FC4S
FINANCIAL CENTRES FOR SUSTAINABILITY

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Leading Financial Centres Stepping Up Sustainability Action

The FC4S Network 2023 State of Play Report

SUPPORTED BY

INTERNATIONAL SUSTAINABLE FINANCE CENTRE OF EXCELLENCE

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Table of Contents

About Us

01

About Us

The United Nations Development Programme (UNDP) Financial Centres for Sustainability Network (FC4S) is a global network of 40 financial centres working together to achieve the objectives set by the 2030 Agenda and the Paris Agreement.

Established in mid-2018, the UNDP FC4S is an initiative of the UNDP Sustainable Finance Hub, born out of Italy's G7 Presidency in 2017. Composed by 40 leading financial centres from diverse regions and with high outreach to both private and public financial institutions, FC4S embodies the spirit of collaboration and partnership, not only within its members, but also with the broader financial sector.

40 Financial Centres

FC4S's core mission is to enable financial centres to exchange experiences, drive convergence and act on shared priorities to accelerate the expansion of sustainable finance. Through national and regional initiatives, FC4S provides the tools, frameworks, and insights to support members' progress. It undertakes research on emerging issues, providing technical assistance and supporting strategy and project development.

FC4S systematically identifies challenges and priorities from different continents, offering capacity-building activities, technical assistance, and the application of knowledge tools. Moreover, it actively engages with local, national, and regional authorities on policy and regulatory frameworks, while fostering new sustainable finance projects.

AS OF NOVEMBER 2023, THE FC4S NETWORK MEMBERS INCLUDE:

1. Abidjan
2. Abu Dhabi
3. Astana
4. Barcelona
5. Beijing
6. Busan
7. Cairo
8. Casablanca
9. Dublin
10. Edinburgh
11. Frankfurt
12. Geneva
13. Glasgow
14. Guernsey
15. Gujarat
16. Hong Kong
17. Jersey
18. Kuala Lumpur
19. Lagos
20. Liechtenstein
21. Lisbon
22. London
23. Luxembourg
24. Madrid
25. Mexico
26. Milan
27. Mongolia
28. Montreal
29. Nairobi
30. New York
31. Paris
32. Rio de Janeiro
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34. Seoul
35. Shanghai
36. Shenzhen
37. Stockholm
38. Stuttgart
39. Tokyo
40. Zurich

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Foreword

We are pleased to present the Financial Centres for Sustainability Network (FC4S) 2023 State of Play Report, offering a unique perspective on the evolving landscape of sustainable finance from the FC4S network of financial centres worldwide. Building upon the foundation established in the previous years, this report exemplifies our commitment to progress and innovation in the realm of finance.

In response to global challenges of unprecedented magnitude, FC4S members stand firmly in their leadership roles, aligning with strategic actions that support the agenda 2030. This report reflects financial centres unwavering dedication to making a substantial impact.

The journey towards sustainable finance has reached a critical juncture, emphasizing the need for financial centres to take decisive actions. As they deepen their commitment to advancing sustainable finance, financial centres serve as dynamic and inclusive platforms, uniting a diverse array of public and private stakeholders. These centres catalyse initiatives to address sustainable finance challenges and promote the integration of ESG factors into decision-making processes, guiding financial flows towards sustainability.

Amid this transformative backdrop, this report underscores the imperative for increased cooperation and the exploration of new horizons in sustainable finance. It stands as a testament to the vision, innovation, and relentless pursuit of financial centres, as they play a pivotal role in shaping the future of finance.

We extend a warm invitation to explore the UNDP FC4S State of Play Report 2023, which embodies our collective commitment to a more equitable, resilient, and sustainable world. The path forward may be challenging, but with collaborative endeavours and the right strategies, we can pave the way for the transformation we all aspire to achieve. Welcome to this year's journey, where financial centres continue to shape a sustainable future.

Executive Summary

02

Executive Summary

The Financial Centres for Sustainability Network (FC4S) Assessment Programme (AP) is the first initiative of its kind to evaluate the state of sustainable finance in international financial centres, understood as key actors in steering the transition towards a sustainable future. The AP enables an assessment of the status of sustainable finance in these influential financial centres - delving into their institutional foundations, regulatory environment, and market infrastructures – and a monitoring of the trajectory of their endeavours in nurturing sustainable finance markets, and in contributing to the Sustainable Development Goals (SDGs).

This year's assessment reveals five key insights:

01 | PERSISTING CHALLENGES IN NON-FINANCIAL DATA

> FOR THE FOURTH CONSECUTIVE EDITION SINCE
> **2019**
> THE FOREMOST CHALLENGE REMAINED
> **"DATA QUALITY AND AVAILABILITY"**
> REMARKABLY, IN **2023**
> THIS BARRIER REACHED AN UNPRECEDENTED LEVEL AND WAS THE ONLY CHALLENGE THAT SAW AN INCREASE BETWEEN
> **2021 & 2023**

The basis for a successful integration of sustainability considerations into investors' financial decision-making processes lies in the availability of consistent, comparable and reliable sustainability-related information. This crucial factor helps capital allocation to be harmoniously aligned with the goals set out in the Paris Agreement and the 2030 Agenda. Although an enhancement of non-financial data has been observed in recent years, AP findings emphasize the ongoing necessity for proactive measures in addressing this matter: "Data quality and availability" maintains its prominence as the primary challenge faced by financial centres, and 53% of market participants do not yet support Task Force on Climate-related Financial Disclosures (TCFD) recommendations.

A promising future is envisioned in the path towards increasing both transparency and standardization, with the launch of the International Sustainability Standards Board's (ISSB's) standards, building on the groundwork laid by the Task Force on Climate-related Financial Disclosures (TCFD). Together with the Taskforce on Nature-related Financial Disclosures (TNFD) and the Taskforce on Inequality and Social-related Financial Disclosures (TISFD), they play an invaluable role in establishing a universal framework for the disclosure of non-financial information and enhancing the availability of robust data. For policymakers and regulators, who according to AP results continue to prioritize the improvement of transparency, it is imperative to align their jurisdictional regulatory frameworks with these new global standards. This alignment will facilitate a cohesive and consistent approach to sustainability disclosure, further bridging the funding gap for sustainable development.

02 | PRIORITISING THE CO-CREATION OF AN ENABLING ENVIRONMENT

WITH **13**
RESPONDENTS' VOTES EACH,
“DEVELOPMENT OF STANDARDS, GUIDELINES, OR OTHER SUPPORTING INFRASTRUCTURE”
FOR SUSTAINABLE FINANCE AND
“POLICY AND REGULATORY ENGAGEMENT”
ARE ONE OF THE TOP PRIORITIES.

Results from the AP showcase a substantial increase in financial policies and regulations designed to effectively mitigate sustainability risks and promote the inflow of sustainable capital within the jurisdictions of financial centres. Enhancing transparency and standardization are key regulatory goals, with climate and environmental disclosure regulations, and green, social, sustainable, and transition bond standards being the first and second most widely implemented policy measures in 2023.

However, in reporting the existing challenge of “Inadequate regulatory framework or policy uncertainty”, financial centres acknowledge that a critical imperative lies not only in the policy and regulatory expansion, but also in fortifying the implementation of these policies and regulations. The joint prioritisation of financial centres in “Development of standards, guidelines, or other supporting infrastructure” for sustainable finance and “Policy and regulatory engagement” highlights the continued commitment to co-creating an enabling environment through active engagement with policymakers and regulators.

03 | MINDING THE EDUCATIONAL GAP

DESPITE THAT, ON AVERAGE,
96%
OF THE RESPONDENTS OFFER EDUCATIONAL COVERAGE IN THE PROPOSED SUSTAINABLE FINANCE TOPICS, A SIGNIFICANT DISPARITY EMERGES BETWEEN
HIGH-INCOME ECONOMIES AND MIDDLE- AND LOW-INCOME ECONOMIES.

There is a stark contrast in sustainable finance education opportunities between high-income, and middle- and low-income economies. While 91% of high-income economies’ offerings are at the mid to high levels[1], a concerning 74% of middle- and low-income economies’ offerings remain at the entry level[2].

Therefore, a leapfrog potential exists. Low and middle-income countries show significant room for growth in sustainable finance education. With only 5% at the high level, strategic investments and partnerships can catapult them forward, unlocking untapped potential for future leaders. To bridge the divide, promoting knowledge exchange and collaborative initiatives between high-income,

1 *Mid-Level: Undergraduate courses and Executive courses. High-Level: Post-graduate courses (MSc, PhD).*

2 *Entry-Level: MOOCS (Massive open online course) and workshops, conferences, or any other extracurricular activity.*

and middle- and low- income economies is crucial. Sharing expertise can uplift struggling regions and foster a more sustainable and inclusive financial landscape worldwide.

04 | OPPORTUNITY FOR CONTINUED GROWTH IN THE SUSTAINABLE DEBT MARKET

THE FC4S MEMBERS' SUSTAINABLE DEBT MAKES UP **2.6% OF THE GLOBAL MARKET,** INDICATING ROOM FOR GROWTH DESPITE THEIR SIGNIFICANT PRESENCE IN **THE SUSTAINABLE DEBT MARKET (54%).**

FC4S members play a prominent and leading role in the global sustainable debt market. The AP 2023 sample represents a 54% share of the market size in terms of GSS+ bonds issued. Although constituting a substantial share of the global sustainable debt market, the outstanding sustainable debt of the FC4S members respondents merely accounts for 2.6% of the overall global debt landscape. This aligns with the international trend, as the global sustainable debt market size comprises 2.1% of the overall debt market. This underscores the prospect of continued growth in the sustainable debt market, presenting an opportunity to finance a wide array of public and private sustainable projects and objectives.

Stock exchanges, play a broader role in the development of the sustainable finance market as a way to contribute to bond market development, especially in developing economies. Stock exchanges in Middle and Low-Income economies exhibit, on average, 22% fewer sustainable finance initiatives compared to their counterparts in High-Income economies, with noticeable disparities observed in the areas of annual sustainability reports, SME listing platforms and sustainability bond listing segments.

05 | MARKET ACTORS’ ACTIVE ROLE IN DRIVING FINANCIAL SYSTEM TRANSFORMATION

MARKET PARTICIPANTS' COMMITMENTS RISE **(8%),** WITH AN INCREASE IN QUANTIFIABLE TARGETS **(5%)** WHEN COMPARED TO **2021 RESULTS.**

Market participants, including banks, asset owners, asset managers, and insurers, are leading actors in transforming the financial system. They are allocating capital to sustainable finance in alignment with their internal commitments and policies, influenced by a market, political, and regulatory landscape characterized by emerging definitions, frameworks, regulatory measures and financial products. The growing number of commitments made by financial actors to mobilize sustainable finance underscores the sector's determination to expedite the transition. Moreover, the increasing proportion of these commitments that are quantitatively defined showcases efforts among market participants to enhance the transparency and credibility of these pledges. Importantly, these commitments need to be substantiated by comprehensive and credible transition plans that outline a pathway on how companies will align their strategies and business models with their proposed targets.

For these commitments to be attainable, on behalf of the offering side, there should be a provision of sustainable investment opportunities and projects that align with the SDGs. It is crucial to acknowledge that the absence of adequate green and sustainable investment projects is still regarded as one of the most pressing challenges by financial centres in advancing sustainable finance. In this context, the identification of appealing and viable investment opportunities that align with SDG priorities and investors' goals, as well as the development of innovative financing mechanisms capable of attracting private capital for impactful investments, are pivotal.

Introduction

03

Introduction

At the midway point toward the 2030 Agenda, global progress has faltered and even gone into reverse due to the climate crises, the COVID-19 pandemic, rising living costs and persistent conflicts. Only 12% of the Sustainable Development Goals (SDGs) are on track, nearly half moderately or severely off-track, and 30% stagnating or regressing below the 2015 baseline[1]. In terms of climate action, the Intergovernmental Panel on Climate Change (IPCC)[2] stated in its 2023 Report that global warming is expected to persist and increase in the short term across almost all considered scenarios and modelled pathways. To limit global warming to 1.5°C or below 2°C by the end of the century, deep, rapid, and sustained measures are needed, including a reduction in greenhouse gas emissions by 43% by 2030 - using 2019 as the baseline year - as well as reaching net zero CO2 emissions and incorporating significant reductions in other greenhouse gases, particularly CH4.

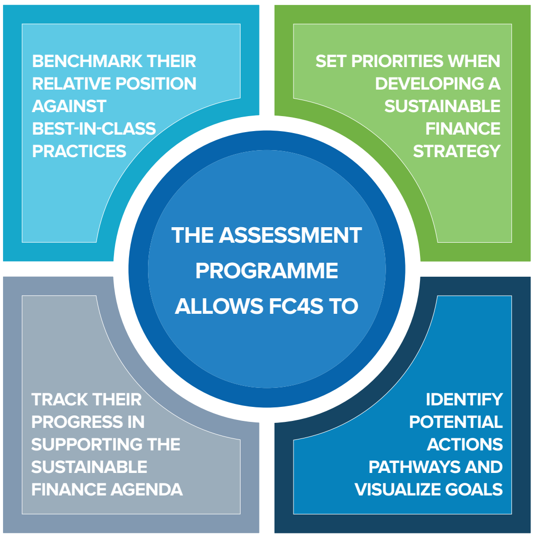
Challenges in poverty reduction, education, decent work, and climate action are partly rooted in persistent financial hurdles, although the problem does not stem from a shortage of funds. The world's total wealth, estimated at US$463.6 trillion, could potentially address the SDG financing needs if even less than 1% of it could be monetised. The issue is not solely about insufficient funds directed to the right causes; it is also about redirecting the rest of the resources to avoid further harm to people and the planet. Achieving the 2030 Agenda demands all finance being sustainable, guided by the SDGs framework. The urgency and scale of this necessary global transformation emphasize the financial sector's vital role in scaling the investments needed by countries and the real economy.

