B20 ITALY

# Finance & Infrastructure

Policy Paper 2021

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# Foreword by the Task Force Chair

*We are at the beginning of a possible recovery phase and as we share a renewed sense of safety and trust, the real challenge for all of us is to make this recovery solid, inclusive and sustainable for at least the next ten years.*

*All Taskforce members, whom I thank for their focus and dedication, challenged themselves and tried to imagine "How will the world look like in 2031?". Glimpsing ahead at future societies, we tried to envision how should policymakers manage to reverse or make significant progress in tackling inequality, excessive indebtedness by mobilizing savings, and technology reshaping.*

*Job losses, poverty, growing social inequalities, indebtedness, fragility have hit hard on vulnerable people, women, young and old people and students. The pandemic has enhanced the relevance of well-planned ESG transitions and triggered deglobalization trends, thus accelerating the importance of a technology reshape and of investing in material and immaterial infrastructure.*

*The pandemic has rapidly elevated some industries – especially in the technology sector - while pushing other ones to revisit their fundamental viability and, overall, it has enhanced the way we take care of the needs of our people, our territories and our customers, by increasing our drive to do things better, both domestically and globally, notably over climate, diversity, equity and inclusion.*

*Impact investing within a sustainable framework - and one that is ESG compliant - is increasingly becoming the reference point of all involved long-term stakeholders acting with a purpose, focused as they are in having welfare not only not declining, but actually growing over time.*

*In line with these trends, we need to make a decisive shift towards a new model of capitalism with a greater focus on sustainability, social and territorial cohesion. This is our responsibility towards the future generations.*

*It is time to make things happen: a further reason to have actionable proposals for sustainable infrastructure, including healthcare, research, education and people care. This is becoming more relevant post pandemic, for everybody.*

*For this, we need a Recovery Impact Plan to foster inclusiveness and address the social aspects of growth and their impact on inequality. This is the purpose of the B20 Italy Finance & Infrastructure Taskforce that I'm honoured to guide.*

*"Quality of life through service Infrastructure" is the very game changer; this is the real role of sustainable infrastructure investment for the recovery. "Quality of life through service Infrastructure" means investments in amenities, hospitals, mobility and transport, road maintenance, efficient telecommunication networks, schools and education to ensure healthy lives and to promote wellbeing for all at all ages.*

*Urban Regeneration is a key driver for the post-Covid recovery: I think that it has become urgent to fulfil a vision for sustainable metropolitan areas as places where citizens - an intergenerational mix of families, workers, students, senior people - can live locally, with everything they need just a short walk or a bike ride away.*

*Proximity - everyday closeness to people - is a value because it enables the possibility of "taking care of others".*

*Our Taskforce journey can be summarized in three words: from Purpose to Impact and Execution. Every day, governments, social communities, workers, corporates,*

*entrepreneurs, supply chain and sectors leaders - all together – should be guided by a common purpose of "doing well by doing good", tackling inequalities by "taking care of others" for a very New Renaissance.*

*Our B20 Taskforce has structured four pillars as the drivers for the post-Covid recovery: (i) Sustainable Finance and Financial Inclusion (ii) Infrastructure Financing, (iii) Growth Engines and (iv) Global Regulatory Environment.*

*Governments and Multilateral Development Banks could consider creating investment-ready pipelines of projects to facilitate the participation of private institutional investors in urban and suburban regeneration investments, focused in particular on increasing infrastructure resilience and improving access to affordable healthcare and transport; this would speed up the ability of investors to make capital allocation choices that support the transition to a sustainable economy.*

*Global financial regulation should take into account the impact of the pandemic crisis on prudential reforms, aiming at increasing regulatory coherence, transparency and accountability and to ensure resiliency from systemic risks.*

*Adriano Olivetti, an historic Italian entrepreneur, wrote "within me there is only the future", and with this spirit, and in line with the overall commitment of the B20, the Finance & Infrastructure Taskforce has aimed at conveying actionable and impactful recommendations to contribute to shape a brighter future together.*

*Sincerely,*
***Carlo Messina***

# Task Force Composition

| Task Force Leadership | | Why Finance & Infrastructure Matter |
|---|---|---|
| | **Timothy Adams**<br>*Co-Chair*<br>*President & CEO, Institute of International Finance* | *"The recommendations of our Task Force support the key priorities of the Italian G20 Presidency and we hope they will assist in efforts to build a better and more sustainable global economy".* |
| | **Sujoy Bose**<br>*Co-Chair*<br>*Managing Director & CEO, National Investment and Infrastructure Fund* | *"Infrastructure development and innovative financing solutions across the economic value-chain are going to be crucial elements of policymakers' playbook as countries plot their recovery post pandemic.*<br>*Recommendations of this Task Force provide a set of actionable ideas to foster a sustainable and inclusive growth across the globe".* |
| | **Robert S. Kapito**<br>*Co-Chair*<br>*President and Director, Blackrock* | *"The B20 recommendations represent important progress on financial resilience and sustainability, where global collaboration is vital. We look forward to continuing the dialogue".* |
| | **John Denton**<br>*Co-Chair*<br>*Secretary General, International Chamber of Commerce* | *"Business, finance and government can - and must - speed the transition to a low carbon future.*<br>*The B20 shows how to get there through innovative finance and infrastructure policies".* |
| | **Lubna Olayan**<br>*Co-Chair*<br>*Chair of the Executive Committee, Olayan Financing Company* | *"Our Task Force recommendations have centered around building a sustainable and resilient finance and infrastructure ecosystem.*<br>*We bring forward practical steps to help foster inclusion, support SMEs and embrace ESG - all whilst driving the Covid-19 recovery. It is what our future generations need and deserve".* |
| | **Xiaolun Zhang**<br>*Co-Chair*<br>*Chairman, China National Machinery Industry Corporation* | *"B20 focus on offering pragmatic solutions to improve global finance and infrastructure, which may boost employment and improve people's life, is crucial for a more robust economic recovery after the Covid-19 pandemic".* |

## Task Force Coordination Group

Knowledge Partner

Scientific Partners

**Raffaello Ruggieri**
*Deputy Chair*
*Group Chief Lending Officer,*
*Intesa Sanpaolo*

Network Partners

**Francesca Brunori**
*Task Force Manager*
*Financial Affairs Director,*
*Confindustria*

# Recommendations: Executive Summary

**Recommendation 1: Sustainable Finance and Financial Inclusion** - Promote efforts to scale up sustainable finance and financial inclusion by supporting the development of ESG and impact investing, accelerating the adoption of global sustainability reporting and measurement standards and by fostering access by individuals and micro businesses to affordable financial products and services.

**Policy Action 1.1:** Policymakers should work towards the harmonization of regulations, metrics and reporting standards of dedicated impact investments, including the development of impact measurement methodologies, to ensure market integrity and enhance transparency. These efforts should be aimed at capturing external impacts of investments with a clearly articulated impact objective in a manner than can contribute to improving investor decision-making, with the aim of scaling up flows of capital towards impact investment opportunities that can address pressing social and environmental challenges. MDBs and governments could provide incentives and other financial mechanisms to encourage private sector investments, launch specialized impact funds to mobilize private savings toward impact investments and support Public and Private frameworks for the adoption of results-based financing solutions.

**Policy Action 1.2:** The G20 should give a clear mandate to international institutions to work towards the definition of common sustainable finance and circular economy taxonomies and the alignment of ESG disclosure frameworks, ensuring consistent implementation. The G20 should support current initiatives to rationalize the global system for reporting sustainability-related information and it should ask authorities involved in these efforts to develop a harmonized global framework. In parallel, the G20 should encourage national governments to design mechanisms to support the transition of key economic sectors toward sustainable models as well as a proportional implementation of ESG requirements by SMEs and unlisted firms.

**Policy Action 1.3:** The G20 should help to create the conditions to improve financial education and access to financial services, including insurance, to currently "unbanked" and "uninsured" individuals and facilitate the financing of micro businesses by supporting the introduction of new technologies, digital innovations and an enhanced use of data in the financial sector, thus promoting financial inclusion.

**Recommendation 2: Infrastructure Financing** – Enhance infrastructure financing by incentivizing investments in sustainable infrastructure projects, implementing infrastructure as an asset class, supporting cross-border planning & investing, and by fostering projects of urban and suburban regeneration.

**Policy Action 2.1:** The G20 should help create ad-hoc and market-ready financial instruments to facilitate Public Private Partnerships (PPPs) for co-investments by institutional investors in sustainable infrastructure, while governments should promote "Smart Infrastructures" brought by technology to improve environmental and economic sustainability and enable new services such as remote healthcare and smart mobility.

**Policy Action 2.2:** The G20 should help implement sustainable infrastructure as an asset class and standardize its taxonomy, while regulators and policymakers should review the regulatory treatment of infrastructure finance to incentivize sustainable infrastructure investing and its long-term financing.

**Policy Action 2.3:** The G20 should ask for the establishment of frameworks and platforms to facilitate international planning and joint cost-benefit analysis to foster cross-border investments in large-scale infrastructure, while governments could facilitate the rollout of recovery measures to support and accelerate infrastructure projects, which are crucial for a more robust economic recovery after the Covid-19 pandemic.

**Policy Action 2.4:** Governments and MDBs should create investment-ready projects to facilitate participation of private institutional investors in urban and suburban regeneration investments, focused in particular on increasing infrastructure resilience and improving access to affordable healthcare and transport, while policymakers could improve regulations and request impact reporting related to investments in these projects to accelerate the achievement of environmental and social priorities.

**Recommendation 3: Growth Engines** – Support sustainable economic growth by fostering SMEs access to capital, promoting open innovation ecosystems with customer data subject to common protections across sectors, accelerating digitalization and innovation processes in the financial sector, and by increasing the efficiency of Global Value Chains (GVCs) and, on a more regional level, of Integrated Value Chains.

**Policy Action 3.1:** The G20 should promote the development of frameworks and policies to facilitate access by SMEs to debt and equity markets in order to decrease their leverage and re-balance their funding sources, and the creation of specific growth funds to sustain SMEs that may have exhausted their debt capacity during the pandemic crisis, while policymakers could implement programs aimed at mobilizing private savings, also through institutional investors, to support the real economy.

**Policy Action 3.2:** Governments should promote Open Innovation and the creation of ad-hoc ecosystems with customer data subject to common protections across sectors, also leveraging the role of early stage investors (e.g. Angel Investors, Venture Capital, etc.) to foster the creation of start-ups and to support their growth, while enhancing efficient innovation inside companies.

**Policy Action 3.3:** Policymakers should address barriers to the acceleration of the role played by technology and artificial intelligence in the financial sector in order to sustain its development, ensure that data are accessible to all involved players and foster a level playing field across actors with due regard to data protection standards, while governments should promote partnerships between financial institutions and tech companies to ensure the creation of innovative solutions especially in the cross-border payment sector.

**Policy Action 3.4:** The G20 should work on the development of comprehensive frameworks to strengthen Integrated and Global Value Chains, taking into account "deglobalization" trends due to the Covid-19 pandemic, to improve their resilience, flexibility and sustainability, while governments could support the digitalization and the use of data in supply chains to increase efficiency and reduce bureaucracy.

**Recommendation 4: Global Regulatory Environment** – Review the financial sector regulatory framework to ensure that it can support economic resilience during, and recovery after, the Covid-19 crisis by addressing climate-change, systemic and pandemic risks, improving prudential measures and NPL regulations, and by constructively reviewing non-bank financial sector's regulation.

**Policy Action 4.1:** The G20 should promote an appropriate policy environment to foster innovative solutions, also promoting the cooperation between Public and Private sectors in order to support the parties affected by catastrophic events and reduce the economic burden of responses to catastrophes on public budgets.

**Policy Action 4.2:** Policymakers should continue a review of the existing prudential regulatory framework in the context of the experience through the Covid-19 pandemic, to assess to what extent it may affect the ability of financial services, including insurance, to support economic recovery and to reduce the risk of procyclical effects, while the FSB should continue working to reduce the fragmentation of financial regulations to support financial stability and economic growth and allow a consistent level of flexibility across financial markets.

**Policy Action 4.3:** The G20 should encourage banking regulatory authorities to review, in light of the Covid-19 crisis, the effectiveness of existing NPL regulations to reduce the risk of forced classification as NPLs of loans to viable businesses, temporarily under stress due to the pandemic. The G20 could also call for a higher standardization of these rules and for improved framework / processes to manage unlikely-to-pay credits to maximize the chances of recovery / return to a Performing status.

**Policy Action 4.4:** The G20 should encourage policymakers to consider policy measures to continue enhancing the resilience of the NBFI sector, building on the work of the Financial Stability Board (FSB). This should be done under a holistic approach that identifies and addresses potential risks using an activities-based approach, while preserving and stimulating the contribution of all market participants to recovery, transition and innovation.

# Recommendation 1: Sustainable Finance and Financial Inclusion

Promote efforts to scale up sustainable finance and financial inclusion by supporting the development of ESG and impact investing, accelerating the adoption of global sustainability reporting and measurement standards and by fostering access by individuals and micro businesses to affordable financial products and services.

## Policy Actions

1.1 Policymakers should work towards the harmonization of regulations, metrics and reporting standards of dedicated impact investments, including the development of impact measurement methodologies, to ensure market integrity and enhance transparency. These efforts should be aimed at capturing external impacts of investments with a clearly articulated impact objective in a manner than can contribute to improving investor decision-making, with the aim of scaling up flows of capital towards impact investment opportunities that can address pressing social and environmental challenges. MDBs and governments could provide incentives and other financial mechanisms to encourage private sector investments, launch specialized impact funds to mobilize private savings toward impact investments and support Public and Private frameworks for the adoption of results-based financing solutions.
ting public funds, undertaking public spending and accounting for funds and audit results.

1.2 The G20 should give a clear mandate to international institutions to work towards the definition of common sustainable finance and circular economy taxonomies and the alignment of ESG disclosure frameworks, ensuring consistent implementation. The G20 should support current initiatives to rationalize the global system for reporting sustainability-related information and it should ask authorities involved in these efforts to develop a harmonized global framework. In parallel, the G20 should encourage national governments to design mechanisms to support the transition of key economic sectors toward sustainable models as well as a proportional implementation of ESG requirements by SMEs and unlisted firms.

1.3 The G20 should help to create the conditions to improve financial education and access to financial services, including insurance, to currently "unbanked" and "uninsured" individuals and facilitate the financing of micro businesses by supporting the introduction of new technologies, digital innovations and an enhanced use of data in the financial sector, thus promoting financial inclusion.

## SDG impacted

Recommendation embraces all 17 SDGs

**Context**

Sustainable finance is generally referred to as the process of considering environmental, social and governance (ESG) factors when making lending / investment decisions, leading to increased longer-term capital allocations to sustainable economic activities and projects[1]. More specifically:

- **Environmental** considerations may refer to climate change mitigation and adaptation, as well as the environment more broadly, such as the preservation of biodiversity, pollution prevention and circular economy

- **Social** considerations may refer to issues of equality, inclusiveness, labor relations, investment in human capital and communities, as well as human rights issues

- **Governance** considerations may include management structures, employee relations and executive remuneration, as such issues play a fundamental role in ensuring the inclusion of social and environmental considerations in the decision-making process.

