Leading Financial Centres Stepping Up Sustainability Action

THE FC4S NETWORK 2021 STATE OF PLAY REPORT

SUPPORTED BY:
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ABOUT US

The UN-convened Financial Centres for Sustainability (FC4S) Network is a partnership among the world’s financial centres and is hosted by United Nations Development Programme (UNDP).

The Network comprises 39 member centres as of January 2022. The objective of the FC4S Network is to enable financial centres to exchange experiences, drive convergence and act on shared priorities, including talent development to accelerate the expansion of sustainable finance. Through national and regional initiatives, the FC4S Secretariat works with members to achieve this objective by providing the tools and insights to measure progress, engage local institutions, inform policy, research on emerging issues, guidance on best practices, strategic advice and support services, including assistance with project development.

AS OF JANUARY 2022, THE FC4S NETWORK MEMBERS INCLUDE:


ACKNOWLEDGEMENTS

This report was written by Ignacio Benito and Delfina Monteverdi, supervised by Florencia Baldi (FC4S Head of Knowledge Hub) and Stephen Nolan (FC4S Managing Director), PwC, a FC4S strategic partner, has been contributing to the development of the FC4S Assessment Programme since 2018 and the consolidation of 2021 results was conducted by Olivier Muller and Julien Gautier of PwC France.

In 2021, Marcos Mancini of the United Nations Development Programme (UNDP) Sustainable Finance Hub provided valuable input into the development and the update of the Assessment Programme methodology and survey tool.

The authors of this report would like to thank all individual members of the FC4S Network for their contributions to this report. Via funding support, the development of this report and the undertaking of the 2021 Assessment Programme report was supported by Sustainable Finance Ireland, Finance for Tomorrow (Paris) and Guernsey Green Finance.
FOREWORD
We are delighted to introduce you to this special report called ‘Shifting Gears’ – an extremely apt description of how the world’s most influential financial centres - our FC4S members – are engaging in strategic action on green and sustainable finance.

Every day FC4S members are consistently demonstrating their leadership via their activities focused on supporting policy and regulatory reform; enhancing financial instruments; broadening access to knowledge and innovation; and promoting transparency and accountability, while exploring new emerging areas, such as biodiversity financing.

And by means of the FC4S annual Assessment Programme, upon which this report is based, we are able to measure this current state of progress. And in mining the rich seam of valuable data insights captured in this report, it allows us to take stock of the sector’s development, performance and identify how best to overcome challenges hampering the scaling of sustainable finance, all aligned with FC4S member’s needs.

Consistently providing insightful analysis on sustainable finance at both the global and individual financial centre level, the findings of this programme ensure FC4S continues to lay the groundwork that supports deeper bilateral, regional, and international sustainable finance cooperation among members and other important actors.

This is key. While we have witnessed in recent years the rapid growth in green and sustainable finance activities, its proportion in total global financing still remains low at around 10% in some large economies. And as we build towards COP27 this year, international collaboration is required to unlock the trillions, while ensuring that private sector commitments and pledges are delivered against. If we do not deliver against these two interlinked goals, we run the serious risk of undermining the reputation, and functioning of the green and sustainable finance market just as we need it most.

And while this report provides compelling evidence that financial centres activities are characterized by strong growth and increased scope, it also highlights that more action is required in support of the transition.

As a top priority, now is the moment for financial centres to further develop public-private backed sustainable finance roadmaps underpinned by robust targets, aggressive timelines, and allocation of the required resources towards their implementation.

Now in its fourth year and at 39 members, FC4S is providing tangible and meaningful support to the membership daily. Building on a successful 2021, we look forward to greater progress in 2022.

We hope you enjoy this report.

Jennifer Reynolds  
CEO Women Corporate Directors Foundation  
FC4S Co-Chair

Lamia Merzouki  
Deputy General Manager  
Casablanca Finance City Authority  
FC4S Co-Chair
EXECUTIVE SUMMARY
The FC4S Assessment Programme is the first of its kind in evaluating the state of sustainable finance across the world’s leading financial centres. Since 2018, it has helped to identify patterns in sustainable finance development and performance as well as areas where the potential of the sustainable finance ecosystem has not yet been fully exploited. It also provides a unique analysis of financial centres’ individual progress made over the course of the last four years. By identifying members’ challenges and opportunities and building on the excellent efforts they are undertaking, this global programme ensures FC4S can continue to develop value-adding services for each member and to inform local, regional and global policy – including through cooperation with other international bodies.

This year’s assessment reveals seven key insights on how financial centres across all continents are mobilizing their capital, resources, connectivity, and expertise to support the low-carbon transition and the achievement of the Sustainable Development Goals (SDGs).

1. THIRST FOR DATA

Poor data quality and availability is a shared and enduring barrier cited by financial centres. Stakeholders are in growing need of high-quality data and metrics due to market pressure, policy assessment and ambition to develop new products and services.

Widespread access to sustainability-related information can help to improve the assessment of sustainability-related risks and opportunities, allowing capital to be better deployed and risk management and financial stability to improve.

The harmonization and standardization efforts of sustainability-related information will improve the quality of corporates’ data, including small and medium-sized enterprises (SMEs), and will contribute to enhancing the consistency of Environment, Social and Governance (ESG) ratings and data products.

Financial centres, in coordination with international institutions, private actors and local stakeholders can play an active role by promoting new data sources driven by the employment of innovative digital technologies.

2. THE IMPORTANCE OF STANDARDIZATION IS GROWING

The multiplicity of disclosure standards during the last years has been a barrier to the effective comparability and integration of sustainability-related factors into the investment decision process. To maximize the efficacy, efficiency and integrity of sustainable financial markets, convergence towards universal definitions and interoperability are required. Standardization will support closing the private investment gaps to deliver on the 2030 Agenda ambitions.

The assessment results show that half of the sampled financial centres (52 percent) indicated that working towards consistency across the development of standards, taxonomies and guidelines is a top priority to their institutions. By doing so, financial centres can contribute to the development of standardized data and globally accepted reporting frameworks to increase the adoption of sustainable finance options.

52% INDICATED THAT WORKING TOWARDS CONSISTENCY IS A TOP PRIORITY
3. **THE REGULATORY ENVIRONMENT REMAINS A CRITICAL DRIVER**

Regulations are key to improving the transparency and integrity of the sustainable finance market, boosting investor confidence, providing market clarity and enabling tracking and measurement of sustainable finance flows. Financial centres are presenting an increasing number of regulations and policies to both manage sustainability risks and to increase the share of sustainable capital flows. The most applied regulations relate to the disclosure on climate or other environmental topics, and the use of green, social, sustainability and transition bond standards. Almost half of the financial centres (48 percent) emphasized that improving policy and regulatory engagement is a top priority in 2022. Financial centres are well positioned to address regulatory challenges and can therefore help regulators and supervisors strengthen responses to sustainability and provide guidance to financial actors.

4. **COMMITMENTS FROM AUTHORITIES ARE KEY FOR TAKE-OFF**

Public authorities can play an important role in encouraging the implementation of the SDGs, addressing shared challenges and promoting the use and harmonization of existing market tools and methods. More specifically, they can play an important role in the strategic use of development finance for the mobilization of capital towards sustainable development. This year, 27 out of the 29 sampled financial centres were home to at least one financial instrument or incentive implemented by public institutions. Designing and implementing public instruments, such as tax reductions, subsidies or innovative sustainable financial products, can trigger market creation and foster behavioural change by raising market participants’ awareness of sustainable financial investment alternatives.

5. **MARKET PARTICIPANTS ARE THE LEADING ACTORS IN THE FINANCIAL SYSTEM TRANSFORMATION**

Banks, asset owners, asset managers and insurers have demonstrated that additional allocation on sustainable finance is being increasingly targeted through the application of new definitions, frameworks and products. The number of financial actors’ commitments to align their investments and operations with a sustainable financial system has been increasing, highlighting the sector’s ambition to accelerate the transition. However, increasing credibility will come with the wider application of frameworks and standards and the provision of mature and accessible sustainable investment options and products. Also, commitments and pledges need to be more transparent on the scope and boundary of the targets and the plans for reaching them.
The presence of talent and skills continues to be a critical issue to the growth of the sustainable finance ecosystem.

