



ACTIVATING ALIGNMENT

**Applying the G-20 Principles
for Sustainable Finance**

**Alignment with a Focus on
Climate Change Mitigation**

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**MONETARY AND
CAPITAL MARKETS**

Assessing alignment: principles and role in scaling up private climate finance

19 March 2024

**UNECE Webinar - Principles for Green Financing for Sustainable
Real Estate, Infrastructure and Urban Transformation Projects**

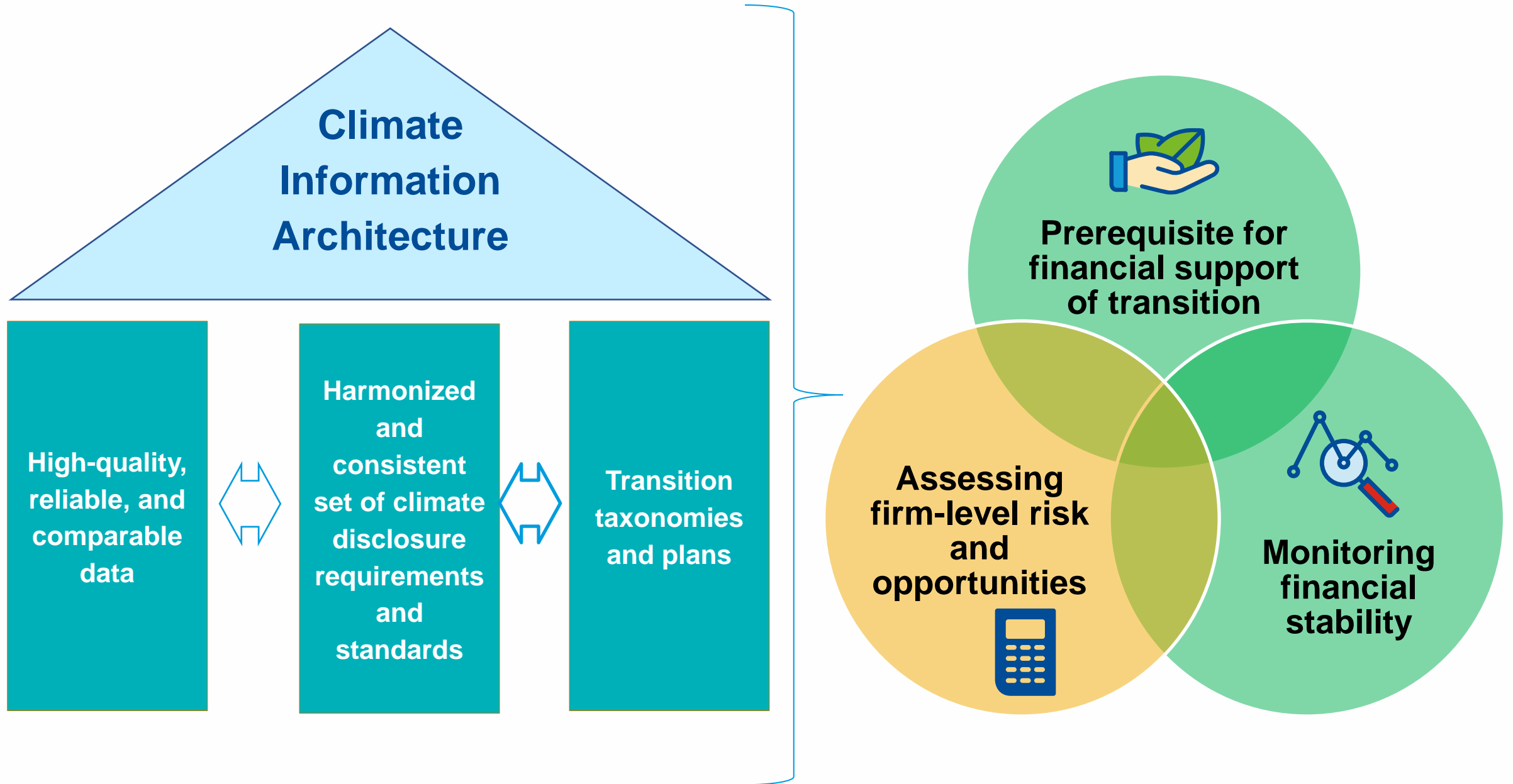
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Outline