The financial services industry has an integral role in achieving broad sustainable development goals, among which for example carbon neutrality, as trillions of dollars will need to be intermediated through banks, capital markets, insurance companies, private equity and other capital providers to finance this historic transition. Over the recent years, considerable attention has been given to ESG criteria and investing, due in part to at least three factors:

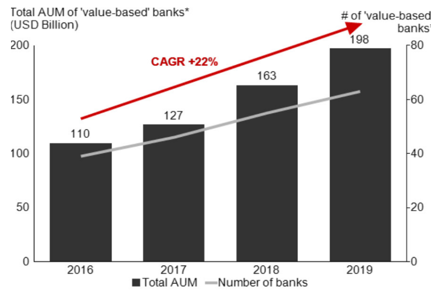
- Industry and academic studies suggest that ESG investing can, under certain conditions, help improve risk management and potentially lead to attractive risk-adjusted returns; going forward, this could be supported by the strong growth in investors' interest for ESG-attentive companies but it will require, as a key enabling factor, the availability to investors of reliable, comparable and consistent ESG information

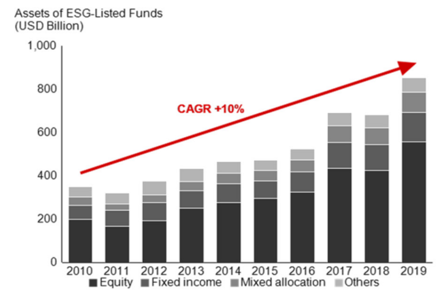
- A growing environmental, social and governance focus suggests that social values will increasingly influence investor and consumer choices

- There is growing momentum for corporations and financial institutions to move away from short-term perspectives of risk and return to better reflect longer-term sustainability in investment performance (Exhibit 1).

[1] *OECD (2020): ESG Investing: Practices, Progress and Challenges*

**Exhibit 1**
**Volumes in sustainable banking and investing have been growing double digit over a number of years**




*Note: Value-based banks based on membership of Global Alliance for banking on values*

**Source:** *Global Alliance for banking on values membership. (http://www.gabv.org/the-community/members); IMF Global Financial Stability Report, October 2019 - Sustainable Finance*

However, it is important to note that sustainable investing exists within a broader spectrum of capital deployment based on financial and non-financial returns. On one side of the spectrum, there is philanthropy, where donors seek only social returns. On the other side of the spectrum, pure financial investment is pursued to maximize value through financial returns based on absolute or risk-adjusted measures of financial value. In between these two extremes of the spectrum, lies Sustainable Investing which includes both ESG inclusion / exclusion strategies and impact investments. ESG inclusion / exclusion strategies seek to reduce risk and avoid harm by including, as a metric in the investment process, companies' impact on environmental, social and governance factors. This may result, for example, in divesting from businesses and activities that are most harmful to the planet or society. Whilst "impact", as a metric, is valuable for ESG investing, what we call "impact investment" differs from ESG by i) proactively seeking opportunities that create positive impact on people and the planet (a "do good" approach rather than a "do no harm" one), and by ii) rigorously measuring and managing that impact, as a way to maximize positive social and environmental outcomes. In line with this, the Global Impact Investing Network (GIIN) defines impact investment as "investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return"[2].

Impact investments are characterized by the presence of the impact variable in addition to the dimensions of risk and return. Therefore, this type of investment, although still representing a limited set of the total investments market, is introducing a new paradigm based on a three-dimensional assessment (risk, return and impact) and the expectation is that, in the future, an assessment of the impact will be present for all types of investments.

Indeed, this growing importance of the impact considerations is also represented by the important growth in Assets under Management (AuM) related to impact investments: GIIN estimates that over 1,720 organizations manage USD 715 billion in impact investing AuM as of the end of 2019[3] versus USD 502 billion at April 2019. This 42% increase reflects both asset growth and an increase in the number of organizations that GIIN includes in its annual estimate.

[2] *More information available here: https://thegiin.org/impact-investing/need-to-know/*

[3] *GIIN (2020): Annual Impact Investor survey*

With reference to the broader universe of sustainable financing activities, despite the recent positive momentum, investors still face significant hurdles. In particular, the lack of standardized metrics and reporting frameworks for companies (i.e. issuers of securities) is an aspect that needs to be addressed. Indeed, the IFRS Foundation has taken actions toward globally recognized sustainability reporting standards to explain enterprise value creation; at the same time there is still no unique globally recognized reporting framework relating to companies' sustainability disclosures; the lack of common standards clearly limits investors' ability to draw comparisons across companies.

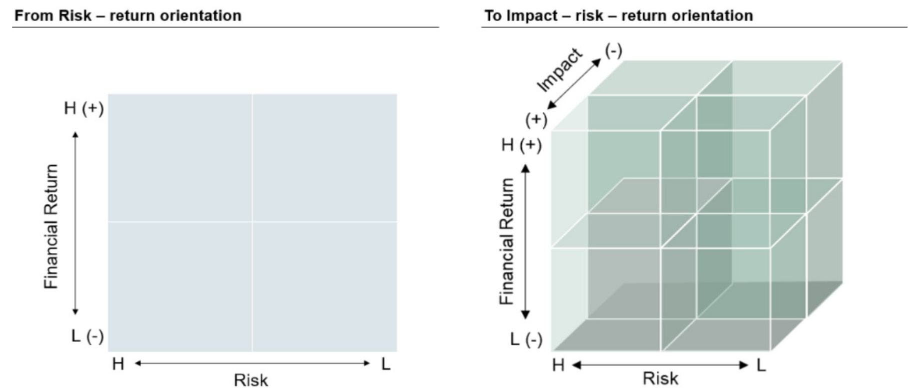
Many companies voluntarily disclose ESG information, such as climate-related risks and opportunities according to the TCFD framework. However, there are currently challenges in terms of comparability and consistency of the information that is disclosed and challenges in choosing / reporting on certain metrics. Indeed, the absence of clear and standardized disclosure frameworks makes the ESG objectives of companies not always easy to understand and it has the risk of giving rise to examples of greenwashing. This is why the G20 should support the initiatives to rationalize the global system for reporting sustainability-related information and work towards a harmonized global framework.

**Policy action 1.1: Policymakers should work towards the harmonization of regulations, metrics and reporting standards of dedicated impact investments, including the development of impact measurement methodologies, to ensure market integrity and enhance transparency. These efforts should be aimed at capturing external impacts of investments with a clearly articulated impact objective in a manner than can contribute to improving investor decision-making, with the aim of scaling up flows of capital towards impact investment opportunities that can address pressing social and environmental challenges. MDBs and governments could provide incentives and other financial mechanisms to encourage private sector investments, launch specialized impact funds to mobilize private savings toward impact investments and support Public and Private frameworks for the adoption of results-based financing solutions**

- Mainstreaming Impact Investing

Impact investments are those made with an intention to generate positive, measurable social and environmental impact alongside financial returns. Therefore, impact investments can be seen as a further evolution compared to the broader spectrum of Sustainable Investments. Far from being a niche within the wider investment industry, "impact" is increasingly becoming a central part of mainstream finance as additional major investors (from private equity and Venture Capital to pension funds) are optimizing for the three dimensions of risk, return and impact in all their capital allocation decisions (Exhibit 2). This evolution from the traditional two-dimensional approach is transforming the very nature of capitalism. Impact investing is also a powerful tool to raise awareness and address diversity, gender and inclusion issues, enhancing social inclusion. The B20 Special Initiative on Women's Empowerment is addressing issues of gender equity and women's empowerment at a general level, applicable across much of the B20 workstreams.

**Exhibit 1**
**Volumes in sustainable banking and investing have been growing double digit over a number of years**




*Source: Bain & Company*

In the understanding that they alone cannot cope with the growing social and environmental challenges facing our societies worldwide, governments have a crucial role to play in creating an adequate policy and regulatory environment to help increase the flows of private impact capital to businesses and projects that aim to generate positive, measurable outcomes - thus acknowledging the key role of business and investment to build more inclusive and sustainable economies.

- Transparency and Integrity

To ensure the integrity and transparency of impact investing (or conversely, to avoid "impact-washing") it is paramount that such investments have con-

sistent and comparable reporting frameworks, that enable the disclosure of data explaining the business' impact on the people and the planet.

To enable and to mainstream impact measurement and management, companies and investors need coherent guidelines on how to measure, report, compare and improve impact. Providing the system with a harmonized and simplified approach to standards, reporting requirements and transparency would facilitate businesses to attract the flows of private capital to help tackle some of the most pressing challenges facing our societies.

Currently, impact reporting by companies is often missing or not comparable across different companies, resulting in confusion, uncertainty and it is not achieving the key objective of reporting which is to overcome informational asymmetries in the market.

Globally there are initiatives underway to support consensus-building among the existing impact reporting organizations. For example, through the work of the Impact Management Project[4], five global organizations whose work guides the majority of sustainability and integrated reporting, announced a shared vision[5] of what is needed for progress towards comprehensive corporate reporting and the intent to work together to achieve it.

Harmonized reporting, including SDG impact standards under development by UNDP[6], would provide the transparency needed for investors and would result in impact being measured and represented alongside financial reporting. For this reason, the G20 should define a roadmap for the development of a standard reporting framework and related metrics, to be adopted at global level, specific for impact investing activities (which represents a different requirement versus the one put forward in Policy Action 1.2 with respect to ESG reporting standards for companies) in order to support investors' engagement which could, in turn, accelerate the achievement of United Nations Sustainable Development Goals.

Amongst other relevant efforts to foster greater impact transparency, the Impact-Weighted Accounts Initiative (IWAI)[7], led by the Harvard Business School, is working to drive the creation of financial accounts that reflect a company's financial, social, and environmental performance - with the ambition of creating "accounting statements that transparently capture external impacts in a way that drives investor and managerial decision making". Governments can support such initiatives, signaling the need for harmonized reporting in order to facilitate the disclosure from companies on what is material to both the enterprise and the society and to maintain the fundamental integrity and transparency of impact investments[8].

- Use of Public Finance

Public institutions – including central banks, governments and MDBs – can also play a "catalytic" role in leveraging private capital, by supporting the launch of dedicated impact funds and other financial vehicles aimed at scaling private capital for public good[9].

*[4] More information available here: https://impactmanagementproject.com/*

*[5] CDP, CDSB, GRI, IIRC and SASB (2021): Reporting on enterprise value Illustrated with a prototype climate-related financial disclosure standard*

*[6] https://sdgimpact.undp.org/practice-standards.html*

*[7] More information available here: https://www.hbs.edu/impact-weghted-accounts/Pages/default.aspx*

*[8] Some jurisdictions are proposing mandated reporting - e.g. United Kingdom mandated TCFD reporting.*

*[9] GSG – UNESCAP (2020):Towards an Enabling Policy Environment for Impact Investment in Asia and the Pacific*

This can be achieved by investing directly in impact capital vehicles or by providing first loss guarantees on impact loans and investments underwritten by financial intermediaries.

There are various mechanisms that governments are using to provide much needed capital to "impact enterprises", including wholesaler impact funds.

Impact capital wholesalers invest in funds and other intermediaries that support impact enterprises as well as in the enterprises themselves. The wholesaler also seeks to catalyze investments from elsewhere such as foundations, private investors and other institutional investors. To this end, wholesalers provide catalytic capital, defined as debt, equity, guarantees and other investments that accept unknown, mispriced, disproportionate risk and/or catalytic or concessionary returns relative to a conventional investment, in order to generate positive impact and enable third-party investment that otherwise would not be possible.

For example, India designed a program that provides Viability Gap Funding (VGF) support to private investors for impact investments through PPPs. VGF is a one-time financial support that private investors are eligible to get to partially finance capex for creating impact infrastructure. VGF is a grant (as opposed to a loan or an equity contribution) given with an objective to make the impact intervention financially viable and is normally financed by the Government's budgetary resources. The G20 could consider the possibility of exploring VGF as a model to implement those impact PPPs where project feasibility is a challenge for private players.

The UK government created legislation permitting dormant bank accounts to be transferred to social benefit uses, with a reclaim fund to respond to any customers reconnected to their funds. The uses included the first wholesale impact investment fund, Big Society Capital[10], which has used £425m of dormant accounts raising £200m from banks and bringing in £1400m from co-investors into multiple social benefit areas. This model has been repeated in Japan, Korea and Portugal, also through funds allotted by the European Investment Fund[11], with Canada and Australia expected to follow, and several other countries in the pipeline. Providing a wholesale impact fund creates confidence in the market and in intermediary investors, and brings in additional private funds, and it generates market information and product development.

Having a wholesale impact fund also provides capacity in crises, such as the one triggered by Covid-19. Several countries have placed funds to provide liquidity in the Covid-19 crisis to avoid insolvencies. In the UK, government funds were combined with Big Society Capital funds to provide liquidity to social enterprises and non-profit activities. Having a relevant and agile wholesaler allowed for a rapid and effective response.

Additionally, as major commissioners of goods and services, governments could increasingly adopt results-based financing (RBF)[12] solutions in a core evolutionary step to foster impact-driven economies.[13] RBF programs are an evolution from traditional government programs and interventions focusing on the achievement of measurable outcomes (such as job placements, retention, and increased wages/income).

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[10] *More information available here: https://bigsocietycapital.com/*

[11] *EIF: Social Impact Accelerator*

[12] *GSG (2021): Tying Funding to Results: A Primer in Results-Based Financing*

[13] *RBF solutions include Performance-Based Contracts (PBC), Outcomes Funds, Social and Development Impact Bonds (SIBs and DIBs), Pay by Results schemes*

Under these mechanisms, the principal establishes financial or other incentives for an agent to deliver predefined outcomes, and then rewards the achievement of these results upon verification.

This type of approach seeks to help governments improve the effectiveness of delivery systems and specific interventions. In some cases, RBF schemes can generate cost-savings for governments by ensuring that funds are spent only if the results are achieved. They can also help attract private capital to fund social and environmental outcomes, promoting virtuous partnerships between the public sector and other stakeholders. Amongst other benefits, such vehicles can help promote stronger performance management, enabling constant improvement of programs.

Moreover, financial intermediaries have a role to play, also by offering a wide spectrum of impact bankable products and helping increase the flows of private impact capital to businesses and projects that aim to generate positive, measurable outcomes.

Furthermore, in order to facilitate the role of the financial sector in the development of impact financing, regulators could create adequate policies and a regulatory environment to allow financial institutions to provide long term/patient capital, yielding low rates, for purpose-driven enterprises and projects aimed at achieving valuable social returns. More specifically, global standard setting bodies for financial institutions could evaluate, based on evidenced risk grounds, the introduction of impact investing supporting factors, which are measures to allow long-term impact investments with reduced balance sheet exposure and capital absorption. For example, it should be evaluated whether impact bank loans for micro enterprises and unbanked counterparties as well as financing of impact investment in fields such as health, education, research could be excluded from the IFRS9 application.

In Europe this type of approach was first proposed in 2017 within the review of the Capital Requirements Regulation, which was modified assigning a mandate to the European Banking Authority[14] to assess, by June 2025, whether a dedicated prudential treatment of exposures related to assets or activities with environmental and/or social objectives would be justified (as a component of Pillar 1 capital requirements).