This year, an increasing number of financial education and training programmes at different levels have been reported with topics related to basic knowledge of sustainability and sustainability-related tools. Yet, leading financial centres, private actors and international institutions are already coordinating and pulling their resources together to integrate advanced-level skills for the practice of sustainable finance into graduate and postgraduate programmes.

The coordination power of financial centres is critical to unfold the agenda towards a sustainable global financial system. An inclusive multi-stakeholder approach involving policymakers, technical experts, academics, financial market participants and representatives of environmental organizations and other civil society groups can be critical to scaling up sustainable finance as it allows for the exchange of experiences and solutions at different levels of development.

The FC4S assessment analysis results reflect this global trend, ranking the actions towards strengthening the ecosystem and building connectivity as a priority this year for the first time.

Overall, this report provides compelling evidence that financial centres’ initiatives have been characterized by strong growth, increased scope, greater maturity and accelerated action, not least as all built towards COP26. Looking ahead and with a firm focus on November’s COP27, the FC4S network will focus on addressing the priorities identified by members, while working to support G20 sustainable finance efforts in 2022.

The FC4S 2022 workplan considers key actions to increase consistency of policy frameworks, enhance sustainable finance standards, advance data strategies, scale-up sustainable finance instruments, leverage education and training, and expand transition finance developments. Considering their convening position and coordination role, FC4S members are already supporting the advancement of this agenda.
INTRODUCTION
The COVID-19 pandemic and the disruption it has brought to the world economy are an urgent call for the global community to better prepare for the transition to a sustainable economy.

The deep economic downturn has exacerbated inequalities, threatening the achievement of the 2030 Agenda and raising the importance of aligning the global financial system with the Sustainable Development Goals. Financial flows oriented to achieving the SDGs and the Paris Agreement goals are still limited and critical to supporting the transition to a sustainable financial system.

According to Organisation for Economic Co-operation and Development’s (OECD) data, the annual financing gap for the SDGs increased from US$2.5 trillion pre-COVID-19 to US$4.2 trillion. The reallocation of global assets towards sustainable activities required calls for collaboration between private and official actors to ensure that appropriate tools and standards are put in place.

Financial centres play a key role in this transformation as they act as natural nodes that concentrate many different market components, including a wide range of activities and critical institutions.

Their proximity to local barriers allows them to identify and act upon them while setting shared priorities. They can facilitate discussions to build up an enabling policy environment, amplifying the effectiveness of sustainability policies. Lastly, they are well positioned to identify and coordinate local relevant actors in reaching the necessary capacity to scale up sustainable finance across the industry.

The COVID-19 pandemic has strengthened the role of financial actors in supporting a low-carbon and socially inclusive recovery.
To highlight the role of financial centres in the transition to a sustainable future, in 2018, the Financial Centres for Sustainability Network (FC4S) established the Assessment Programme (AP), a framework that provides members with a baseline of where they stand in terms of sustainability and helps to identify areas where more focus is required to underpin progress.

The FC4S Assessment Programme evaluates the state of sustainable finance across the world’s leading financial centres, including their institutional foundations, regulatory environment, and market infrastructures.

It has been used to map, measure, and understand financial centres’ relative position against best-in-class practices, allowing financial centres to visualize mid-term goals and set priorities when developing a strategic approach to sustainable finance. It has also been used to track the progress of financial centres’ efforts to support this agenda, and to identify potential pathways of action to advance sustainable finance and design strategies following international best practices. By identifying members’ challenges and opportunities, this global programme ensures FC4S can continue to develop value-adding services for each member and to inform local, regional and global policy – including through cooperation with other international networks and bodies.

This report showcases its aggregated results to inform relevant stakeholders about global trends on the sustainable finance agenda, as well as both market and regulatory developments at the financial-centre level. FC4S members have demonstrated a strong interest in the Assessment Programme from its inception, since it provides a unique point of view, enabling an understanding of their financial industry’s ecosystem.

A growing number of financial centres have responded to the survey year after year, from 12 in its first edition (2018), to 20 in 2019, 24 in 2020 and 29 in 2021. The results also feed into the personalized reports, which FC4S annually delivers to facilitate discussions in local contexts and create inclusive and efficient sustainable finance strategies.

FC4S members have demonstrated a strong interest in the Assessment Programme from its inception, since it provides a unique point of view, enabling an understanding of their financial industry’s ecosystem.

NUMBER OF FINANCIAL CENTRES THAT RESPONDED TO THE SURVEY:

- **2018**: 12
- **2019**: 20
- **2020**: 24
- **2021**: 29
STRENGTHENING THE INSTITUTIONAL FOUNDATIONS
>70% of members have PRIVATE SECTOR ACTORS INVOLVED in their institutional model.

1ST STAKEHOLDER TYPE
BANKS are the most involved stakeholders in sustainable finance dedicated initiatives.

1ST CHALLENGE: DATA QUALITY & AVAILABILITY FOR THE 3RD YEAR IN A ROW

1ST PRIORITY: STRENGTHENING OF THE ECOSYSTEM AND BUILDING CONNECTIVITY

~50% of the financial centres use ALL 17 SDGS IN THEIR STRATEGIES AND PLANS but only 15% measure and disclose progress against them.

83% of the financial centres consider the LOW-CARBON TRANSITION IN THEIR PLANS but only 21% measure and disclose their results.
STRENGTHENING THE INSTITUTIONAL FOUNDATIONS

A financial centre’s institutional foundation comprises a large diversity of stakeholders; mechanisms for public-private collaboration and coordination including the state, different industries, civil society and academia are key to drive progress. The institutional foundation pillar explores the key actors, bodies, processes, and targets that drive the development of sustainable finance within financial centres. It examines the actions undertaken to promote sustainable finance, the reach of dedicated initiatives, and the objectives and strategies in place related to this field at both the financial centre and the country level.

Financial centres generate a powerful clustering effect by concentrating different actors. They are nodes of innovation and the uptake of both new approaches and technology is considerably faster in financial centres than at the policy level.

Financial centre’s public-private partnerships (41 percent in 2021) have served as the foundation to provide a credible and effective enabling environment.

For example, within FC4S sampled members more than 70 percent have significant private sector involvement. More specifically, financial centre’s public-private partnerships (41 percent in 2021) have served as the foundation to provide a credible and effective enabling environment for reducing risks, mobilizing capital and ultimately advancing sustainable finance. These partnerships bring together the expertise and resources of the two sectors with the intention of providing innovative solutions to address key challenges. Thus, by connecting multiple stakeholders, organizing local forces and disseminating standards, the coordination power of financial centres is critical to unfold the agenda towards a sustainable global financial system.

There is a high level of stakeholders’ heterogeneity within financial centres.
SUSTAINABLE FINANCE’S CENTRE OF GRAVITY

Dedicated initiatives are usually the means through which financial centres translate their goals and vision into sustainable practices (i.e. key action programmes focused on achieving specific objectives). They encourage financial sector commitments, and by addressing shared challenges and promoting the use of standards and methodologies, they help achieving stated goals. Evaluating their main driving factors, stakeholders and actions plans is essential to understand how sustainable finance matters connect with specific local needs.

These dedicated initiatives require the participation of different financial actors to provide insights, analysis and opinion on its progress.

The Assessment Programme shows that, for two years in a row, banks are the most present stakeholders in these initiatives. In 2021 analysis, banks are followed by asset managers, industry associations and public authorities.

A broad presence of stakeholders involving policymakers, technical experts, academics, financial market participants and representatives of environmental organizations and other civil society groups can be critical to scaling up sustainable finance within the financial centre.

However, the number and diversity of stakeholders do not automatically reveal the direction, ambition and effectiveness of the financial centres’ institutional capacity. An analysis of the challenges and priorities is required to link the institutional structure of the centre with specific targets and pathways to sustainable finance.

A broad presence of stakeholders can be critical to scaling up sustainable finance within the financial centre.
Having long viewed their institutional objectives as either ancillary to climate policy, policymakers increasingly recognize the financial system’s vital cross-cutting role in promoting climate change mitigation and adaptation, as well as sustainable development more broadly. To organize the different range of actors involved in the transition to sustainable finance around a common conception of their roles and responsibilities, national authorities have deployed strategic roadmaps.

These documents generally provide recommendations to help prioritize actions and coordinate activities among policymakers, supervisors, regulators, associations, corporations and other financial sector participants to accelerate the expansion of sustainable finance.