UNDP has embarked on an ambitious journey outlined in the Strategic Plan for 2022-2025, which includes a 'Moonshot target' aiming to mobilize over $1 trillion in public expenditure and private capital for the SDGs. Public finance can initiate this shift by providing incentives for private sector investment in low-carbon infrastructure and technologies, particularly in developing countries. Nevertheless, the public sector alone cannot fuel this transition. We must unlock the private finance required to propel us towards net-zero emissions by 2050. To achieve this, we must overcome the barriers that hinder private financial flows.

In this endeavour, strong partnerships with governments and the private sector have emerged as central pillars. One key channel in achieving this monumental goal is the UNDP Financial Centres for Sustainability (FC4S) network, gathering 40 leading financial centres with high outreach to both private and public financial institutions. FC4S embodies the spirit of collaboration and partnership, not only within its members, but also with the broader financial sector. The ability of FC4S to capitalise knowledge and resources of private financial institutions is pivotal in achieving our shared sustainable finance objectives.

Tracking sustainable finance progress is crucial for achieving the SDGs as it enables the identification of persistent challenges, the development of strategies to overcome them and ultimately the effective allocation of resources towards our shared goals. In this context, the Assessment Programme (AP) was established in 2018 by the Financial Centres for Sustainability Network (FC4S), as the first initiative of its kind to evaluate the state of sustainable finance in key international financial centres. It was founded to underscore the pivotal role of financial centres in steering the transition towards a sustainable future. The overarching objective of the Assessment Programm is to assess the status of sustainable finance in these influential financial centres - delving into their institutional foundations, regulatory environment, and market infrastructures - and to monitor the trajectory of their endeavours in nurturing sustainable finance markets. The Assessment Programme examines both private and public sector actions and instruments dedicated to advancing sustainable finance and also considers their contributions to the UN SDGs.

This unique framework offers FC4S members a comprehensive evaluation and baseline of where they stand in terms of sustainability, enables them to track their progress and identify areas demanding intensified focus to bolster advancements and set strategic priorities. Additionally, it enables UNDP FC4S to promote common objectives and activities by connecting members based on their needs, developing value-adding products and services, informing policy, and collaborating with global alliances and policy forums.



Shifting to a biannual nature in this latest edition to support members' local progress more strongly, the Assessment Programme 2023 is focused on data collection, survey implementation and the delivery of Global and Personalised reports. Whereas the Assessment Programme 2024 will focus on supporting members to advance sustainable finance through the gaps that the Assessment Programme has identified (including by implementing wider UNDP Sustainable Finance Hub (SFH) tools).

The membership has exhibited proactive engagement since the initiation of the Assessment Programm, with a significant representation averaging 72%. In its first edition (2018), 13 members participated, followed by 20 in 2019, 24 in 2020, 29 in 2021 and 26 in 2023.

Institutional Foundations

04

Institutional Foundations

The Institutional Foundations pillar explores the key institutions and targets that drive the development of sustainable finance within the financial centre. It looks at the range of stakeholders involved within the financial centres' institutional frameworks, acknowledging that collaborative efforts between the public and private sectors, as well as the involvement from the government, different industries, civil society and academia are crucial for advancing sustainable finance. In addition, it examines in detail the actions and activities undertaken to promote sustainable finance, the reach of a sustainable finance dedicated initiative should one be in place, and the objectives and strategies in place related to this field at the financial centre or country level.

KEY HIGHLIGHTS:

62% OF THE MEMBERS ARE EXCLUSIVELY DEDICATED TO SUSTAINABLE FINANCE INITIATIVES

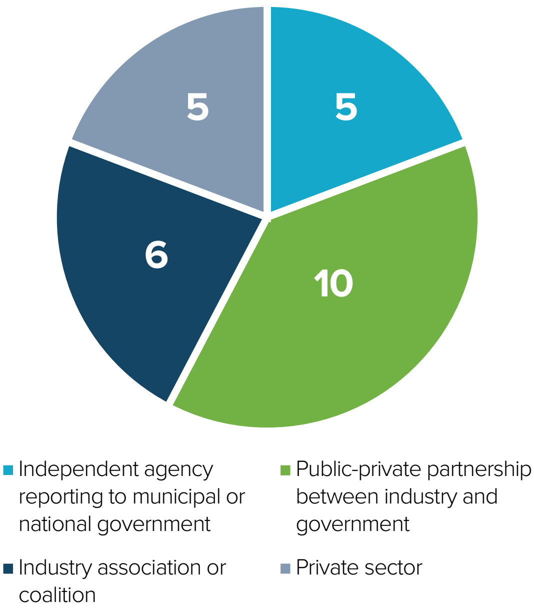
THE INSTITUTIONAL MODELS OF FINANCIAL CENTERS PREDOMINANTLY INVOLVE THE PRIVATE SECTOR **(81%)**, WITH A SIGNIFICANT PRESENCE OF PUBLIC-PRIVATE PARTNERSHIPS **(39%)** IN PARTICULAR

1ST CHALLENGE FOR THE FOURTH CONSECUTIVE EDITION (SINCE 2019): **“DATA QUALITY AND AVAILABILITY”**

1ST PRIORITY REMAINS **“STRENGTHENING OF THE ECOSYSTEM AND BUILDING CONNECTIVITY”**

1.1 Financial Centres' Diverse Profiles

Figure 1: Respondent composition

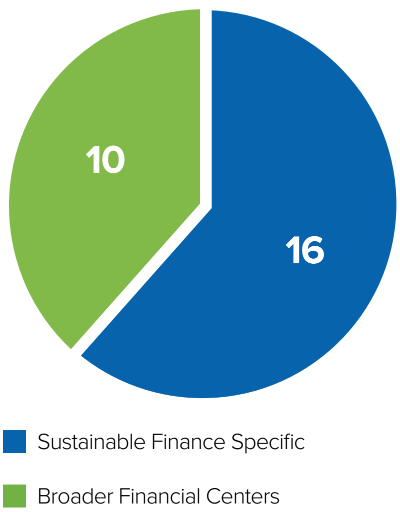


Financial centres have emerged as nodes of innovation, fostering a powerful clustering effect by bringing together diverse actors. The uptake of new approaches and technologies is notably faster within financial centres compared to the policy level, creating a dynamic environment for the development of sustainable finance.

Notably, **financial centres maintain substantial private sector engagement**, with 81% of them having private sector involvement in their institutional models. This engagement takes various forms, including Public-Private Partnerships, Private Sector Promotional Entities, and Collaborative Initiatives between Industry and Government.

Public-Private Partnerships continue as a prevalent and integral component of the FC4S Network, representing 39% of the sampled financial centres. These partnerships play a pivotal role in fostering collaboration, and aligning public and private interests, providing the basis for a credible and efficient enabling environment to mitigate risks, mobilize capital, and foster the creation of innovative solutions.

Figure 2: Type of Financial Centre



Financial centres are actively committed to advancing sustainable finance. Regardless of their specific emphasis on sustainable finance or their broader financial orientation, all these centres have made important steps in implementing sustainable finance initiatives. Among the respondents surveyed, a significant majority - precisely 62% - have chosen to exclusively centre their operations around sustainable finance. This reflects a strong commitment to prioritizing sustainability as the core focus of their operations. For the remaining 38% of financial centres, whose activities encompass a broader financial spectrum, sustainable finance has not been neglected. They have proactively introduced at least one dedicated initiative aimed at advancing sustainable finance practices, signalling a collective dedication to this important cause.

When analysing the **stakeholder composition of these dedicated initiatives**, banks continue to play a leading role, maintaining their presence as a major player for three consecutive years. They are followed by asset managers, industry associations, and public authorities, in line with the 2021 data. The diverse presence of other stakeholders, including academic institutions, sustainability specialists, NGOs, professional services, and other civil society groups, proves crucial in advancing sustainable finance within the financial centre. The diversity of stakeholders brings a wide range of perspectives, expertise, and approaches to the table, enabling a more comprehensive and innovative understanding of sustainable finance practices. It fosters collaboration, cross-pollination of ideas, and the development of holistic solutions, promoting a collective effort towards advancing sustainable finance within the financial centre.

1.2 Robust Strategic Frameworks in Place

Financial centres, strategically positioned at the nexus of key financial stakeholders and leveraged by resources like the FC4S Assessment Programme, play a pivotal role in developing a sustainable strategy and in shaping recommendations for their advancement. These plans serve as vital tools, enabling prioritization of objectives, fostering coordination and policy coherence, market evaluations and process tracking, as well as alignment with broader goals.

Our findings showcase that all financial centres have established comprehensive action plans or strategies for sustainable finance, with a strong emphasis on collaboration at the financial centre level. Furthermore, international cooperation, the development of sustainable financial products, and strengthening guidance, regulatory, and policy frameworks are also key focal points within their strategic plans.

Figure 3: Low Carbon Transition consideration at financial centre level

When analysing financial centres' primary goals, **the low-carbon transition emerges as a prominent objective, with 2023 data indicating that almost all respondents have incorporated it into their strategic priorities**. In particular, 19 of them have considered it either within a strategy, action plan, or at a measuring and disclosing level.

The fact that financial centres are prioritising and acting on the transition to a low-carbon economy is particularly significant in light of the projected persistence and increase of global warming in the short term across many scenarios and modelled pathways. According to the 2023 analysis provided by the Panel on Climate Change (IPCC) Report[3], the world urgently needs profound, rapid and sustained measures to limit global warming to 1.5°C or below 2°C by the end of the century[3].

3 For example, multiple methodologies exist for measuring, reporting, and defining Paris alignment, operationalizing commitments through tools like SBTi (Science Based Target for Financial Institutions), PACTA (Paris Agreement Capital Transition Assessment), and PCAF (Partnership for Carbon Accounting Financials).

A persistent challenge in achieving climate objectives across diverse sectors and regions is the existence of a gap between the current allocation of financial resources and the financial needs required to achieve these common goals. The urgency and scale of this global transformation underscore the **vital role of the financial sector in scaling the investments necessary for countries and the real economy to transition**. Broader financial support is urgently needed to facilitate investments in key sectors, vital for a comprehensive *whole-of-economy* transition, as explained further in **Box 1**.

Despite AP 2023 encouraging results, **only one-fifth of respondents reported measuring and disclosing their progress against low-carbon transition targets**, similar to the figures from 2021. This underscores the pressing need for focused initiatives aimed at systematically measuring and reporting on sustainable priorities. Such efforts are crucial for effectively advancing sustainability activities, enabling rigorous progress evaluation, facilitating benchmarking, identifying areas for improvement and directing targeted strategies and refinements. Ultimately, this process fosters transparency as well as demonstrates accountability and commitment, showcasing financial centres' dedication to sustainable practices.

Box 1: Empowering a Whole-of-Economy Transition: Navigating the Challenges and Opportunities in Transition Finance

Despite the rapid growth of green and sustainable finance markets in recent years, their share in total global financing remains relatively small and falls significantly short of the funding required to achieve the Paris Agreement goals. One reason for this is that existing alignment approaches in green and sustainable finance primarily focus on supporting activities already deemed environmentally friendly ('pure green' or nearly 'pure green'). However, a substantial portion of the global economy, including sectors currently high in greenhouse gas emissions but transitioning towards low or net-zero emissions, also requires financial support. Despite this need, investments in these sectors have been limited, leading some industries to face challenges in accessing bank loans and capital markets. There is a pressing need for broader financial support to facilitate investments in various sectors essential for the comprehensive *whole-of-economy* transition.