Successful examples of the role of governments and MDBs in promoting impact investing can be found in East Africa and South Asia, in countries such as Kenya, India and Bangladesh. Although the majority of impact capital in these countries is financed by development banks, these countries have also adapted their ecosystems to attract other impact investors and to encourage the use of innovative investing vehicles such as quasi-equity structures. Taking the example of Kenya, the creation of a supportive ecosystem was made possible thanks to a welcoming regulatory climate for foreign impact investors, the local presence of these investors across the country and numerous organizations to support impact investments (e.g. Incubators, Consultants etc.)[15]. Therefore, we recommend that governments focus on these best-in-class ecosystems, by scaling and replicating them, when attempting to promote impact investing in their country.

[14] *CRR Article 501c*

[15] *Global Impact Investing Network (2015): The landscape for impact investing in East Africa*

Finally, because of the economic crisis generated by the COVID 19 pandemic special focus should be given to SMEs that are at risk of becoming overindebted. In the current regulatory environment, they risk being excluded from the financial system, losing their real estate assets because of their inability to pay their mortgages, thus leaving them trapped in a spiral of poverty.

The introduction of new or revisited financial instruments, such as social securitizations in Italy, could represent a convenient solution. In practice, a vehicle company buys the credits and the real estate property from the banks that have financed SMEs and households through mortgages; to finance the acquisition the company issues bonds with a social purpose to the market; households and SMEs can retain the right to occupy and use the real estate asset by paying the company, owner of the asset, a rent and eventually have the right to buy back the asset.

**Policy Action 1.2: The G20 should give a clear mandate to international institutions to work towards the definition of common sustainable finance and circular economy taxonomies and the alignment of ESG disclosure frameworks, ensuring consistent implementation. The G20 should support current initiatives to rationalize the global system for reporting sustainability-related information and it should ask authorities involved in these efforts to develop a harmonized global framework. In parallel, the G20 should encourage national governments to design mechanisms to support the transition of key economic sectors toward sustainable models as well as a proportional implementation of ESG requirements by SMEs and unlisted firms**

- **Definition of ESG taxonomies and alignment of disclosure frameworks**

ESG risks pose significant challenges for the global economy as well as the financial services industry and may in turn affect financial stability. The financial services industry plays a critical role in helping to mitigate potential ESG-related risks, through capital allocation, corporate engagement, financial intermediation, risk transfer and insurance, in order to help transform risks (and responses to them) into opportunities.

Sustainability is increasingly becoming a crucial consideration when investing. This includes the degree of sustainability of an investment through the assessment of its ESG risks. In particular, ESG risks can affect the financial value of the investment itself or can materialize externally as a result of the investment.

Taxonomies and reporting standards can help to both assess the sustainability of an investment and increase transparency of both sustainability factors and ESG risks. Within this context, while the proliferation of multiple voluntary disclosure and reporting frameworks has stimulated innovation, it has also resulted in a diverse array of standards, frameworks and indicators. Therefore, it is time to establish a global baseline on common terms, metrics and reporting frameworks in order to guarantee a holistic and consistent approach on all ESG components (and not only on environmental aspects). In this respect, the B20 welcomes the agreement reached by the G7, also acknowledged by IOSCO, on the need for a baseline global reporting standard for sustainability, which jurisdictions can further supplement, that answers investors needs for high quality, comparable and reliable information on climate risks, and that addresses the growing demand for more information on the impact that firms have on the climate and the environment[16].

To accelerate progresses and facilitate sustainable finance, it is essential to seek international alignment in sustainable finance taxonomies, policy and reporting standards[17]. Indeed, ensuring harmonization of ESG standards and taxonomies (including those referred to circular economy), as well as the availability of reliable ESG data and metrics, can foster sustainable finance given the reliance by financial institutions on corporate disclosures in order to assess ESG risks and opportunities.

In order to successfully transition from the current multiple frameworks towards a globally harmonized ESG disclosure framework, which in time would be consistently implemented, three key principles have to be met. First, the standard setter should be empowered on both financial and non-financial corporations. Second, the standard setter should have a sound and balanced governance across jurisdictions, including developed and emerging economies. Third, there should be a clear commitment by all jurisdictions to abide by the future global standards as a baseline, with the potential to require additional disclosure as necessary to meet their own public policy objectives.

For these reasons, the G20 should ask international institutions to work towards the definition of common sustainable finance / circular economy taxonomies, the alignment of ESG disclosure frameworks, supported by a global set of sustainability reporting standards, and their consistent implementation across jurisdictions. In this context, the B20 welcomes the G20's request, included in its April 7th 2021 Communiqué[18], for the FSB to work on evaluating the availability of data and data gaps on climate-related financial stability risks and on ways to improve climate-related financial disclosures. The B20 notes the upcoming initiative by the IFRS Foundation, also acknowledged by the G7, to rationalize and ensure convergence across jurisdictions creating a dedicated International Sustainability Standards Board (ISSB) to develop a baseline set of reporting standards under robust governance and public oversight, built from the TCFD framework and the work of sustainability standard-setters, involving them and a wider range of stakeholders closely to foster global best practice and accelerate convergence. It also recommends establishing an appropriate mechanism which would help governments to ensure consistent cross-border implementation of those standards. The B20 fully agrees with the G20 on the importance of promoting globally consistent, comparable high-quality standards of disclosure for sustainability reporting, building on the recommendations of the FSB's Task Force on Climate-related Financial Disclosures (TCFD). The B20 welcomes the re-establishment of the G20 Sustainable Finance Working Group (SFWG), and its mandate to develop, in 2021, a roadmap aimed at improving sustainability reporting, identifying sustainable investments, and aligning the public and private financial system efforts with the Paris Agreement. In order to accelerate progress and given the momentum created by the upcoming COP26, these efforts should leverage the current most advanced initiatives such as the work of the International Platform on Sustainable Finance (IPSF) and the OECD, with a view to tightening the necessary definitions in order to ensure global comparability. With specific reference to carbon neutrality, multiple global initiatives have already been launched: for example the Glasgow Financial Alliance for Net Zero (over 160 firms responsible for assets in excess of USD 70 trillion) which brings together the Net Zero Asset Managers Initiative (87 members with USD 37 trillion AuM), the Net-Zero Asset Owner Alliance (58 asset owners with USD 7.4 trillion in assets), and the Net Zero Banking Alliance (43 banks with USD 28.5 trillion in assets). Clear and consistent definitions are required to support transparency, comparability and monitoring of such major global initiatives.

The European Commission is making substantial progresses toward a broad and comprehensive Environmental taxonomy and it is currently working on the development of a Social taxonomy, since, just as for the "green" transition, a lack of definitions and of a standardized classification system would represent an obstacle to steering capital towards socially sustainable activities. At a global level, the International Platform on Sustainable Finance (IPSF) is currently developing a 'Common Ground Taxonomy Report' by October 2021 to enhance transparency about what is commonly green in IPSF member countries. This analysis could serve as the basis for discussion within the re-established G20 Sustainable Finance Study Group, as a steppingstone towards further development at the global level by global standard setting bodies.

*[16] G7 Finance Ministers and Central Bank Governors' Communiqué, 5 June 2021; IOSCO, Report on Sustainability-related Issuer Disclosures (June 2021)*

*[17] This is also recommended by the B20 Action Council on Sustainability & Global Emergencies and by the B20 Task Forces Energy & Resources Efficiency and Integrity & Compliance (2021).*

*[18] Italian G20 Presidency, Second G20 Finance Ministers and Central Bank Governors meeting Communiqué 7 April 2021*

Future globally harmonized ESG disclosure standards should take into account the characteristics of companies as well as take into consideration the specificities of developing countries. For example, with reference to companies the disclosure standards should consider the following:

- Listed and unlisted companies of sizeable dimensions (e.g. in terms of revenues or assets): they could envisage the adoption of the TCFD framework (Task Force on Climate-related Financial Disclosures) in order to encourage companies to increase their focus on climate-related risk and opportunities

- Other unlisted companies: they could envisage the adoption of virtuous ESG behaviors such as the adoption of voluntary “ESG-adherence reporting standards”, while avoiding potential “disclosure arbitrages"

- Small and medium-sized enterprises: they could take into account the greater complexity of implementing ESG behaviors deriving from a smaller scale and the need to maintain the costs of reporting affordable, therefore, they must introduce clear principles of proportionality and progressivity.

In addition, further measures could be considered that would increase the availability of relevant ESG data for companies of different sizes, such as data pooling or the development of centralized databases with the most relevant, core ESG metrics. This would provide investors with appropriate information within the decision making process allowing them to comply with sustainability related legislation and could reduce operational and reporting costs for companies, in particular for SMEs, and promote further comparability among companies.

- **Mechanisms to support ESG transition**

Prudential authorities and supervisors of both banks and insurance companies should support the transition to a more sustainable economy by focusing on safety and soundness of financial institutions (microprudential lens) and financial stability (macroprudential lens) in light of ESG risks. Supervisory engagement, risk management frameworks, disclosure standards, and supervisory scenario analysis exercises could become valuable tools for supervisors to address ESG risks. Ideally, the prudential response would catalyze and enable enhanced financial industry responses to ESG risks and opportunities.

Moreover, in order to encourage the adoption of ESG principles, governments should:

- Support business during ESG transition by reducing the costs of aligning their business and operating models to these principles, for example designing incentives to support the sustainability transformation of SMEs

- Promote ESG reporting to the companies at the head of value chains, as these have a crucial role in influencing the other businesses that alignment to ESG standards and subsequent reporting are possible

- Provide practical examples on how to complete this ESG transition

- Simplify regulations as much as possible and ensure that new regulations become fully enforceable only when the economic environment allows it

- Facilitate the role of the financial sector as an enabler of the sustainability transition of companies, e.g. possibly fostering long-term financing of sustainable projects by revising the application of IFRS 9 accounting rules (as proposed in the Policy Action 1.1)

- Issue green sovereign bonds and take into consideration their social co-benefits to finance a sustainable post Covid-19 crisis recovery. For example, the Green+ Gilt, which is being proposed in UK, provides that proceeds of such sovereign issuance could be directed towards green projects, with the novel feature that financed projects would consciously deliver social co-benefits, to be measured with well-defined social metrics.

**Policy Action 1.3: The G20 should help to create the conditions to improve financial education and access to financial services, including insurance, to currently "unbanked" and "uninsured" individuals and facilitate the financing of micro businesses by supporting the introduction of new technologies, digital innovations and an enhanced use of data in the financial sector, thus promoting financial inclusion**

Accelerating financial inclusion is a key enabler for reducing poverty, boosting prosperity and reaching the SDGs. However, in order to promote access for individuals and micro-enterprises to affordable financial products and services, it is necessary to act on two different aspects:

- develop financial education
- facilitate access to affordable financial products and services.

Starting from the first point, without a human capital / workforce that is financially literate in the matters of personal finances and money management, financial inclusion can only be partially achieved. Empirically founded research studies have endorsed financial literacy education programs as a way for migrating out of poverty, however for the financially vulnerable and low-income families these programs are mostly unsuccessful and unsuitable[19]. It is of utmost importance that financial literacy education intentionally targets environments of low education and income[20] since these have been associated with inadequate financial knowledge and unsound financial decisions[21]. In fact, financial education, on one hand, allows people to understand their financial needs and the relative degree of risk, preventing dangerous behavior (e.g. excessive indebtedness); on the other, financial education gives people the necessary skills to recognize the benefits of financial services (e.g. savings products, insurance coverage, etc.) as well as to gain awareness of the warning signs of possible financial frauds. Therefore, fostering the financial literacy of individuals on a global scale, with particular focus on boosting women's financial literacy and confidence[22], can be considered as the first step to achieve financial inclusion.

Examples of programs aimed at increasing financial literacy and access to insurance protection are: in Mexico, the "Proyecto Minerva"[23], which is a financial education project with a gender perspective jointly developed by the National Commission for the Protection and Defense of Users of Financial Services (CONDUSEF) and the private insurance sector; in Bolivia, the "Proyecto Seguros Inclusivos" launched by the Bolivian association of insurers and the PROFIN Foundation to promote financial education in insurance, development of inclusive insurance, and commercialization of microinsurance especially for women entrepreneurs[24]. In developing financial education programs, it is necessary to consider the different levels or phases to educating financial literacy. It is thus imperative that the developed curriculum is tailor-made for the target audience.

*[19] According to Engelbrecht, (2008), this may be a result of insufficient access to information or inferior standards of formal education.*

*[20] Most financial education programs that are financial product-oriented tend to target credit facilities available to the financially viable segments of society.*

*[21] Studies by Clancy, Grinstein-Weiss & Schreiner (2001); Finmark Trust (2004); Lusardi & Mitchell (2006)*

*[22] According to The Fearless Woman: Financial literacy and stock market participation paper (2021), a lack of a confidence scares some women away from the stock market, hampering their ability to build wealth. These findings mean that, to improve women's financial well-being, it is important to boost both financial literacy and confidence. On women's literacy and skills, see also the Policy Paper of the B20 Special Initiative on Women Empowerment (2021).*

*[23] https://minervaeducacionfinanciera.mx/*

*[24] https://fundacion-profin.org/nuestros-proyectos/proyecto-seguros-inclusivos/*

With respect to the second point on access to financial products and services, in recent years technological development and innovative technologies have allowed financial institutions to spot untapped opportunities while facilitating access to financial products and services, also for unserved or underserved populations.

Indeed, the use of digital innovation can accelerate individual financial inclusion and foster micro businesses access to capital. For example, the use of Fintech and alternative data to provide credit and insurance products and services to micro businesses and to underserved individuals represents one of the multiple benefits of digital innovation to facilitate financial inclusion. Blue Marble Microinsurance[25] represents a concrete example of how the insurance sector is using technology to reach uninsured populations. Blue Marble Microinsurance, a consortium of eight insurance companies, operates a social enterprise with the purpose of extending insurance protection to the emerging middle class. Blue Marble incubates and implements microinsurance ventures - for example data hubs or mobile technology - that can be extended around the world, making it financially viable to reach consumers in smaller or less-developed markets.

Fintech solutions can also significantly help women, which are particularly disadvantaged in the access to financial services, with more than 1 billion women still not using or not having access to the financial system[26], further undermining women's professional opportunities and financial self-sufficiency[27].

At the same time, artificial intelligence algorithms could provide an opportunity to develop innovative (i.e. also based on "non-traditional" data) credit scoring models for microbusinesses, the output of which could represent a standardized credit score used across banks. The developments in these credit scoring models can help close the $5.2 trillion finance gap for Micro, Small and Medium Enterprises (MSMEs) in developing countries, and particularly support female-owned businesses, that despite their lower number and smaller average size represent 32% of this financing gap[28].

Besides, artificial intelligence algorithms could provide opportunities to develop innovative insurance products and services that address the needs of MSMEs in an accessible and affordable manner. Parametric products that provide for rapid payout upon a predefined triggering event that is based on a measurable index (e.g. seismic index) are examples of innovative insurance products that have addressed the needs of previously unserved or underserved MSMEs in an accessible and affordable manner.

Some countries, like India and Kenya, had impressive results in terms of financial inclusion from strategies focused on the digitalization of financial services. In particular, India has implemented the world's largest financial inclusion program using India Stack. India Stack is a set of digital applications that provides a digital infrastructure to implement presence-less, paper-less, cash-less and digitally verifiable architecture for financial transactions. The creation of India Stack has triggered technology driven innovations in India's fintech industry.