During COP26 and in partnership with the Coalition of Finance Ministers for Climate Action, FC4S published the first detailed analysis of the structure and characteristics of 41 sustainable finance roadmaps. It covers 30 countries’ roadmaps drafted between 2014 and 2021, including an in-depth case studies section – covering FC4S member jurisdictions Canada, Germany, Ireland, Japan, Luxembourg, Mexico, Nigeria and Switzerland – to understand how they are being considered within national activities and strategies.
ENDURING CHALLENGES TO A SUSTAINABLE FINANCIAL SYSTEM

The main challenges are the barriers that affect the ability of financial centres to interact with the appropriate actors and implement the necessary policies to promote sustainability in financial systems.

In the 2021 edition, financial centres reported poor data quality and availability as their top challenge for the third year in a row (considering challenges identified as top one, two and three). In the same vein, the G20-commissioned input paper that FC4S published in June 2021 in partnership with the Green Digital Financial Alliance (GDFA), which included a survey conducted in 15 global financial centres, found that the greatest barrier for adoption of tech-enabled ESG solutions is mainly lack of ESG data itself, with climate risk, followed by nature risk, human rights and governance as the main topics to address.

The future growth of the sustainable finance ecosystem is inevitably linked to data – to its accessibility, reliability, completeness, comparability and the capacity to process and analyse it. Sustainability-related information can enhance the assessment of sustainability-related risks and opportunities, allowing capital to be more efficiently allocated, bolstering risk management and financial stability, and helping identify impacts associated with the 2030 Agenda. As such, sustainability-related data is important to different stakeholders, including financial industry actors – lenders, insurance companies, asset managers and ESG rating providers – as well as non-financial stakeholders – policymakers, regulators and civil society.
Financial stakeholders face a wide range of disclosure frameworks, incentive structures, data collection methodologies and external assessments that affect the quality and availability of self-reported sustainability-related data at the company level. In particular, the absence of requirements and generally accepted sustainability-related disclosure standards has hindered the availability and efficacy of non-financial data. As a result, harmonization and standardization efforts have been spearheaded by different industry and official sector initiatives, most notably the work of the International Financial Reporting Standards (IFRS) Foundation to establish an International Sustainability Standards Board (ISSB). The new standards-setting board will develop a comprehensive international, consistent, comparable and reliable baseline of sustainability disclosure standards relevant to enterprise value creation. In its Sustainable Finance Roadmap, the G20 has welcomed its work programme and has stressed that “these standards should build on the Task Force on Climate-related Financial Disclosures (TCFD) framework and take into account the work of other sustainability reporting organizations”.

Data quality and availability issues are especially hampering small and medium-sized enterprises, which are crucial in the sustainability transformation since they account for the majority of businesses worldwide.

Data gaps make it difficult to assess their climate risk and determine the impact of their investments on non-financial objectives like climate change mitigation. To support SMEs on their path towards sustainability, work to map available information, understand its most efficient use, and identify challenges and opportunities of their sustainability reporting is crucial.

The employment of digital technologies can also provide new solutions to these problems as well as enhance capacity-building efforts.
Moreover, data is also key to determine the quality and reliability of ESG ratings and data products. At present, providers rely on self-assessed and usually unverified disclosures, which they interpret based on their own procedures, resulting in a largely unregulated market, with some isolated attempts at self-regulation through codes of conduct. According to the International Organization of Securities Commissions (IOSCO), in addition to having good quality underlying raw data, the quality of ESG ratings depends on the robustness of ESG rating methodologies. Likewise, for ESG data products, data collection, frequency and verification condition their quality. In this regard, IOSCO explains that “improvements in the quality of corporate disclosures would contribute to enhancing the consistency of ESG ratings and data products”.

Over the years, the survey shows a persistent pattern in the challenges faced by financial centres. “Inadequate green and sustainable investment project pipelines” was the challenge reported second in importance for two years in a row. The Financing for Sustainable Development Report 2021 explains that attracting and channelling private investments to sustainable projects depends on the capacity of governments to develop a project pipeline by leveraging technology and strengthening international cooperation. Developing investment-ready projects requires significant planning and capacity during the pre-investment and implementation phases that address the financial, legal, technical and sustainability-related challenges associated with a project. Identifying a feasible risk-sharing mechanism at the development phase is critical to ensure that a project will be viable for investors. Governments with limited resources may struggle to find the internal capacity to develop an attractive project pipeline needing external support.

The lack of capacity was ranked as the third most pressing challenge both in the 2020 and 2021 editions of the Assessment Programme.

To identify the requirements of the financial system in terms of sustainable finance competencies, FC4S has supported research to examine the skills gap for the main stakeholders of the Irish and Canadian finance industry. Both surveys aimed at finance professionals agree that there is a current strong demand for sustainable finance skills and talent within the financial industry's organizations, but "supply is inadequate and further upskilling is required". Importantly, it is not necessary to build an entirely new set of skills and competencies to address this challenge; rather, existing finance abilities need to be combined with risk, data management and ESG competencies to respond to the complexity of sustainability issues.
SETTING PRIORITIES FOR TRANSFORMATIVE ACTION

Financial centres address strategic priorities through different types of planning instruments that define directed actions or relevant objectives to mainstream sustainable development.

In this sense, the respondents’ top priorities did not exactly reflect the main challenges that they are facing. While the key challenges were data, project pipelines and capacity, the main priority disclosed is supporting the strengthening of the ecosystem and building connectivity, followed by the need to develop standards, guidelines, or other supporting infrastructure. The third most recognized priority covers both the policy and regulatory aspects of each financial centre, showing the increasing need for international coordination and collaboration in this regard. This gap might reflect areas of action where financial centres “feel/see” they have more potential or where their coordinating role is irreplaceable, while the challenges reported as most pressing are at the financial institution level.

A certain level of maturity of financial centres is observed as they move from initial priorities to more advanced ones. In the 2020 and 2019 editions, “Promotion and awareness” was ranked first and second, respectively, but in the 2021 edition it ranks fifth, showing a similar trend to Figure 3. Although raising awareness is a crucial step towards a more sustainable financial system, it is basic to understand the financial sector’s role in a more sustainable future. Actions towards strengthening the ecosystem and building connectivity, ranked as the first priority this year for the first time, show that financial centres not only already understand the relevance of this agenda, but are also already advancing it, aware of the breadth and depth of the changes required in the years to come. This is a clear indicator of progress of the sustainable finance agenda at the financial centre level.
This year’s edition shows that more than half of the respondents implemented all the proposed activities relating to sustainable finance, illustrating the momentum and global dynamism of this field.

Almost all financial centres (90 percent) presented activities in 9 of the 11 categories assessed, which shows a high level of involvement in sustainable finance topics.

27 out of the 29 financial centres have focused on advanced activities such as the creation of working groups or committees or conducting research and analysis on sustainable finance issues. The figure also showcases the importance of cooperation with public authorities. Moreover, key to leveraging the advances in these activities are the conferences and events organized by most financial centres (90 percent) to communicate and raise awareness. This type of institutional guidance is critical in the development of the new and fast-evolving field that is sustainable finance.

27 out of 29 of financial centres have also been involved in the development process of sustainable finance roadmaps. This is most probably due to their strategic position and their proximity to key financial stakeholders. According to a recent FC4S study in collaboration with the Coalition of Finance Ministers for Climate Action on more than 40 sustainable finance roadmaps, an inclusive multi-stakeholder approach to the drafting of a sustainable finance roadmap is key to providing reliability and guide on its implementation. Roadmaps are essential to prioritize actions and coordinate activities among stakeholders, bring policy cohesiveness, anchor sustainable finance to broader policy objectives and tailor government actions to suit individual financial systems.

Financial centres can play a key role in coordinating the building of the recommendations to enhance sustainable finance within financial systems. The FC4S Assessment Programme provides financial centres with a tool for the development of roadmaps, as a baseline evaluation of their market status, and to inform target setting and planning, and track progress on key priorities, actions plans and performance indicators.
In 2019, the Irish government published Ireland for Finance, a strategic framework to establish Ireland as a top-tier provider of specialized international financial services. As an output of this strategy’s 2021 action plan, Sustainable Finance Ireland and FC4S were tasked with developing Ireland’s first national Sustainable Finance Roadmap.