- **Why do we need a strong climate information architecture?**
- What are the main messages of the “Activating Alignment” report?
- “Activating Alignment” and the Principles for Green Financing for Sustainable Real Estate, Infrastructure and Urban Transformation Projects

An essential role for the climate information architecture



Unlocking private climate finance needs a broad policy mix, including strengthening the climate information architecture

IMF October 2023 Global Financial Stability Report

“Regulators in emerging market and developing economies should consider developing transition taxonomies, a valuable alignment tool for mobilizing the financing of low-carbon activities [...] The emission reduction targets and criteria in transition taxonomies should be connected to a country’s nationally determined contributions, long-term strategies, and their supporting sectoral decarbonization targets. Countries should devise sectoral transition plans, particularly in the energy sector, as well as develop an investable pipeline of projects supporting the achievement of their objectives”.



Why are transition taxonomies a useful alignment tool?



A CLASSIFICATION SYSTEM

Provides clarity on how economic activities can be considered as environmentally sustainable and under which circumstances.



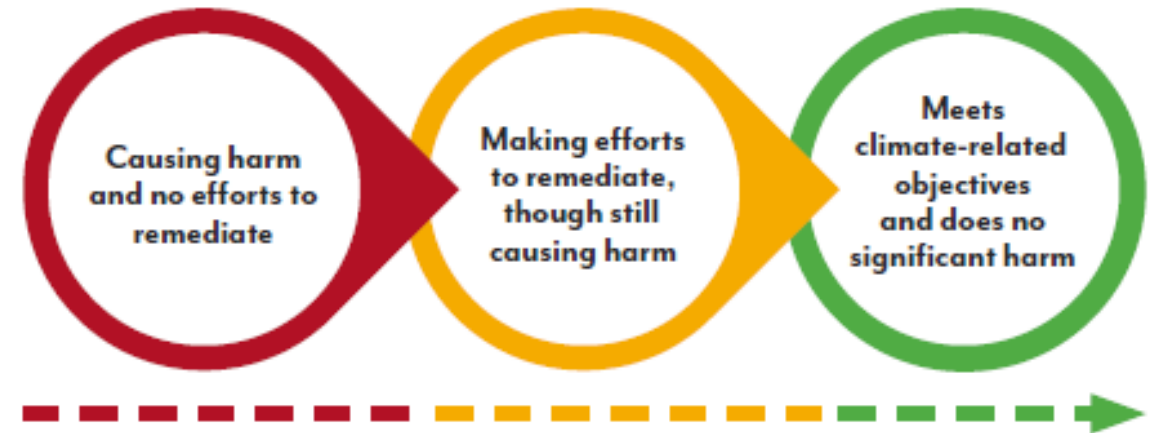
A MEASURING TOOL

Measures the degree of sustainability of an investment and the degree of low-carbon/transitional activities of companies.



A TRANSITION TOOL

Helps investors and companies to plan and report on the transition. It sets the objectives and the direction of travel for different economic activities.



Current use cases of taxonomies and other alignment approaches

Standards and labels for financial instruments
(green/transition loans and bonds, SLLs/SLBs, equity, investment funds, saving products...)

Corporate disclosure of climate-related information, including alignment

Transition planning frameworks, including Capex plans aligned with taxonomy criteria

Financial supervision tool
(use of alignment data)

Prudential disclosures
(pillar 3)

Taxonomies most often underpin standards, labels and disclosure requirements - but use cases are expanding.

Some jurisdictions are contemplating a wider range of use cases (collateral policies, risk weighted adjustments, public spending frameworks...).

It largely depends on the usability and reliability of these alignment approaches.