In this context, the G20 Sustainable Finance Working Group (SFWG) (2022) defines transition finance as financial services supporting the whole-of-economy transition, aligning with the Sustainable Development Goals (SDGs), towards lower and net-zero emissions as well as climate resilience, in harmony with the objectives of the Paris Agreement. According to the institution, a robust framework for transition finance is vital in supporting this economy-wide transition. Such a framework can enhance sectors or companies' access to financing, aiding their transition to net-zero emissions. This support is essential in mitigating potential adverse effects of an abrupt transition, including climate-related transition risks, limited access to affordable and reliable energy, unemployment, and broader societal impacts. Moreover, an effective framework can minimize the risks associated with 'green and SDG washing.' Recognizing the evolving global challenges and the value of a standardized framework to encompass transition finance efforts, the G20 SFWG has developed a specific Transition Finance Framework. It includes a set of high-level principles on transition finance around five interrelated pillars:

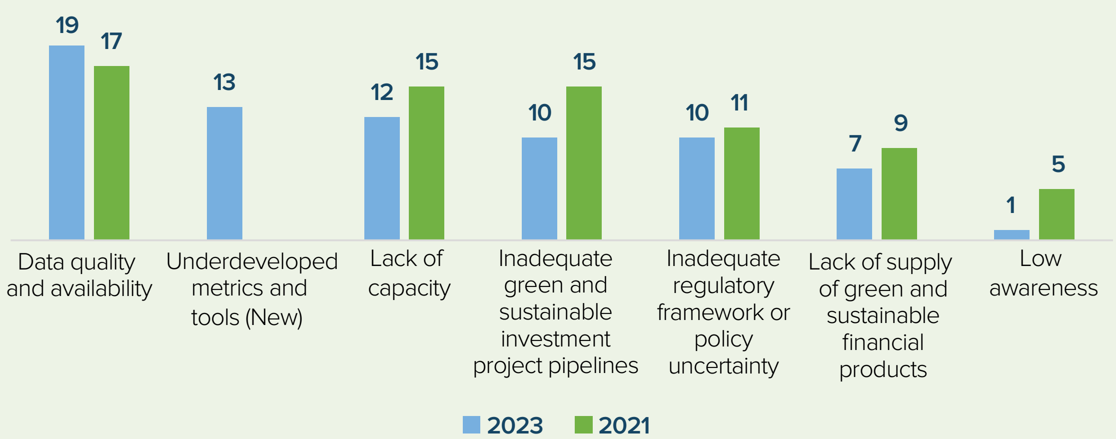
1) Identification of transitional activities and investment
2) Reporting of information on transition activities and investments
3) Transition-related finance instruments
4) Designing policy measures
5) Assessing and mitigating negative social and economic impacts

UNDP FC4S emphasizes the importance of providing guidance on transition finance to policymakers amid the diverse array of tools, policies, and frameworks being developed for specific sectors, locally and regionally. Conducting a thorough gap analysis and mapping various methodologies, frameworks and tools, UNDP aims to provide comprehensive guidance to policymakers, offering insights into more than 90 tools, methodologies, and frameworks aligning with the G20 Transition Frameworks' five pillars. Preliminary mapping results highlight both progress and gaps in transition finance tools and policies. These findings will empower policymakers to address areas needing attention and make informed decisions, and will offer valuable insights to FC4S members for their transition finance planning and initiatives.

1.3 Reiterated Challenges to Grow Sustainable Finance

The top five challenges financial centres reported to face in scaling up sustainable finance are presented in *Figure 4*. The graph showcases that the barriers are highly concentrated on the first categories, including data, metrics and capabilities.

Figure 4: Top five key challenges to scaling up sustainable finance in the financial centres.



For the fourth consecutive edition since 2019, the foremost challenge remained "Data quality and availability" indicating its persistent prominence. This challenge attained an unprecedented level in 2023, with 19 members citing it as a significant obstacle. Notably, this was the sole obstacle that demonstrated an uptick between 2021 and 2023, marking a 12% increase.

The availability of consistent, comparable and reliable sustainability-related information forms the foundation for market assessment, pricing, management, and mitigation of sustainability-related risks. This information serves as the basis for integrating sustainability considerations into investors' financial decision-making processes, ensuring that capital flows are in harmony with the goals set forth in the Paris Agreement and the 2030 Agenda[4 5]. This availability of information not only reinforces efficient capital allocation but also plays a significant role in safeguarding financial stability[6 7].

Despite advancements in the field of data in recent years[8], these findings emphasize the ongoing necessity for proactive measures in addressing this matter. In 2022, the NGFS conducted a comprehensive mapping of climate-related data gaps. The study highlighted significant deficiencies, particularly in biophysical impact, emissions, and geospatial data categories. These gaps restrict the applicability of metrics related to physical vulnerability and transition sensitivity, primarily impacting investment, lending decisions, and exposure quantification.

Tackling the identified gaps is a multifaceted challenge due to a number of barriers including concerns related to auditability, estimation and modelling capacities, the demand for science-based expertise, and the necessity for granular and forward-looking data. Furthermore, the issue is exacerbated by incomplete information, intensifying the task of bridging these gaps[9].

To enhance the effectiveness of non-financial data, it is important to implement three essential building blocks as proposed by the NGFS—disclosures, taxonomies, and alignment approaches and metrics-. The third building block - which involves the establishment and transparent utilization of clearly defined and decision-useful metrics, certification labels, and methodological standards- addresses the **second most common challenge faced by financial centres, "Underdeveloped metrics and tools", reported by 13 financial centres**. This category, introduced in 2023, is aimed to analyse whether there were methodological challenges even if the input data were available. The shortage of common definitions and standardized metrics hinders the availability of consistent and comparable data. Notably, certain metrics like Scope 3 and financed emissions lack consistent implementation and disclosure across financial institutions[10].

Presently, there is a wide array of initiatives resulting in open-source methodologies and voluntary methodological standards. Particularly, tools have emerged for investment alignment, such as sustainable finance taxonomies, ESG methodologies, and portfolio alignment tools[4]. However, these tools vary based on different regulatory frameworks, policy priorities, use cases, and methodological choices. While the development of such tools is crucial, it is important to note that their proliferation may lead to bigger transaction costs, lack of transparency, fragmentation, and the risk of greenwashing. **Efforts to harmonize methodological standards are key to enhancing data reliability and comparability.** This harmonization not only aids in monitoring progress and benchmarking institutions but also raises overall ambition levels[11 12].

4 For example, multiple methodologies exist for measuring, reporting, and defining Paris alignment, operationalizing commitments through tools like SBTi (Science Based Target for Financial Institutions), PACTA (Paris Agreement Capital Transition Assessment), and PCAF (Partnership for Carbon Accounting Financials).

The third most frequently cited challenge affecting the expansion of sustainable finance, reported by 12 financial centres, was the "Lack of capacity". This challenge endures despite 96% of the members having some educational coverage in the pertinent areas, as Section 2.3 will expound upon. The International Financial Society (IFS) shed light on the significant gaps in sustainable finance capacity building, which include insufficient financial support leading to limited services, the ineffective integration of content, scalability issues in service delivery, and the lack of tailored services for Emerging Markets and Developing Economies (EMDE)[13]. Moreover, the AP findings shows that developed economies offer a wide range of educational subjects at introductory, intermediate, and advanced levels, while developing countries primarily focus on basic knowledge. To address educational disparity, it is important to improve educational opportunities at intermediate levels for developing economies. While prioritising basic skills**, it is crucial to gradually expand the curriculum to cover a wider range of subjects, in line with their specific capacities and resources**.

Box 2: Building global capacity for financing the SDGs

UNDP Sustainable Finance Hub recently launched the SDG Finance Academy e-Learning Programme, a free and open tool to all users, informed by collaborative efforts across UNDP's Global Policy Network (GPN) in areas critical for achieving the SDGs. The SDG Finance Academy stands as the cornerstone of the UNDP SFH, ensuring the effectiveness of its services by providing essential knowledge and expertise to UNDP country offices and partners worldwide.

With a focus on targeted training modules encompassing crucial areas such as budgeting, financing disaster risk reduction, debt instruments for the private sector, and Integrated National Financing Frameworks (INFFs), the SDG Finance Academy ensures all stakeholders can receive the knowledge, skills and training required to understand (i) different financial tools and approaches and their role and use; (ii) how these tools and approaches link to the SDGs; (iii) what these tools and approaches mean for policy reform, and (iv) the scope and opportunities to tailor these tools and approaches to organisational and national development needs.

By offering tailored learning modules, fostering a community of practice, facilitating knowledge exchange, and curating a pool of experts in sustainable finance, the SDG Finance Academy not only enhances the capacities of UNDP and other key actors but also catalyses progress toward achieving the SDGs.

"Inadequate green and sustainable investment project pipelines" and "Inadequate regulatory framework or policy uncertainty" share the fourth place in terms of most pressing challenges faced by financial centres, with 10 members reporting each obstacle.

The absence of investable projects aligned with the SDGs has significantly intensified the existing funding gap. Although there is a rising demand for private investments in SDG sectors, global transactions remain limited, especially in emerging markets, where there is potential for high returns. Aligning national SDG priorities with investors' goals is essential to expedite capital flow towards the SDGs and attract new investments in emerging markets. This links with the importance of facilitating investors to access global SDG-aligned opportunities[14]. In this context, the identification of appealing and viable investment opportunities and innovative financing mechanisms capable of attracting private capital for impactful investments are pivotal. UNDP FC4S is actively engaged in this endeavour, as outlined in **Box 3**.

Box 3: Fostering SDG Private Investments: Mapping Opportunities and Bridging Financing Gaps

UNDP collaborates with partners to develop country-specific SDG Investor Maps, providing vital market intelligence on investment prospects aligned with the SDGs. These maps guide private sector stakeholders, aiding strategic realignment and targeted investments in areas identified, as well as financial and non-financial intermediaries, helping build project pipelines. UNDP offers extensive support throughout the investment project cycle. Additionally, UNDP facilitates competitive processes to identify high-impact enterprises, developing SDG financing portfolios for due diligence and deal-making. Through accelerators, UNDP aids businesses with SDG impact to scale.

As part of the UNDP Sustainable Finance Hub, FC4S has collaborated with UNDP's SDG Investment Africa Program to establish the Africa SDG Investment Pipeline program. The program aims to yield economic returns while significantly contributing to the achievement of SDGs in emerging markets across Africa. Besides FC4S role in the identification of investment-ready enterprises and financing instruments, FC4S has facilitated vital investor gatherings, refining methodologies in alignment with investor requirements. With current initiatives in Kenya, Nigeria, Rwanda, and Cote d'Ivoire, FC4S plans to expand the SDG Investment Pipeline Program to bridge financing gaps in other regions, leveraging synergies between financial centres and the UNDP Sustainable Finance Hub for success.

In addressing the challenge of "Inadequate regulatory framework or policy uncertainty", Section 2.1 data illustrates recent expansions in financial policies and regulations. However, a critical imperative lies not only in expansion, but also in fortifying the implementation of these regulations. Financial centres play a pivotal role in advocating for regulatory development, assisting regulators, and supporting implementation efforts. Survey results highlight financial centres' proactive engagement, with all members extensively collaborating with public authorities, including government entities, central banks, and regulatory bodies. Additionally, most members actively participate in initiatives to enhance policy implementation and regulatory reforms in sustainable finance, encompassing endeavours such as the Task Force on Climate-related Financial Disclosures (TCFD) and taxonomy initiatives. Importantly, 'Policy and regulatory engagement' has been identified as a top priority by financial centres. This active engagement and prioritization underscore financial centres' dedication to advancing sustainable finance practices in partnership with regulatory bodies and government institutions.

The challenge of "Lack of supply of green and sustainable financial products" ranks as the sixth most common issue reported by financial centres, with 7 financial centres acknowledging it. To facilitate investments in green and sustainable activities, it is imperative to further develop financial instruments. Simultaneously, businesses must diversify their toolkit to encompass a wide array of financial instruments. The growing interest of financial markets in various sustainability-related agendas has spurred the creation of novel financial instruments. This is particularly evident in nature and biodiversity finance[5], transition finance[6], and gender finance[7]. Despite the progress made, the current results emphasize the necessity for continued efforts.

5 Financial instruments developed or re-emerged in recent years to address the dual challenge of preventing and reversing nature loss. Examples include thematic issuances such as green and blue bonds, as well as debt-linked instruments like nature performance bonds, biodiversity linked bonds, and debt for nature swaps. Additionally, blended capital instruments, risk insurance tools, and innovative solutions enabling the valuation of natural capital, such as Nature Asset Companies, have been introduced. See FC4S (2022). *Biodiversity Finance. FC4S Work Programme outline.* https://www.fc4s.org/publication/fc4s-biodiversity-finance-paper/

6 A diverse range of financial instruments are being employed to mobilize investments that facilitate a just and affordable transition. Examples encompass debt instruments (e.g., use-of-proceeds transition bonds or loans and general corporate purposes sustainability-linked loans or bonds), equity-related instruments (e.g., transition-focused buyout funds and venture capital funds), risk mitigation products (e.g., insurance products designed to hedge transition-related risks and risk mitigation tools like blended-finance instruments), and other instruments such as asset-backed securities and exchange-traded funds.

7 Specialized gender-focused and gender-aware financial products and services have been developed to mobilize finance for gender equality. These instruments include gender-focused bonds and loans, sustainability bonds, sustainability-linked bonds with gender-linked performance targets, and gender-focused equity exchange-traded funds. See Sustainable Stock Exchanges (SSE) and International Finance Corporation (IFC) (2022). *How exchanges can advance gender equality: Updated guidance and best practice.* https://sseinitiative.org/wp-content/uploads/2022/03/How-exchanges-can-advance-gender-equality-Updated-guidance-and-best-practice.pdf

Box 4: What is the role of financial markets in gender equality? Evidence from the FC4S Gender Working Group

To deepen gender-focused and gender-aware financial products and services, FC4S Network took a significant step in recognizing the pivotal role that financial centres play in advancing gender equality and fostering sustainable financing practices and established in 2022 the Gender Finance Working Group (GWG).

The GWG initiated its journey with a comprehensive diagnostic needs assessment conducted across its 14-member financial centres. This assessment aimed to identify current gaps and potential high-impact areas in terms of gender finance. The findings of this scoping study provided valuable insights that would shape the group's future efforts.

One of the most significant milestones achieved by the Gender Finance Working Group was the formulation of the FC4S Gender Charter. This charter represents the official commitment of the FC4S Network to embedding gender considerations in sustainable finance at the financial centre level. It outlines ten key principles, urging participating financial centres to advance at least two of these principles through dedicated action plans or initiatives within a year. Within this set of principles there are those focused on the financial market products and services such as "Advocate for gender-sensitive financial products"; "Promote gender-sensitive financial practices" and "Encourage broader market action on gender equality".

By the end of 2024, the FC4S Secretariat plans to evaluate the progress and collective impact made by financial centres that have endorsed the Gender Charter. This evaluation will be conducted through a comprehensive survey, reflecting the commitment to monitor and ensure the real-world impact of the Charter's principles.