The document’s development was informed by the full range of FC4S tools and research, including the FC4S assessment, which served as a baseline to visualize mid-term goals and set priorities; an analysis of international best practices to advance sustainable finance, which put forth 90 different opportunities for consideration; and finally, the findings from the 2021 FC4S and Coalition of Finance Ministers for Climate Action analysis of 40 different roadmaps.

During the six-month, eight working groups consisting of 50 public-private sector actors were convened to analyse the 90 opportunities and new ideas. Acting as a catalyst for public-private sector action, 18 Irish roadmap actions were identified under the pillars of Developing Talent; Industry Readiness; Leveraging Digital; Enabling Environment; and Promotion and Communications. Action 1 of the roadmap is the establishment of an International Sustainable Finance Centre of Excellence in partnership with FC4S.
CHAMPIONING THE SUSTAINABLE DEVELOPMENT GOALS

For the first time this year, FC4S measured the level of involvement of each one of the SDGs, both at the financial centre and the country level planning and development processes. Findings showed that **SDG 13 (climate action) leads with 83 percent of financial centres considering it**, followed by SDG 9 (industry, innovation and infrastructure) and SDG 8 (decent work and economic growth) with 76 percent each.

Although almost half of the financial centres surveyed reported using all 17 SDGs while setting their strategies and plans, they infrequently measure and disclose progress against them. This is key since tangible actions towards the SDGs require the goals to be embedded throughout the strategy process of any organization.

As mentioned before, country-level data deficits are significant. Furthermore, according to the Sustainable Development Goals report 2021, recent global lockdowns have hindered data collection efforts for much of 2020, widening gaps in the capacity of countries to report on many of the SDG indicators.

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**FIGURE 6: LEVELS OF SDG USAGE IN FINANCIAL CENTRES’ PLANNING**

<table>
<thead>
<tr>
<th>SDG Number</th>
<th>SDG Title</th>
<th>Vision &amp; Goals</th>
<th>Action Plan</th>
<th>Measurement &amp; Disclosure</th>
<th>Not Undertaken</th>
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<tr>
<td>1</td>
<td>No Poverty</td>
<td>38%</td>
<td>17%</td>
<td>28%</td>
<td>17%</td>
</tr>
<tr>
<td>2</td>
<td>Zero Hunger</td>
<td>45%</td>
<td>17%</td>
<td>28%</td>
<td>10%</td>
</tr>
<tr>
<td>3</td>
<td>Good Health and Well-Being</td>
<td>41%</td>
<td>14%</td>
<td>24%</td>
<td>21%</td>
</tr>
<tr>
<td>4</td>
<td>Quality Education</td>
<td>41%</td>
<td>14%</td>
<td>24%</td>
<td>21%</td>
</tr>
<tr>
<td>5</td>
<td>Gender Equality</td>
<td>34%</td>
<td>10%</td>
<td>28%</td>
<td>28%</td>
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<tr>
<td>6</td>
<td>Clean Water and Sanitation</td>
<td>38%</td>
<td>21%</td>
<td>24%</td>
<td>17%</td>
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<tr>
<td>7</td>
<td>Affordable and Clean Energy</td>
<td>34%</td>
<td>14%</td>
<td>28%</td>
<td>24%</td>
</tr>
<tr>
<td>8</td>
<td>Decent Work and Economic Growth</td>
<td>24%</td>
<td>17%</td>
<td>34%</td>
<td>24%</td>
</tr>
<tr>
<td>9</td>
<td>Industry, Innovation and Infrastructure</td>
<td>24%</td>
<td>10%</td>
<td>24%</td>
<td>41%</td>
</tr>
<tr>
<td>10</td>
<td>Reduced Inequalities</td>
<td>45%</td>
<td>10%</td>
<td>24%</td>
<td>21%</td>
</tr>
<tr>
<td>11</td>
<td>Sustainable Cities and Communities</td>
<td>28%</td>
<td>10%</td>
<td>28%</td>
<td>34%</td>
</tr>
<tr>
<td>12</td>
<td>Responsible Consumption and Production</td>
<td>31%</td>
<td>14%</td>
<td>34%</td>
<td>21%</td>
</tr>
<tr>
<td>13</td>
<td>Climate Action</td>
<td>17%</td>
<td>24%</td>
<td>28%</td>
<td>31%</td>
</tr>
<tr>
<td>14</td>
<td>Life Below Water</td>
<td>52%</td>
<td>14%</td>
<td>21%</td>
<td>14%</td>
</tr>
<tr>
<td>15</td>
<td>Life on Land</td>
<td>41%</td>
<td>17%</td>
<td>21%</td>
<td>21%</td>
</tr>
<tr>
<td>16</td>
<td>Peace, Justice and Strong Institutions</td>
<td>41%</td>
<td>14%</td>
<td>31%</td>
<td>14%</td>
</tr>
<tr>
<td>17</td>
<td>Partnerships for the Goals</td>
<td>34%</td>
<td>17%</td>
<td>24%</td>
<td>24%</td>
</tr>
</tbody>
</table>
ACCELERATING THE LOW-CARBON TRANSITION

According to the Intergovernmental Panel on Climate Change (IPCC), in model pathways with no or limited overshoot of 1.5°C, global CO₂ emissions decline by about 45 percent from 2010 levels by 2030, reaching net zero around 2050. The pace, scale and extent of this required global transformation demand helping high-carbon companies transition toward net-zero emissions – and the financial sector needs to step up its support.

Transition finance has emerged as one of the solutions, meaning finance intended for economic activities that are emissions-intensive, do not currently have a viable green substitute, but are important for socio-economic development. Some approaches have even gone a step further, explicitly requiring financed projects to avoid negative social impacts in the transition, such as the loss of jobs. The G20 Sustainable Finance Working Group has recognized in its Sustainable Finance Roadmap the need for sustainable finance “to support incremental improvements in climate performance through a greater consideration of climate transition”, “account for the effects of the transition on local communities and SMEs and to address potential adverse effects such as unemployment”.

The emergence of transition finance calls for international coordination and the design of tools and standards for its development as well as for the accountability of the financing flows. Such tools would de facto improve the relevance of actions and the measurement of the impacts of transition finance.

In the institutional foundations pillar, financial centres were evaluated based on whether and to what extent they include decarbonization in their strategic priorities. Their activities towards a low-carbon transition include policies and private actors’ actions directed towards a pathway consistent with carbon neutrality while helping financial actors and broader organizations to address climate risks.

Although most of the financial centres surveyed (83 percent) include or consider the low-carbon transition in their plans, only 21 percent reported measuring and disclosing their activities impacts.

To guarantee that global efforts are optimized, financial centres could help achieve progress in measuring and disclosing the transition, since this will enable stakeholders to improve decision-making and move forward more quickly. Also, they could contribute to the understanding of the purpose of transition finance and foster the invention or reinvention of financial instruments that can channel investments towards actors that help ensure that transition financing delivers the intended impact.
BUILDING AN ENABLING ENVIRONMENT
100% of financial centres have sustainable finance policy and regulatory measures in place, reaching at least 255 REGULATORY POLICIES COLLECTIVELY.

MOST APPLIED REGULATIONS:
- DISCLOSURE ON ENVIRONMENTAL TOPICS
- USE OF GREEN, SOCIAL, SUSTAINABLE, TRANSITION BOND STANDARDS

REGULATORY ENABLERS:
- 28% highlighted the promotion of transparency
- 24% emphasized the role of national sustainable finance strategies

15 financial centres reported having an ETS implemented or under development.

9 financial centres have CARBON CREDITING MECHANISMS operating or scheduled for implementation in their jurisdiction.

ONLY 21% of financial centres have available all types of EDUCATIONAL ACTIVITIES related to sustainable finance.
This section maps the policies and 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 availability of public financing instruments and the ability of the professional development and education ecosystem to provide institutions with a trained and qualified workforce.

Regulations and policies guide the spectrum of financial institutions in their alignment with, and financing of, the Paris Agreement goals and the SDGs. Moreover, they are especially important in setting the rules and creating incentives for the development of a more sustainable financing system, and they can act as an equalizer, even in financial centres that are typically underserved and financially excluded. For example, a World Bank report shows that countries that have achieved the most progress towards financial inclusion have delivered policies and regulations at scale.\textsuperscript{21}

Support for the development and reform of regulations that enhance financial actors’ environmental risk management has also been expanding. The Network of Central Banks and Supervisors for Greening the Financial System (NGFS) has developed a broad set of analyses and practical tools in the fields of prudential supervision, climate scenario analysis, responsible investment, the inclusion of climate-related considerations into monetary policy frameworks, and data gaps.\textsuperscript{22} Also, the re-established G20 Sustainable Finance Working Group developed the G20 Sustainable Finance Roadmap\textsuperscript{23} to help focus the global attention in a range of sustainability issues, which include supervisory activities as well as public instruments to scale up sustainable finance.

