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BRIEFING PAPER FEBRUARY 2021

G20 ITALY 2021: THE FINANCE AND CLIMATE AGENDA FOR A BETTER ECONOMIC RECOVERY

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Working together with allies in the G7 such as the UK, France, Germany, and the USA, the Italian Presidency can use the G20 to advance strategic global agendas relating to finance and climate, to generate global benefits for people, planet, and prosperity.

Representing approximately 80% of global emissions and over 70% of global GDP, the G20 will be key to tackling multiple crises together for worldwide recovery from unprecedented threats. Whether the Paris Agreement is successful depends on the sustainability of historic G20 recovery investments from 2021-22 and on initiation of structural reforms to financial systems. Additionally, as a main forum for international economic cooperation, the G20 must address poorer country fiscal space constraints while driving a global investment push in sustainable recovery.



Three priority agendas for the G20 around finance and climate must be:

- I. **Assuring investment and fiscal space for sustainable recovery**
 - A new development paradigm for prosperity by global recovery can mitigate scarring and catastrophic social impacts, protecting the 2030 Agenda of SDGs
- II. **Greening recovery spending by the G20**
 - Shifting spending is essential to ensuring that economic recovery choices respect planetary boundaries and preserve feasibility of the Paris Agreement
- III. **Reforming the financial system for sustainability**
 - Initializing a broad suite of financial reforms will be vital to ensuring sustainability, resilience, and prosperity in the long-term



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Assuring investment and fiscal space for sustainable recovery

Across the year, the G20 Finance Track should aim to avoid a protracted crisis by mobilizing a trillion-dollar global investment package for sustainable recovery, working via the international financial institutions to overcome challenges around liquidity and fiscal space. As the IMF Managing Director noted at the G20 Leaders Summit in 2020, the G20 should cooperate on a “synchronized green and digital infrastructure investment push to invigorate growth, to limit scarring, and address climate goals. If G20 countries act together, they can achieve two-thirds more at the same cost than if each country acts alone.”¹

Developing economies and in particular have been most severely hit by COVID-19 and are experiencing the worst economic crisis in over 50 years. Absent timely action, the World Bank warns of “unfolding socioeconomic catastrophe that poses huge cross-border risks, including for future contagions, social tensions and unrest, and new waves of displacement and migration”.² UNCTAD warns of inaction creating a lost decade rendering the 2030 SDGs infeasible³, with UNECA echoing this and warning of long-term economic scarring in developing countries that would undermine global recovery⁴; these and others have offered recommendations for strong international action.

A timely international investment push, underpinned by multilateral development banks (MDBs) and new concessional finance paired with early liquidity, debt relief and debt reform, would prevent a protracted global crisis and minimize scarring. To unlock the investment for sustainable recovery and the liquidity that developing countries require to get through the crisis and to recover, the G20 should advance the following:

- > **IMF issuance of Special Drawing Rights** – As a matter of priority, G20 countries should expedite IMF issuance of Special Drawing Rights, which must be re-distributed or converted to currency to endow international financial architecture to support developing countries. Issuance without this would mean 70% of SDRs go to the G20 and only 3% to the world’s poorest countries.⁵ Assuring this liquidity in sufficient time is key to restoring economic confidence. (SDR 500 billion was previously considered a limit with Republican control of the US Senate, although this has changed and should be revisited⁶.)
- > **MDB reform and expansion of financing capabilities** – the G20 should expand MDB financing capabilities, so they can fulfil their countercyclical recovery role and deliver the up to 700bn USD required globally in increased annual external financing needs for developing countries to recover.⁷ Recapitalization and replenishments offer large multipliers for investments, while-balance-sheet

¹ IMF (2020) **IMF Managing Director Kristalina Georgieva Urges G20 Leaders to Jointly Build the Foundations of a Better 21st Century Global Economy**

² World Bank (2020) **World Bank Group COVID-19 Crisis Response Update**

³ UNCTAD (2020) **Trade and Development Report - 2020**

⁴ UNECA (2020) **Building Forward Together**

⁵ See: <https://www.bloomberquint.com/politics/u-s-treasury-leans-toward-backing-500-billion-boost-for-imf>

⁶ Note: SDRs are based on a basket of currencies, so the 500bn equates to roughly USD 700bn.