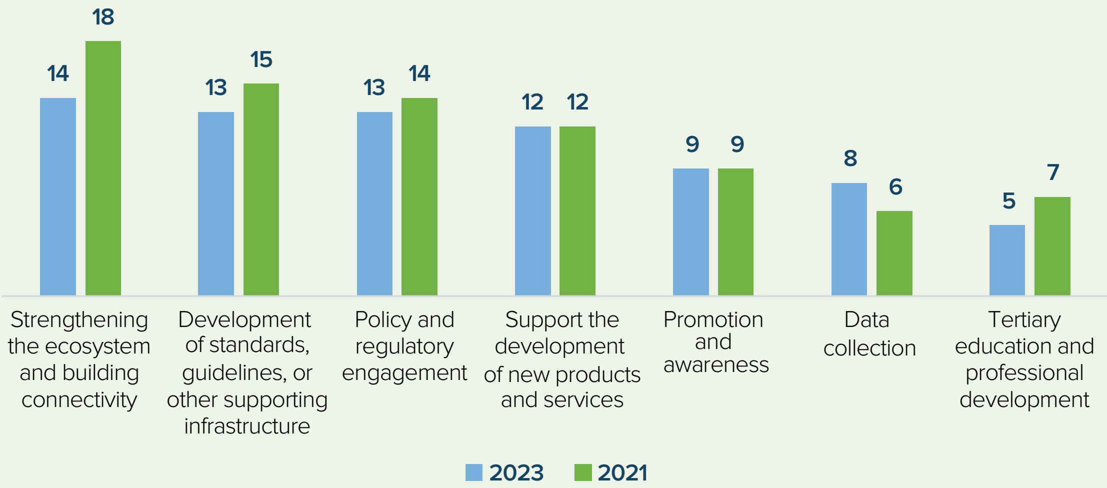
In parallel, the FC4S Secretariat, in partnership with UN Women, has developed a booklet on gender-responsive financing. This booklet is designed to equip all FC4S members with the tools and guidance needed to effectively align with the principles outlined in the Charter.

Lastly, "Low Awareness" is currently a challenge faced by only one financial centre, showing an improvement compared to the 2021 results when five members identified this category as a primary concern. This progress underscores the advancements made in the journey towards greater recognition and integration of sustainability in the financial markets. It is worth highlighting that this category ranked as the fourth priority by our membership in Section 1.4.

1.4 Established Priorities

Figure 5 illustrates the top five priorities identified by financial centres. These priorities exhibit a diverse and dispersed nature, indicating the lack of concentration on specific topics that was observed with the challenges.

Figure 5: Top priorities for future action on sustainable finance in 2021 and 2023.



In 2023, the top priority[8] for FC4S members remains "Strengthening of the ecosystem and building connectivity", collecting 14 respondents' votes. There is a critical need for intensified collaboration, both internationally and locally, in the field of sustainable finance. The FC4S network operates on the principle that a collaborative approach is essential to mobilize funds for the SDGs and the Paris Agreement and embodies the spirit of partnership within its members and with the broader financial sector. Recognizing the pivotal role of financial centres, FC4S actively fosters deeper bilateral, regional, and international cooperation in sustainable finance. Financial centres, as natural hubs bringing together various stakeholders including market actors and policymakers, play a vital role in orchestrating coordinated efforts for advancing the sustainable finance agenda.

Aligned with their priority, **2023 results showcase that financial centres are substantially cooperating internationally for sustainable finance**: All respondents engaged internationally through informal practices and bilateral dialogues, and most of them also did it through formal engagements with a specific deliverable. When comparing 2021 and 2023 results, an intensification is observed in financial centres' international cooperation on sustainable finance topics through formal and informal practices, as well as through other (non-financial centre) level engagement with international networks.

In second place, with 13 respondents' votes each, the most chosen priorities are the "Development of standards, guidelines, or other supporting infrastructure" and "Policy and regulatory engagement". This shared focus highlights the ongoing commitment to co-creating an enabling environment through active engagement with policymakers and regulators. This speaks to members' focus on fostering cooperative initiatives at the financial centre level, and reinforcing sustainable finance regulatory frameworks, as stated within their Sustainable Finance Action plans, Roadmaps, and Strategies.

8 Top key priorities include those stated as 1, 2 or 3 on a scale of 1 to 5.

The category 'Support the development of new products and services' secured the third position, followed by 'Promotion and Awareness', 'Data collection', and 'Tertiary education and professional development'. Although not considered the most pressing challenges, the former two categories received 12 and 9 votes, respectively. Conversely, despite 'Data collection' being the top challenge with 19 votes and 'Lack of capacity' ranking third with 12 votes, only 8 and 5 members, respectively, prioritized them as areas needing attention.

1.5 Rising Sustainable Finance Activities

Figure 6: Activities relating to Sustainable Finance

In terms of the Financial Centre's agendas, **there has been an increase in sustainable finance related activities, with a marked increase** from 88% in 2021 to 92% in 2023[9]. Three standout activities include the "Establishment of working groups or committees", "Conferences or other events", and "Cooperation with public authorities" all of which are uniformly pursued by financial centres. These activities could be closely aligned with the challenges and priorities of the financial centres. For instance, the establishment of working groups or committees could serve to enhance the infrastructure supporting sustainable finance, offering specialized forums for professional development across various sustainable finance aspects.

Additionally, in response to the challenge of an inadequate regulatory framework and the priority of political and regulatory commitment, a robust collaboration with public emerges as a central activity.

Lastly, the organization of conferences and other events serve as a clear example of the financial centre's priority to strengthening the ecosystem and creating connectivity.

9 Considering the activities undertaken and planned.

Enabling Environment

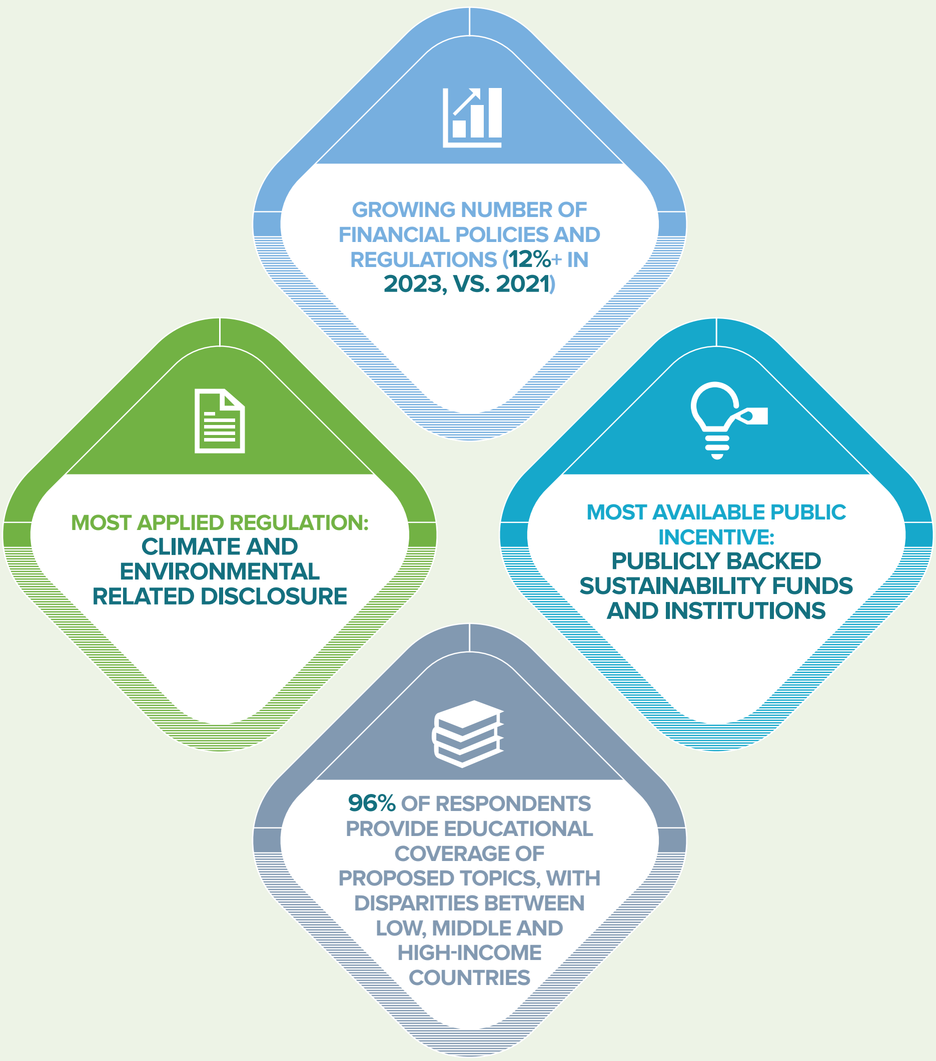
05

Enabling Environment

Pillar 2 maps the structures that support the scale-up of sustainable finance by providing rules and incentives, as well as building capabilities. It examines the depth of the regulatory environment, the advancement of public financing instruments and the ability of the professional development and education ecosystem to provide institutions with a trained and qualified workforce.

Policymakers and regulators have a number of tools to encourage the mobilization of capital towards the SDGs, and the mitigation of sustainability-related risks. These rules and incentives, if strategically implemented, can facilitate a seamless transition to a low-carbon economy. Policymakers should conduct thorough assessments of diverse climate-related policies to enhance incentives for this transition[15]. These mechanisms encompass financial regulatory measures, fiscal policies, and monetary policies, offering rules and incentives that facilitate the development of a more sustainable financing system.

KEY HIGHLIGHTS:



2.1 Growing Financial Policies and Regulations

In recent years, there has been a significant rise in the number of policy and regulatory measures aimed at fostering a sustainable financial system worldwide. According to the Green Finance Platform[16], the count reached over 780+ measures in 2022, representing an annual increase of 15% since 2021. Moreover, it should be noted that between 2015 and 2022, there was a remarkable 317% increase in the number of measures, escalating from 188 to 784.

In line with these observations, AP results, spanning a broader timeframe until 2023, also conclude an **upward trend in the policy and regulatory landscape**. During the last two years, a substantial increase has been noted in financial policies and regulations designed to effectively mitigate sustainability risks and promote the inflow of sustainable capital within the jurisdictions of financial centres.

On average, 9 sustainable financing measures out of the 13 proposed categories are in place. It should be noted that all respondents acknowledged the presence of at least one of these policies in their respective jurisdictions. When comparing the proposed categories from 2021 to 2023, the overall average number of financial policies and regulations implemented increased from 60% in 2021 to 72% in 2023[10], indicating a proactive commitment to supporting the development, stability, transparency, and accountability of the sustainable financial sector.

This policy expansion trend reflects a concerted effort by regulatory authorities and financial institutions to adapt to the ever-changing landscape of the global economy, effectively addressing emerging risks and challenges. As 2023 results showcase, all respondents have played an active role in collaborating with public authorities, such as government entities, central banks and regulators, with a primary focus on supporting the implementation of policies and regulatory reforms pertaining to sustainable finance, as outlined in their strategic plans.

In 2023, **policymakers and regulators continue to prioritize improving transparency, disclosure of information regarding climate and environmental matters being the most prevalent regulation**, present in 92% of surveyed financial centres. This category also leads in terms of extensive scope and specific requirements. Ensuring the integrity of corporate disclosures is pivotal in preventing greenwashing and SDG-washing, ensuring funds are directed toward objectives aligned with sustainability preferences and helping mitigate the risk of capital misallocation[17 18 19 20].

In a landscape marked by diverse disclosure frameworks, **efforts toward standardization and convergence are vital.** The lack of coordination and interoperability could hinder the availability of consistent, comparable, and decision-useful sustainability-related information, posing a threat to the transparency and integrity of the sustainable finance market[21 22].

Departing from this premise, recent years have seen efforts to establish a global baseline of sustainability disclosure standards. Notably, the International Financial Reporting Standards Foundation (IFRS) International Sustainability Standards Board (ISSB) has taken pioneering steps, building upon the work done by several leading several leading investor-focused sustainability

10 The average (72%) was calculated only considering the categories proposed both in 2021 and 2023. The average of all the 2023 categories is 68%.

initiatives, with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations at its core[11]. The issuance of inaugural standards by ISSB in June 2023, along with its potential initiatives covering Biodiversity, ecosystems and ecosystem services, and human capital and human rights, as well as ongoing efforts like the Task Force for Nature-related Financial Disclosures (TNFD) and the Task Force on Inequality and Social-related Financial Disclosures (TISFD), are invaluable in establishing a common language for disclosing non-financial information, ultimately affecting the mobilization of capital toward sustainability objectives and the mitigation of sustainability-related risks.

Box 5: Supporting Efforts to Create a Common Language for Disclosing

To enhance trust and confidence in company sustainability disclosures, the ISSB issued its inaugural standards in June 2023, providing a common language for disclosing material sustainability and climate-related information. Under these guidelines, entities are required to disclose all sustainability-related (IFRS S1) and climate-related (IFRS 2) risks and opportunities that could reasonably impact a company's prospects. The specific areas covered by these standards include governance, strategy, risk management, as well as metrics and targets. These standards will be effective for annual reporting periods starting on or after 1 January 2024, with the option for earlier adoption provided that both standards are applied.

Recognizing that capacity-building interactions are indispensable to expedite this global baseline's inclusive development and widespread adoption, the UNDP and the International Financial Reporting Standards (IFRS) Foundation have forged an alliance to support the adoption of global sustainability reporting standards.