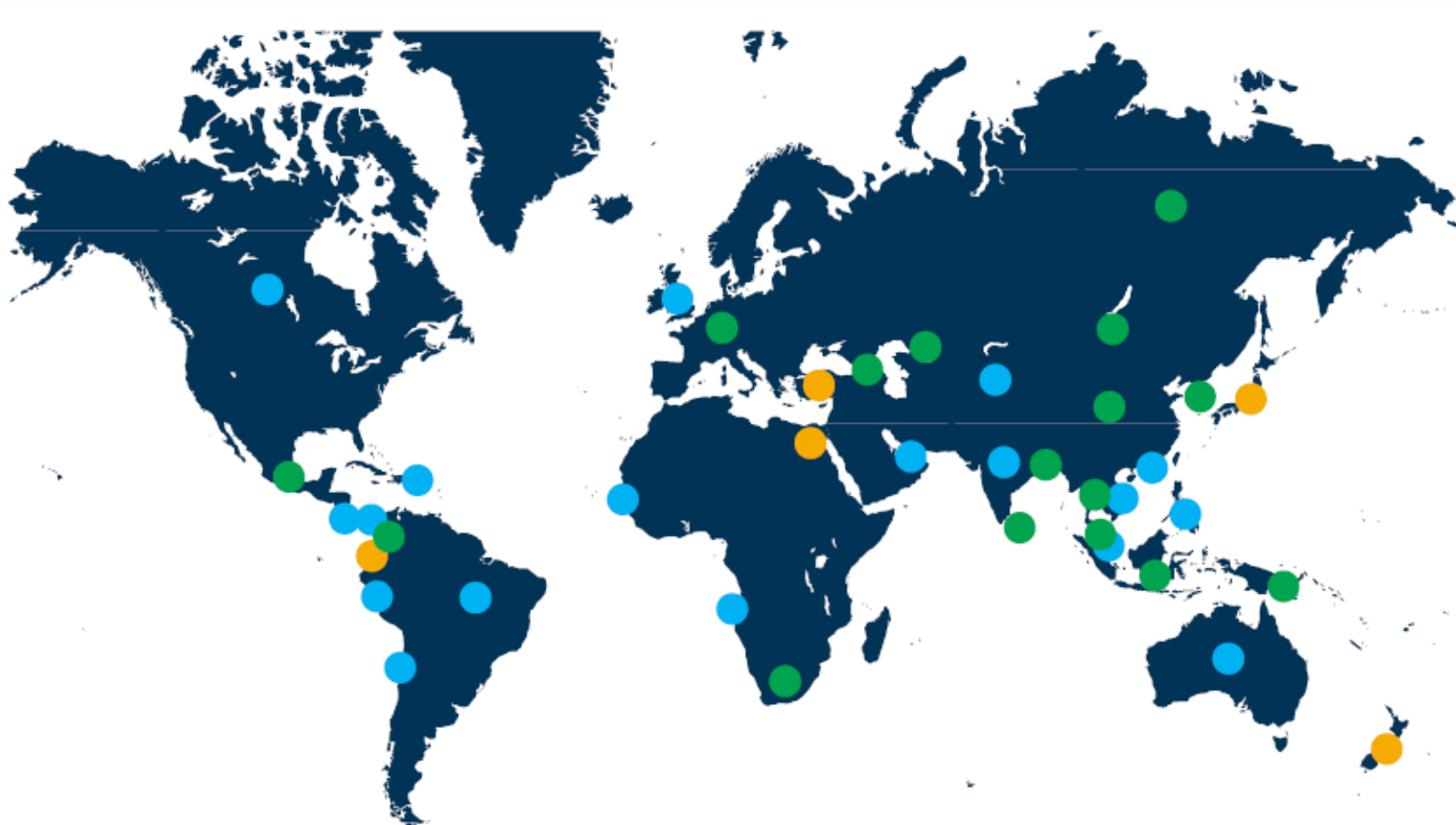
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Why the “Activating Alignment” report?