**LEVERAGING REGULATIONS AND PUBLIC FINANCE MECHANISMS**

Recent years have seen an increase in regulations and public instruments focused on the advancement of sustainable finance. According to the Green Finance Measures Database (GFMD), which tracks policy and regulatory measures issued by public authorities around the world, there has been a 264 percent increase in the number of green financial measures globally since 2015 (from 188 to 684).\textsuperscript{24}

**Regulations and policies guide the spectrum of financial institutions in their alignment with, and financing of, the Paris Agreement and the SDGs**

**FINANCIAL CENTRES**

have regulations related to the disclosure of environmental topics, and the use of green, social, sustainability and transition bond standards

There has been a \textbf{264\%} increase in the number of green financial measures globally since 2015
Primary data collected for the 2021 Assessment Programme survey shows that financial centres are presenting an increasing number of regulations and policies driven by central banks, financial supervisors and public institutions to both manage the financial system’s sustainability risks and increase the share of sustainable capital flows.

In 2021, all respondents identified the presence of policy and regulatory measures relating to sustainable finance in their jurisdiction. The most applied regulations relate to the disclosure on climate or other environmental topics, and the use of green, social, sustainability and transition bond standards (e.g. Green Bond Principles, Social Bond Principles, SDG Bond Standard), with 24 financial centres having them in place. The analysis shows that the application of the most sophisticated policies and regulations (climate-related risks into prudential regulation, carbon footprint disclosures, etc.) is not widely utilized.
On average, financial centres identified nine types of policies and regulations relating to sustainable finance currently in place over the 15 policies proposed (i.e. 56 percent). Collectively, the regulations in place in the 29 sampled financial centres reach at least 255 policies.

Additionally, an analysis of the asset classes and financial services covered by the surveyed policy and regulatory measures shows that more than two-thirds (68 percent) of these policies and regulations target at least 80 percent of the asset classes and the financial services available in financial centres (extended scope) and more than two-fifths (43 percent) also include detailed requirements that financial actors need to apply.

As positive enablers in terms of financial policy, 28 percent of financial centres highlighted the promotion of transparency, and 24 percent emphasized the role of national sustainable finance strategies in informing this broader agenda. On the opposite side, key constraints identified include the lack of knowledge and data (24 percent) and the lack of awareness (31 percent). While the lack of knowledge and data is a recurring barrier stated by financial centres, the lack of awareness, in this case, is a call for regulators and supervisors to strengthen responses to sustainability.

Standardization was named as both an enabler (52 percent) and a constraint (41 percent), highlighting that while standards can play a powerful role in the integration of sustainability into finance, the lack of definitions leads to little or no assurance regarding the authenticity of sustainable finance.

Public instruments and incentives can also trigger market creation and foster behavioural change by raising awareness of sustainable financial investment alternatives and motivating sustainable financial flows. In this case, targeted incentives like tax reductions, subsidies or innovative sustainable financial products stimulate sustainable finance market growth.

As with regulations and policies, public instruments and incentives can also trigger market creation and foster behavioural change by raising market participants’ awareness of sustainable financial investment alternatives and motivating sustainable financial flows.
Developed as part of the Mongolian Stock Exchange’s (MSE) broader effort to improve disclosure and transparency of existing and future listed companies and issuers, the Mongolian Sustainability Reporting Guidance accompanies sustainability disclosure rules introduced by MSE in 2021. The report highlights the importance of companies’ ESG performance and the environmental, social and financial benefits of sustainability reporting and details the objectives, strengths, limitations and best-use cases for various broad-based and targeted reporting standards and frameworks. Importantly, it also provides an 8-step outline of how companies can build the capacity to report on sustainability.

The Guidance was developed by the Mongolian Stock Exchange, FC4S member – the Mongolian Sustainable Finance Association (MSFA), the Financial Regulatory Commission (FRC), UNDP, UNEP, IFC, the UN Resident Mission in Mongolia and FC4S, with the support of the Global Environment Facility (GEF) and the UN Joint SDG Fund. The Sustainability Reporting guidance for Mongolian Companies builds on the foundation of globally accepted frameworks and highlights current initiatives under way to better align and streamline reporting standards, namely IFRS’ announcement of the establishment of an International Sustainability Standards Board. Recognizing FC4S members’ efforts to drive forward the development of global standards for sustainability-related disclosures, in 2022 FC4S looks forward to engaging with the IFRS ISSB and bringing FC4S members’ key input to this process.
The OECD highlights that policymakers can incentivize markets to contribute to a more sustainable economic growth by assessing and implementing different policies and instruments. For example, effective carbon pricing or redirecting fossil fuels subsidies to renewable energy sources – which have been agreed on in the G20.27

Tackling sustainability issues requires going beyond traditional financing. Innovative sustainable finance products can help to overcome risk barriers by supporting projects that are financially viable but are not necessarily bankable. For instance, risk-sharing/reduction mechanisms have provided coverage or mitigation of risks that were not sufficiently addressed by financial market actors, or that would have substantially increased transaction costs for investors.28

The share of public financial instruments available for the mobilization of additional funds towards sustainable development has increased. In 2021, 27 out of the 29 sampled financial centres were home to at least one financial instrument or incentive implemented by public institutions, while they only were 21 (out of 24) in 2020 and 14 (out of 20) in 2019.

The most reported public financial instruments and incentives in 2021 were specific subsidies and publicly backed/state-owned funds and institutions. Among these, almost a third (31 percent) have achieved on average a high level of awareness according to financial centres.

However, the availability of financial instruments such as tax incentives and capital requirement modulation is still low, with around 80 percent of the financial centres disclosing no instrument in place or not having answered.
With momentum growing among countries and businesses, carbon pricing mechanisms – whether emissions trading systems (ETSs), carbon crediting mechanisms, carbon taxes or internal carbon pricing – have emerged as essential elements of climate action and effective ways to shift economies towards low-carbon growth. In 2021, the G20 Leaders Declaration recognized carbon pricing as a potential tool to address climate change, taking a tentative step towards promoting carbon pricing mechanisms and coordinating carbon reduction policies.

Putting a price on carbon pollution is an essential means of bringing down emissions and driving investment into cleaner options. The price, method and way in which carbon pricing is applied varies between different economies, emissions sources, markets’ features and low-carbon growth opportunities.

Along with carbon taxes, ETSs are the most implemented carbon pricing instrument according to financial centres

Sub-national, national and supranational jurisdictions have shown increasing interest in ETSs as a policy instrument to achieve climate change mitigation goals. In 2021, 15 out of 29 financial centres reported having an ETS implemented or under development. More than half of these operate under national jurisdiction. Along with carbon taxes, ETSs are the most implemented carbon pricing instrument according to financial centres, as several countries have introduced or extended them in the last few years. According to the World Bank’s Carbon Pricing Dashboard, the number of ETSs implemented worldwide has increased 43 percent over the last three years (from 21 to 30).

Carbon credits are mostly used to offset or partly compensate emissions covered by mandatory domestic carbon pricing instruments (e.g. carbon taxes or ETSs) and to help entities achieve voluntary emissions reduction goals. Usually, they are administered by regional, national or subnational governments.
THE ASSESSMENT PROGRAMME SHOWS THAT ONLY

**9 FINANCIAL CENTRES HAVE CARBON CREDITING MECHANISMS OPERATING**
or scheduled for implementation in their jurisdiction

**52% ARE ADMINISTERED BY NATIONAL GOVERNMENTS**

**95% OPERATE IN DEVELOPED COUNTRIES.**

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**VOLUNTARY OFFSETTING SERVICES**
also allow to expand the number of participants in carbon markets and the increase of global GHG emission reductions.

**CARBON PRICING VOLUNTARILY**
reflected within the financial practice is used as part of broader decarbonization efforts, encourages investment in low-carbon projects, and prepares institutions to operate under future climate policies and regulations.