UNDP FC4S proposed the set-up national processes in the form of National Sustainability Disclosure Hubs (NSDHs) to guide the national financial reporting bodies, financial regulators, and relevant market stakeholders, on developing an enabling environment suitable for the uptake of the IFRS Sustainability Disclosure Standards. These processes will foster collaboration among regulators, government bodies, academia, civil society, and the private sector to enhance sustainability reporting practices, align them with national development priorities, and contribute to the convergence of global sustainability reporting standards, ultimately placing the full impact of the SDGs at the forefront of a new global reporting ecosystem.

FC4S members will assume a central role in these national processes as instrumental drivers of global sustainable finance practices, fostering innovation and the rapid adoption of new approaches. The execution of the NSDHs in emerging and developing economies would directly support the inclusive and effective implementation of the global baseline of Standards. Upon the successful implementation of the pilot phase, the project will expand to encompass additional jurisdictions.

11 The ISSB builds on the work of market-led investor-focused reporting initiatives, including the Climate Disclosure Standards Board (CDSB), the Task Force for Climate-related Financial Disclosures (TCFD), the Value Reporting Foundation's Integrated Reporting Framework and industry-based SASB Standards, as well as the World Economic Forum's Stakeholder Capitalism Metrics.

Standardization and harmonization also remain essential regulatory objectives, with the use of green, social, sustainable, and transition bond standards being the second most common policy measure, implemented in 85% of the respondents' jurisdictions. This measure also holds the second position in terms of extensive scope and specific requirements. The establishment or adoption of these standards contribute to the enhancement of the transparency, comparability, and credibility of the green bond market. These measures encourage market participants to engage in both issuing and investing in green bonds, thereby stimulating the expansion of the GSS+ bond market. **The second position in the ranking is jointly occupied by regulations concerning shareholders' engagement and stewardship, as well as the protection of minority interests.**

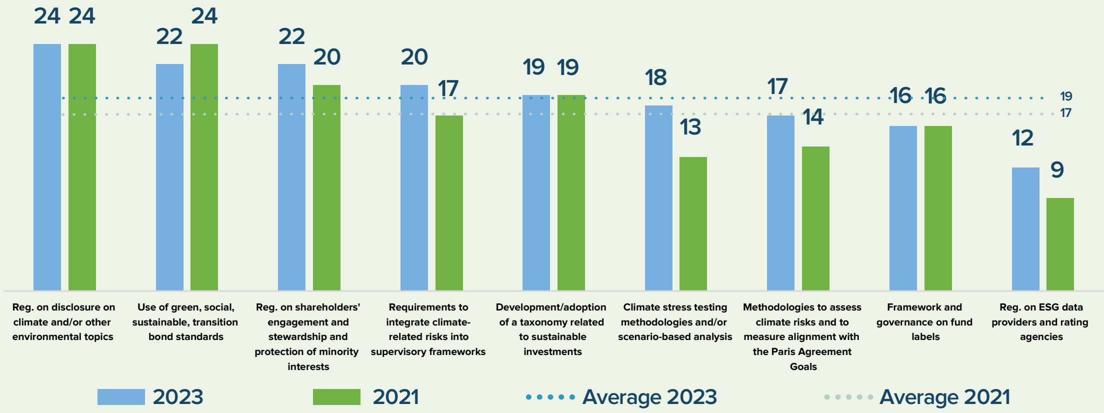
Enhancing risk management remains a key regulatory focus, **with requirements to integrate climate-related risks into supervisory frameworks holding the third position**. Additionally, the policies that demonstrated the most notable increase in adoption between 2021 and 2023 are in the realm of enhancing risk management: Methodologies to assess climate risks and to measure alignment (21%+), Climate stress testing methodologies and/or scenario analysis (20%+) and Requirements to integrate climate-related risks into supervisory frameworks (18%+).

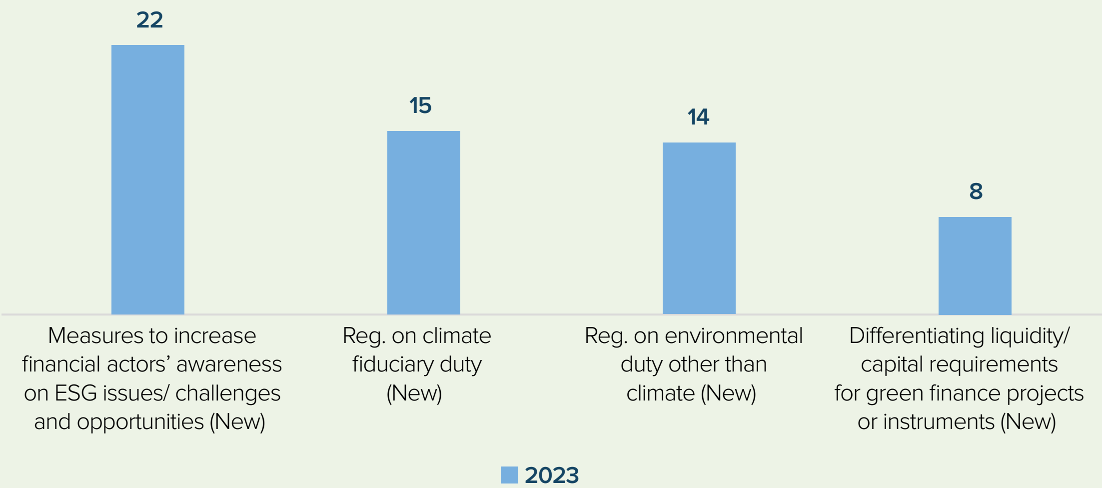
"Development/adoption of a taxonomy related to sustainable investment" holds the fourth place. The establishment of a robust information architecture and the assurance of reliable and comparable climate-related data require the implementation of a globally accepted taxonomy and unified principles for sustainable finance classifications. These efforts, from a data perspective, are primarily geared towards easing sustainable investments by providing consistent, easily understandable information and enabling comparative analysis. This standardization is particularly crucial for global investors, who necessitate common definitions and benchmarks to inform their cross-border investment decisions[23] [24] [25].

However, over the past years, there has been a proliferation of approaches aimed at aligning investments with sustainability goals, particularly in areas like sustainable finance taxonomies. Unfortunately, this proliferation has led to an assortment of classification approaches, undermining their main purpose and usefulness. Different regions, countries, and financial market participants have developed varied frameworks, differing in purpose, national priorities, product and activity definitions, and sophistication levels, among other aspects[26].

To ensure the comparability of raw climate-related data and to mitigate the risks associated with greenwashing and SDG washing, international coordination is imperative. This coordination should focus on creating consistent and interoperable taxonomy approaches and the potential harmonization of these frameworks over time. Such efforts are vital in guaranteeing the credibility of climate-related data and the integrity of sustainable finance practices on a global scale[27] [28].

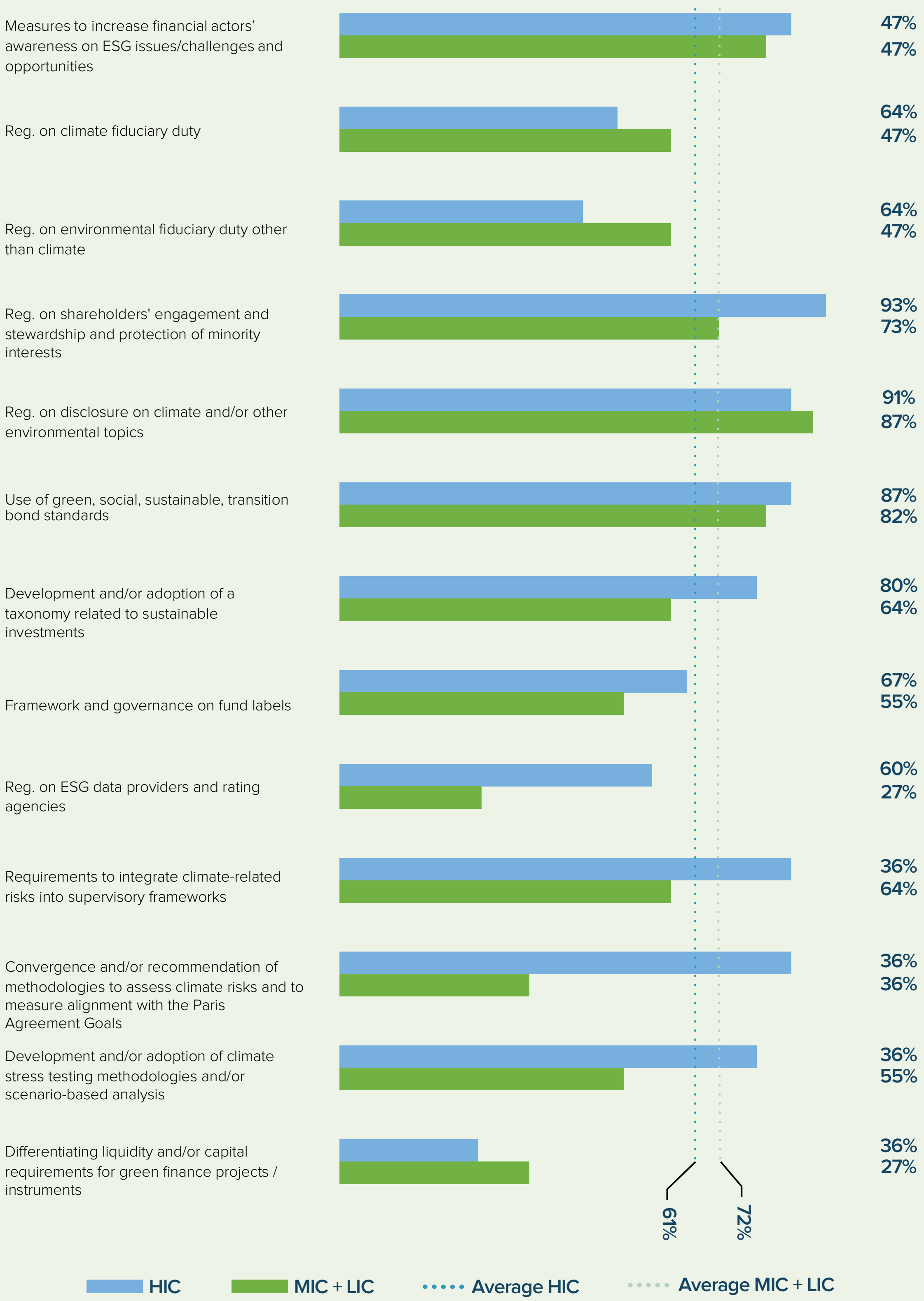
Figure 7: Financial policies and regulation in place





Last, despite the common upward trend in the number of financial policies and regulations (12%+ in 2023, vs 2021), a difference is perceived in the magnitude of the expansion according to the level of economic development of the different jurisdictions. The average number of sustainable finance policies and regulations in place is 11% higher in High-Income Countries (72%) than Middle and Low-Income Countries (61%). The most significant disparities are observed in: "Convergence and/or recommendation of methodologies to assess climate risks and to measure alignment with the Paris Agreement Goals" (51% difference), "Regulation on ESG data providers and rating agencies" (33% difference) and "Development and/or adoption of climate stress testing methodologies and/or scenario-based analysis" (25% difference). For its part, "Regulation on climate fiduciary duty", "Regulation on environmental fiduciary duty other than climate", "Regulation on disclosure on climate and/or other environmental topics" and "Differentiating liquidity and/or capital requirements for green finance projects / instruments" are the categories that Middle- and Low-income economies have more presence than High-income ones.

Figure 8: Type of policy and regulation in place (by income)



2.2 Further Consolidation of Public Incentives for Sustainable Finance

Out of the 26 surveyed financial centres, 24 had at least one public finance instrument or incentive available within their financial centre to encourage capital allocation to sustainable finance. Publicly backed sustainability funds and institutions stood out as the most available public instruments, available in 20 financial centres, in alignment with 2021 results. This category was closely followed by **Tax incentives or subsidies targeting green projects and public issuance of GSS+ bonds, currently available in 19 financial centres**. The availability of the latter instrument remained consistent with the figures reported in 2021. All these public instruments also boast the highest awareness among private sector institutions.

UNDP SFH collaborates to create financial instruments that de-risk investments aligned with SDGs, including blended finance.

For more information, please refer to SFH service offer "Unlocking private capital and aligning business operations for the SDGs".

Currently accessible in 16 financial centres as 2021 and ranking third in terms of the most available public instruments, **blended finance offers a significant opportunity for further development**. By integrating public finance with private investments to mitigate risks and enhance returns, this instrument plays a critical role in mobilizing private capital for sustainable finance initiatives[29].

