The G7's role in ensuring robust international standards to define green investment

E3G

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Introduction

International approaches to green recovery will require a common approach to what can be considered 'green' investments. As leaders in this field the G7 should work together to ensure that international norms for 'defining green' are established, and should be champions of this agenda within the G20.

Background

The global economic transition to climate safety will require trillions of dollars in financial flows to be mobilised from both public and private sector sources. In order to guide, measure and manage green investment flows, the EU and other countries have been building dynamic investment taxonomies. These typically define green economic activities which are aligned with the Paris Agreement, and sometimes also address 'transition' activities which can mark an interim stage in the transition to net zero emissions.

In 2021 governments are working through international forums to support green recovery. They are using public finance at unprecedented scale, aiming to create incentives for the private sector to drive economic growth. It is important that they work with a shared understanding and common goals, to avoid regulatory competition and a 'race to the bottom' for global environmental integrity.

International approaches to defining 'green' and 'transition' for investment purposes are emerging. The EU has created an International Platform on Sustainable Finance (IPSF) and is working through it with China to create a Common Ground taxonomy. Other relevant fora include the International Financial Reporting Standards (IFRS), the Paris Aligned Working Group of the Multilateral Development Banks (PAWG) and the G20 Sustainable Finance Working Group.

2021: Priority Actions for the G7

G7 countries are well placed to build on domestic activities to act as champions of a shared approach to 'defining green' and to drive this agenda forward at the G20.

→ **The US should join the IPSF at the April IMF meetings, and participate in its Taxonomy Working Group.** This would give the IPSF a full set of G7 members and would support a truly international approach to a common ground investment taxonomy.

→ **G7 countries should ensure that the IPSF is collaborating with the G20 Sustainable Finance Working Group to define 'green' and 'transition'.** This is important to avoid parallel international tracks. Both groups are working on investment taxonomies, and both groups are co-chaired by China which represents a substantial proportion of the global economy.

- → **Italy should integrate emerging norms for 'green' horizontally across the outcomes of all G20 Working Groups.** For example, a consistent definition of 'green' should be used by the Infrastructure, Framework and Financial Architecture Working Groups.
- → **The UK and Italy should ensure that the outcomes of relevant processes are well integrated with green norm-setting discussions taking place under the G7 and G20.** This includes initiatives to launch around COP26 such as the new IFRS Sustainability Standards Board, and the progress report of the MDB PAWG.
- → **As a bloc, G7 countries could advocate in the G20 for an international observatory function to measure financial flows to green investments over time.** This could be combined with new international architecture to support developing attract public and private investment for green and transition activities.

Policy Solutions

To be fit for purpose, norms for 'green' and 'transition' backed by the G7 should:

- → **Be evidence-based and dynamic over time,** building on the model of the EU green taxonomy which was based on advice from technical experts and is governed by an expert group which will continually update it.
- → **Be compatible with the emissions goal of the Paris Agreement.** 'Green' activities should be Paris-aligned. 'Transition' activities should be in line with robust sectoral decarbonisation pathways and should include a plan for net zero emissions by mid-century.
- → **Avoid unintended negative impacts,** building on the Do No Significant Harm approach pioneered by the EU which applies a negative screening approach to ensure overall sustainability. Resilience to the expected future physical impacts of climate change should also be a characteristic of any green economic activity.
- → **Be applicable to public and private finance** to avoid sending mixed signals to markets and undermining progress towards policy goals.

Conclusion

Greening the world's economic recovery requires a common definition of what is green. G7 countries can lead the way in 2021 by building on their domestic actions to create international momentum for common standards, and by working to ensure that these actions are taken forwards in G7 and G20 forums.