⁷ World Bank (2020) **World Bank Group COVID-19 Crisis Response Update**



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optimisation mechanisms may also be used. Recommendations include using callable capital in capital adequacy calculations⁸, other contingent liabilities⁹, and better use of balance sheets within and outside existing credit ratings¹⁰. Such expansions of MDB capabilities must be condition on institutional reform, including on achieving timely and meaningful MDB Paris alignment, as well as enhancing climate action quanta targets and quality of climate-related activity.

- > **Debt and investment packages for sustainable recovery** – The G20 should advance the agenda of bespoke investment packages and debt relief, including debt swaps, to support specific SDG/climate-linked recovery objectives in countries whose public finances are vulnerable. Political engagement is needed between G7 donors and developing countries, including those in the G20 needing energy transition support such as South Africa and Indonesia, as well as other developing countries needing support in areas such as nature or adaptation and resilience.¹¹ Positive SDG/climate conditionalities to assure just transition and social investments can help build broad support. A general high-level frame for these country-specific partnerships should be agreed between developed and developing countries in the first half of 2021.
- > **Debt reform** – In addition to debt relief, the G20 should begin broader efforts on debt system reform. This entails updating IMF-WB Debt Sustainability Analysis to ensure that it enables rather than prohibits positive investment, whilst at the same time discouraging investment in stranded assets. Appointing the IMF-WB to investigate this will be vital to future economic growth and should be a high priority given that DSAs are at the heart of the G20 Common Debt Framework. The goal should be to improve approaches on debt sustainability to enable investments in areas such as resilience or sustainable energy infrastructure (e.g. energy efficiency or storage) which deliver savings, for enhanced macroeconomic and fiscal performance.

An ambitious international investment drive, which aims at unlocking hundreds of billions (USD) in new financing for a truly global recovery would give the 2021 G20 a major legacy for people, planet, and prosperity. To deliver this ambitious agenda around international investment, relief, and recovery, it will be essential for the Italian G20 Presidency and other likeminded donors to have a fully integrated approach to delivery through the G7 in particular, which comprises key like-minded donors, as well as via landing moments at WB/IMF meetings, ad hoc summits, and other fora.

To ensure the sustainability of such an investment push, strong climate incentives, safeguards, conditions, and earmarks must be attached – this is partly explored in the next section. In particular, access to concessional climate finance will be vital for both middle-income and lower-income countries. Assuring this will also help meet the

⁸ CGD (2020) **Beyond the Numbers: Why the World Needs a More Ambitious MDB Response to COVID-19**, Center for Global Development, November

⁹ ODI (2020) **All hands on deck: how to scale up multilateral financing to face the Covid-19 crisis**

¹⁰ ODI (2020) **Six proposals to strengthen the finances of multilateral development banks**

¹¹ See: <https://drgr.org/documents/>



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imperative of delivering the Paris Agreement commitment to mobilise the \$100bn in climate finance annually from 2020—demonstrating confidence in meeting this commitment will be key to the success of COP26 and engagement on the post-2025 goal. Provision of concessional climate finance will be a key for shifting broader capital flows in the trillion-dollar global recovery investment drive toward sustainability.

Greening recovery spending in the G20

As IMF Managing Director Kristalina Georgieva has warned the Italian G20 Presidency, 2021 will be “a year to revive or lose the Paris Agreement”.¹² The enormity of economic spending happening in short order creates a high-risk of locking in emissions-intensive pathways misaligned with net-zero, and thus a shrinking window for intervention. Representing the bulk of the global economy and global emissions, the G20 must align in their recovery packages with the mid-century net-zero goal to deliver significant global emissions reductions across the decade by 2030.

According to the IPCC, global emissions must approximately halve by 2030 to meet the 1.5 degrees target. Increasing G20 ambition and coordination on greening economic recovery spending will be vital to achieving anything near this—recent studies indicate green spending in most G20 recovery packages is outweighed by support for emissions-intensive, environmentally damaging industries,¹³ and that approximately 54% of total G20 stimulus support in the energy sector has been directed towards fossil fuels.¹⁴

In the Leaders’ Declaration, G20 countries should commit to greening their recovery spending. The following recommendations suggest mechanisms for operationalizing such a high-level commitment, including (i) G20 monitoring processes and benchmarks for recovery spending, (ii) cooperation to define green and set norms to guide public and private investments, and (iii) green public finances and budgets.