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*[24] https://fundacion-profin.org/nuestros-proyectos/proyecto-seguros-inclusivos/*

*[25] https://bluemarblemicro.com/*

*[26] World Bank (2017): The Global Findex*

*[27] According to the International Finance Corporation report "Mainstreaming Gender and Targeting Women in Inclusive Insurance: Perspectives and Emerging Lessons" (2017), greater inclusion of women in the economy could increase GDP by between 2% and 3.5%.*

*[28] International Finance Corporation (2017): MSME finance Gap*

As a result, currently more than 80% of adults in both India and Kenya possess a bank account[29]. Therefore, we recommend that MDBs and Governments focus on these best-in-class strategies, by scaling and replicating them, when attempting to foster financial inclusion in other developing countries.

Important innovations also occurred in the insurance sector. The so-called Insurtech has allowed access to insurance and self-funded retirement products for longevity and morbidity that were unimaginable just years ago. Inclusive insurance and risk financing in different ways not only protect lives, livelihoods and homes from the impact of disasters, but they foster financial inclusion also through a variety of coverages, such as health insurance and insurance against the loss of employment / income, that are both fundamental to enable upward social mobility for disadvantaged individuals.

In the insurance sector, the Access to Insurance Initiative (A2ii), the implementation arm of the International Association for Insurance Supervisors (IAIS) on inclusive insurance, is leading the way in raising awareness and establishing the baseline of gender inequity in insurance and building capacity within authorities to address the protection gap and create an enabling policy and regulatory environment to support more inclusive and sustainable economies. It is therefore key for policymakers to ensure insurance companies are able to offer long-term, collective pension products. These products can help citizens, including those (mainly women) who spend long periods of their working life in unremunerated work, to build a satisfactory level of retirement income. At the same time, addressing the gender pension gap will require policymakers to ensure that women are in a position to combine their professional and personal lives, for example by ensuring the availability of childcare services and the introduction of flexible working conditions[30].

Finally, although Covid-19 has helped in the digitalization process, it is also important to note that it has made SMEs more vulnerable and over-indebted. Therefore, with a view to fostering financial inclusion, financial and fiscal regulation should help introduce financial instruments in order to support these businesses, as described in the Policy Action 3.1.

The B20 welcomes the support expressed by the G20[31] to the Global Partnership for Financial Inclusion's (GPFI) efforts to identify and address the gaps in financial inclusion that may have widened during the Covid-19 crisis, especially for the most vulnerable and underserved, as well as for micro, small and medium-sized enterprises and the G20's encouragement to GPFI to formulate a menu of policy options to help guide the appropriate response.

[29] *Ibid.*

[30] *These issues are also addressed in the Policy Paper of the B20 Special Initiative on Women Empowerment (2021).*

[31] *Italian G20 Presidency, Second G20 Finance Ministers and Central Bank Governors meeting Communiqué 7 April 2021*

# Recommendation 2: Infrastructure Financing

Enhance infrastructure financing by incentivizing investments in sustainable infrastructure projects, implementing infrastructure as an asset class, supporting cross-border planning & investing, and by fostering projects of urban and suburban regeneration.

## Policy Actions

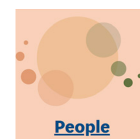
2.1 The G20 should help create ad-hoc and market-ready financial instruments to facilitate Public Private Partnerships (PPPs) for co-investments by institutional investors in sustainable infrastructure, while governments should promote “Smart Infrastructures” brought by tecnology to improve environmental and economic sustainability and enable new services such as remote healthcare and smart mobility.

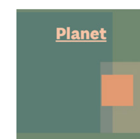
2.2 The G20 should help implement sustainable infrastructure as an asset class and standardize its taxonomy, while regulators and policymakers should review the regulatory treatment of infrastructure finance to incentivize sustainable infrastructure investing and its long-term financing.

2.3 The G20 should ask for the establishment of frameworks and platforms to facilitate international planning and joint cost-benefit analysis to foster cross-border investments in large-scale infrastructure, while governments could facilitate the rollout of recovery measures to support and accelerate infrastructure projects, which are crucial for a more robust economic recovery after the Covid-19 pandemic.

2.4 Governments and MDBs should create investment-ready projects to facilitate participation of private institutional investors in urban and suburban regeneration investments, focused in particular on increasing infrastructure resilience and improving access to affordable healthcare and transport, while policymakers could improve regulations and request impact reporting related to investments in these projects to accelerate the achievement of environmental and social priorities.

## SDG impacted



**Context**

Infrastructure investment needs to be substantially increased in order to meet social needs and support the economic recovery after the Covid-19 pandemic. Indeed, the OECD indicates that around USD 6.3 trillion of infrastructure investment is needed each year to 2030 to meet development goals, increasing to USD 6.9 trillion a year to make this investment compatible with the goals of the Paris Agreement[32].

However, there is a widespread consensus that governments alone cannot afford to bridge these growing infrastructure gaps and, although many institutions have been engaged in mobilizing finance towards sustainable infrastructure, there is still a consistent investment gap. Indeed, the annual shortfall in sustainable infrastructure investment between now and 2030 has been estimated to USD 3 trillion[33] highlighting the necessity to bring in new capital flows to close the gap between the required investments and the available capital.

Addressing the infrastructure deficit and ensuring sustainability and quality of infrastructure investments have become even more important as a result of climate change. Rising sea levels, more frequent and extreme weather events, and increasing global temperatures can have lasting, damaging effects on existing and planned core infrastructure[34].

Indeed, sustainable infrastructure, defined as infrastructure that is socially, economically, and environmentally sustainable throughout its entire lifecycle[35], is a key driver of economic growth and social progress and a critical enabler to achieving the SDGs and Paris Agreement commitments[36]. Therefore, it is essential to take all possible actions to promote the spread of sustainable infrastructure.

However, four challenges must be addressed to increase sustainable infrastructure investment and support its development:

- **Limited participation of the private sector in sustainable infrastructure investments due to the scarcity of attractive projects:** The generation of investable projects involving renewable power, green transport, sustainable water and waste, and green buildings is expanding but remains inadequate and sub-scale in the developing world. Financing of infrastructure projects is limited and lacking sufficient investment from the private sector[37] . Indeed, private sector participation in infrastructure can help reduce pressure on public finances and increase the portfolio of projects in the public sector investment program. However, in recent years, the private sector - including banks and institutional investors such as insurers, pension funds and asset managers - has raised significant concerns over the limited availability of attractive suitable infrastructure assets to invest in. Enhancing the availability of these assets would consequently trigger a flow of private sector investments.

*[32] OECD (2017) Investing in Climate, Investing in Growth, OECD Publishing, Paris,*

*[33] More information available here: https://www.hsbc.com/insight/topics/how-to-drive-investment-in-sustainable infrastructure*

*[34] SWISS Re Institute (2021): Closing the Infrastructure Gap*

*[35] Inter-American Development Bank (2018): What is Sustainable Infrastructure?*

*[36] On this issue see also the Policy Paper of the B20 Task Force Energy & Resource Efficiency (2021)*

*[37] More information available here: https://www.weforum.org/agenda/2020/09/how-to-drive-investment-into-sustainable infrastructure/*

- **Absence of sustainable infrastructure as an asset class:** In order to achieve a transition toward sustainability, a huge amount of capitals must be mobilized from both public and private sources. Indeed, institutional investors could invest in sustainable infrastructure, which can offer stable, long term returns. However, there is currently no way for them to verify which assets are genuinely sustainable. Therefore, it is necessary to act on the taxonomy and on the standards to support sustainable infrastructure investing.

- **Limited cross-border investments in infrastructure:** Since there is a significant funding gap, it is important to identify the best available solution among alternative infrastructural projects with similar benefits, thus reducing redundancies and optimizing the entire ecosystem with best resource allocation and environmental-friendly effects. This aspect is particularly relevant in case of cross border investments, hence the establishment of frameworks and platforms to facilitate international planning and joint cost-benefit analysis represents one of the challenges to be addressed.

- **Necessary regeneration of urban and suburban areas:** Cities are home to over half of the global population[38] and account for over 80% of global GDP[39]. As urban populations are expected to account for over 70% of the world population by 2050, trillions of dollars will be needed to renew urban and suburban infrastructure and to make it evolve toward sustainability. Moreover, the Covid-19 crisis forces us to imagine new categories and paradigms for our urban areas, where social inclusion, environmental protection and digital innovation are all parts of the same process. Therefore, it is necessary to promote the financing of urban and suburban regeneration, facilitating participation of private institutional investors. Indeed, mobilization of private capital, including institutional asset managers, will be key to deliver the regeneration of urban and suburban areas at the required quality and scale.

[38] *United Nations Department of Economic and Social Affairs, UNDESA (2018): World Urbanization Prospects: The 2018 Revision*

[39] *UN-Habitat (2016): Urbanization and Development: Emerging Futures*

**Policy Action 2.1: The G20 should help create ad-hoc and market-ready financial instruments to facilitate Public Private Partnerships (PPPs) for co-investments by institutional investors in sustainable infrastructure, while governments should promote "Smart Infrastructures" brought by technology to improve environmental and economic sustainability and enable new services such as remote healthcare and smart mobility**

The necessity to promote the development of sustainable infrastructure and the existing financing gap, make clear the need to promote public-private partnership models to support the creation of dedicated financial vehicles and co-investing platforms with public equity tranches and private equity co-sponsorship, aimed at fostering sustainable infrastructure financing. Indeed, there are several reasons for the growing collaboration between the public and private sectors in developing and providing infrastructure services, which include[40]:

- Increased efficiency in project delivery, operation and management
- Availability of additional resources to meet the growing needs of investment in the sector
- Access to advanced technology (both hardware and software).

Therefore, the use of public-private partnership models is able to mobilize and aggregate a growing volume of private and public resources favoring the realization of massive infrastructure projects as well as the maintenance of current infrastructure to bring it in line with current sustainability metrics.

It is essential to create dedicated, standardized and market-based solutions to expand the financing of sustainable infrastructure and reduce information gaps, for example through innovations aimed at encouraging the creation of sustainable infrastructure also through platforms and co-investment tools. The Green Growth Equity Fund (GGEF) set up by National Investment and Infrastructure Fund (NIIF), on behalf of the Indian Government and of the Foreign, Commonwealth & Development Office of the UK Government, is an innovative collaborative model worth noting. This kind of initiative is an example of the institutional collaboration model where large institutional investors, come together as anchors to channel capital in order to achieve common objectives.

Hence, we suggest evaluating every measure suitable to involve banking and insurance systems in supporting infrastructural modernization and the completion of existing works. Indeed, the long-term nature of the global life and retirement insurance industry liabilities implies that these insurers are well placed to invest in infrastructure projects, which by their nature are long-term and illiquid.

The B20 calls on the G20 to take actions to promote and incentivize the priority involvement of institutional investors, including pension funds, insurance companies and asset managers, in order to allow the long term financing necessary for the development of strategic sustainable infrastructure.

To this regard, the political risk embedded in infrastructure projects is a significant factor impacting investors' decision-making. It is therefore essential to mitigate this risk in order to ensure legal certainty and protection for investors and to preserve the financial appeal of sustainable infrastructure investments.

[40] *More information available here: https://ppp.gov.sl/ppp-2/*

At the same time, actions must also be taken in order to create better transmission mechanisms to supply capital. In fact, some industries (e.g. utilities) are characterized by a strong fragmentation of operators and by the presence of small-medium businesses, which do not reach critical mass for an easy access to capital. In this context, it is useful that these mechanisms focus on the areas where, according to investors, there is the greatest lack of ready-to-finance projects, such as thermal insulation (public buildings, homes and offices), production of renewable electricity, electrification of public and passenger vehicles, transformation of industrial processes and construction techniques (steel; wood).

Finally, a range of sustainable infrastructure projects on a global scale is necessary to attract capital. Therefore, governments could partner with the private sector to create an effective portfolio of investable and sustainable infrastructure projects, promoting "smart infrastructures" brought by technology to improve environmental and economic sustainability and enabling new services (e.g. remote healthcare).

**Policy Action 2.2: The G20 should help implement sustainable infrastructure as an asset class and standardize its taxonomy, while regulators and policymakers should review the regulatory treatment of infrastructure finance to incentivize sustainable infrastructure investing and its long-term financing**

- **Implement sustainable infrastructure as an asset class**

Transforming sustainable infrastructure into a mainstream asset class will speed up the ability of investors to make capital allocation choices that support the transition to a sustainable economy. However, in order to implement infrastructure as an asset class, it is necessary to have a clear and standardized taxonomy. In 2020, a first comprehensive definition of infrastructure as an asset class has been provided by the EU CRRII Regulation.

In the meantime, some progress toward a definition of Sustainable Infrastructure has been realized by the Finance to Accelerate the Sustainable Transition-Infrastructure initiative (FAST-Infra)[41], which aims to establish a consistent, globally applicable labelling system for investments in sustainable infrastructure assets. Through this labelling system, the market can easily signal the sustainability of the asset, and investors can trust that their money is going to projects that meet environmental, social, resiliency, and governance needs and contribute to the SDGs. A sustainable infrastructure label will ensure that governments and project developers embed high environmental, social, governance and resiliency standards into new infrastructure at the design and pre-construction phases, on the grounds that only assets incorporating such standards will obtain the label. Although progresses in the taxonomy field have been made, sustainable infrastructure requires further advancements to be identified as an asset class.

In the establishment of infrastructure as an asset class, the 2018 Argentina B20 Summit produced a successful roadmap, which has brought some concrete results over the past three years. Therefore, we believe this roadmap should be used as a support to develop also Sustainable Infrastructure as an asset class. In this context, we welcome the commitment by the G20[42] to develop a G20 Policy Agenda on infrastructure resilience and maintenance. In particular, we support the progressing of the initiatives of the Global Infrastructure Hub and of the work related to the G20 Principles for Quality Infrastructure Investment (QII).

- **Incentivize sustainable infrastructure investing and long-term financing**

Furthermore, to support major structural works, it is also necessary to intervene at the regulatory level for both the financing and the implementing aspects of infrastructure projects, focusing in particular on removing existing regulatory barriers. As such consideration should be given to the simplification of legislative / regulatory frameworks, with the aim of eliminating obstacles to investments and creating more straightforward and effective legal, tax, governance and accounting structures – along with addressing efforts to achieve contractual standardization across countries – in order to create homogeneous conditions for competitiveness.

[41] *FAST-Infra is a public-private initiative to raise private investment in developing world sustainable infrastructure, conceived in early 2020.*

[42] *Italian G20 Presidency, Second G20 Finance Ministers and Central Bank Governors meeting Communiqué 7 April 2021*

From a prudential regulatory perspective, capital and liquidity requirements which lead to the reduction of the size of financial institution balance sheets have a disproportionate impact on long term assets, including infrastructure finance. As such, a continued review of certain aspects of the regulatory reform framework would contribute to the goals of the G20 on improving infrastructure financing availability by incentivizing investment in this area of lending. This could be considered through an updated analysis of infrastructure finance over time via a revised FSB regulatory evaluation framework which can provide recommendations on potential refinement or revision to regulatory standards where warranted. A simplification of the regulatory framework should be considered with the aim of eliminating obstacles to investments and of creating a simpler more effective and rapidly implemented regulation in all countries in order to ensure homogeneous conditions of competitiveness. This could also be reflected through the Basel Committee's own current workplan evaluating the impact and effectiveness of the post financial crisis reforms[43].