**TWO-THIRDS**
of the respondents have voluntary offsetting service providers based in their financial centres.

**Almost HALF**
of financial centres (45%) considered that some financial institutions are voluntarily experimenting with internal carbon pricing.

**The existence of a robust MONITORING, REPORTING, AND VERIFICATION SYSTEM (MRV)**
is essential to ensure the accuracy and integrity of data to enhance trust in a carbon pricing system.

**Almost HALF**
of financial centres have an MRV system in place to assess carbon emission reductions.
DEVELOPING CRITICAL SUSTAINABLE FINANCE COMPETENCIES

The lack of formal education and training programs is one of the biggest threats to the growth of the sustainable finance ecosystem.

To accomplish the 2030 Agenda within this decade, finance professionals need to have the relevant knowledge, skills and capabilities to accurately assess diverse sustainability issues and opportunities. This year, only 21 percent of financial centres reported to have available all types of educational activities evaluated (namely online courses, workshops, undergraduate, postgraduate and executive courses) covering at least one key topic related to sustainable finance.

The non-degree programmes are the most available types of educational activities in financial centres. Workshops and conferences, and executive courses are available in 79 percent and 64 percent of financial centres, respectively. The two most covered topics relate to basic knowledge of sustainability (option a) and sustainability-related tools (option b). This probably corresponds to the fact that training in baseline knowledge continues to be the main skills priority for the financial sector. On the contrary, only 28 percent of financial centres reported having postgraduate courses and 35 percent having undergraduate courses available, unveiling the lack of third-level qualifications that have sustainable finance embedded into their degree or master courses.

**TABLE 1: EDUCATIONAL ACTIVITIES AND PROGRAMMES ON SUSTAINABLE FINANCE AVAILABLE IN FINANCIAL CENTRES BY TOPIC AND TYPE (PERCENTAGE OF RESPONDENTS)**

<table>
<thead>
<tr>
<th></th>
<th>EXECUTIVE COURSES</th>
<th>POST-GRADUATE COURSES (MSC, PHD)</th>
<th>UNDERGRADUATE COURSES</th>
<th>WORKSHOPS, CONFERENCES, OR ANY OTHER EXTRACURRICULAR ACTIVITY</th>
<th>MOOCs</th>
</tr>
</thead>
<tbody>
<tr>
<td>A Basic knowledge of sustainability, sustainable development, and sustainable finance</td>
<td>64%</td>
<td>29%</td>
<td>36%</td>
<td>71%</td>
<td>46%</td>
</tr>
<tr>
<td>B Knowledge of sustainability-related tools, standards, frameworks, commitments, initiatives and international networks</td>
<td>43%</td>
<td>18%</td>
<td>18%</td>
<td>68%</td>
<td>39%</td>
</tr>
<tr>
<td>C Knowledge of sustainable investment</td>
<td>46%</td>
<td>21%</td>
<td>14%</td>
<td>64%</td>
<td>25%</td>
</tr>
<tr>
<td>D Knowledge of sustainable financial products</td>
<td>46%</td>
<td>21%</td>
<td>11%</td>
<td>64%</td>
<td>29%</td>
</tr>
<tr>
<td>E Knowledge regarding sustainable local and/or international regulations</td>
<td>43%</td>
<td>21%</td>
<td>21%</td>
<td>64%</td>
<td>21%</td>
</tr>
<tr>
<td>F ESG skill levels within core business functions and integration of SDGs into business strategy, in addition to Compliance and CSR functions</td>
<td>43%</td>
<td>14%</td>
<td>14%</td>
<td>54%</td>
<td>36%</td>
</tr>
<tr>
<td>G Identification and management of climate-related and ESG risks</td>
<td>39%</td>
<td>7%</td>
<td>14%</td>
<td>61%</td>
<td>29%</td>
</tr>
</tbody>
</table>
With 52 percent of FC4S members reporting that a lack of capacity and qualified sustainable finance workforce is among their top barriers to scaling up sustainable finance activities, in late 2021 Toronto Finance International, FC4S and Deloitte undertook a deep-dive analysis of “the sustainable finance readiness of the Canadian financial services sector”. Surveying over 100 professionals, 90 percent indicated that sustainable finance is either already central to almost everything they do, becoming integral to much of what they do, or playing a growing role.

Nevertheless, they reported to be impacted by sustainable finance skills shortages. The report proposed recommendations to develop sustainable finance skills in Canada at a faster pace with each pillar of the ecosystem playing a key role, for example financial services organizations seeking to better understand their sustainable finance talent needs, planning to upskill employees accordingly and working with post-secondary institutions and industry associations to establish flexible programmes. It was also recommended that governmental and regulatory bodies should consider not only how to formulate policies to drive the low-carbon transition but also how to provide funds for job creation, training and development, and support for upskilling. In 2022, FC4S will undertake the world’s first global sustainable finance talent deep-dive analysis.
EMPOWERING SUSTAINABLE FINANCIAL MARKETS
<table>
<thead>
<tr>
<th>Statistic</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>+90%</strong></td>
<td>of the financial centres use and recognize international sustainable bond standards</td>
</tr>
<tr>
<td><strong>73%</strong></td>
<td>of the sampled market participants have commitments to mobilizing finance for sustainability purposes</td>
</tr>
<tr>
<td><strong>61%</strong></td>
<td>of the sampled market participants apply the TCFD recommendations</td>
</tr>
<tr>
<td><strong>38%</strong></td>
<td>of the market participants exclude companies engaged in coal activities from at least one unit of business</td>
</tr>
<tr>
<td><strong>50%</strong></td>
<td>of the sampled market participants adhere to frameworks such as the PRB, PRI and PSI</td>
</tr>
<tr>
<td><strong>62%</strong></td>
<td>of the market participants sampled use the SDG framework in their strategies and plans</td>
</tr>
<tr>
<td><strong>34%</strong></td>
<td>have quantitative targets</td>
</tr>
<tr>
<td><strong>x5</strong></td>
<td>dedicated exchange segments for sustainable debt instruments nearly quintupled since 2018</td>
</tr>
</tbody>
</table>
Globally, the uptake of bond issuance principles that consider local specificities regarding sustainability and economic issues keeps increasing. Bond issuance principles are essential for growing bond markets and preventing some form of “greenwashing” that could damage the reputation of bond issuers and investors alike. In recent years, domestic standards of what constitutes a green, sustainable or sustainability-linked bond have been developed to provide issuers with the key components to follow in order to issue a credible bond, with guidelines formalized by a public or private body found in 80 percent of the 29 financial centres surveyed.

As highlighted in the first section, significant steps have been taken in response to the urgent need of providing investors and other stakeholders with common global definitions.

To the extent that global harmonization is an issue, international guidelines represent the most significant effort to address the improvement of consistency of definitions and methodologies across jurisdictions.

Guidelines like the International Capital Market Association’s (ICMA) bond principles, aimed at promoting transparency and disclosure in sustainable debt financing, have greatly expanded during the last years. More than 90 percent of the financial centres declared that international standards on green, social, sustainability and sustainability-linked bonds are currently used and recognized in their jurisdiction.

FIGURE 11: INTERNATIONAL STANDARDS ON GREEN, SOCIAL, SUSTAINABILITY AND SUSTAINABILITY-LINKED BONDS USED AND RECOGNIZED IN FINANCIAL CENTRES

- **Green Bond Principles from ICMA or Equivalent**: 93% used, 7% not used
- **Social Bond Principles from ICMA or Equivalent**: 86% used, 14% not used
- **Sustainability-Linked Bond Principles from ICMA or Equivalent**: 90% used, 10% not used
- **Sustainability Bond Principles from ICMA or Equivalent**: 90% used, 10% not used

80% of the 29 financial centres surveyed had sustainability related guidelines formalized.

More than 90% of the financial centres declared that international standards on green, social, sustainability & sustainability-linked bonds are currently used and recognized in their jurisdiction.
Sustainable fund labels are aimed at defining minimum requirements for sustainable investment funds. Currently, 60 percent of financial centres answered that sustainability-related labels are available for investment funds registered or commercialized in their jurisdiction, with 48 percent offering annual verification by an independent actor appointed and certified to attest the compliance of the fund with the label requirements. The most popular type of label – offered in 17 financial centres – is the private label. In total, financial centres have 274 green or ESG-labelled investment funds, representing an increase of 47 percent between 2020 and 2021.

