



GFSG SYNTHESIS REPORT

WWF REACTION

25 August 2016

The G20 and Green Finance

The Green Finance Study Group (GFSG) has produced a synthesis report to the G20 Finance Ministers and Central Bank Governors with the Study Group's key findings on barriers to scaling-up and mainstreaming green finance and proposed a number of recommendations. The report focusses on the five following research subjects: banking, green bonds, institutional investors, risk analysis and measuring progress.

Environmental drivers of risk, such as climate change, resource scarcity, biodiversity loss, land degradation and water risks are growing in both number and intensity. Their relevance as material risk factors to economic systems is increasingly recognised. There is also growing consideration on how such risks link to and impact the stability of the wider financial system. The GFSG report acknowledges this relevance as it is based on a number of specific risk assessment case studies.

WWF:

- ▶ **Welcomes the GSFG work and the synthesis report** as an important step in highlighting the materiality of environmental risk and its link to financial stability. The report also confirms the urgent need for more detailed and robust demonstrations of this materiality.
- ▶ **Calls on the G20 to continue this critical work stream.** The subcategories should also be expanded further. The GFSG suggests some fields of concrete policy action to foster the growth of green finance. WWF strongly endorses the GFSG recommendations on strong policy signals, definitions of "green finance" and harmonisation of respective criteria across relevant segments of the green finance fields.
- ▶ **Asks G20 finance ministers to issue concrete policy recommendations** for financial institutions to take full account of environmental and social risks in decision-making. The Communiqué of the G20 Finance Ministers and Central Banks Governors' from 24 July 2016 fell well short of that needed ambition. The first steps now are for G20 Leaders to provide clear strategic policy signals and frameworks for scaling up Green Finance and to **elevate the GFSG to a G20 Working Group** at the Summit in Hangzhou (4-5 September).

GFSG Synthesis Report

The Synthesis Report outlines a few **barriers to scaling up green finance**, for example inadequate internalization of externalities, maturity mismatch, information asymmetry and lack of capacity to manage environmental risk. The detailed description of these barriers provides a good overview of existing practices. The report also outlines nine recommendations to overcome those barriers. While all of them are important, **the recommendations only match with the problem statement if some of them are prioritised. The recommendations 4, 7 and 8 need to be addressed first:** (4) “provide clearer policy signals regarding the strategic framework for green investment”; (7) see below and (8) “(...) develop scenario-based risk modelling approaches to enable financial institutions to measure, manage and report on environmental risks”.

For example, there are few incentives for an investor to adopt and implement environmental risk management principles, if there are no policy signals by decision-makers. Also, in order to base risk models for financial institutions on certain assumptions, policy makers need to minimize the uncertainty around assumptions through clear policies.

WWF wishes to highlight the three following elements:

Greening Institutional Investors

WWF agrees with the identification of lack of strategic policy signals as number one barrier to mainstreaming green investing. **Policy signals on green investments from G20 as the global financial stability forum are urgently needed** to reduce a perceived first mover disadvantage and inform about the economic and financial opportunities from a transition to a green and inclusive economy.

Cross-cutting issues: Definitions and indicators

A common problem underlying most of the research subjects of the GFSG is the lack of a definition of green finance, which creates the risk of “greenwashing” whereby unsustainable projects are financed.

WWF therefore supports recommendation 7 (definitions and indicators) “to identify an appropriate International Organisation to develop a roadmap towards establishing a set of core definitions on green finance and compiling internationally comparable green finance indicators.” However, in order not to delay urgently needed action, such a process championed by an International Organization should take place in parallel to and coordinated with a G20 Working Group that further develops policy options. WWF suggests this process to be carried out in the most transparent way by opening-up the space for CSO to participate and involving environmental experts.

Risk analysis

WWF strongly supports the three options laid out under 6.2.3. on building capacity through an Environmental and Financial Risk Forum, implementing the recommendations from the FSB Task Force on Climate-related Financial Disclosures (TCFD), and raising awareness of the need for financial institutions to improve environmental risk analysis.

The proposed activities to mainstream risk analysis are very welcomed, but should be preceded by a political acknowledgement by G20 Leaders that emphasizes the materiality of sustainability issues to economic and financial soundness and stability. WWF calls on the G20 to send a strong policy signal to financial institutions that environmental and social risks impact economic and financial stability.

The subchapter 6.2 on risk analysis does not differentiate between environmental and social risk management on the company or investment level, from the investor's point of view, and on the macro level, from the central bank's or financial regulator's point of view. All the suggested measures would benefit from strong policy signals and the differentiation between macro and micro level.

WWF supports the proposal of an international forum or any other platform for capacity building on environmental risk analysis involving stakeholders from the private sector, CSOs and academics. More generally, knowledge has to be built up and existing knowledge better shared on how to incorporate sustainability aspects into financial regulation. In this context, but not limited to it, WWF encourages strong inter-ministerial cooperation between ministries of environment and ministries of finance to align policies and benefit from mutual expertise. **WWF welcomes the ongoing work of the FSB TCFD as a timely opportunity for the urgent operationalisation of regulation that must not be delayed by further long lasting research.**

WWF asks ahead of the Hangzhou Summit (4-5 September)

WWF calls on the G20 to continue the work of the GFSG, implement the recommendations of the synthesis report and:

- ▶ Fulfil the G20 Finance Ministers commitment from July 2016 providing clear strategic policy signals and frameworks for scaling up Green Finance and elevate the Study Group to a G20 Working Group at the Summit in Hangzhou;
- ▶ Recognize that environmental and social risks impact economic and financial stability;
- ▶ Recognize the importance of identifying and managing environmental and social risks and opportunities to encourage market participants and regulators to develop standards and best practice;
- ▶ Encourage better cooperation between national ministries of finance and ministries of environment to align policy making.



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