- i. **G20 monitoring and benchmarks to green recovery spending.** G20 countries should create an independent transparency mechanism for monitoring this commitment and reviewing progress (e.g. every 4-6 months). Fleshing this out through defining specific benchmarks (see below on taxonomies) should be a priority for G20 Finance Ministers, who should champion this issue in the G20 Finance Track. The G20 Finance Track could (a) commit to screening and implementing recovery plans to be respectful of the Do No Significant Harm principle, and (b) agree to a common minimum floor for public expenditure to be directed towards climate-safe, net-zero and resilience-enhancing activities. Working closely with the G7 and UK Presidency will be essential as early action on this agenda from climate-progressive advanced economies is essential for ensuring credibility with the broader G20.
- ii. **Defining norms on sustainable and unsustainable economic activities.** The G20 should seek to build international consensus on guiding recovery

¹²IMF (2020) [Remarks by IMF Managing Director Kristalina Georgieva to Italy’s National Consultation](#)

¹³ Climate Transparency (2020) [Climate Transparency Report 2020](#)

¹⁴ Ibid.



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investments to support net-zero, away from unsustainable activities. This could entail support for the ‘common ground’ taxonomy process being led by China within the International Platform on Sustainable Finance. G20 countries could also undertake or initiate fossil (particularly coal) finance phaseout from national spending and finance institutions, or bilateral and multilateral institutions (including development or export credit agencies), following recent commitments in this regard from the UK, US, and EU. This would belatedly deliver against the 2009 G20 commitment to phase out “inefficient fossil fuel subsidies” – the 2020 G20 could develop a roadmap/deadline to this. As noted elsewhere, coordination with the G7 for early action on this is key.

- iii. **Greening public finances and budgets:** The G20 Finance Track should mainstream leading actions by progressive countries to green public finances, including public budgets; climate-focused guidelines to public spending, taxation, policies and projects; assessments of costs of the net-zero transition and evaluations of the impact of climate change on fiscal risks. The Finance Ministers Communique can initiate a workstream for G20 members to share best practice with each other and via the Coalition of Finance Ministers for Climate Action. Coordination with G7 progressives will also be important.

Reforming the financial system for sustainability

Finally, in addition to assure a broad-based global recovery and one that is environmentally sustainable, the G20 should seek to advance a broad range of financial and economic reforms for a more sustainable financial system. In the face of the current economic crisis, these climate-related reforms can enhance economic prosperity and protect against future crises.

To this end, it is recommended that the G20 Finance Track work across meetings throughout the year to initiate reforms around supervisory stress-testing, greening monetary policy, and firm-level climate disclosure and management, and national investment plans for financing the transition as part of green recovery:

- > **Supervisory stress-testing:** In the Finance Track Communique, central bank governors can commit to stress-testing financial institutions’ resilience to climate-related risks and commit to share best practices. This could also include providing a mandate to the Financial Stability Board (FSB) on this issue, particularly to develop guidance.
- > **Greening monetary policy:** The G20 Finance Track should commit to explore integration of climate change considerations into monetary policy operations, including integrating climate risks into asset purchase programs, provision of liquidity to the banking sector, and own portfolio management.
- > **Firm-level climate disclosure and management:** G20 countries can commit to developing roadmaps toward national regimes for disclosure by public and private companies including financial firms, according to the recommendation of the FSB’s Taskforce for Climate-related Financial Disclosures (TCFD). These disclosures should include “comprehensive and credible transition plans” as



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called for in Mark Carney's Private Finance Strategy for COP26. To support this move toward financial disclosures, G20 countries should initiate a work programme on sharing best practices and growing norms.

- > **National investment plans for financing net-zero and recovery:** An emerging best practice for finance ministries worldwide that the G20 can advance is that of assessing the costs of meeting net-zero and other NDC¹⁵ objectives and developing capital-raising strategies and investment plans for financing these. In the context of the recovery, such plans are vital to identifying projects for economic spending. Clear policy signals on national financing plans are increasingly expected by private investors who are seeking to invest in the transition; aggregation of such across countries can permit capital markets to play a greater role in financing the Paris Agreement. In the context of COP26, developing good quality Investment Plans to support NDCs should also be encouraged as part of the NDC revision cycle. As part of the Finance Track Communique, G20 finance ministers could commit to assessing the costs and financing pathways for meeting commitments under the Paris Agreement.

About E3G

E3G is an independent climate change think tank operating to accelerate the global transition to a climate-safe world. E3G builds cross-sectoral coalitions to achieve carefully defined outcomes, chosen for their capacity to leverage change. E3G works closely with like-minded partners in government, politics, business, civil society, science, the media, public interest foundations and elsewhere.

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¹⁵ Nationally Determined Contributions under the Paris Agreement.