**FIGURE 12:**
RESPONDENTS INDICATING THE PRESENCE OF LISTED SUSTAINABLE DEBT INSTRUMENTS AND THE PRESENCE OF A DEDICATED EXCHANGE SEGMENT FOR SUSTAINABLE DEBT INSTRUMENTS

<table>
<thead>
<tr>
<th>Year</th>
<th>Listed Sustainable Debt Instruments</th>
<th>Dedicated Exchange Segment for Sustainable Debt Instruments</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>3</td>
<td>9</td>
</tr>
<tr>
<td>2019</td>
<td>4</td>
<td>14</td>
</tr>
<tr>
<td>2020</td>
<td>9</td>
<td>19</td>
</tr>
<tr>
<td>2021</td>
<td>14</td>
<td>23</td>
</tr>
</tbody>
</table>

The number of financial centres with listed sustainable debt instruments reached 23 while the number of respondents reporting the existence of a dedicated exchange segment for sustainable debt instruments nearly quintupled since 2018, from 3 to 14.

**FINANCIAL CENTRES IN ACTION N° 5:**
MOBILIZING CAPITAL IN SUPPORT OF THE REAL ECONOMY, A FOCUS ON RWANDA

As shown in this year’s assessment results, 86 percent of the sampled member financial centres reported barriers related to mobilizing sustainable funds. To address this funding gap, in 2021, FC4S has entered a partnership with UNDP Rwanda, the Ministry of Finance and Economic Planning, Rwanda Finance Ltd., the Rwandan Development Bank (BRD), the Rwanda Green Fund, the Rwanda Stock Exchange, and the Rwanda Capital Markets Authority to facilitate the issuance of the country’s first green bond and support the development of a sustainable financing roadmap for the Kigali International Financial Centre (KIFC). Under this agreement, FC4S has supported Rwanda in conducting a scoping study of its bond market and assisted the operational planning of the green bond issuance (recommended a feasible timeline, placement and currency for the issuance, and identified key national stakeholders involved).

In November 2021, FC4S facilitated a green bond technical workshop on capacity-building for BRD, in collaboration with UNDP Rwanda, to strengthen its institutional knowledge of climate finance, eligibility criteria for green assets, financial structuring, green certification process and management of green proceeds. FC4S is currently supporting Rwanda in the final stages of the issuance, specifically in the completion of the green bond framework, vetting of green projects, external verification and final launch of the green bond in June 2022.
ADVANCES WITHIN FINANCIAL INSTITUTIONS

Looking at the banking, asset management and insurance industries, the survey seeks to collect perspectives and key market infrastructure features through a top-market participant sampling methodology of three core financial industries. To ensure the reliability and comparability of the evaluation, only the five largest actors out of the ten sampled were considered for this analysis. Collectively, 270 market participants were sampled and more than 2,000 financial institution policies were analysed as part of this process.

Across the three industries, 73 percent of the respondents reported that they committed to mobilizing finance for sustainability purposes. However, only a third (34 percent) of these commitments were reported to have quantitative targets. Although this is a very important step, the application of quantitative objectives needs to extend significantly. The lack of a standardized approach in private-sector pledges and commitments has led to scepticism about corporate targets and concerns that they are a new form of greenwashing.

To improve the robustness and credibility of these commitments, more coordination and work towards targets that ensure their successful achievement is needed.

FIGURE 13: PRESENCE OF COMMITMENTS TO MOBILIZING FINANCE FOR SUSTAINABILITY PURPOSES IN SAMPLED MARKET PARTICIPANTS BY TYPE AND INDUSTRY

When looking at commitments by industry, the banking sector takes the lead, with 82 percent of the five major market participants in the sample pledging to increase the number of sustainable credits and loans. Asset managers come in second with 69 percent, followed by insurance companies with 65 percent.
On a different note, 38 percent of the market participants overall reported excluding companies engaged in coal activities from at least one unit of business. Within each sector, asset managers show to be more focused on excluding investment in firms engaging in coal activities (45 percent) than banks (39 percent) and insurers (29 percent).
Regarding fossil fuel activities, 26 percent of the 270 sampled market participants exclude companies engaged in those activities. The banking industry is the one leading on this, but still shows very low rates of exclusion (31 percent). The survey showed that most of the measures are focused on excluding only the firms but not the financial institutions backing those firms.

To that end, countries, cities and private sector players have been making bolder commitments representing important opportunities. A major announcement at 2021 United Nations Climate Change Conference was the pledge of the Glasgow Financial Alliance for Net Zero (GFANZ) – a global coalition of over 450 finance firms across 45 countries – to align their financing activities to achieve net-zero emissions by 2050. In a similar way, nations adopted the Glasgow Climate Pact that calls to reduce coal use and fossil fuel subsidies and urges governments to submit more ambitious emissions-reduction targets by the end of 2022, indicating the scale and ambition needed to combat climate change. However, concern arises around the quality and impact of these commitments.

Work on robust net-zero plans, with interim targets, commensurate policies and a governance mechanism, is essential for reducing emissions and creating unequivocal signals to the financial system.

FIGURE 16: APPLICATION OF THE TCFD RECOMMENDATIONS IN THE SAMPLED MARKET PARTICIPANTS BY INDUSTRY

- **BANKING**: 67% YES, 60% FULLY APPLIED
- **ASSET MANAGEMENT**: 54% YES, 57% FULLY APPLIED
- **INSURANCE**: 61% YES, 46% FULLY APPLIED
The TCFD recommendations are widely applicable to organizations across sectors and jurisdictions. They are designed to solicit decision-useful, forward-looking information that can be included in mainstream financial filings. The recommendations are structured around four core organization areas: governance, strategy, risk management and metrics and targets.

The results of the survey show that 61 percent of the sampled market participants apply the TCFD recommendations within their industry. When asked about the application level, 60 percent reported partially applying the recommendations while 40 percent fully apply them. At the industry level, 67 percent of the sampled banks reported applying the TCFD recommendations, 61 percent of insurers and 54 percent of asset managers.

Half of the sampled market participants adhere to frameworks such as the Principles for Responsible Banking (PRB), the Principles for Responsible Investment (PRI) and the Principles for Sustainable Insurance (PSI).

The Principles for Responsible Investment show the highest rate of supporters with 59 percent of the market participants (Figure 16). In the second place, The Principles for Responsible Banking with 55 percent and finally the Principles for Sustainable Insurance with 38 percent.
This year, 62 percent of the market participants sampled reported using the SDG framework in their strategies and plans, with different levels of integration. However, more than half of them disclosed to be in an initial stage of integration (vision and goals), whereas the highest level of integration comprises measurement and disclosure.

**FIGURE 18: APPLICATION OF THE SDG FRAMEWORK BY INDUSTRY**

<table>
<thead>
<tr>
<th>Industry</th>
<th>Integration Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banking</td>
<td>68%</td>
</tr>
<tr>
<td>Asset Management</td>
<td>52%</td>
</tr>
<tr>
<td>Insurance</td>
<td>66%</td>
</tr>
</tbody>
</table>

In this edition, 61 percent of the 29 financial centres reported that data quality and availability are among the top barriers to scaling up sustainable finance. In 2021, under the Italian G20 Presidency, FC4S co-developed research on the role of digital solutions to improve sustainability disclosure and reporting, in partnership with the Green Digital Finance Alliance (GDFA), including financial centre-level perspectives and practices. The results highlighted that the greatest barriers for adoption of tech-enabled ESG solutions are mainly lack of ESG data itself, lack of skilled ESG and digital professionals and lack of regulatory requirements for ESG disclosures and that policy makers have a role to promote tech-driven ESG practices by non-financial firms and digital ratings and metrics agencies.

In the struggle to identify robust data, avoid greenwashing and verify the soundness of sustainable and green commitments, initiatives at financial-centre level to enhance transparency and inform local stakeholders have surged in recent months. Embracing the FC4S annual Assessment Programme, FC4S member Finance for Tomorrow (F4T) has leveraged its personalised report to raise awareness and inform local stakeholders of Paris’s progress to date, while allowing the financial centre to take stock of concrete actions and increase the level of their sustainable finance ambition. Moreover, F4T launched its “Sustainable Finance Observatory” to collect data on sustainable finance commitments from the French ecosystem, making it accessible and updated.