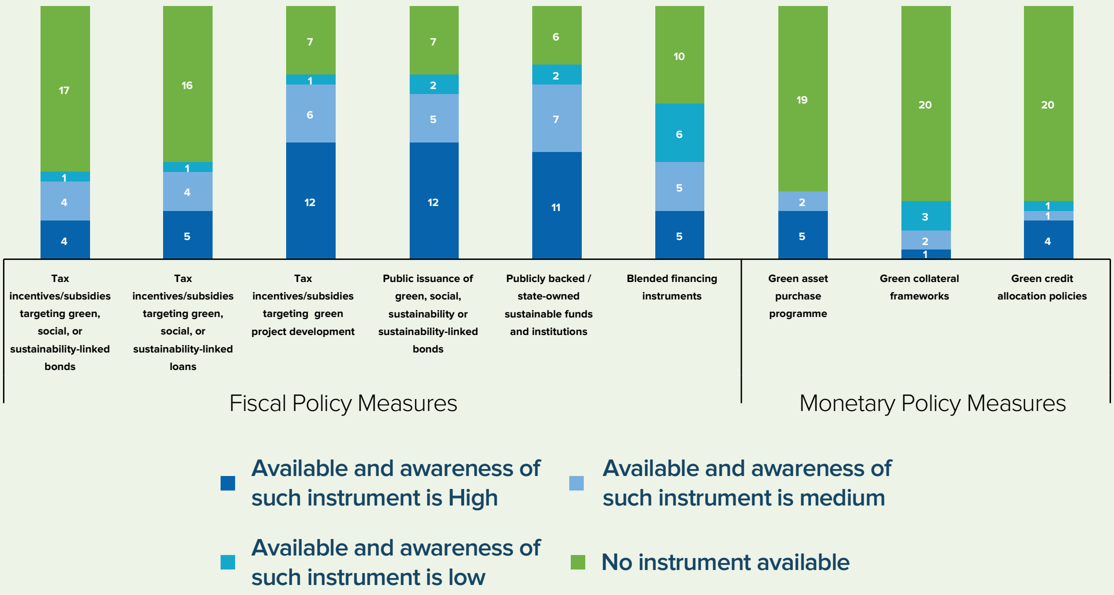
GSS+ Sovereign Bonds function as potent financial tools, enabling the funding of National Determined Contributions (NDCs) and facilitating capital raising for diverse climate mitigation, adaptation, and environmental projects[1]. 2023 results showcase there is an opportunity for jurisdictions to adopt this instrument. UNDP SFH, in collaboration with various partners, actively supports the issuance of SDG-aligned bonds as outlined in its Bond Service Offering and debt restructuring initiatives.

For more information, please refer to SFH service offer "Public Finance for the SDGs".

Tax incentives and subsidies targeting GSS+ bonds and loans appear to be less widespread, available in 9 and 10 financial centres, respectively. As a complement to financial regulatory measures like bond standards, as well as other policy measures including guarantees, policymakers can assess the introduction of these instruments to encourage the issuance, uptake and de-risking of GSS+ bonds and loans, fostering the growth of these markets[30].

Monetary policy instruments exhibit relatively limited prevalence. Green asset purchase programs are accessible in 7 financial centres, whereas green collateral frameworks and green credit allocation policies are accessible in 6 financial centres.

Figure 9: Instruments and incentives available at financial centre or national levels



2.3 Extended Educational Offer

Regarding the academic provision concerning sustainable finance, it is observed that, on average, 96% of the respondents offer educational coverage in the proposed topics. Specifically, **all members provide some kind of educational opportunities in "Basic knowledge of sustainability, sustainable development, and sustainable finance," as well as "Knowledge of sustainability-related tools, standards, frameworks, etc.".**

However, a significant disparity in sustainable finance educational offerings emerges between high-income economies and middle/low-income economies.

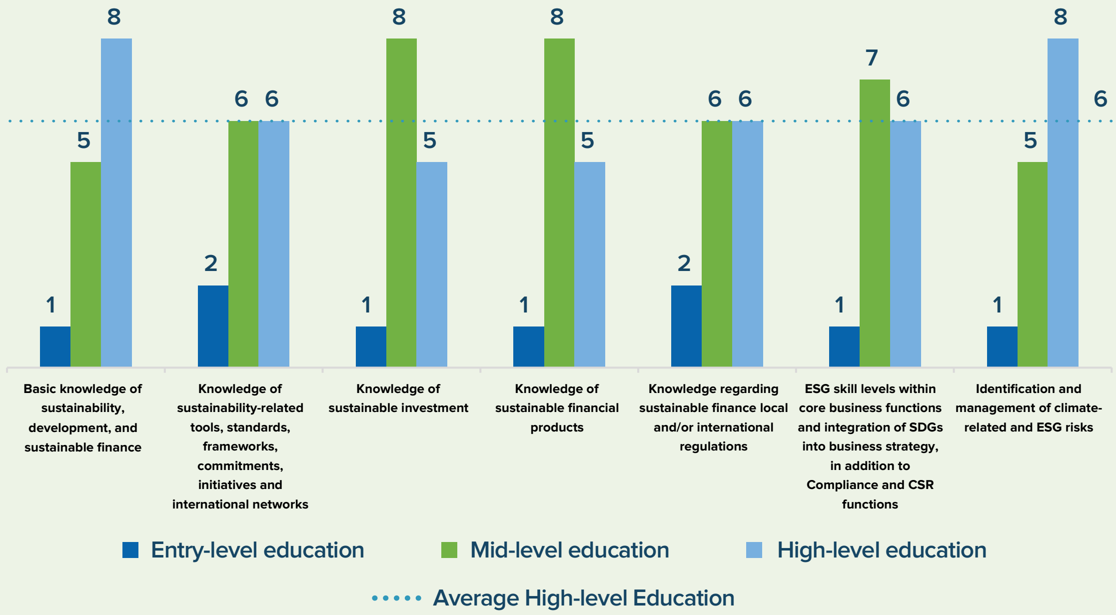
Developed countries demonstrate comprehensive coverage across the entire spectrum of subjects surveyed, encompassing educational offerings at the introductory[12], intermediate[13], and advanced levels[14]. A closer inspection reveals that the higher-level courses constitute the predominant proportion of their educational portfolio. In fact, approximately 91% of the educational offerings within high-income countries pertain to intermediate or advanced level studies.

12 *Entry-Level*: MOOCS (Massive open online course) and workshops, conferences, or any other extracurricular activity.

13 *Mid-Level:* Undergraduate courses and Executive courses.

14 *High-Level:* Post-graduate courses (MSc, PhD).

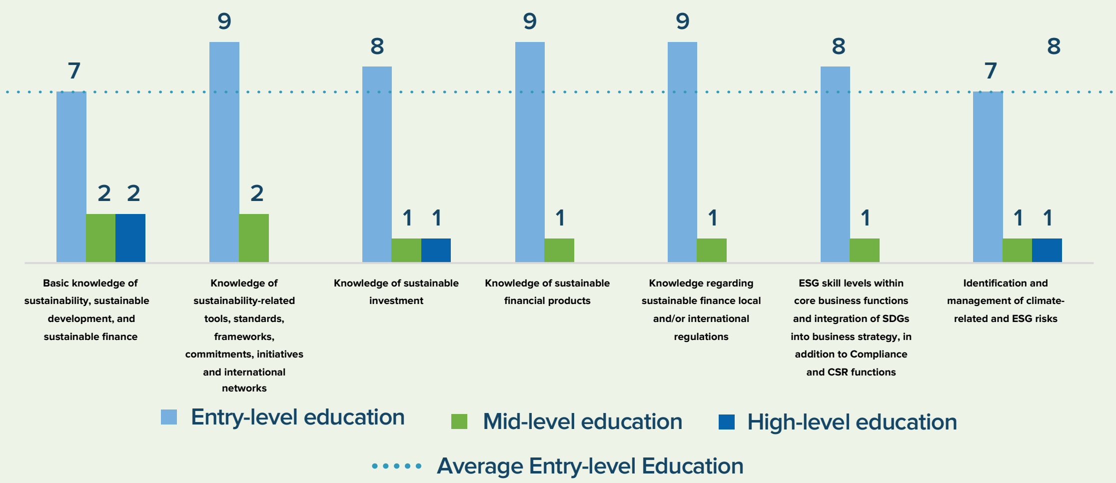
Figure 10: Educational offer by high income economies



Conversely, an inverse pattern emerges when analyzing middle- and low-income economies. Only two categories, namely "Basic knowledge of sustainability" and "Knowledge of sustainability-related tools, standards, frameworks, etc." exhibit 100% coverage. The remaining categories exhibit coverage ranging between 82% and 91%.

While these coverage percentages indeed stand at impressive levels for middle- and low-income economies, a more detailed analysis of the composition of these offerings reveals that, on average, 74% of the courses provided are positioned at the entry-level. Mid-level and high-level categories account for 12% and 5% of the coverage, respectively.

Figure 11: Educational offer by mid and low-income economies

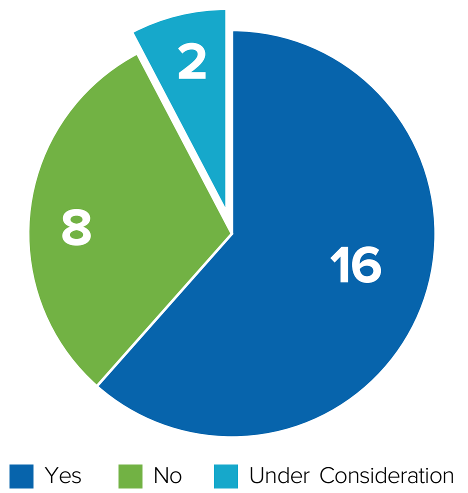


2.4 Broad Implementation of Carbon Pricing Mechanisms

By effectively translating GHG emissions into a tangible financial cost, carbon pricing mechanisms play an important role towards the achievement of climate objectives. The AP results shows that 24 out of the 26 members surveyed have at least one carbon pricing mechanism in place at national level. Carbon taxes, available in only 11 financial centres, represent the less common mechanism, whereas emissions trading systems (ETSs) emerge as the most common instrument, available in 16 financial centres.

Delving deeper into the most popular pricing mechanism, it is noted that ETSs have proven resilient in the face of pandemics, economic and energy crises. As ICAP´s 2023 Status Report[31] indicates, today we are witnessing growing momentum in the ETS landscape, now covering 17% of global emissions and with almost one third of the population living under an ETS. In this line, AP results showcase the rising popularity of this instrument: while in 2021 15 out of 29 financial centres reported having an ETS already in place or under development, by 2023, this figure has increased to 18 out of 26.

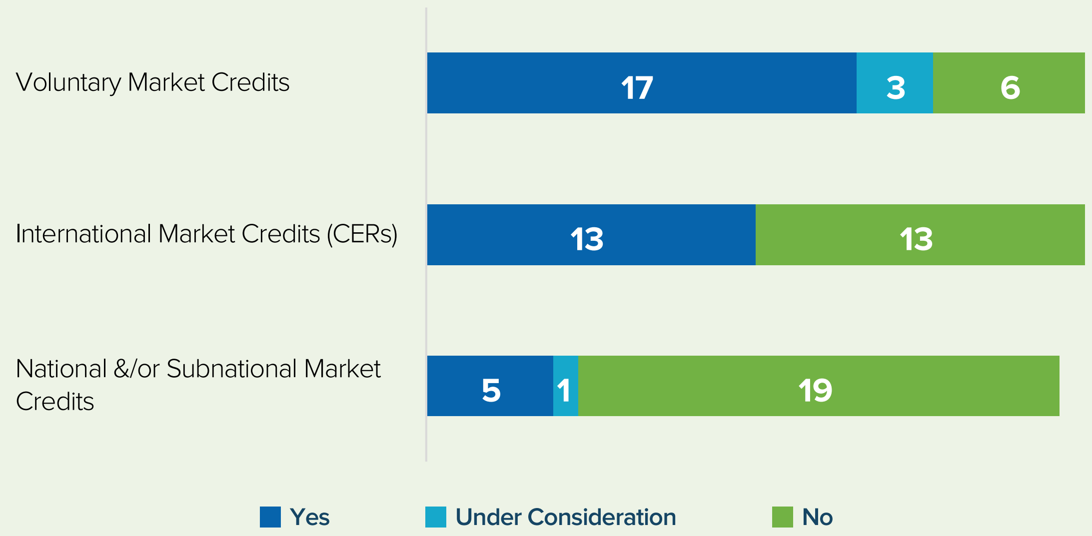
Figure 12: Emissions Trading System (ETS) in place



Source: FC4S calculations based on data from ICAP and World Bank

The second most popular mechanism is Voluntary Carbon Market (VCMs), with 17 financial centres having credits issued in their country. Despite the large number of jurisdictions leveraging these credits, the growth of VCMs in 2022 was slower than initially anticipated after the optimism of COP26, as indicated in Bain & Company's 2023 report on Voluntary Carbon Markets[32]. This deceleration in growth suggests that there are substantial challenges and hurdles that the VCMs must overcome to achieve their potential. International Market Credits follow VCMs as the most used carbon credit mechanism, with 13 financial centres having participated in these markets within the framework of the UNFCCC. For its part, National and/or Subnational Market Credits are less prevalent, with only 5 financial centres having issued carbon credits in these specific carbon markets.

Figure 13: Jurisdictions that have participated in the issuance of Carbon Credits



Source: FC4S calculations based on data from the American Carbon Registry (ACR), Climate Action Reserve (CAR), Gold Standard and Verra (VCS)

One key aspect that is currently under scrutiny is the quality and integrity of carbon credits. Governance bodies such as the Integrity Council for the Voluntary Carbon Market (ICVCM) and the Voluntary Carbon Markets Integrity Initiative (VCMI) are working to establish comprehensive guidelines. In 2023, a noteworthy development in this context is the introduction of the Carbon Credit Principles (CCPs) by ICVCM. These CCPs, serve as a credible and rigorous framework for identifying carbon credits that have a verifiable impact on climate change, ensuring credit's high integrity. These principles are founded on the latest scientific insights, setting stringent standards for disclosure and sustainable development.

On a related note, the Measurement Reporting and Verification (MRV) system plays a pivotal role in enhancing trust in the carbon pricing system by ensuring the accuracy and integrity of the data on emissions reduction. This complementary instrument is being implemented in the jurisdictions of 19 financial centres.