Alignment approaches have been developing... especially taxonomies



● In place

● Under development

● Under consideration/
discussion

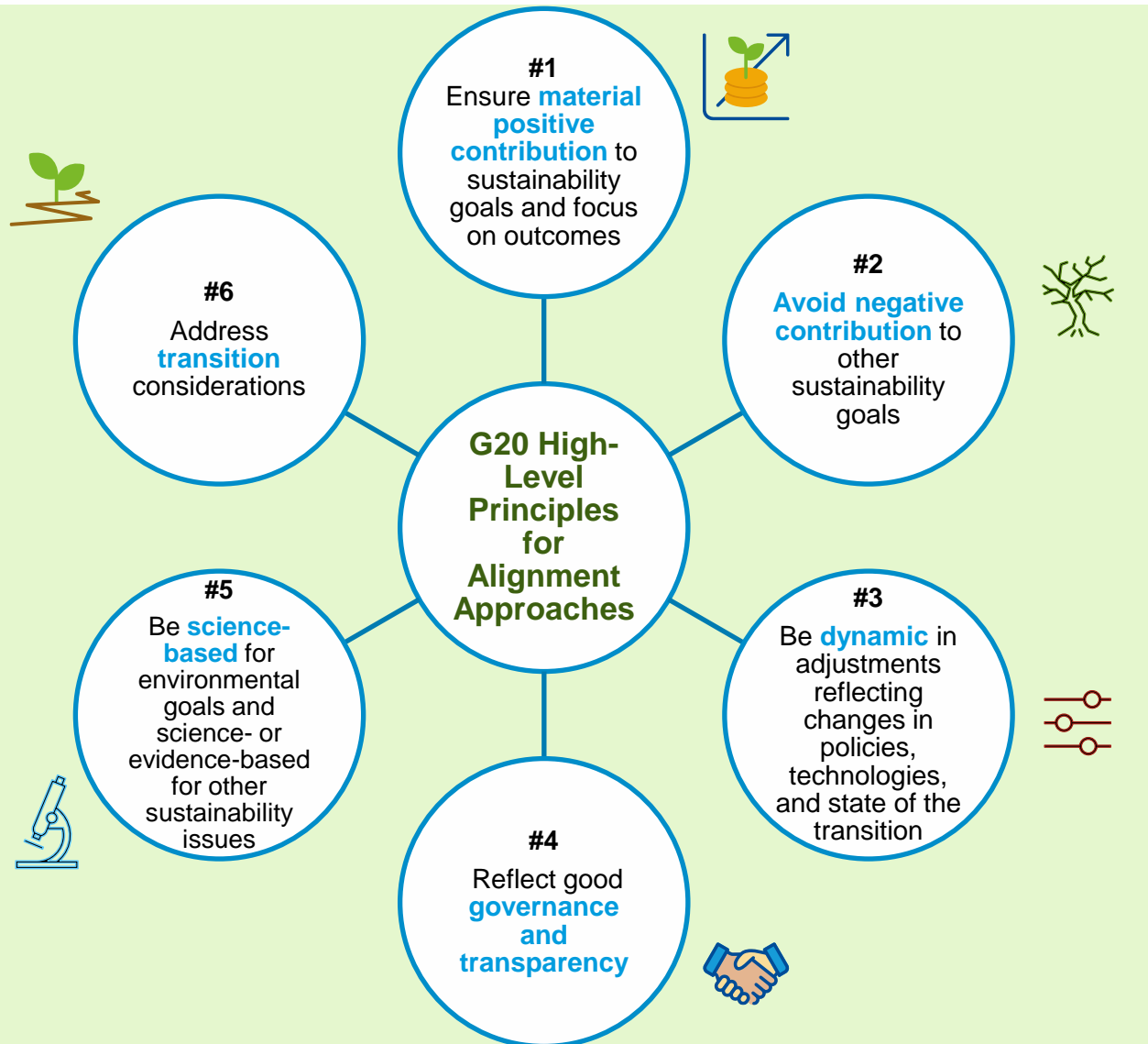
Potential lack of comparability and interoperability



Market fragmentation, greenwashing... missing the alignment goal



What is the main contribution of the “Activating Alignment” report?