**FINANCIAL CENTRES IN ACTION N° 6: LEVERAGING DIGITAL TECHNOLOGIES TO IMPROVE SUSTAINABILITY DATA COLLECTION**

**FINANCE FOR TOMORROW (F4T) LAUNCHED ITS “SUSTAINABLE FINANCE OBSERVATORY” TO COLLECT DATA ON SUSTAINABLE FINANCE COMMITMENTS FROM THE FRENCH ECOSYSTEM, MAKING IT ACCESSIBLE AND UPDATED**
KEY TAKEAWAYS
Significant amounts of capital are needed to mitigate climate change and achieve the SDGs, and the COVID-19 pandemic has considerably aggravated the lack of funding for social needs. Despite progress, more action is needed to make finance flows consistent with a pathway towards sustainable development.

This year’s report has shown that financial centres are not only embracing but actively leading on the sustainable finance agenda. By understanding challenges and opportunities that arise from the analysis of the FC4S Assessment Programme’s results, financial centres can unleash their full potential for advancing the transition to a global sustainable financial system. In implementing an ambitious agenda towards a sustainable future for the people and the planet, financial centres have a crucial role to play by sharing their advice and expertise in a compelling manner with policymakers and financial actors. By conducting a dialogue, the Assessment Programme serves as a tool to facilitate this exchange.

Findings of the 2021 Assessment Programme confirm that the advancement of sustainable finance is hampered by insufficient and inaccurate data.

The survey shows that 61 percent of the 29 financial centres reported that data quality and availability are among the top barriers to scaling up sustainable finance. Available digital tools and technologies are increasingly demonstrating their power to improve the access, processing and analysis of larger amounts of complex data, by making it cheaper and faster. Financial centres can play a coordination role to promote tech-driven ESG practices and solutions with the objective to support the adoption of the new data sources for improved sustainability disclosures, for example, promoting the use of asset geolocation data for disclosure or encouraging integrated sustainability-related disclosures with financial accounting in machine-readable formats.

The lack of common standards around sustainability leads to little or no assurance regarding the authenticity of sustainable finance, opening the door to greenwashing. Half of the sampled financial centres (52 percent) indicated that working towards consistency across the development of standards, taxonomies and guidelines is a top priority to their institutions. Financial centres can contribute to the development of definitions and globally accepted reporting frameworks working strategically with standard setters as an integrated part of their sustainable finance plan.

Similarly, increasing consistency of policy frameworks can support the evolution of sustainable financial markets.

61% of the 29 financial centres reported that data quality and availability are among the top barriers to scaling up sustainable finance.
Almost half of the financial centres (48 percent) emphasized that improving policy and regulatory engagement is a top priority within their institution. In this regard, financial centres can provide information and resources to policymakers and in this way stimulate and contribute to the public debate. This is key to improving the transparency and integrity of the sustainable finance market, since this will have a positive impact on investor confidence, provide market clarity and enable better tracking and measurement of sustainable finance flows.

Since 86 percent of financial centres reported barriers related to mobilizing sustainable funds in this edition, the shift to a sustainable financial system requires priorities to be focused on options to scale up sustainable finance. 40 percent identified the lack of sustainable project pipelines as a top barrier, while 60 percent reported the lack of supply of sustainable financial products. In this vein, support for the development of new sustainable products and services was among the top priorities for 41 percent of the respondents.

The survey shows that the share of sustainable financial products in financial markets is increasing but still represents a small fraction and is largely concentrated in advanced financial centres. Only 43 percent of the surveyed financial centres, on average, were able to answer the questions related to the number and volume of sustainable financial products available, and these were mostly based in developed economies. Financial centres need to explore approaches to align financial products with sustainability goals, develop proper project pipelines for attracting investments and broaden access to sustainable financial products, while increasing transparency. Leveraging international connectivity, financial centres can identify and spread innovative solutions as well as provide guidance to implement best practices in this regard, a key goal of the FC4S Network.

The lack of talent and skills continues to be a critical issue to the growth of the sustainable finance ecosystem.

More than half of the 29 sampled members reported that the lack of capacity and qualified workforce on sustainable finance topics is among the top barriers to scaling up sustainable finance. Nevertheless, financial centres have helped train financial industry professionals on sustainable finance topics through capacity-building activities in relevant organizations. This year, an increasing number of financial education and training programmes at different levels has been reported. The survey also indicates that the current landscape of financial education and training lacks integration of core sustainability issues in tertiary education, as well as coverage of topics such as those related to the systematic identification and management of climate-related and ESG risks. Yet, leading financial centres, private actors and international institutions are already pulling their resources together to integrate advanced-level skills for the practice of sustainable finance into graduate and postgraduate programmes. Recognizing the international nature of this challenge, the FC4S 2022 work programme prioritizes talent and skills development, not only by global technical sessions, but also through a Skillnet programme, which individually applies to financial centres wishing to advance on this regard.

In conclusion, this report articulates sustainable finance challenges and priorities that FC4S members have identified as requiring significant attention. Addressing these challenges is of vital importance to ensure that finance supports the low-carbon transition and sustainable growth, and financial centres with their multi-disciplinary components are best positioned to do so.
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 an online, self-complete-style questionnaire and the data is collected through FC4S members, which rely on their respective ecosystems to acquire all the information and consolidate it. 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 Knowledge Hub and PwC.

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.

THE INSTITUTIONAL FOUNDATIONS PILLAR
explores the key institutions and targets that drive the development of sustainable finance within the financial centre.

The design of this pillar was built upon the dimensions of a financial centre’s institutional structure that can contribute to the mainstreaming of sustainable finance. It examines in detail the actions and activities undertaken to promote sustainable finance, the reach of a sustainable finance dedicated initiative, and the challenges, objectives and strategies related to this field.

THE ENABLING ENVIRONMENT PILLAR
maps the structures that support the scale-up of sustainable finance by providing rules, incentives and capabilities.

It scrutinizes the depth of the regulatory environment, the advancement of the public financing and carbon pricing instruments and the ability of the professional development and education ecosystem.

THE MARKET INFRASTRUCTURE PILLAR
analyses how the commitments, strategies, policies, regulations and incentives are stimulating private market participants to 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. It covers not only a variety of financial stakeholders but also a wide range of initiatives addressing different market aspects which contribute to the strengthening of the sustainable finance ecosystem.

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.
**PREPARATORY PROCESS OF THE 2021 ASSESSMENT PROGRAMME SURVEY**

For receiving maximum insights from the survey research, PwC, an FC4S strategic partner contributing to the development of the FC4S Assessment Programme since 2018, supported the FC4S Knowledge Hub in conducting industry research, surveys, interviews and analysis of feedback received from FC4S members. PwC subject matter experts provided critical insights, ideas and feedback to design the survey and adjust its questions.

Three Working Group Meetings (WGMs), virtually held between April and May 2021, were organized to allow representatives of a sample of eight financial centres to review and reflect the current methodology of the Survey. Members of the WGMs included representatives from FC4S members Beijing, Casablanca, Dublin, Guernsey, Luxembourg, Mexico City, Montréal and Paris. This exercise facilitated the integration of the lessons learned from the previous editions into the design of the new survey.

Based on knowledge on the sustainable financial market’s features and valuable input provided by the members of the WGMs, FC4S Knowledge Hub also engaged with experts in the field of sustainable finance to review draft questions, reveal problems with the survey instrument, exchange views on challenges and identify emerging issues from a sustainable finance perspective.

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.
REFERENCES


3. 79 percent in 2020 and 72 percent in 2021, over a growing sample of 24 and 29 analysed, respectively.


6. Rankings from the 2018 and 2019 editions of the Assessment Programme have been revised based on FC4S’s compilation of databases.


34. Banks and asset managers were selected by total assets while insurers by net premiums written.


36. UNFCC, 2021. Glasgow Climate Pact. unfccc.int/sites/default/files/resource/cma3_auv_2_cover%2520decision.pdf


38. The momentum that asset managers have gained in applying the TCFD recommendations might be underestimated in the results of the survey, in which neither United States of America nor the United Kingdom of Great Britain and Northern Ireland participated. This can be inferred from the TCFD’s list of supporters (as of January 2022), which showed that 45 percent of the asset managers adhering to the framework are based in those countries.
Leading Financial Centres Stepping Up Sustainability Action