Market Infrastructure

06

Market Infrastructure

Pillar 3 analyses how the commitments, strategies, policies, regulations and incentives are stimulating private market participants to actually mobilize capital. It inspects the dynamism of debt and capital markets regarding sustainable finance solutions and reviews the commitments taken and the available sustainable products in the main financial industries such as banking, asset management and insurance.

These topics serve as crucial mechanisms for mobilizing capital to finance the low-carbon transition and the SDGs, by providing funding, creating investment opportunities, incentivizing sustainable practices, and raising awareness. Diverse financial mechanisms and tools coexist and synergize to facilitate capital mobilization.

KEY HIGHLIGHTS:

THE FC4S MEMBERS' SUSTAINABLE DEBT MAKES UP 2.6% OF THE GLOBAL MARKET, INDICATING ROOM FOR GROWTH DESPITE THEIR SIGNIFICANT PRESENCE IN THE SUSTAINABLE DEBT MARKET (54%)

ALL RESPONDENTS HAVE AT LEAST ONE STOCK EXCHANGE PARTICIPATING IN UN SSE. MOST COMMON ACTIVITY OFFERED BY SES: LISTING PLATFORMS FOR SMES (88%)

17 CENTERS OFFER SUSTAINABLE FUND LABELS, BUT THEIR USE WITHIN REGULATORY FRAMEWORKS NEEDS TO BE REINFORCED

353 MARKET PARTICIPANTS SURVEYED, REPRESENTING A 29% INCREASE COMPARED TO 2021

81% OF FIRMS MADE EXPLICIT COMMITMENTS TO MOBILIZE FINANCE FOR SUSTAINABILITY, INDICATING AN 8% RISE WHEN COMPARED TO 2021 FINDINGS

THE INSURANCE SECTOR LAGS IN TERMS OF FORMAL COMMITMENTS, EXCLUSION POLICIES, TCFD AND UNEP FI PRINCIPLES (PSI)

THERE IS A GROWING LONG-TERM NATURE OF COMMITMENTS FROM 2021 TO 2023 (16%) AND A REDUCTION IN SHORT-TERM COMMITMENTS (7%)

EXCLUSION POLICIES HAVE BECOME SHARPER SINCE THE LAST EDITION

3.1 High FC4S Presence in the Sustainable Debt Markets

The growth witnessed in the global debt market in 2021 faced a setback in 2022, according to Climate Bonds Initiative (CBI). Coexisting challenges, including energy price spikes, inflation, and rising interest rates lead to a decline in the issuance of GSS debt instruments of 24% year-over-year[33]. Moreover, recent statistics showed that the first half of 2023 marked a 15% year on year decline compared to the same period in 2022[34].

FC4S partnered with CBI to obtain and analyse data regarding sustainable bonds issued within FC4S members' jurisdictions. **FC4S's membership plays a prominent and leading role in the global sustainable debt market,** with the AP 2023 sample representing a significant 54% share of the market size in terms of GSS+ bonds issued. Limited to the issuances of the past year, AP respondents accounted for 55% of the global sustainable debt market issued during the period May 2022 to May 2023.

Figure 14: FC4S sustainable debt as percentage of global debt issued during May 2022 - May 2023

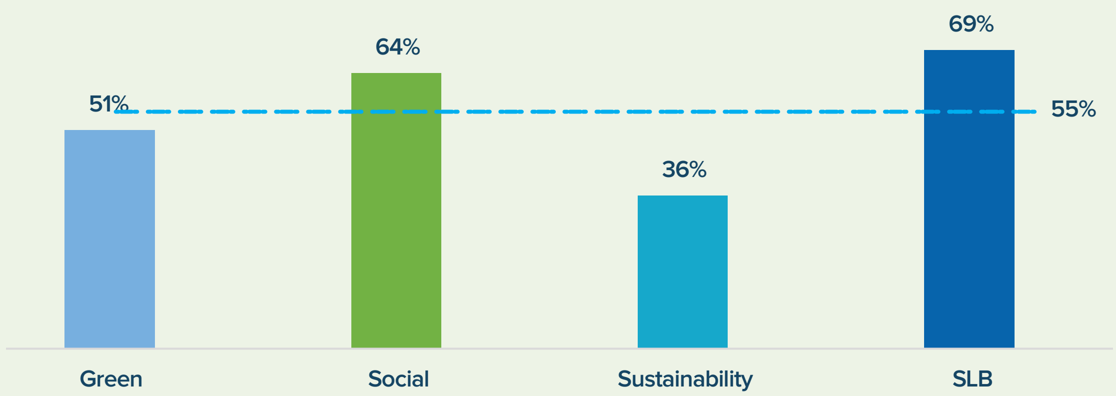
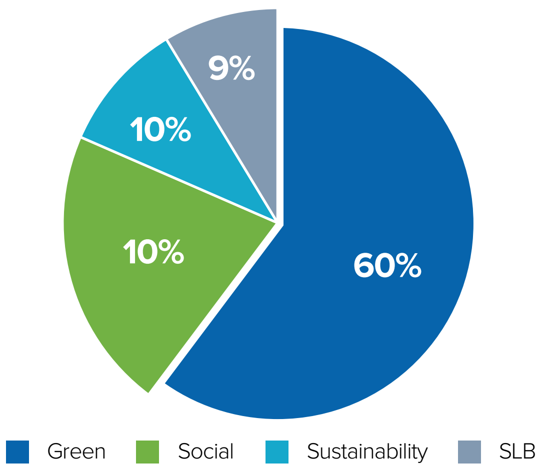


Figure 15: Sustainable debt instruments composition (issued)



Source: FC4S calculations based on data from CBI

The **historical issuance leadership among AP respondents primarily lies in the realm of green bonds, in line with trends observed at the international level[35]**. The prevalence of issuances of green bonds (60%) is followed by social bonds (21%). As CBI stated, the social theme experienced a notable decline in 2022, as issuers shifted away from funding COVID-19 measures and instead favoured a blend of social and environmental *Use of Proceeds* under sustainability bonds. Lastly, sustainability bonds and sustainability-linked bonds account for a similar proportion of the total sustainable debt issued, with a 10% and 9% share respectively.

Although constituting a substantial share of the global sustainable debt market, **the outstanding sustainable debt** of the FC4S members respondents **merely accounts for 2.6% of the overall global debt landscape**. This aligns with the international trend, as the global **sustainable debt market** size comprises 2.1% of **the overall debt market**. This underscores the **prospect of continued growth in the sustainable debt market**, presenting an opportunity to finance a wide array of public and private sustainable projects and objectives.

3.2 Capital Market's Dynamic Contribution to Advancing Sustainable Finance

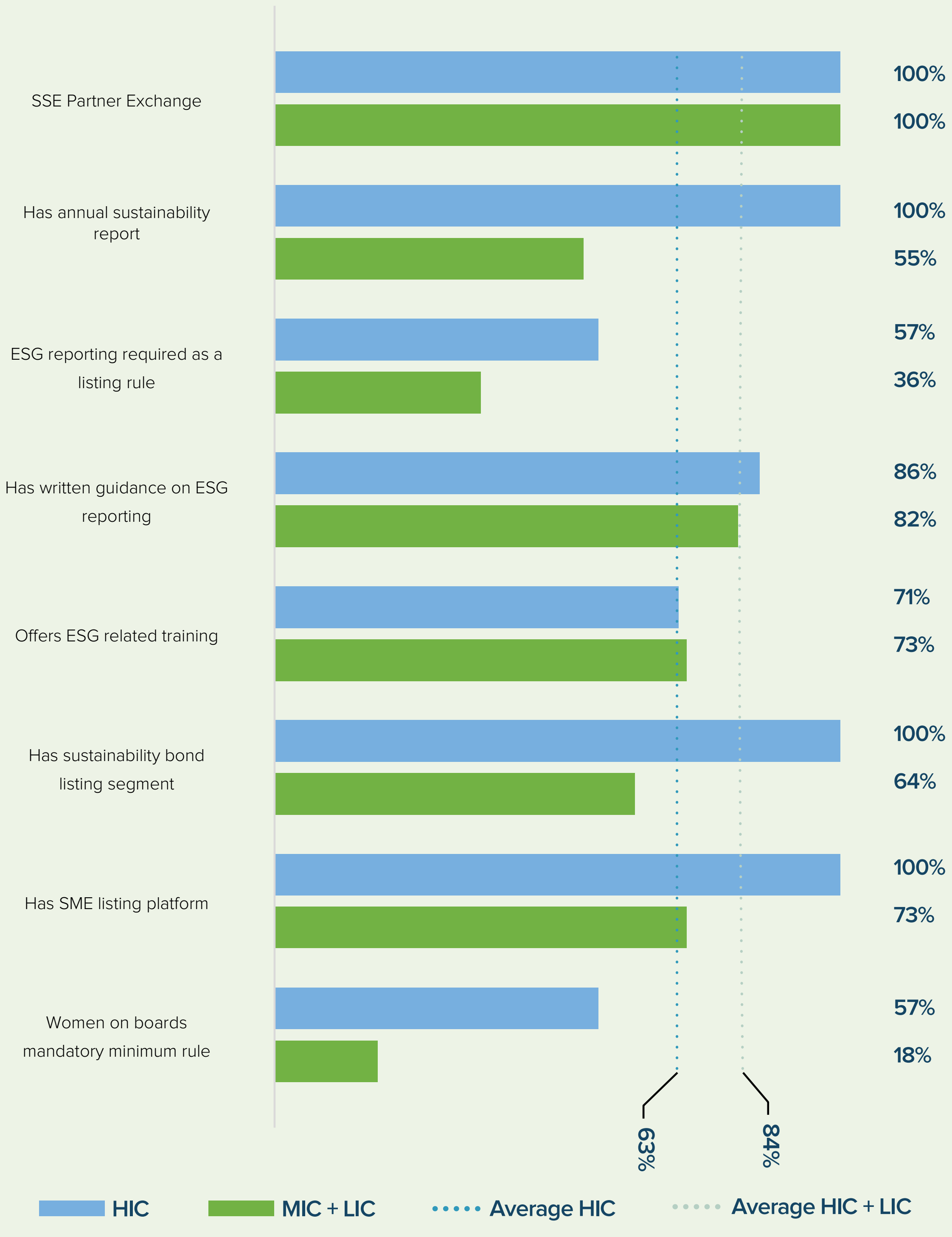
Evaluating the sustainability performance of stock exchanges is a critical element in gauging the progress of this specific market. Globally, stock exchanges are assuming an increasingly significant role in advancing sustainable development. Positioned to bridge national markets with global Environmental, Social, and Governance (ESG) investment, they enhance capacity by endorsing ESG standards, products, services, and practices. Additionally, they contribute to sustainable development by promoting sound corporate governance and encouraging investments in sustainable initiatives[36].

Each AP respondent has at least one stock exchange in their country that has joined the United Nations Sustainable Stock Exchanges Initiative (UN SSE). The most common sustainability activities offered by the surveyed stock exchanges are, firstly, **a listing platform specifically for Small-and-Medium sized enterprises** (22 members; 88%), secondly, **written guidance on ESG reporting** and, thirdly, a **sustainability bond listing segment** (21 members; 84%) **and annual sustainability report** (20 members; 80%). For its part, less than half of the stock exchanges have ESG reporting required as a listing rule (12 members; 48%) and a mandatory minimum rule of women on boards (10 members; 40%).

When categorized by economic development, stock exchanges in **Middle and Low-Income economies exhibit, on average, 21% fewer sustainable finance initiatives compared to their counterparts in High-Income economies.** Particularly noticeable disparities are observed in the areas of annual sustainability reports, SME listing platforms, and sustainability bond listing segments.

In both high and non-high-income economies, the most offered activity is written guidance on ESG reporting (86% and 82% respectively) and ESG related training (71% and 73% respectively). Conversely, the less offered activities are ESG reporting required as a listing rule (57% and 36% respectively) and a mandatory minimum rule of women on boards (57% and 18% respectively).

Figure 16: Sustainable stock exchange characteristics by income

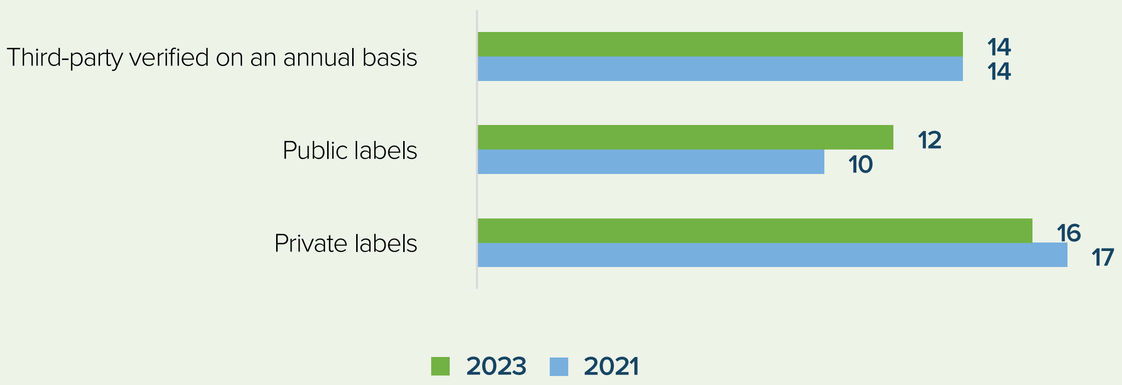


Source: FC4S calculations based on data from UN SSE

Another key aspect to analyse are the sustainability related indices and labels, which serve as important tools to foster sustainable investment. On the one hand, by benchmarking and recognizing market-leading companies based on their sustainability efforts and ESG performance, they provide investors with valuable insights into responsible investment opportunities, while offering enterprises visibility and the possibility to attract investments. The AP results show that **17 financial centres reported having specific indices to target sustainable equity**, a slight decrease in absolute terms compared to the 18 members that reported their availability in 2021.