In addition, policymakers could implement infrastructure supporting factors, based on evidenced risk grounds, to incentivize sustainable infrastructure investing and financing by banks and review regulatory accounting requirements like IFRS9 that can also disincentive long term credit. Considering that infrastructure financing requires long term investments and long-term credit of (10-20+ years), IFRS9 framework penalizes the capacity of banks to fund infrastructure projects by increasing capital requirements and requiring higher provisioning, proportional to the expected loss over the remaining life of the projects, in case of a deterioration in credit quality versus the time of origination.

Along with addressing these issues, policymakers could also consider other actions to incentivize sustainable infrastructure financing, such as:

- Creating a securitization framework that could give investors access to portfolios of smaller size projects. In fact, securitization can be useful as it has both the flexibility of bank loans and the "marketability" of financial assets in providing finance to smaller sustainable and social infrastructure projects. Within this framework, we recommend making the prudential treatment of securitization commensurate with the risks and not punitive so that banks can pool smaller scale projects to allow investors to invest in a broader range of assets.

- Creating the conditions for Governments and MDBs to guarantee banks' and insurance companies' infrastructure investments. At present, these institutions are constrained from investing in infrastructure projects due to the risk characterizing some of these projects (i.e. those where investors / lenders are exposed to the market risk associated with the project). Solving this issue would free a large amount of liquidity to help foster the green revolution in infrastructure and support its maintenance.

Additionally, with specific regard to insurance companies it has to be underlined that they could play a crucial role in the financing and insurance of resilient, sustainable infrastructure projects. Investments from insurers could help fill the existing funding gap in the global infrastructure market and the provision of insurance cover could incentivize investment by other institutional investors. However, to make insurance investments feasible, it is equally necessary to work on the regulatory and supervisory frameworks in place across jurisdictions to provide for appropriate incentives for infrastructure investments.

[43] *https://www.bis.org/speeches/sp210420.pdf and https://www.bis.org/bcbs/bcbs_work.htm*

For example, insurance supervisors could consider the merits of applying a differentiated capital treatment for infrastructure investments. If capital requirements can be appropriately calibrated to reflect insurers' ability to buy and hold infrastructure assets over the long-term, this would free up capacity and would have the potential to increase insurers allocation to sustainable infrastructure.

Finally, another key element to be considered to incentivize sustainable infrastructure investments is the creation of adequate investment capacity. In practice, this means that regulators and policymakers should ensure that regulation does not stop insurers from offering well-designed and long-term products to citizens. In the case of insurance companies, their ability to invest in long-term assets, including infrastructure, is directly related to the premium inflow from long-term pension and savings products.

If citizens are saving enough through long-term savings products, this provides multiple benefits: they will have improved access to affordable pension products and adequate retirement income, the governments can maintain their long-term budgets in check, and economic growth/recovery will be strengthened by long-term investments, including infrastructure, facilitated by insurers.

This is even more crucial given the fact that people are living longer and the existence of a serious gender pension gap. For example, private pension savings could help increase the pension savings of those spending significant time in unremunerated work (e.g. care provision) as private pensions are not connected to labour market participation. There is available evidence that demonstrates that private pension products in some countries have contributed to narrowing the gender pension gap (OECD)[44].

[44] *OECD (2021) "Towards Improved Retirement Savings Outcomes for Women"*

**Policy Action 2.3: The G20 should ask for the establishment of frameworks and platforms to facilitate international planning and joint cost-benefit analysis to foster cross-border investments in large-scale infrastructure, while governments could facilitate the rollout of recovery measures to support and accelerate infrastructure projects, which are crucial for a more robust economic recovery after the Covid-19 pandemic**

In an increasingly connected world, an international cooperation, characterized by cross-border strategic planning, will be necessary in order to design and accomplish large projects in sectors such as construction, transport, railways, roads, ports, airports, water networks, energy networks.

For example, the evolution and modernization of infrastructural networks (e.g. railways, motorways, …) can promote productivity, create wealth for the systems involved and reduce environmental impacts using advanced technologies. Enhancing cooperation among countries in the field of infrastructure is necessary in order to guarantee the realization of large projects that result in positive economic impacts on extensive regions. The energy infrastructure sector is particularly reliant on cross-border cooperation, as projects tend to exploit certain countries' competitive advantages to overcome the geographical limitations of some others. An example of this is the Australia-ASEAN Power Link (AAPL), a vast plan to export energy, generated in one of the largest solar farms worldwide, from Australia to Singapore and other Asian countries.

Therefore, the B20 calls on the governments and MDBs to take action in order to:

- Enhance collaboration among governments, by further encouraging the concepts of openness and inclusiveness to foster sincere cooperation

- Avoid redundant investments in substitute infrastructure (e.g. High-speed Railway and Highway road for the same routes)

- Promote the development of a strategic cross-border planning adoption through "cost benefit analysis" to identify the best available solution among alternative infrastructural projects, thus reducing redundancies and optimizing the entire ecosystem with best resource allocation and environmentally friendly effects

- Ease the roll-out of recovery measures to support infrastructure investments adapted to the most recent population habits

- Leverage infrastructure assets monetization, as a self-financing mechanism, to liquidate finance for developing new assets. For example, in Australia, the Australian Federal Government implemented the Asset Recycling Initiative (ARI) by working together with States and local territories to sell assets and reinvest the sale proceeds to fund new infrastructure. As part of ARI, the Federal Government provided some financial incentives to States and as a result helped the creation of some large new infrastructure assets in the process

- Provide local-currency, long-term and fixed-rate loans in emerging markets, as well as creating the conditions to scale these measures in the private sector, in order to mitigate currency risks of infrastructure investments in foreign countries

- Encourage the use of surety bonds in order to strengthen the financial resilience of infrastructure projects and attract investment.

**Policy Action 2.4: Governments and MDBs should create investment-ready projects to facilitate participation of private institutional investors in urban and suburban regeneration investments, focused in particular on increasing infrastructure resilience and improving access to affordable healthcare and transport, while policymakers could improve regulations and request impact reporting related to investments in these projects to accelerate the achievement of environmental and social priorities**

Infrastructural planning aimed at urban and suburban regeneration is fundamental, also considering the changes in the socio-economic morphology of the territories in response to the needs of decentralization and physical distancing imposed by the Covid-19 pandemic. Indeed, the pandemic has brought out the inadequacy of our development models, which have brought a progressive depopulation of inland areas in favor of a concentration of housing in medium-large cities and industrial and commercial development districts.

Joint actions by governments, MDBs and policymakers are therefore necessary to:

- Redevelop marginal local communities

- Facilitate the decongestion of large centers

- Contribute to a green and digital transition and promoting marginalized local communities inclusion

- Improve the conditions of deprived urban neighborhoods and marginalized informal settlements in the global south.

In particular, governments and MDBs could:

- Promote the financing of bankable and investment-ready urban and suburban regeneration projects to achieve environmental and social priorities

- Promote the financing of infrastructure resilience programs to preserve and strengthen existing infrastructure

- Design frameworks for enabling access to affordable healthcare and transport in urban and suburban areas, by leveraging private capital and technological interventions

- Promote market participation of SMEs on regeneration projects by prioritizing smaller scale projects and supporting local businesses in having access to them

- Create ad-hoc financial vehicles dedicated to regeneration projects. For example, the Global Steering Group for Impact Investment (GSG) is exploring financing vehicles that aim to attract capital for the urban and suburban regeneration in the extremely poor areas of the global south

- Promote sustainability standards and protocols for urban regeneration projects in order to assess the generated impact

- Require impact reporting on regeneration projects to ensure the delivery of environmental and social goals

- Promote innovative financing instruments for urban sustainable regeneration.

At the same time, policymakers could promote regulations to support regeneration projects with specific regard to:

- Environmental priorities: regeneration of dismissed areas; reuse of material and circular economy; zero carbon emission; certified buildings; upgrade of physical and digital infrastructures; water treatment and waste-to-energy; implementation of large water projects for sustainable growth in emerging economies

- Social priorities: creation of innovative hubs for start-ups and research; peripheral areas redevelopment; social, affordable and student housing; senior living improvement; retrofit, development and digitalization of healthcare and education infrastructures.

# Recommendation 3: Growth Engines

Support sustainable economic growth by fostering SMEs access to capital, promoting open innovation ecosystems with customer data subject to common protections across sectors, accelerating digitalization and innovation processes in the financial sector, and by increasing the efficiency of Global Value Chains (GVCs) and, on a more regional level, of Integrated Value Chains

## Policy Actions

**3.1** The G20 should promote the development of frameworks and policies to facilitate access by SMEs to debt and equity markets in order to decrease their leverage and re-balance their funding sources, and the creation of specific growth funds to sustain SMEs that may have exhausted their debt capacity during the pandemic crisis, while policymakers could implement programs aimed at mobilizing private savings, also through institutional investors, to support the real economy

**3.2** Governments should promote Open Innovation and the creation of ad-hoc ecosystems with customer data subject to common protections across sectors, also leveraging the role of early stage investors (e.g. Angel Investors, Venture Capital, etc.) to foster the creation of start-ups and to support their growth, while enhancing efficient innovation inside companies

**3.3** Policymakers should address barriers to the acceleration of the role played by technology and artificial intelligence in the financial sector in order to sustain its development, ensure that data are accessible to all involved players and foster a level playing field across actors with due regard to data protection standards, while governments should promote partnerships between financial institutions and tech companies to ensure the creation of innovative solutions especially in the cross border payment sector

**3.4** The G20 should work on the development of comprehensive frameworks to strengthen Integrated and Global Value Chains, taking into account "deglobalization" trends due to the Covid-19 pandemic, to improve their resilience, flexibility and sustainability, while governments could support the digitalization and the use of data in supply chains to increase efficiency and reduce bureaucracy

## SDG impacted

## Context

SMEs, which the OECD defines as companies employing less than 250 employees, are crucial in sustaining economic growth, especially in developing countries, and therefore it is important to ensure they have adequate access to capital.

Unfortunately, this is not always the case, as about half of SMEs do not have access to credit, and this financing gap is even larger when micro enterprises are taken into account[45]. The whole MSMEs financing gap reaches more than $8 trillion every year, with developing countries' SMEs being the most constrained with 65 million enterprises, or 40% of MSMEs, having unmet financing needs of $5.2 trillion every year[46].

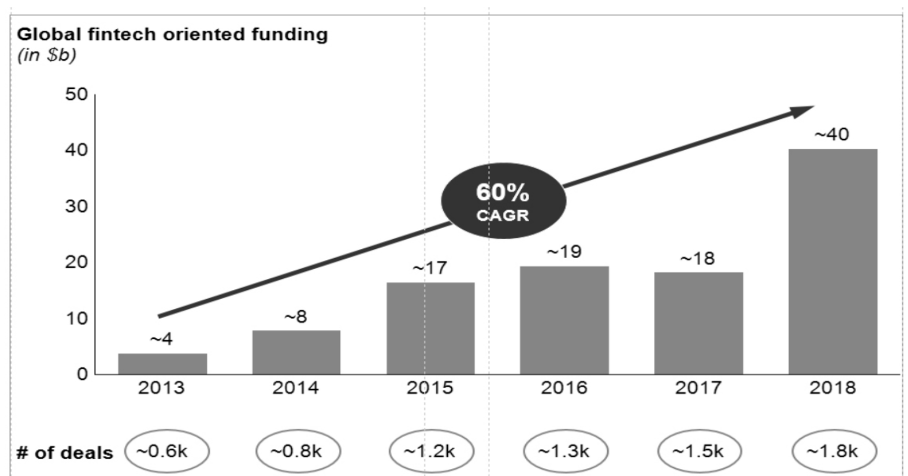
SMEs are the companies that have been most affected by the pandemic. Given their limited resources, and the existing obstacles in accessing capital, the period over which SMEs can survive the shock is more restricted than for larger firms[47]. Hence, the pandemic has particularly affected SMEs by creating deep liquidity shortages that could cause insolvencies in the future.

While taking into account the need to define an exit strategy from support measures in order to avoid cliff-edge effects, Governments and Regulators should continue to sustain SMEs by creating the conditions for the banking sector to provide them with adequate levels of finance. At the same time, given the current level of indebtedness, it is clear that SMEs cannot be solely financed by bank loans, but they could be facilitated in accessing the capital markets through dedicated instruments.

Another important role that the financial sector plays in ensuring economic growth is its innovation and development. This innovation in the sector is fueled by two different trends, the entry of new Fintech companies and corporate investing in technology and artificial intelligence by traditional financial insitutions.

Fintech companies are entities that use advanced technologies, mainly based on data analytics, to provide financial services. In particular, the three fundamental changes that have influenced the development of Fintech are: massive data generation, advances in computer algorithms, and increases in processing power[48]. Fintech has then been implemented in various financial services, such as lending, payments (Paytech) and insurance (Insurtech), with each of these growing at solid rates.

**Exhibit 3**
**Funding deployed in Fintech firms globally since 2013**




*Source: Bain analysis; CBInsights Global Fintech Report 2019*

The Fintech expansion has been supported by large amounts of investments, with more than $100bn funding deployed across more than 7,000 Fintech firms globally since 2013 (Exhibit 3).

Given the rapid growth of these Fintech companies, traditional financial institutions have to increase their investments in technology and artificial intelligence. These developments will allow banks and insurances to offer better and faster services to their clients, but also to reduce their risk, given the greater ability to assess the clients' financial positions thanks to advanced analytics. This will ultimately increase the resilience of traditional financial institutions.

Another important engine of the world economy are Global Value Chains (GVCs). These have been strengthening yearly during recent times and have brought various benefits to the firms participating in them, such as[49]:

- Possibility to source their inputs efficiently
- Access to knowledge and capital beyond the domestic economy
- Ability to expand their activities into new markets.

An important enabler of GVCs functioning is Trade Finance, a system of credits that facilitates transactions and allows both importers and exporters to reduce the risks involved. Unfortunately, the estimated value of unmet demand for Trade Finance is US$ 1.5 trillion annually, and 75% of rejected requests for Trade Finance relate to SMEs[50].

The pandemic and the following restrictive measures have caused a fall in international trade of between 13% and 32% in 2020[51], leading to the crisis of certain Value Chains worldwide. As a consequence to the generated disruptions, some companies have started re-shoring their processes to mitigate similar risks happening in the future, thus giving birth to more local / regional Value Chains. We believe that given the numerous economic benefits that GVCs generate, measures to support their stability should be implemented.

The most important role in the Value Chain is played by the head company, that has the ability and potentially the interest to participate through financing and investing in the capital of its suppliers, to strengthen their positions and create an open innovation ecosystem. Another crucial role in supporting the resilience of Value Chains is played by the insurance sector, which can mitigate some of the risks involved in international Value Chains, thanks to suitable insurance policies which can support their resilience.