Core design and disclosure elements that could provide a minimum baseline of comparability for climate data and their reference frameworks



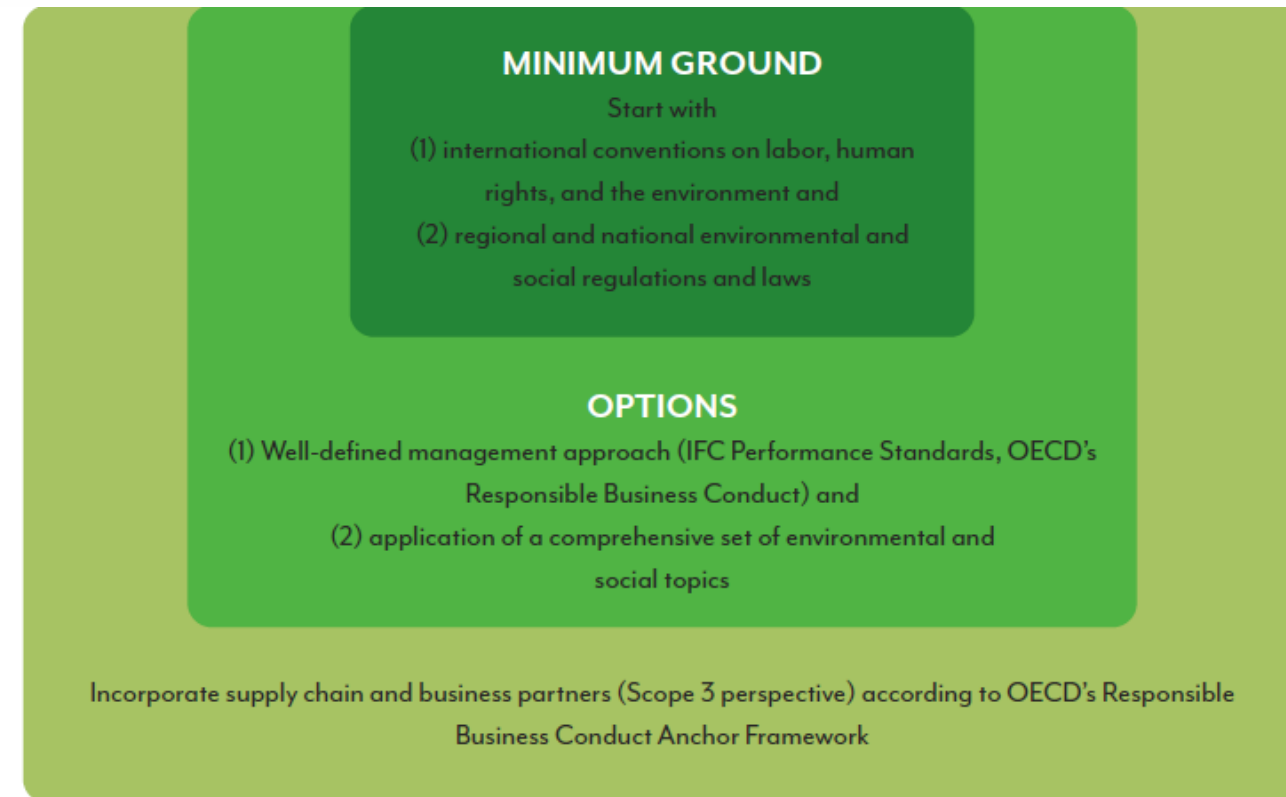
The report contains guidance for each one of the G20 principles, including ...

✓ Assessing substantial contribution to climate change mitigation

- How to prioritize sectors in alignment approaches?
- How to connect sectoral decarbonization targets and transition planning disclosure frameworks?

✓ Assessing other environmental objectives

- How to ensure alignment with core social and environmental principles?
- How to ensure good governance along the supply chain?
- How can alignment approaches contribute to a “just” transition?