On the other hand, the sustainability related labels of investment funds serve as crucial indicators of the ESG composition of portfolios. If an adequate product labelling prevails, this instrument helps investors to make informed decisions based on reliable information about the ESG attributes of funds, enables the meticulous tracking of financial activities and fosters transparency within the market.

Figure 17: Sustainability-related labels available for investment funds registered and/or commercialised in the financial centres



17 financial centres have reported the availability of sustainable-related labels for investment funds within their jurisdictions. Private labels continue to be the most popular, being available in 16 financial centres. Public labels available in the financial centres have increased when comparing 2021 and 2023 results.

To ensure the proper application of these labels and uphold credibility of the sustainable finance market, a robust regulatory framework and governance of fund labels is vital. In this context, alignment with sustainable taxonomies needs to be considered to prevent greenwashing. The AP findings underscore that, despite seeing a marginal increase in the availability of sustainability-related labels compared to last year, there is a need to reinforcing the use of sustainable labels within a regulatory framework, as almost half of those financial centres disclosed the absence of rules and regulations supervising the use of sustainable finance labels.

3.3 Continued Strides of Financial Institutions

This section seeks to analyse and understand the effectiveness of commitments, strategies, policies, regulations and incentives in mobilising private capital by market participants towards sustainability goals. Concentrating on the banking, asset management, and insurance sectors, crucial components within the financial system, this analysis provides comprehensive insights and essential market infrastructure details.

Employing a top-market-participants sampling methodology, 353 market participants were surveyed, representing a 29% increase compared to the 2021 study.

Across the dimensions assessed, insurance appears as the lagging sector. Insurance firms' lower general averages by 4% (considering formal commitments, exclusion policies, TCFD and UNEP FI Principles -PSI-).

Growing Sustainable Finance Commitments

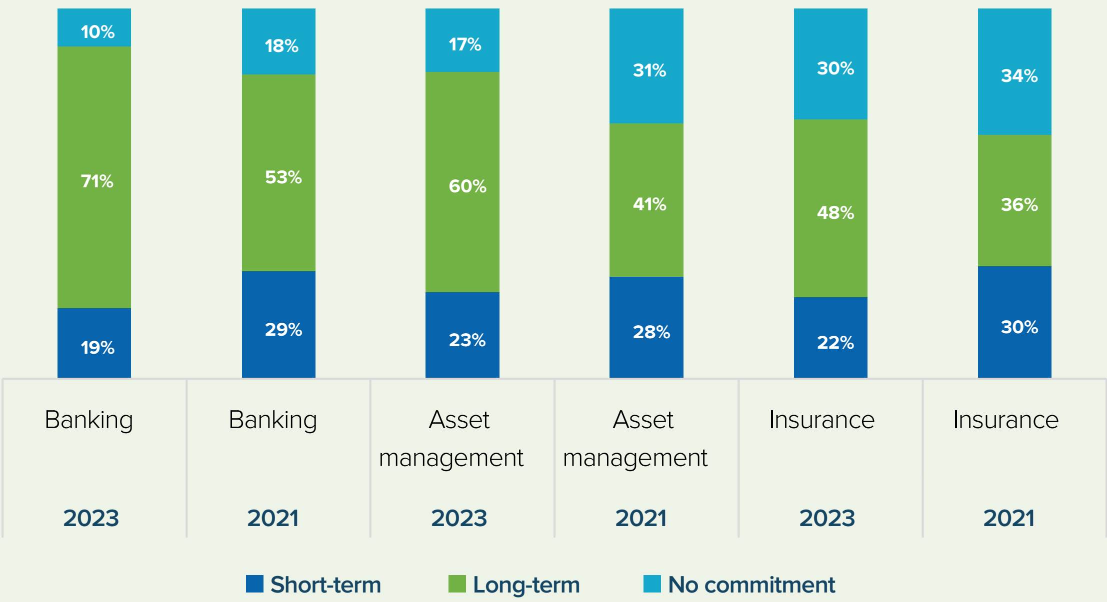
Among the sampled market participants, 81% have made explicit commitments to mobilize finance for sustainability, indicating an 8% rise when compared to 2021 findings. Additionally, **the proportion of these commitments that are quantitatively defined has increased** by 5%, from 34% in 2021 to a 39% in 2023. When looking sector by sector, the results show a certain stability for both the banking and asset management sectors. On the other hand, the insurance sector is the one that shows the highest dynamism where in 2021 25% of commitments were with quantitative targets, while in 2023 that percentage rises to 33%. This suggests that there is a growing commitment to sustainability among market participants, with both an increase in the number of commitments and the quality of these commitments in terms of quantifiable targets.

The High-Level Recommendations for Credible Net-Zero Commitments from Financial Institutions[37] proposed recommendations for credible net-zero commitments for financial institutions, including the alignment with science-based scenarios, the establishment of near-term targets, and the commitment of transparent reporting of GHG emissions, metrics, targets, scenarios and methods used. In relation to this last recommendation, the ISSB, in alignment with TCFD guidelines, emphasizes the importance of companies disclosing the metrics employed to assess their performance regarding sustainability-related risks and opportunities, encompassing progress made towards self-set goals as well as targets mandated by law or regulation. To verify the credibility of the commitments, they need to be supported by robust transition plans. Making commitments, such as achieving net-zero or reducing GHG emissions is essential but these commitments need to be substantiated by comprehensive and credible transition plans that outline a pathway on how companies will align their strategies and business models with their proposed targets. A transition plan should be rooted in quantitative elements such as climate-related metrics and targets, monitored through suitable metrics and aligned with broader sector-wide science-based pathways[38].

Publications such as the GFANZ Recommendations and Guidance on Financial Institution Net-zero Transition Plans[39] and the NZBA Transition Finance Guide[40] have emerged as valuable resources. These guides offer financial institutions insights into operationalizing their net-zero commitments, including strategies, targets, and governance structures to facilitate the real-economy transition toward sustainability.

The challenge of Scope 3 emissions disclosure looms large as companies grapple with data and methodological obstacles. The industry is striving for increased transparency in these emissions, while recognizing the complexities associated with the limited availability of climate-related data, especially concerning GHG emissions from the investee companies[41]. Beyond the challenge of measuring and disclosing, financed emissions appear as a practical challenge around transition finance, where reducing these emissions clashes with the need to provide funding to high-emitting firms for developing technologies that can mitigate GHG emissions in the future. This creates a dilemma for financial institutions, as financing reduction targets might temporarily increase their portfolio emissions[42].

Figure 18: Commitment presence and nature by type of industry



Furthermore, **there is a growing long-term nature of commitments from 2021 to 2023** (16%) **and a reduction in short-term commitments** (7%). While in 2021 43% of the sampled market participants had long term commitments to mobilize finance for sustainability purposes, and 29% had short term, in 2023 the proportions are 59% and 22%, respectively.

In comparison to other sectors, **the banking industry demonstrates the highest proportion of commitments**, particularly in the realm of long-term commitments. Among the surveyed major market participants, 90% have pledged to enhance the availability of sustainable credits and loans, with 71% establishing commitments over a long-term horizon. The insurance sector, while having fewer overall commitments, stands out for its prevalence of short-term commitments. 70% of the sampled institutions have committed to expanding the availability of impact insurance policies and targeted solutions related to green, social, and sustainability-linked insurance, and 22% have established pledges within the short-term. The asset managers industry, situated in an intermediary position, has 83% of their top-market participants formally committing to increasing the allocation of capital toward sustainable and SDG-aligned financial products.

Navigating the Fossil Fuel Exclusion and Net Zero Landscape

As for fossil fuel exclusion, 47% of the market participants overall reported excluding firms engaging in coal extraction and/or electricity generation; and/or other fossil fuel extraction or development. Within each sector, banks show to be more focused on excluding investment in firms engaging in coal activities (54%) than AM (47%) and insurers (35%).

Figure 19: Exclude investment in firms engaging in coal extraction/ coal-fired electricity generation and/or other fossil fuel extraction/development by sector.

As for excluding investment of financial institutions baking firms engaging in coal extraction/ coalfired electricity generation and/or other fossil fuel development, the Bank industry is the one leading on this, but still shows very low rates of exclusion (26%). As in 2021, the survey showed that **most of the measures are focused on excluding only the firms engaging in fossil fuel extraction/development, but not the financial institutions backing those firms**.

Separately, an analysis of the sample of market participants on alignment with the 2050 Carbon Neutrality Targets illustrates that, among the top 10 financial institutions, 41% of banks and 36% of asset managers are aligned with the 2050 carbon neutrality targets.

Finally, regarding climate scenario analysis, our findings indicate a significant disparity in its application across sectors. Specifically, 66% of banks incorporate climate scenario analysis into their practices, while in the asset management sector, this practice is far less prevalent, with only 8% of firms implementing it. This variance underscores the need for greater adoption and awareness of climate scenario analysis.

Committing to Transparency: TCFD's Influence

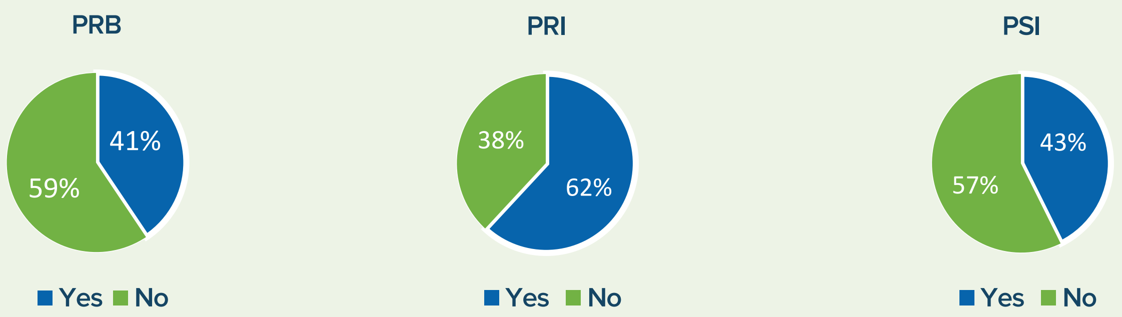
In 2023, the adoption of TCFD recommendations[15] across all market participants stands at an average rate of 47%. Notably, the banking sector leads the way in adhering to the TCFD guidelines (53%), closely followed by asset managers (49%), while the insurance sector lags behind (38%).

While this data is encouraging, it underscores the need for further efforts to enhance disclosure and transparency within the remaining 53% of market players. Timely and accurate disclosure is crucial to fulfil this function, ensuring that investors and stakeholders can make well-informed decisions. Improving the quality of information is vital to avoid greenwashing and promote transparency. Whether through the continued promotion of TCFD standards or ISSB standards, it is imperative to promote and adopt these initiatives for a more responsible and transparent financial landscape.

Sustainability Principles: Who is Leading the Way?

Almost half of the sampled market participants (46%) adhere to frameworks such as the Principles for Responsible Banking (PRB), the Principles for Responsible Investment (PRI) and the Principles for Sustainable Insurance (PSI). As in 2021, the Principles for Responsible Investment (PRI) show the highest rate of supporters with 62% of the market participants, followed by the Principles for Sustainable Insurance (PSI) with 43%, and finally Principles for Responsible Banking (PRB) with 41%.

Figure 20: Signatories of PRB, PRI & PSI



15 The TCFD analysis methodology has changed regarding 2021, therefore no comparisons are made between both versions.

Annex

07

Annex

General Considerations

The scope of the Assessment Programme questionnaire involves mainly developments at the financial centre level. The answers provided should consider as the main criteria if the developments analysed can be influenced by the financial centre's institutions and/or policies.

The survey is conducted using a self-complete-style questionnaire and the data is collected through FC4S members. By responding at the local level, each financial centre provides data to contribute to the international level. In order to achieve consistency and interpretation of the responses, robust sources and clarifications were requested for their validation, hand in hand with external validation by the FC4S team.

Structure & Methodology

The methodological framework of the Assessment Programme survey is based on a holistic view of the sustainable finance ecosystem that incorporates three relevant pillars that allow financial centres to benefit from sustainable finance development: institutional foundations, enabling environment and market infrastructure.

Institutional Foundations	Enabling Environment	Market Infrastructure
It explores the **key institutions and objectives** that drive the growth of sustainable finance in financial centres.	It maps the structures that support the scale-up of sustainable finance by providing **rules and incentives** and **building capabilities.**	It examines how commitments, strategies, and incentives stimulate the **capital mobilisation of market participants.**

The methodological framework has remained consistent across the years while its components have been updated to reflect new trends in financial centres as well as new indicators for sustainable finance development. In this edition, questions of the survey have been adjusted solely for the purpose of improving comparative analysis, and new questions that cover up-to-date sustainable finance developments were added.

Finally, a methodological handbook was delivered to FC4S members with a collection of instructions and definitions intended to provide a ready reference, and a series of regional follow-up sessions with FC4S members was organized to provide guidance, answer questions on the contents of the survey and clarify doubts related to the completion of the questionnaire.

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