[45] *World Bank (2020): Small and medium enterprises (SMEs) finance*

[46] *IFC (2019): MSME FINANCE GAP*

[47] *OECD (2020): Coronavirus (Covid-19): SME policy response*

[48] *International Monetary Fund (2020): The promise of Fintech*

[49] *OECD (2020): Covid-19 and global value chains: Policy options to build more resilient production networks*

[50] *World Trade Organization (2019): Trade finance and the compliance challenge*

[51] *World Trade Organization (2020): Trade set to plunge as Covid-19 pandemic upends global economy*

**Policy Action 3.1: The G20 should promote the development of frameworks and policies to facilitate access by SMEs to debt and equity markets in order to decrease their leverage and re-balance their funding sources, and the creation of specific growth funds to sustain SMEs that may have exhausted their debt capacity during the pandemic crisis, while policymakers could implement programs aimed at mobilizing private savings, also through institutional investors, to support the real economy**

The current pandemic has made SMEs more vulnerable and caused their debt levels to increase considerably. This trend is of a particular importance for the global economic growth, as SMEs account for more than 90% of businesses worldwide and represent 50% of global employment[52]. For this reason, ensuring and supporting their development, by fostering their access to capital, is fundamental. At the same time, savings across the G20 countries have never been so high, with the European saving rate in the first three quarters of 2020 reaching an average of 19,5% compared to 13% in the previous year, and the US personal saving rate reaching an average of 16% in 2020 compared to 7.5% in 2019. This increase is particularly due to the widespread restriction measures that slowed households' expenditures in various countries. These savings represent an invaluable asset that could be invested to contribute to economic recovery and SMEs growth.

To match these two current needs, we recommend to:

- **Maintain / prolong the measures aimed at sustaining SMEs access to capital throughout the crisis**

Measures such as the SMEs supporting factor, and other policies implemented to limit the impact of the Covid-19 crisis, have helped SMEs survive this period of scarce liquidity. Due to the high uncertainty prevailing in the context of the pandemic, we believe that absolute priority should be given to maintaining the capacity of the financial sector to provide liquidity to SMEs affected by the crisis. While doing so, as also underlined by the recent G30 Report[53], it is important to distinguish firms that are in temporary difficulties in need of support and those that have limited prospects for recovery.

Therefore, we recommend regulators to discuss the potential extension of these supportive measures, and to ensure that the future phase out will be gradual, to avoid unintended incentives for banks to reduce their support to healthy companies working toward a full recovery.

Furthermore, the G20 should request the FSB, in coordination with the international standard setting bodies, to review the impact of the regulatory framework on SMEs financing, as government support measures put in place during the Covid 19 pandemic are unwound, through a revised regulatory evaluation framework which can provide recommendations on potential refinement or revision of the regulatory standards, where warranted, in order to support recovery from the crisis. This can also be considered through the Basel Committee's own current workplan evaluating the impact and effectiveness of the post financial crisis reforms[54].

*[52] World Bank (2020): Small and Medium Enterprises (SMEs) finance*

*[53] Group of Thirty (2020), Reviving and Restructuring the Corporate Sector Post-Covid: Designing Public Policy Interventions*

*[54] https://www.bis.org/speeches/sp210420.pdf and https://www.bis.org/bcbs/bcbs_work.htm*

- **Develop instruments and frameworks to facilitate SMEs access to equity to support their growth post the pandemic crisis and establish measures to mobilize private savings in order to foster investment for growth**

Given the current level of corporate indebtedness, it will be critical for a healthy economic recovery to ensure the recapitalization of companies. In fact, in order to relaunch companies with vitality and strength it is fundamental to facilitate their access to new equity, rather than only leaving them to service debt.

In this context, it is important that Governments invest in pandemic recovery funds, such as the European Recovery and Resilience Facility (RRF) for EU countries, with the objective, among other purposes, of sustaining and rebalancing the capitalization of SMEs, in particular in order to support their sustainable transition and digital transformation.

Therefore, we recommend the G20 to promote market instruments and structures that suit SMEs sizes, growth objectives and funding needs, from equity to debt financing, with a particular focus on strengthening the capitalization of companies. In view of the recovery, a focused involvement of the public sector - also through Development Banks - for a given period as an equity partner alongside the private equity industry could be effective in helping them rebalance their capitalization following this period of crisis. Another solution could be the creation of specific growth funds, investing in rapidly growing businesses that have outgrown the venture capital stage but not yet achieved sufficient scale for listing, in order to sustain SMEs that may have exhausted their debt capacity during the pandemic crisis[55].

Moreover, to further promote SMEs access to capital markets, it is necessary to foster the enhancement of entrepreneurs' financial skills, the reinforcement of their governance and the implementation of organizational changes based on market best practices and frameworks. Improvement in financial literacy across society is necessary and could facilitate the formation and growth of successful businesses. To this extent, training programs such as ELITE56, developed by the Italian Stock Exchange and adopted in 45 countries, could be supported.

Furthermore, we recommend governments to develop specific mechanisms to unlock the immobilized private savings and to attempt to direct them, through institutional investors, toward instruments and frameworks for investing in SMEs.

For example, if the European Long-Term Investment Funds (ELTIFs) were more in line with the needs of current investors (both retail and professional) they could become an impactful vehicle to channel households' savings toward SMEs hence fostering their growth. On this topic, the European Commission has recently promoted a review of the ELTIFs Regulation for which the consultation phase has already been completed.

Tax incentives could also be further explored for retail investing in debt and equity products specifically dedicated to SMEs, such as ISAs (Individual Savings Accounts) in the UK and Piani Individuali di Risparmio Alternativi in Italy. The tax benefit schemes should be constructed in order to minimize the risk for savers and to guarantee long term financing for SMEs. In this sense, a minimum investment holding period should be envisaged.

*[55] An example could be the "Business Growth Fund", which is a fund investing in rapidly growing SME's in UK and Ireland. 56 More information available here: https://www.elite-network.com/private-companies/programmes*

**Policy Action 3.2: Governments should promote Open Innovation and the creation of ad-hoc ecosystems with customer data subject to common protections across sectors, also leveraging the role of early stage investors (e.g. Angel Investors, Venture Capital, etc.) to foster the creation of start-ups and to support their growth, while enhancing efficient innovation inside companies**

Open Innovation applies the principles of free trade to innovation, advancing new ideas with tools such as partnerships, joint ventures, licensing and strategic alliances. An Open Innovation Ecosystem is an environment in which businesses invest in R&D projects beyond their corporate borders, and multiple investors co-participate in innovative start-ups, digital business ventures and research hubs that exchange data and knowledge among them.

Promoting an Open Innovation Ecosystem is of a particular importance in this period of scarce liquidity for businesses, as it is crucial to drive the efficient allocation of companies' R&D resources. In fact, by reaching beyond corporate borders, a company can import lower-cost, higher-quality ideas from a wide array of world class experts to improve the speed, quality and cost of innovation. This approach allows the business to refocus its own innovation resources where it has clear competitive advantages. However, there are various impediments to the implementation of open innovation, including addressing data localization measures and inconsistent standards for information sharing on a cross-border basis.

Therefore, we recommend that governments foster open innovation by incentivizing investing and financing in research centers and start-up hubs, while they commit to facilitate cross-investments and exchange of data between businesses and the academia, through cooperation, to harmonize data disclosure regulations. In order to create such ecosystems, governments should review the cases of virtuous start-up hubs, such as the Silicon Valley and Tel-Aviv, and align to their best practices.

**Policy Action 3.3: Policymakers should address barriers to the acceleration of the role played by technology and artificial intelligence in the financial sector in order to sustain its development, ensure that data are accessible to all involved players and foster a level playing field across actors with due regard to data protection standards, while governments should promote partnerships between financial institutions and tech companies to ensure the creation of innovative solutions especially in the cross border payment sector**

- **Accelerate the role of technology, advanced analytics and artificial intelligence in the financial system to sustain their development**

During the Covid-19 crisis, digital innovation has accelerated and it has been stress-tested under real world extreme circumstances in various industries. In the financial sector, for example, Fintech companies, Insurtech companies and all digitally advanced financial institutions have an advantage over more traditional entities in digital verification and customer onboarding. Nowadays, it is clear that exploiting artificial intelligence is a key competitive advantage in the industry, and therefore embracing a holistic digital transformation journey has become a key priority for executives in the financial sector[57]. This technological development will be beneficial to the clients of traditional financial services firms, as it will speed up application and processing times and claims payments, generate a better customer experience and potentially decrease the costs of products and services.

With reference to the regulatory framework, it is important that the regulation for financial services is favorable to innovation and digital technologies, technologically neutral and sufficiently future-proof to enable adaptation to the digital era.

Within this framework, we recommend that governments remove barriers to digitalization and consider incentive schemes and methods of innovation promotion, such as regulatory sandboxes which should be accessible both to emerging FinTechs and to established financial institutions, to stimulate investments in digitalization and artificial intelligence within the financial sector, to improve the quality of services and ultimately sustain its development.

Financial services need to also deal with the challenges and risks imposed by this upcoming digital transformation which requires a combination of innovative regulations and efficient supervision which is capable of supporting the digital transformation of the sector.

Therefore, we recommend that regulators implement appropriate risk based rules for issues related to financial innovation and technology, including: cyber resilience, Anti Money Laundering[58] (AML), Combat Financial Terrorism (CFT), consumer protection and data privacy, business continuity and third-party providers. As described in the recent occasional paper by the Financial Stability Institute[59], such a regulatory framework may require a combination of activity-based and entity-based rules as well as ensuring that responsible public authorities develop innovative and robust solutions to supervise these risks to ensure financial stability and market integrity.

*[57] On the development of Artificial Intelligence see the Policy Paper of the B20 Task Force on Digital Transformation*

*[58] The FATF is a leader in this area; the key for a successful AML/CFT framework globally is the effective design and a consistent implementation of standards across jurisdictions.*

*[59] https://www.bis.org/fsi/fsipapers17.pdf*

Although regulations and supervision should limit cyber risks, these challenges could be further mitigated through the implementation of Cyber Insurance. This type of insurance is a valuable risk transfer mechanism, and also offers a range of associated pre-event and post-event services, such as data restoration.

For these reasons, we recommend Governments to work with the insurance industry to consider the potential benefits of Cyber Insurance coverage across various sectors and in particular in the financial services one, in order to sustain its technological development and better exploit the benefits arising from innovative solutions.

- **Access to data generated in the financial sector**

As previously mentioned, data are becoming key in our economies and, in particular, the financial sector that growingly uses technology and data. A consequence of that is the growing range of digital services offered by financial institutions, including new players such as Fintech and Insurtech companies. Financial institutions, Fintech and Insurtech companies must use data in a responsible way (i.e. respecting citizens' rights to have control over the use of their data) and in accordance with existing data privacy laws and regulations.

Technology enables faster and tailor-made solutions to clients and reduces the risks for the financial intermediaries. Within the financial sector, insurance is a particularly data-reliant industry, and thus access to data and the ability to move these across borders are essential needs for insurers, since the more data become available for the common good, the better the digital solutions and analytical models can be.

Although the importance of cross-sharing data between industries and geographies is recognized, this practice is still challenged by regulatory fragmentation across different jurisdictions. Currently, an obstacle to technological innovation in the Financial Services sector is represented by data localization and specific regional data regulations, which create regulatory asymmetry and a competitive disadvantage compared to other sectors.

These restrictions can also bring some side effects for the financial system and the overall economy, as they may undermine risk management practices of financial institutions and reduce the access to financial services and markets in some countries, ultimately constraining economic growth. However, regulatory "fragmentation" on data (i.e. different approaches to data ownership and protection) is unavoidable in the absence of internationally approved standards, which would allow mutual recognition.

For these reasons, the G20 should mandate a dedicated taskforce to explore the impacts of data localization in the financial industry and to take stock of existing data regulations, as a basis for potential future global data frameworks and international standards on data privacy in the financial sector, which would allow to reduce the current fragmentation. This exercise should take into consideration areas where, given the sensitivity of data, jurisdictions need to retain flexibility in defining local data regulations. For users to truly benefit from the opportunities their data could offer, a broader framework should include the goal of harmonizing regulatory principles among different sectors that would enable data sharing across sectors[60].

*[60] This is also recommended in the Policy Paper of the B20 Task Force on Digital Transformation (2021)*

Moreover, governments should promote partnerships between financial institutions and tech companies, based on contractual relationships and fair competition rules, to ensure the creation of innovative solutions especially in the cross-border payment sector.

In this work, particular attention should also be given to the role that can be played by "Data Verification"[61]. Digital technology such as data verification may, for example, help facilitate trusted cross-border recognition required for compliance purposes. Digital technologies related to data management and utilization (cloud, blockchain, artificial intelligence, etc.) must be at the heart of this work.

Moreover, the G20 should aim at defining a global strategy for data, starting from setting the basis for a secure, reliable and genuine worldwide data space, which would benefit both consumers and firms. To this end, users (consumers and businesses) should be empowered to decide which data to share and with whom within the frame of user and firm data protection laws.

As recently outlined in the Basel Committee work program 2021-22 and in the IAIS Strategic Plan 2020-2024, supervisory authorities at international and local level should foster the use of advanced analytics technologies (Suptech and Regtech) so as to perform more efficient, sustainable, and effective controls in the financial sector.

- **Promote partnerships between financial institutions and tech companies to create innovative solutions, especially for cross-border payments**

Cross-border payments are the fundamental pillar of international trade and economic activity. Faster, cheaper, more transparent and inclusive cross-border payments would bring widespread benefits for supporting economic growth, international trade, global development and financial inclusion[62].

The Committee on Payments and Market Infrastructures (CPMI) identified 19 'building blocks' where public and private efforts could enhance cross-border payments. The FSB has then developed a detailed roadmap[63] to address these key challenges.

To ensure consistency and obtain effective results, we recommend that the most suitable expert bodies implement the actions following this roadmap working in close coordination with the private sector, while the FSB should coordinate the progresses, and ensure that these are developed in a coordinated manner, as they display various interdependencies among them.

*[61] The purpose of the "data verification" is to confirm, i.e. verify, that the information reported is correct, without the need of sharing the underlying data.*

*[62] Financial Stability Board (2020): Cross-border payments*

*[63] Financial Stability Board (2020): Enhancing Cross-border Payments – Stage 3 roadmap*

**Policy Action 3.4: The G20 should work on the development of comprehensive frameworks to strengthen Integrated and Global Value Chains, taking into account “deglobalization” trends due to the Covid-19 pandemic, to improve their resilience, flexibility and sustainability, while governments could support the digitalization and the use of data in supply chains to increase efficiency and reduce bureaucracy**

- **Develop comprehensive frameworks, including for trade finance and trade credit insurance, to strengthen Integrated and Global Value Chains to improve their resilience, flexibility and sustainability**

A key enabler for strengthening value chains is Trade Finance, a system of credits that facilitate transactions and allows both importers and exporters to reduce the risks involved[64]. According to the International Chamber of Commerce (ICC), with strained public finances, limiting scope for further government stimulus measures, trade is expected to be a vital form of relief for many businesses in the wake of Covid-19[65].

For these reasons, we recommend regulators to continue to consistently improve the treatment of trade finance from a regulatory perspective in line with its profile as a short-term, low risk, self liquidating form of financial intermediation which supports the real economy. Furthermore, we recommend increasing support for Export Credit Agencies (ECAs) to provide adequate backing for trade transactions.

