

SUSTAINABLE FINANCE SYNTHESIS REPORT EXECUTIVE SUMMARY

**G20 Sustainable Finance Study Group
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Executive Summary of the Sustainable Finance Synthesis Report



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Executive Summary

G20 members have adapted, under Argentina's Presidency, the work of the Green Finance Study Group (GFSG) to the broader concept of sustainable finance, leading to the change of its name to the Sustainable Finance Study Group (SFSG). Sustainable finance can be broadly understood as financing as well as related institutional and market arrangements that contribute to the achievement of strong, sustainable, balanced and inclusive growth, through supporting directly and indirectly the framework of the Sustainable Development Goals (SDGs). A proper framework for sustainable finance development may also improve the stability and efficiency of the financial markets by adequately addressing risks as well as market failures such as externalities.

In 2018, the SFSG seeks to identify voluntary options to expand private investment in sustainable activities that achieve positive environmental impacts and social and economic co-benefits (e.g. job creation, growth enhancement, technological development, poverty reduction, and social inclusion).

Private capital is often an important source of sustainable finance. Public finance alone may not be sufficient to meet the demands for sustainable finance as the global economy continues to grow and poses increasing burdens on our resources and ecosystems. For these reasons, G20 members have sought to introduce and incentivize private investment in projects that are aligned with sustainability objectives.

Over the past years, many countries have introduced new initiatives and financial products to expand sustainable finance. Despite this encouraging momentum, the deployment of private capital for sustainable finance is still constrained due to a variety of institutional and market barriers. These include the limited use of appropriate investment vehicles, and the lack of information or information asymmetry regarding the outcome of sustainable investments. Unleashing this capital more effectively presents an important opportunity that the G20 can contribute to realizing, enabling benefits to its members and others.

Under Argentina's Presidency, Finance Ministers and Central Bank Governors have mandated the SFSG to develop and assess options for voluntary adoption by members to help deploy financing, including by: creating sustainable assets for capital

markets; developing sustainable Private Equity and Venture Capital (PE/VC); exploring potential applications of digital technologies to sustainable finance, taking into account countries' circumstances, priorities and needs.

The SFSG stocktaking, analysis and layout of voluntary options intend to address specific sustainability-related challenges in these three areas. Key findings from the research are:

a) Creating sustainable assets for capital markets. Currently, private sector financing of sustainable projects has been largely originated by banks and resides on their balance sheets in the form of loans. While acknowledging that banks may have legitimate reasons for retaining these assets on balance sheets, a range of debt capital market products can provide pathways for institutional investors to finance or refinance these sustainable loans. Examples of these products include sustainability-targeting bonds, covered bonds, asset-backed securities (ABS), mortgage-based securities, and collateralized loan obligations (CLOs). Other pathways to develop sustainable debt capacity involve institutional investors underwriting sustainable debt on their own or investing in funds that underwrite sustainable assets, and investing through digital platforms for deal origination. All pathways and products should be in compliance with international agreed regulatory standards.

Several challenges were identified in developing sustainable assets for the debt capital markets. Among these were: insufficient market awareness of the benefits of sustainable investments; the lack of underwriting capacity; the lack of clarity for identifying sustainable investments accurately and efficiently; and lack of effective impact reporting.

Voluntary options emerging from the research to mitigate some of these challenges include:

1. Raise awareness of the benefits of sustainable debt products through communication and educational initiatives.
2. Encourage dialogue to improve the quality and transparency of sustainability taxonomies, taking into account national and regional circumstances, priorities and needs.

3. Facilitate technical trainings for the analysis of sustainable investments, the development of the internal capacity of institutional investors to underwrite sustainable debt products, and capacity-building for asset managers in managing portfolios of sustainable assets.
4. Encourage the development of digital platforms that bring together sustainable assets and investors.
5. Seek to identify the unintended consequences of sustainable assets including effects on financial stability and risk-adjusted returns.

b) Developing sustainable Private Equity and Venture Capital. While early-stage companies and small and medium-sized enterprises (SMEs) with positive environmental, social and economic impacts are critical to driving sustainable growth, many of these companies face difficulties in obtaining adequate investment capital. The growth of sustainable investment strategies among PE/VC funds provides an opportunity to address the lack of adequate funding for environmentally sustainable business models and technologies, yet their deployment is still hindered.

Challenges identified for developing sustainable PE and VC include: actual or perceived low risk-adjusted returns of some investments in sustainable technologies and business models; the early stage of some sustainable technologies and business models and their end market; misaligned return horizons; establishing clear definitions; standardization and verification; limited market scale and sophistication; complexities in quantifying the pricing of externalities and at times mixed incentives to pricing them; and an unevenly developed PE/VC marketplace among countries.

To overcome these challenges, the following voluntary options were identified:

1. Promote the establishment of incubators/accelerators for sustainable start-ups and the integration of sustainability considerations in existing or general incubators.
 2. Facilitate multi-stakeholder dialogues to work on the interpretation of sustainability in investment obligations.
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3. Support the launching of demonstration projects and dissemination of good practices and lessons learned.
4. Encourage the clarification in the use of standards for managing sustainable investments by PE/VC, taking into account national and regional circumstances.
5. Promote the development of a range of sustainable products and fund structures suitable for a broad range of private equity investors.

c) Exploring potential applications of digital technologies to sustainable finance.

A mapping exercise across G20 members highlights emerging practice in applying digital technologies to sustainable finance. Potential benefits from these applications for sustainable finance include: make more extensive, accurate and relevant data available more cheaply and quickly; improve pricing of environmental risks and opportunities and at a lower cost; reduce search costs; improve measuring, tracking and validation of the application of sustainability criteria; unlock innovation and inclusion in accessing sustainable finance options, including the increased involvement of citizens; encourage new sources of finance with an interest in sustainable development outcomes; and facilitate new investment configurations and business models. Realizing such potential requires overcoming a number of challenges, including: risks and unintended consequences associated with the

digitalization of finance; the limited understanding of digital technologies and their interplay with sustainable finance; limited availability, quality and use of sustainability-related data for financial decision-making; nascent business models.

Voluntary options in this domain are:

1. Raise awareness about the potential opportunities and risks of the application of digital technologies to sustainable finance.
2. Explore the relevance of supervisory arrangements for applying digital technologies to sustainable finance.
3. Encourage investment in digital technologies that advance sustainable finance, such as technologies that improve the assessment and availability of sustainable finance-related data.

The above-mentioned findings can help countries in their voluntary efforts in deploying sustainable finance. Specifically, it can be useful to make available the considerable source of long-term capital from institutional investors for the refinance of the growing pool of sustainable loans on banks' balance sheets; in overcoming the lack of funding for the development of sustainable technologies and of sustainable business models by early-stage companies and SMEs.

