A transformation that leaves no one behind.

Recommendations to the meeting of the G20 Finance Ministers and Central Bank Governors on July 18, 2020

July 10th, 2020

The global Covid-19 crisis is challenging daily lives, health systems and economies. At the same time, the question on how these recovery plans can ultimately contribute to more resilient and sustainable societies have become more important than ever before.

Mitigating future risks clearly suggest a development trajectory that helps to limit and decrease environmental risks related to Climate Change, the extinction of species or degradation of land. When it comes to coping with the massive impacts on the economy, any recovery package must aim for **mitigating future risks** – as it was also stated by the G20 Finance Ministers in March 2020. **The commitment to support an *environmentally sustainable and inclusive recovery*** as stated in the virtual meeting of the G20 finance ministers and Central Bank Governors on April 15[1] therefore must be taken seriously. It requires concrete steps. Otherwise, future crises of an even bigger extend will be almost certain. Be it because of future pollution shocks, distinction of biodiversity and massive impacts on global food production, water shortage, energy crisis, or everything combined.

The Minsters of Finance and Central Bank Governors should therefore commit to G20 Recovery Principles aligned with the principles suggested by UN Secretary-General António Guterres including green transition pathways, green jobs, abolition of fossil fuel subsidies or the development and recognition of a climate risk regime within the financial sector.[2]

More concretely Minsters of Finance and Central Bank Governors should

1. **Align national infrastructure investment and recovery plans with the 1.5 °C benchmark and the SDGs. The G20 should exercise leadership by implementing ongoing Nationally Determined Contributions (NDCs)** and preparing and submitting more ambitious NDCs for the subsequent five years in the run up to COP26. These NDCs should be anchored in growth and development strategies aligned with the SDGs and the 1.5 °C limit, implying a reduction in emissions by G20 members of more than 50 percent by 2030 and a pathway to **net zero** emissions by all G20 members by 2050.

2. **Incentivize acceleration of trade and investment in renewable energy and carbon-neutral technologies and stop investments in coal. Also, reduce** other **existing incentives for trade and investment in sectors that are not sustainable and need to be phased out.**

[1] http://www.g20.utoronto.ca/2020/2020-g20-finance-0415.html
[2] https://www.un.org/press/en/2020/sgsm20051.doc.htm

Renewable energy sources are the major pillar of the future decarbonized system. By 2050, renewable electricity including green hydrogen will need to cover almost all energy demand worldwide. Looking at total primary energy supply, the share of renewables will need to increase from 14% today to around 65% in 2050 (IRENA 2020) to meet governments' commitments made in the Paris Climate Agreement. The transition towards a decarbonized global energy system will require massive investments in the energy sector, totalling USD 110 trillion by 2050 or 2% of global gross domestic product (GDP) per year. One of the key challenges is the access to 'bankable' renewable energy projects and related risks of investment.

3. **Reaffirm that "climate-related risks are a source of financial risk. It is therefore within the mandates of central banks and supervisors to ensure the financial system is resilient to these risks,"**[3] as stated by the NGFS. G20 central banks and financial regulators should be mandated to make climate-risk disclosure mandatory and introduce stress-testing.

   The legal mandates of central banks and financial supervisory vary throughout the NGFS membership, but they typically include responsibility for price and financial stability and the safety and soundness of financial institutions. Even though the prime responsibility for ensuring the success of the Paris Climate Agreement rest with governments, it is up to central banks and supervisory to share and deliver on their substantial role in addressing climate-related risks within the remit of their mandates. Understanding how structural change affect the financial systems and the economy is core to fulfilling these responsibilities.

4. **Relief debts for the poorest countries and provide technical assistance for fair and green taxation reforms. Countries must have the space to invest in clean and fair development.**
   G20 finance ministers agreed to a temporary debt moratorium until the end of the year, providing immediate relief to the World's poorest 77 nations with an additional 12 bn USD available to cope with the effects of the Corona crisis. Yet, this merely postpones the debt burden without easing the countries' debt affordability. At the same time, due to the exacerbating climate crisis, the world's poorest risk getting increasingly indebted, making a clean and fair development impossible.

5. **Consider joining the Coalition of Finance Ministers for Climate Action and the Network of Central Banks and Supervisors for Greening the Financial System (NGFS)** if not already the case.