Insurances are another key supporting factor to the strength and resilience of value chains. They can mitigate specific risks involved with the transportation mode (e.g. Aviation / Marine) as well as support multinational enterprises (MNEs) through “difference-in-conditions and difference-in-limits” policies (DIC/DIL), mitigate credit risk in Trade Finance, and further expand its effectiveness. Furthermore, insurances reduce shocks and interruptions in the operation of value chains, ultimately improving sustainability and resilience.

Governments can play a role in educating companies involved in trade finance on the benefits of value chain insurance policies that can increase the resilience of such companies.

Moreover, we recommend cooperation among countries to introduce global standards, such as the GVC passport initiative, a virtual document constantly certified by the relevant authorities to provide accreditation across the value chain, to bring significant reduction in bureaucracy, and ultimately increase efficiency[66].

*[64] On Trade Finance see also the Policy Paper of the B20 Trade & Investment Task Force (2021).*

*[65] International Chamber of Commerce (2020): Priming trade finance to safeguard SMEs and power a resilient recovery from Covid-19*

*[66] B20-BIAC (2020): GVC passport on Financial Compliance, a pragmatic concept to strengthen inclusive and sustainable growth; B20 Saudi Arabia and Business at OECD (BIAC); September 2020. On this issue, see also the Policy Papers of the B20 Action Council on Sustainability & Global Emergencies (2021) and of the B20 Trade & Investment Task Force (2021).*

- **Support digitalization and the use of data in supply chains to increase efficiency and reduce bureaucracy**

Digitalization of value chains consists in the adoption of a range of technologies (analytic AI, advanced robotics, DLT-Blockchain based technologies, and digital platforms) for running scenarios, assessing trade-offs, improving transparency, accelerating responses, and even changing the economics of production. These have proved to be fundamental during the pandemic, where consumer habits have been disrupted and governments' restrictions have limited human direct involvement in the management of value chains.

Within this framework, we recommend governments to stimulate corporate investments in the implementation of artificial intelligence inside value chains, enabled by the running of data flows through the entire chain, in order to strengthen supply chain risk management and improve end-to end transparency.

- **Enhance the role of companies at the top of a value chain in building resilience in their supply chains and operations**

The Covid-19 pandemic has forced businesses to focus on building resilience in their supply chains and operations and companies at the top of a value chain have a vested interest in preserving the supplier networks on which they depend.

In the aftermath of the global financial crisis, some companies accelerated payments or guaranteed bank loans to give key vendors, in particular SMEs, a lifeline. Other used centralized control tower systems that integrate real-time data for running scenarios and managing production of their own plants as well as suppliers' and distributors' production. This requires a seamless flow of data along the value chain, robust digital systems as well as analytics capabilities.

Most companies are still in the early stages of their efforts to connect the entire value chain with a seamless flow of data, but those investments can pay off over time, not only improving resilience, but also improving digital capabilities, boosting productivity, and strengthening entire industry ecosystems.

We therefore recommend governments and MDBs to promote head companies' investments and financing in the capital of their suppliers, through the creation of ad-hoc instruments, to strengthen their value chains and create open innovation ecosystems.

# Recommendation 4: Global Regulatory Environment

Review the financial sector regulatory framework to ensure that it can support economic resilience during, and recovery after, the Covid-19 crisis by addressing climate-change, systemic and pandemic risks, improving prudential measures and NPL regulations, and by constructively reviewing non-bank financial sector's regulation.

## Policy Actions

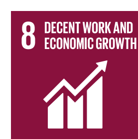
**4.1** The G20 should promote an appropriate policy environment to foster innovative solutions, also promoting the cooperation between Public and Private sectors in order to support the parties affected by catastrophic events and reduce the economic burden of responses to catastrophes on public budgets

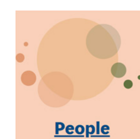
**4.2** Policymakers should continue a review of the existing prudential regulatory framework in the context of the experience through the Covid-19 pandemic, to assess to what extent it may affect the ability of financial services, including insurance, to support economic recovery and to reduce the risk of procyclical effects, while the FSB should continue working to reduce the fragmentation of financial regulations to support financial stability and economic growth and allow a consistent level of flexibility across financial markets

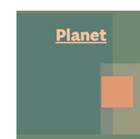
**4.3** The G20 should encourage banking regulatory authorities to review, in light of the Covid-19 crisis, the effectiveness of existing NPL regulations to reduce the risk of forced classification as NPLs of loans to viable businesses, temporarily under stress due to the pandemic. The G20 could also call for a higher standardization of these rules and for improved framework / processes to manage unlikely-to-pay credits to maximize the chances of recovery / return to a Performing status

**4.4** The G20 should encourage policymakers to consider policy measures to continue enhancing the resilience of the NBFI sector, building on the work of the Financial Stability Board (FSB). This should be done under a holistic approach that identifies and addresses potential risks using an activities based approach, while preserving and stimulating the contribution of all market participants to recovery, transition and innovation

## SDG impacted



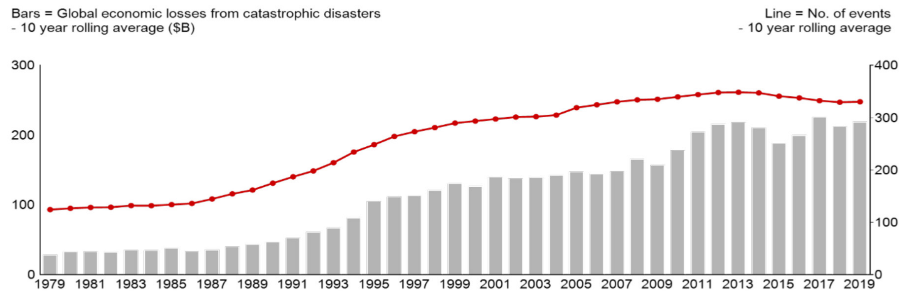



## Context

According to the new Macroeconomic Resilience Indices jointly developed by Swiss Re Institute (SRI) and the London School of Economics (LSE)[67] the near-exhaustion of monetary policy options, given the prolonged period of low interest rates, has made certain segments of the world economy potentially less resilient than in 2007, the onset of the global financial crisis.

Another threat to financial stability lies in the fact that society tends to think of catastrophic events as having low probabilities, and therefore under-insures its assets against these risks. However, catastrophic events occur more often than what we appreciate, and both frequency and severity have increased in recent times (Exhibit 4).

**Exhibit 4**
**The economic cost and frequency of these disasters have been growing**




*Note: Values in USD at 2019 prices; Includes floods, storms, earthquakes, droughts/forest fires/heat waves, cold waves/frost, hail, tsunamis, other natural catastrophes, and man-made disasters (major fires and explosions, aviation and space disasters, shipping disasters, rail disasters, mining accidents, collapse of buildings/bridges, terrorism, and other miscellaneous); Excludes war, civil war, and war-like events*

***Source:*** *Bain Analysis; SwissRe Sigma 2/20*

We have seen that natural disasters, including pandemics, can have very tangible effects on people, institutions, businesses and their supply chains. Furthermore, of the total losses caused by natural disasters since 1980 (Exhibit 4), more than 70% was not insured[68], causing direct damages on the population.

However, the pandemic has clearly shown that neither the private sector nor governments alone can effectively tackle global systemic risks:

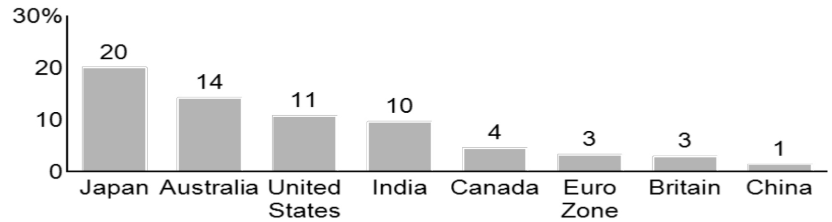
• Taking the example of pandemics, these pose challenges to the basic principles of insurance such as diversification / mutualisation of risks. Moreover, the losses derived from pandemics can be enormous, going beyond insurance capacity, with governments responsible for the shortfall (Exhibit 5)

• On the other side, governments lack the expertise and micro-level capabilities, due to their typical scope of activities and slower reaction time.

[67] *Swiss Re (2019): https://www.swissre.com/media/news-releases/nr-20190907-sigma-5-2019.html*

[68] *Munich Re (2019): https://www.munichre.com/en/risks/natural-disasters-losses-are-trending-upwards.html#- 1624621007*

**Exhibit 5**
**Covid-19 financial stimulus as a percentage of GDP1**




| | Japan | Australia | United States | India | Canada | Euro Zone | Britain | China |
|---|---|---|---|---|---|---|---|---|
| Stimulus ($B) | 996 | 203 | 2,200 | 260 | 77 | 590 | 82 | 184 |
| Nom. GDP ($B) | 4,971 | 1,434 | 20,540 | 2,719 | 1,713 | 18,292 | 2,855 | 13,610 |

*Note: As of May 2020*

***Source:*** *Bain analysis; Lit Search*

Therefore, partnerships between governments and insurance companies are well fit for the purpose of addressing pandemic, climate and other systemic risks. Although Public-Private Partnerships (PPPs) require further development and progresses in various countries worldwide, there are some models of partnerships covering comparable catastrophic risks, such as the Business Continuity Protection Program (BCPP) in the United States, supported by the largest insurance companies, the Consorcio de Compensacion de Seguros in Spain, Flood Re in the UK, the Caisse Centrale de Réassurance (CCR) and the proposal of an “exceptional disaster scheme” (CATEX, put forward by the French insurance industry) in France.

To further ensure stability in the financial sector and in the overall economy after the Financial Crisis, policymakers have strengthened prudential regulations, including raising capital requirements for banks under Basel III and prudential capital rules for EU Insurance companies under the Solvency II Directive. These increases in capital requirements have constrained some financial activities, such as reducing the banks’ holding of capital-market assets by 39% between 2010 and 2016[69].

At the beginning of the Covid-19 financial crisis, regulators implemented a set of measures to provide additional operational capacity for banks to contrast the immediate financial stability priorities resulting from the slowdown of the global economy. In particular, an important matter in this context is the implementation of the Basel III “Finalization”, considered by regulators as one of the last steps of the post-crisis reform. Regarding this matter, the G20 has already expressed in previous summits that the Basel III finalization should be implemented with “No significant capital increase“.

Another issue that the financial sector is facing is regulatory fragmentation. According to figures estimated by the International Federation of Accountants (IFAC) and by the Business and Industry Advisory Committee to OECD (BIAC), regulatory fragmentation costs financial institutions more than $780bn annually. These costs divert funds away from investments in financial services with positive economic impacts; in fact over the past years, 51% of financial institutions declared they had to divert funds away from risk management activities because of regulatory divergence. Furthermore, financial institutions spend more than 10% of their annual revenue dealing with regulations that are of high complexity and differing across countries, thus reducing their profitability and potentially creating stability issues.

[69] *More information available here: https://www.ft.com/content/d793068c-3d99-11e8-b9f9-de94fa33a81e*

Moreover, regulatory divergences across countries are a constrain also to cross-border economic activities, with 71% of institutions reporting that regulatory divergence was a moderate to substantial barrier to extending operations into new regions. Moreover, as is often the case, the costs arising from regulatory divergence are proportionally higher for smaller institutions than larger financial entities, negatively affecting competition in the industry.

For the outlined reasons, we believe that addressing regulatory fragmentation should be a priority for the G20 members.

Another important role in the financial system is played by the Non-Bank Financial Intermediation sector (NBFI); these players are difficult to define, but the widest FSB definition considers NBFI as "all the financial institutions that are not central banks, banks or public financial institutions"[70]. This sector started growing intensively after the 2008 crisis, when there has been a strong increase in the number of regulations for banks, and therefore many activities have been moved to the NBFS (Exhibit 6).

**Exhibit 6**
**Non-bank financial assets as a share of total financial assets**

*Note: All assets underneath intermediaries that are not central banks, banks or public financial institution.*

***Source:*** *Jurisdiction 2019 submission (national sector balance sheet and other data); FSB calculation*

Non-bank financing is a valuable source of financing for many firms and households, it facilitates competition among financing providers and supports economic activity. However, activities based risk could arise from non-bank financing intermediations, especially if these are interconnected with other parts of the financial system.

For these reasons, in 2009 after the London G20 Summit the FSB was established, with the role, among others, to review and monitor these activities. However, the non-bank financial intermediation activities that received more attention are included in what the FSB call the "Narrow Measure", that is comprised of non bank financial institutions that authorities have assessed as being involved in credit intermediation activities that may pose bank-like financial stability risks and/or regulatory arbitrage; examples of institutions in this category are hedge funds.

However, according to the FSB, the market crisis following the Covid-19 pandemic highlighted the importance of monitoring developments in the NBFI sector, as it has grown faster than banks over the past decade, including in 2019.

[70] *Financial Stability Board (2020): Global Monitoring Report on Non-Bank Financial Intermediation*

We agree with the FSB that further analysis should be done to map the potential sources of interconnectedness between NBFIs and the rest of the financial system in order to further evolve an activities based approach to developing a comprehensive understanding of the potential sources of systemic risk to the global economy.

It is clear, that the sources of systemic risks are not easy to be identified, and we agree with the FSB that further analysis should be done to enhance an understanding of which activities potentially give rise to systemic risks, and better map the interactions between banks and non-banks.

**Policy Action 4.1: The G20 should promote an appropriate policy environment to foster innovative solutions, also promoting the cooperation between Public and Private sectors in order to support the parties affected by catastrophic events and reduce the economic burden of responses to catastrophes on public budgets**

Insurers play a pivotal role in helping design solutions and provide guidance to enhance prevention, resilience and responses to climate and pandemic risks.

Measures for the prevention, management and insurability of natural disasters are everywhere an integral part of actions to combat climate change and ensure the transition to a low-carbon and sustainable economy. This is even more necessary now that we are witnessing a pandemic and a dramatic increase in natural disasters, as well as in their capacity for destruction and in their economic and social impacts.

Pandemic risks stand out from other catastrophic risks for a number of reasons, in particular due to the size of their associated losses and the geographic reach of outbreaks. In addition, there is no clear, predictable time limit on a pandemic: this means the potential loss is impossible to estimate, and therefore uninsurable under the traditional insurance business model. As a result, though insurers can help administer and facilitate a government-run pandemic response program, the private insurance industry cannot hold pandemic risks by itself.

For these reasons, we recommend governments to help establish partnerships between public bodies and the insurance industry in order to develop innovative and internationally harmonized solutions[71]. It is fundamental that governments on the lines of what already exists in many countries, make every effort to find a solution that through PPP mechanisms can provide catastrophic and pandemic insurance protection in every country, especially for SMEs, which are particularly exposed to the economic impacts of a pandemic.

What could be done in addition to cooperation between Public and Private sectors to reduce natural catastrophes and pandemic risks is to foster a "Societal Risk Compact" approach, where companies, governments and insurers play a proactive role in anticipating these risks and collaborate to mitigate and minimize their impacts on society. This includes prioritization of resilience in corporates' and investors' agenda, support to companies in identifying and quantifying their risk exposure, and governments' subsidization of extended insurance coverage by providing loss protection or loss sharing to insurance companies[72].

