the operational efficiency of these funds has been highlighted as a promising avenue to increase access to climate finance. Given the growing complexity of international financial architecture, identifying ways to simplify the system is imperative to attract private sector co-financing and better serve beneficiaries.

The international architecture of sustainable finance encompasses a vast number of institutions related to UN Conventions, MDBs, UN agencies, multilateral trust funds, and other public and private actors. Multilateral environmental agreements provide guidelines for these institutions, serving 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 processes of these funds with the objective of simplifying access by developing countries could be crucial for them to better leverage private capital. In a 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 guided by Focus Area 4 of the Roadmap, 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 elaborate options to optimize the operations of environmental and climate funds, reduce inconsistencies in the system, and facilitate co-financing with MDBs, while leveraging and amplifying scarce public resources and attracting more private capital.

Priority 2: Advancing credible, robust and just transition plans

Transition finance, as discussed in the 2022 G20 Sustainable Finance Report, 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 Transition Finance Framework ('Framework') which was then 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-GHG economy. Many G20 members have expressed interest in carrying forward the work on transition finance during the next Presidency.

While there has been much work in financial policy-making forums and networks to "Green the Financial System", through an environmental lens, potential negative social and economic impacts resulting from the climate transition have not been explored as deeply, risking negatively impacting society, especially vulnerable populations. The Brazilian Presidency of the G20 has placed the fight against 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.

Building on the work of previous Presidencies, the Brazilian Presidency will explore the practical integration of socioeconomic considerations into transition finance activities and planning. To address potential negative effects of transition activities, many governments may first turn to fiscal policies. These are, and will remain, critical tools, but they are limited by fiscal space, especially in EMDEs. The financial and the corporate sector may also be able to help mitigate some of these negative effects.

With the goal of facilitating the transition to a low-GHG economy that leaves no one behind, the SFWG will reflect and provide guidance on how financial institutions and corporations can integrate the 'just' component into transition plans working on top of ongoing international work on transition finance, as well as how other organizations can support them in this endeavor, all through the lens of the G20 Transition Finance Framework.

The SFWG will use the G20 2024 as a conduit to create consensus around what a just transition would be, and to create principles of just transition planning based on that concept. To help enterprises working toward a just transition attract capital or financial flows, the principles created by the SFWG will include recommendations on how their just transition planning may be as robust and credible as possible. Finally, the SFWG will apply those principles to a hard-to-abate sector as a proof of concept.

Priority 3: Implementing sustainability reporting requirements that work for all, including SMEs and EMDEs.

Currently, a growing number of stakeholders are demanding greater transparency and standardization of companies' sustainability disclosures. International standard setters have responded to this call by publishing standards for reporting on these themes. The ISSB Standards (IFRS S1 and S2) were also endorsed by IOSCO. However, the complexity of disclosure standards may sometimes result in different interpretations across jurisdictions. Implementation without prior harmonization, especially in the case of IFRS S2, may jeopardize predictability and lead to increased costs for companies, generating economic inefficiencies. These negative effects are potentially more harmful for SMEs and EMDEs.

In addition to direct challenges, SMEs and firms in EMDEs may also face indirect effects arising from their participation in value chains. Thus, it is important to address challenges such as the "more efficient use of available information, leveraging digital technologies" and the "need to avoid disproportionate burdens on small and medium-sized enterprises," as highlighted in Action 9 of the Roadmap. The Paris Agreement's principle of common but differentiated responsibilities and respective capabilities is also applicable to disclosures.

Therefore, the Brazilian Presidency intends to delve deeper into the analysis of not only the benefits but also the challenges regarding the adoption faced by both SMEs and firms in EMDEs, so that reporting requirements could work for all, in a just and affordable manner. The expected workflow is threefold: (i) a survey of the specific challenges of implementing sustainability reporting for SMEs and EMDEs; (ii) a comprehensive stocktaking of digital and other tools for enhanced sustainability reporting; and (iii) a stocktaking of lessons learned to support international standard setters and regulators in other upcoming sustainability dimensions (social, inequality, nature-related, etc.).

Priority 4: Financing Nature-Based Solutions (NbS)

The NbS concept was formally adopted on March 2, 2022, at the United Nations Environment Assembly 5, through UNEA Resolution 5.2. It recognized the important role of NbS in the global response to climate change, its social, economic, and environmental benefits, and in achieving the SDGs. Financing NbS is critical. 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, especially in EMDEs.

These solutions are complex and often not applied to the projects that need them. To channel capital into NbS investments, it is essential to understand how each available financial instrument can be used to their fullest potential.

The SFWG will identify cases and go into the details of the financial instruments used in them. The instruments that offer the most scaling power and replicability will be showcased in a toolkit format, to be used in similar contexts, scaling up transformative, nature-based climate solutions in developing countries.

The result will be actionable insights and recommendations for addressing the financial challenges to scale up NbS in developing countries, contributing to climate resilience, biodiversity conservation, and local community development.

III. PLANNED DELIVERABLES

- An independent review of the functioning of international environmental and climate funds, with the objective of proposing recommendations to improve their operations, aiming at simplifying access to resources according to each one's profile (comparative advantage).
 - Recommendations on credible, robust and just transition plans for jurisdictions, financial institutions and IOs focusing on how to assess and mitigate negative social and economic impacts of transition activities and investments.
 - Recommendations for jurisdictions and standard-setting bodies on addressing challenges for SMEs and EMDEs to implement just sustainability reporting.
 - A report presenting the evaluation of blended finance instruments and recommendations for improving existing financial solutions to adapt them to the specific needs of NbS.
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IV. QUESTIONS FOR DISCUSSION

1. What are the Deputies' views on the priorities proposed by the Brazilian Presidency for the Sustainable Finance Working Group?
2. What are the Deputies' views on current global challenges affecting sustainable financing?