G20 Principle 2 – Guidance on how to avoid negative contribution to other sustainability goals



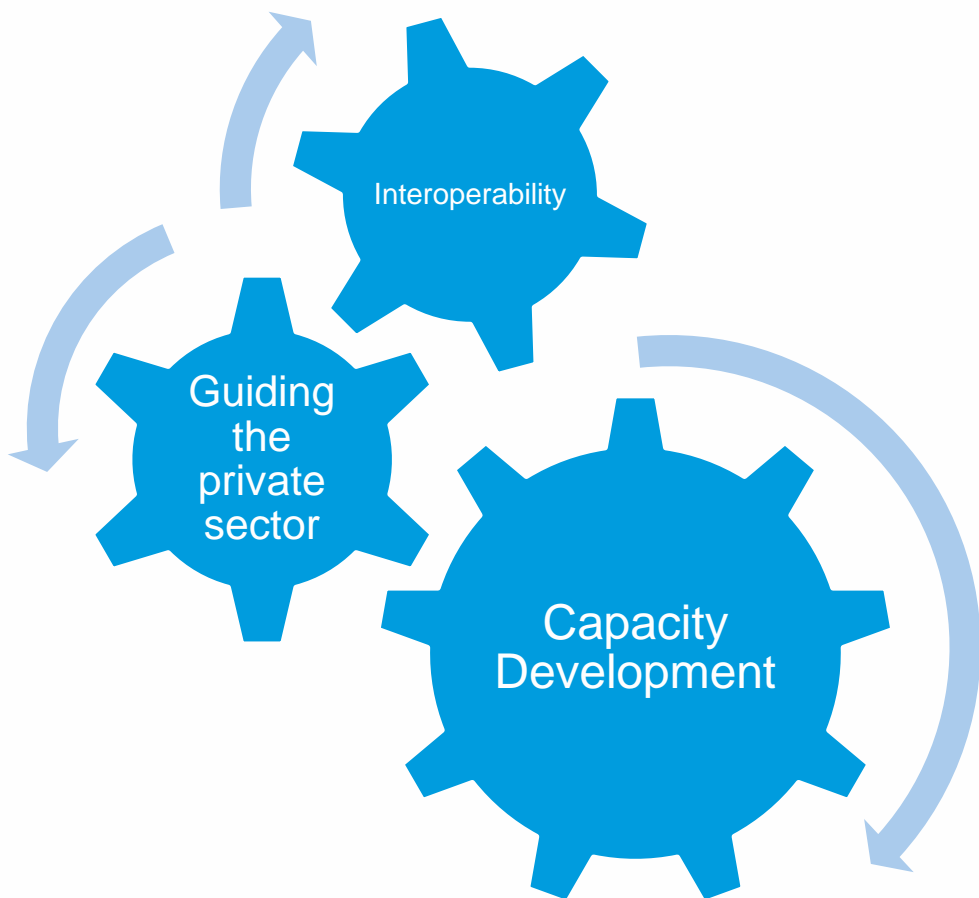
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- ✓ **Ensuring that alignment approaches are dynamic considering scientific/technological changes**
 - How are alignment approaches amended overtime?
 - How to account for legacy effects?
 - How to ensure reliability of their science-based foundations?
- ✓ **Ensuring transparency and data quality**
- ✓ **Designing transition planning frameworks based on alignment approaches** (including transition taxonomies)





Contribution of the “Activating Alignment” to the global policy discussion



Facilitating interoperability

- Contributing to a higher degree of interoperability
- Incorporating alignment approaches into a transition finance framework

Guiding the private sector

- Reducing the risk of fragmentation in capital markets
- Providing background on technical methodological aspects behind alignment approaches

Applying to our work

- Policy development
- Capacity development

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Connections between the Principles for Green Financing and the “Activating Alignment” report

Principles for Green Financing for Sustainable Real Estate, Infrastructure and Urban Transformation Projects

1. Economic feasibility/financial sustainability + contribution to the SDGs : develop “green financing” instruments
2. Principles as a pre-condition for the bankability of projects
3. Active engagement of capital providers
4. Substantial contribution of projects to climate change mitigation and resilience
5. Social dimension (“just” transition)
6. Financial innovation and PPPs
7. Transparent framework and KPIs
8. Life-cycle dimension in the alignment assessment and long-term sustainable value
9. Inclusiveness
10. Harmonization



“Activating Alignment” guidance

Role of the climate information architecture to scale up private climate finance

Need for interoperability of frameworks

Assessment of sectors, activities and assets on their contribution to the low-carbon transition

Broader environmental and social dimension in assessing alignment

Data and transparency are core dimensions

Inclusiveness in the design and implementation of alignment approaches

Thank you!