*[71] This is also addressed by the B20 Action Council on Sustainability & Global Emergencies (2021).*

*[72] World Economic Forum, Bain & Company (2020): Building a More Resilient and Sustainable World: An action plan for the insurance and asset management industry*

**Policy Action 4.2: Policymakers should continue a review of the existing prudential regulatory framework in the context of the experience through the Covid-19 pandemic, to assess to what extent it may affect the ability of financial services, including insurance, to support economic recovery and to reduce the risk of procyclical effects, while the FSB should continue working to reduce the fragmentation of financial regulations to support financial stability and economic growth and allow a consistent level of flexibility across financial markets**

- **Review the effectiveness of current prudential regulations and assess those that worked well and those that need improvement and revisions, in particular those causing procyclical effects in the economy**

Regulators around the world have reacted swiftly to the pandemic providing much needed flexibility so that the financial sector can effectively serve its clients, support struggling businesses and fund the recovery. The ongoing pandemic and the ultimate recovery will continue to present ongoing issues for markets.

While we strongly believe that the post 2007/2008 financial crisis regulatory framework has made the financial system safer and more secure, it remains important to review that framework in a dynamic and holistic fashion – particularly as it relates to the impact of the pandemic.

We acknowledge that according to its recent "Work program and strategic priorities for 2021/22[73]" the Basel Committee will be devoting a substantive part of its agenda over the next few years to carefully evaluating the impact and effectiveness of its post-crisis reforms also taking into account the effects of the Covid-19 pandemic. The Financial Stability Board is also undertaking a review of Covid-19 vulnerabilities[74]. As such, we recommend that as the BCBS and the FSB continue their analysis of the lessons learned from the Covid-19 crisis, their reviews should assess the effectiveness of the global regulatory framework and procyclicality in the financial system, and whether this could lead to issues for financial stability. Furthermore, the reviews undertaken should also examine the impact of the crisis on the provision of lending to and investments in the real economy, particularly in the areas of infrastructure and SMEs financing as support measures are unwound (topics also discussed in the Recommendations 2 and 3).

- **Review the regulations of the insurance sector to ensure they do not constrain its effectiveness in mitigating risks and in supporting the real economy through its investments**

As well as the rest of the financial sector, insurance companies have prudential regulations with which they have to comply, with the aim of ensuring fair, safe and stable insurance markets, the protection of policy holders and financial stability. However, these regulations should avoid the creation or continuation of non-risk-based barriers to insurers' efforts to provide innovative products and services designed to help close the protection gap, including data localization barriers discussed in the Policy Actions 3.2 and 3.3.

[73] *https://www.bis.org/bcbs/bcbs_work.htm*

[74] *https://www.fsb.org/2021/02/fsb-chairs-letter-to-g20-finance-ministers-and-central-bank-governors-february-2021/*

Furthermore, prudential regulations should also avoid undermining the long-term business of insurance companies and their related investment potential in order to allow them to support the real economy, especially in the context of the post Covid-19 economic recovery. In this context, the sector is faced with different prudential regulations and supervisory approaches across jurisdictions that complicate efforts to conduct a cross-border insurance business on both the asset / investment and liability / underwriting sides of the balance sheet.

In particular, the prudential regulation should take into consideration the Covid-19 crisis context and it should remove unnecessary costs and barriers, in particular in relation to long-term products and investments, including infrastructure investment, that prevent the insurance sector from playing a bigger role in fostering the economic recovery.

- **Harmonize prudential policies and regulations, building on the work of the FSB, in order to reduce fragmentation across financial markets, in particular focusing on regulations regarding cross-border capital flows, including M&A activities.**

Fragmentation of financial regulatory regimes have led to: major increases in annual compliance costs, lost business for many companies operating in multiple markets, and lower capital flows, needed to fund infrastructure and economic growth – indeed recovery - in these challenging times. These regulatory and supervisory policies that fragment markets can ultimately inhibit or restrict cross-border lending and investment activities, thereby reducing the variety of associated economic and resilience benefits. Regulatory fragmentation can also constrain financial companies' mergers and acquisitions, which, if well designed and executed, could increase the financial sector resilience and preserve the diversity of business models of different institutions[75].

In 2019, the FSB identified four areas for further work to address market fragmentation, with these being: Deference, Pre-positioning of capital and liquidity, Regulatory and Supervisory coordination and information sharing, "Too-big-to-fail" (TBTF) evaluation.

Although multiple jurisdiction supervisory oversight has improved, the process of designing and implementing financial regulations that affect cross-border financial services points to the need for enhancements to government-to-government mechanisms for cross-border financial regulatory cooperation. Regulatory fragmentation can also stem from a diversified approach to the application of the principle of proportionality, often quoted in the financial regulation of various jurisdictions, but applied with different approaches.

For these reasons, the G20 should engage the FSB to raise its level of ambition as regards to its work on fragmentation, which at this stage resulted in limited progress, by encouraging outcomes-based, risk-sensitive, transparent and flexible deference processes, better calibration of pre-positioned capital and liquidity resources, stronger regulatory and supervisory coordination and information-sharing, as well as clarification of the role of the lender of last resort.

[75] *European Central Bank (2020): Guide on the supervisory approach to consolidation in the banking sector*

In particular, we ask the G20 to encourage harmonized regulatory frameworks regarding cross-boarder capital flows, including M&A activities, crucial to enable financial institutions across the world to compete on a level playing field. While doing so, we believe it is of a particular importance to take into consideration the proposals of the global financial community. In addition, the G20 should also establish a clear path toward a concrete application of the principle of proportionality.

It is also very clear that fragmentation concerns exist particularly in areas where international standards have not been fully developed. As such, the review of market and regulatory fragmentation should also encompass addressing solutions in other areas discussed in this paper, including sustainability and data localization (Policy Action 1.2 and 3.3).

**Policy action: 4.3: The G20 should encourage banking regulatory authorities to review, in light of the Covid-19 crisis, the effectiveness of existing NPL regulations to reduce the risk of forced classification as NPLs of loans to viable businesses, temporarily under stress due to the pandemic. The G20 could also call for a higher standardization of these rules and for improved framework / processes to manage unlikely-to-pay credits to maximize the chances of recovery / return to a Performing status**

The key priority in the current environment is to avoid that the Covid-19 health crisis transcends into a new financial crisis. Therefore, the most important role for governments with bank-dominated financial systems will be the management of bank loans where a non-marginal portion of them may become non-performing loans. An increase in NPLs, alongside weaker bank earnings in a low-growth and low-interest environments, could reduce bank lending ability, despite strong monetary policy support, with negative feedback effects on the economy. A key concern is the prospect that support programs would cease at a single point in time, which could create a sudden economic shock with ripple effects through the economy and across the financial sector.

Additional complexity arises in identifying non-viable firms, as locking in resources in less productive firms would undermine the pace of a sustainable economic recovery. As highlighted by the recent G30 Report[76], "Policy choices should avoid actions that would significantly weaken the financial sector, such as forcing banks to make bad loans as a way of supporting the economy".

Therefore, we recommend that NPL regulations and insolvency laws are reassessed in the contest of the Covid-19 pandemic, first of all with a view to finding a balance between the risk of supporting potentially non viable firms and that of prematurely liquidating productive firms, causing a procyclicality effect, possibly leading to a new financial crisis. We then believe that these regulations and laws should be standardized internationally as much as possible, also in order to avoid further fragmentation of the financial sector.

Furthermore, we believe that the G20 should promote the creation of instruments / frameworks to support the restructuring of "Unlikely to Pay" (UTP) and Doubtful Loans, while at the same time calling for the strengthening of secondary markets for NPLs, in order to help banks in improving their books and support companies' recovery.

Given the urgency to prevent "cliff edge" insolvencies, we believe these actions should be prioritized and implemented quickly, to take effect as early as possible, within the crisis exit timeframe.

[76] *Group of Thirty (2020), Reviving and Restructuring the Corporate Sector Post-Covid: Designing Public Policy Interventions*

**Policy action 4.4: The G20 should encourage policymakers to consider policy measures to continue enhancing the resilience of the NBFI sector, building on the work of the Financial Stability Board (FSB). This should be done under a holistic approach that identifies and addresses potential risks using an activities-based approach, while preserving and stimulating the contribution of all market participants to recovery, transition and innovation**

Building on the FSB's 2020 report to the G20 and its Holistic Review of the March 2020 Market Turmoil, policymakers should continue to assess the effectiveness of regulation of the non-bank financial intermediation (NBFI) sector from a holistic, market-wide perspective to identify potential sources of structural vulnerability. This can inform future policy actions to mitigate the build-up of systemic risks. Greater measurement and mapping of the interconnectedness of the various elements of the NBFI sector and with the rest of the financial system will enhance resilience while preserving and stimulating the contribution of all market participants to provide the financing needed to drive the post-COVID economic recovery, the transition to global Net Zero commitments and to encourage innovation.

From the various actions to be taken as a follow-up to the FSB report, we particularly recommend to undertake a stock take exercise comparing the regulatory frameworks implemented in the various jurisdictions after the global financial crisis, to identify the measures that have helped resilience in some jurisdictions.

In this context, the B20 welcomes the recent G20's commitment to take stock of the lessons learned from the pandemic from a financial stability perspective and to work towards a strengthening of the resilience of the activities performed by the NBFI sector with a systemic perspective.

# Annexes

## Schedule of Taskforce Exchanges

| # | Date | Event | Location | Theme |
|---|---|---|---|---|
| 1 | 22/02/2021 | TF Videoconference 1 | Virtual | Review of 1st Draf of Policy Paper |
| 2 | 22/03/2021 | TF Videoconference 2 | Virtual | Review of 2nd Draft of Policy Paper |
| 3 | 26/04/2021 | TF Videoconference 3 | Virtual | Review of 3rd Draft of Policy Paper |
| 4 | 31/05/2021 | TF Videoconference 4 | Virtual | Review of 4th Draft of Policy Paper |
| 5 | 05/07/2021 | TF Videoconference 5 | Virtual | Review of final version of Policy Paper |
| 6 | 07-08 10/2021 | B20 Summit | Rome; Virtual | Review of 4th Draft Policy Paper |

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| Country | # | Country | # | Country | # | Country | # |
|---|---|---|---|---|---|---|---|
| Italy | 43 | Belgium | 5 | Argentina | 2 | Poland | 1 |
| United Kingdom | 13 | United Arab Emirates | 2 | Germany | 2 | Singapore | 1 |
| China | 12 | Canada | 3 | Ghana | 1 | Turkey | 1 |
| France | 11 | Brazil | 2 | India | 1 | | |
| Russia | 11 | Indonesia | 2 | Japan | 1 | | |
| Saudi Arabia | 7 | South Africa | 2 | Netherlands | 1 | | |
| USA | 6 | Spain | 2 | Pakistan | 1 | | |

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| Emanuela Angori | Webuild | Head of Corporate and Internal Communication | Italy |
| Bernardo Arecco | Areccco Ingenieiria | CEO | Italy |
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| Edward Barron | Aig | Head of International Government Affairs | United Kingdom |
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| Sergio Molisani | Snam | SVP - Finance, Insurance and Tax | Italy |
| Futhi Mtoba | International Women Forum South Aftica | Non-Executive Director | South Africa |
| Radju Munusamy | PWC Indonesia/ Indonesian Chamber of Commerce and Industry | Partner | Indonesia |
| Susan Neely | American Council of Life Insurers | President and CEO | United States of America |
| Alessandro Nesti | A..Menarini I.F.R. S.R.L. | Financial Activities | Italy |
| Steve Nicholls | National Business Initiative | Corporate Director Head of Environment | South Africa |
| Véronique Ormezzano | BNP Paribas | Head of Group Regulatory Affairs | France |

| Name | Company/Organization | Position | Country |
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| Robert Patalano | OECD | Head of Division: Financial Markets | France |
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| Giovanna Pelazzi | Argenta Soa Spa | Owner | Italy |
| Andrey Petrukhin | PJSC Gazprom Neft | Head of Division, Innovative Development | Russia |
| Stefano Pierini | Ferrovie Dello Stato Italiane Spa | Director of Strategies, Planning, Innovation and Sustainability | Italy |
| Christian Pierotti | Fédération Française De L'assurance | Public Affairs Director | Belgium |
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| Oleg Preksin | Association of Russian Banks | Vice President & Board Member | Russia |
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| Dmitry Pristanskov | Norilsk Nickel | Vice President | Russia |
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| | **Members** | | |
| Gianluca Riccio | Lloyds Banking Group, And Business at OECD (BIAC) | Risk Development Director, and Vice Chair Finance Committee at BIAC | United Kingdom |
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| Agostino Scornajenchi | TERNA Spa | CFO | Italy |
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| Ruslan Sigeda | Russian Direct InvestmentFund | Counselor | Russia |
| Stephen Simchak | American Property Casualty Insurance Association | Head of International | United States of America |
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| Margherita Stabiumi | Alfa Acciai | Owner | Italy |
| Francesco Tanzi | Pirelli | Head of Finance and Risk Management | Italy |
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| Hasan Turunc | Turkish Industry and Business Association | Director of London Representation | United Kingdom |
| Katsufumi Uchida | Sumitomo Mitsui Banking Corporation | Managing Executive Officer, Deputy Head of Europe | Japan |
| Graciella Universe | GMU Group | Chairwoman | Indonesia |
| Severine Vadon-David | French Banking Federation | Senior Advisor, Public Affairs Europe and International | France |
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| Xiaogang Wei | ICBC (EUROPE) SA Milan Branch | General Manager | Italy |
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| Qi Yin | Megvii Technology Limited | Co-Founder and CEO | China |
| Leon Yip | International Chamber of Commerce UK | Policy Coordinator | United Kingdom |
| Eric Zhang | Vanke Future City Lab | Vice President<br><br>Public Affairs Director | China |
| Youxun Zhang | China Export & Credit Insurance Corporation | Head of International Cooperation Team, International Department | China |
| Liyan Zhao | China Council for the Promotion of International Trade | Director | China |

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| | Donatella Ravenna, CEO Staff | |
| | Federico Orsi, International Affairs Office | |
| Task Force Manager | Francesca Brunori, Credit and Finance Director | Confindustria |
| | Susanna Armani, Credit and Finance Department | |
| | Alessandra Greco, Credit and Finance Department | |
| | Salvatore Signati, Credit and Finance Department | |
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| | Silvia Lubrano, Staff | |
| Knowledge Partner | Mariagiovanna Di Feo, Partner | Bain & Company |
| | Carlo Farina, Associate Partner | |
| Scientific Partners | Rosa Cocozza, Full Professor | Università degli Studi di Napoli Federico II |
| | Fabio Pammolli, Full Professor | Politecnico di Milano |
| | Chiara Frigerio, Associate Professor | Università Cattolica del Sacro Cuore |
| | Elena Beccalli, Full Professor | |
| | Giuseppe Corvino, Associate Professor | Università Bocconi |
| | Edoardo Croci, Senior Research Fellow | |

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| | David Madon, Principal | |
| | Sebastian Welisiejko, Chief Policy Officer | GSG - The Global Steering Group for Impact Investment |
| | Raffaella De Felice, NAB Community Manager | |
| | Fabrizio Vettosi, Director, VSL Club SpA | ICS – International Chamber of Shipping |
| | John Denton, Secretary General | ICC- International Chamber of Commerce |
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