[3] https://www.ngfs.net/sites/default/files/medias/documents/synthese_ngfs-2019_-_17042019_0.pdf

Background

Foundations and philanthropists have a key role to play **in further building this momentum for sustainable investments in both (a) the policy tracks of the G20 and the UN and (b) the private and corporate investors track.** Foundations and philanthropists are an important player among investors and most often deploy a conservative, risk-averse investment strategy. Since the risk-factor of any investment into non-sustainable and carbon intense portfolios is soaring (e.g. investments into coal power plants can soon become stranded assets), risk averse investors should rather invest into future-proof technologies across all sectors.

F20 objectives for the policy tracks of the G20 and the UN

- Align the infrastructure agenda with the 1.5 °C target and the 2030 Agenda with the 17 SDGs

- Promote green investments to unlock funds for investing into renewable energy, energy efficiency and the building of sustainable and resilient infrastructure

- Establish a carbon price across all sectors alongside the phase out of fossil fuel subsidies by 2025, making way for increased investments in the transition towards a low-carbon economy

- Ensure full carbon disclosure through the implementation of recommendations by the Task Force on Climate-related Financial Disclosure (TCFD) to reduce the systemic risk that climate change poses on the global financial system and investments, while fostering innovation through the exploration of climate opportunities, e.g. by Green Bonds.

Contributing to about 80% of the global GHG emissions, the G20 countries should be at the centre of a just transition towards net zero emissions by 2050 and a sustainable future. International agreements, such as the 2030 Agenda or the Paris Agreement can serve as frameworks for a transformation towards a new climate economy that leaves no one behind.

At the G20 summit in Buenos Aires, 19 out of 20 parties have reasserted the Paris Agreement as “irreversible” and reiterated the importance of fulfilling the UNFCCC commitment by developed countries in providing the means of its implementation. F20 wants to encourage strong and decisive actions that can enable countries to capitalize on the potential of a low-carbon economy, such as boosting jobs and productivity growth, while being resilient to economic vulnerability.

As such, F20 seeks to advocate long-term solutions that also support the building of coalitions of ambition in G20 countries to drive forward the implementation of multilateral commitments, such as the 2030 Agenda and the Paris Agreement. F20 urges to pursue the objectives above as an integral part of a just transition to commit to the principle of **“shifting the trillions – leave no one behind”.**

The G20 plays a central role in pushing for greater ambition and bringing about the decisive shift towards a carbon-neutral, climate-resilient economy. Strong and decisive actions can enable countries to capitalise on opportunities offered by decarbonisation, including the boosting jobs, enhancing competition and growth and avoiding economic vulnerability.

There is an immediate need to build a powerful coalition of G20 countries that are strongly committed to the scale and urgency of action needed. To this end, the G20 should:

- Commit to align the infrastructure agenda with the 1.5 °C benchmark and the SDGs. G20 can exercise leadership by implementing ongoing Nationally Determined Contributions (NDCs) and preparing more ambitious NDCs for the subsequent five years in the run up to COP26. These NDCs should be anchored in growth and development strategies geared to deliver the SDGs and the 1.5 °C limit implying a reduction in emissions by advanced G20 members of more than 50 percent by 2030 and a pathway to net zero emissions by all G20 members by 2050. The G20 Climate and Energy Action Plan should also be revamped to meet these objectives with well-specified benchmarks and timelines. G20 countries should urge their finance ministers and central banks to join the Coalition of Finance Ministers for Climate Action and the Network of Central Banks and Supervisors for Greening the Financial System (NGFS). Trade ministers should not only introduce reforms to trade and investment treaties, but also incentivize acceleration of trade and investment in renewable energy and carbon-neutral technologies and reduce existing incentives for trade and investment in sectors that need to be phased out.

- Unlock investments at scale in sustainable infrastructure. Towards this end, G20 countries should pursue an integrated agenda to deliver on quality infrastructure geared to meet the SDGs and the 1.5 °C goal. The G20 Principles on Quality Infrastructure provide an important opportunity to set out this agenda. Many elements being discussed —such as cost efficiency over the life cycle of the project, resilience, accessibility and debt sustainability— are important for sound investments. But a central focus must be on climate impact and resilience, and the preservation of natural capital, with agreed targets including the 1.5 °C goal. The G20 should make systematic efforts to bolster upstream foundations and set common principles and standards to fully incorporate environmental risks including the climate.

- Eliminate fossil fuel subsidies and mainstream carbon pricing. G20 governments play a leading role in establishing credible carbon policies and prices within their own jurisdictions, and acting coherently across jurisdictions. Implementation trajectories will vary accounting to specific national conditions, including distributional and transitional impacts. It is important to phase out fossil fuel subsidies as they are tantamount to negative carbon pricing. Both carbon pricing and eliminating fossil fuel subsidies can generate substantial revenues that can be used to finance an increase of sustainable investments and to help facilitate a just transition. Phase out coal and set timelines for phasing out all fossil fuels not only in G20 countries but also adjusting polices to overseas trade, investments and financial flows. As policies align, and as prices for coal and other fossil fuels are already higher in certain areas and are projected to be higher than renewable energy over the next decade globally, current investments in coal will prove to be stranded assets involving significant economic and social costs. Estimates suggest that mixed signals could lead to USD 12 trillion of stranded fossil fuel assets by 2035.

- Mobilising finance at scale with a strong alignment to sustainability and to the 1.5 °C target. G20 countries should create viable revenue models by tapping into spill-over effects that can boost long-term returns and, together with improved credit enhancement mechanisms, can attract private capital, pension funds and sovereign wealth funds worth trillions of dollars, reduce costs of capital returns and improve debt sustainability. The G20 should commit to mobilising an additional USD 100 billion for climate funds to meet priority needs and anchor the 'billions to trillions' agenda. The G20 should re-engage in the sustainable financing agenda to shift the financial system to align with sustainability. Reporting based on the recommendations of the Task Force on Climate-Related Financial Disclosure should be made mandatory across the G20 and, as proposed by the NGFS, climate risk should be systematically incorporated into the framework of prudential and risk assessment.

- Establish measurement and monitoring systems building on the Global Infrastructure Hub that tracks progress toward meeting G20 shared goals in an open and transparent manner. G20 should endorse the development of a methodology to track sustainable infrastructure investment based on a common understanding of what sustainable infrastructure means, and what it means in operational terms for sustainable infrastructure to be aligned with the Paris Agreement and the SDGs. This should explicitly include scenarios and ways to limit the temperature increase to 1.5 °C.

- Development Finance Institutions (DFIs) — both MDBs and national level DFIs— are key to delivering these policies. At the One Planet Summit in 2017, the International Development Finance Club and many other MDBs signed a joint declaration to align their financial flows with the Paris Agreement and also committed to making the SDGs core to their strategies and objectives.4 DFIs can guide policy by increasing their commitments to low carbon finance, phasing out fossil fuel finance, enabling country strategies and platforms, and leveraging their balance sheets. What is more, DFIs are equipped to monitor debt sustainability and ensure access and benefit sharing among multiple stakeholders.

- Development Finance Institutions could potentially mobilise up to USD 2.5 trillion per year for sustainable infrastructure if they shifted their balance sheets toward sustainable infrastructure, maximized their lending headroom, leveraged private sector finance, and if the MDBs received adequate capital increases.

G20 countries have access to assets worth USD 5 trillion in multilateral and national development banks. USD 250 billion are provided in foreign direct investment outside of the G20 every year and could be geared towards sustainable infrastructure. Yet, G20 countries only invest 3 percent of their GDP in the infrastructure in their own countries, and DFIs from G20 countries have only mobilized an average of $115 billion annually through financial development institutions — with a very small percentage flowing into low income countries.

DFIs should act as coordinating systems, scaling, and concentrating financial flows in line with the 2030 Agenda and the Paris Agreement. The DFIs should perform as a broader system to forge common goals, monitoring and accountability systems. The scale and urgency of the challenge cannot be overstated. Over the next 15 years, the stock of infrastructure is expected to more than double; the world economy is likely to double over the next 20 years, and urban population will nearly double over the next 30 years. With the scale of investment that will have to be made, we cannot afford to lock in carbon intensive technologies and inefficient capital. Decisions made over these next crucial years will shape the trajectory of investments for the coming 10 to 15 years and these, in turn, will determine the future of people and the planet for this century and beyond.

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