FC4S
FINANCIAL CENTRES FOR SUSTAINABILITY

Hosted by UNDP

Leading Financial Centres Stepping Up Sustainability Action

The FC4S Network 2023 State of Play Report

SUPPORTED BY

INTERNATIONAL SUSTAINABLE FINANCE CENTRE OF EXCELLENCE

LIECHTENSTEIN BANKERS ASSOCIATION

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At the midway point towards the 2030 Agenda, global progress has faltered and even gone to reverse due to the climate crises, the COVID-19 pandemic, rising living costs, and persisting conflicts. Only 12% of Sustainable Development Goals (SDGs) are on track, with climate action requiring deep and urgent measures according to the Intergovernmental Panel on Climate Change (IPCC).

Challenges in achieving these common goals are tied to financial hurdles. Redirecting resources is crucial. Less than 1 percent of the global available assets - estimated at US$463.6 trillion - could potentially address the SDGs financing needs, while the remaining resources would have to adhere to the Do No Significant Harm (DNSH) principle. The United Nations Development Programme's (UNDP) Strategic Plan (2022-2025) aims to mobilize $1 trillion for SDGs, with public finance initiating the shift, supported by private finance. The UNDP Financial Centres for Sustainability (FC4S) network is a key channel in helping achieve this 'Moonshot target' by promoting strong collaboration within its members - including 40 leading financial centres with outreach to both private and public financial institutions - and with the broader financial sector.

The 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 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.

2 | 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.

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

4 | 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% 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 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

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.

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.

5 | MARKET ACTORS' ACTIVE ROLE IN DRIVING FINANCIAL SYSTEM TRANSFORMATION

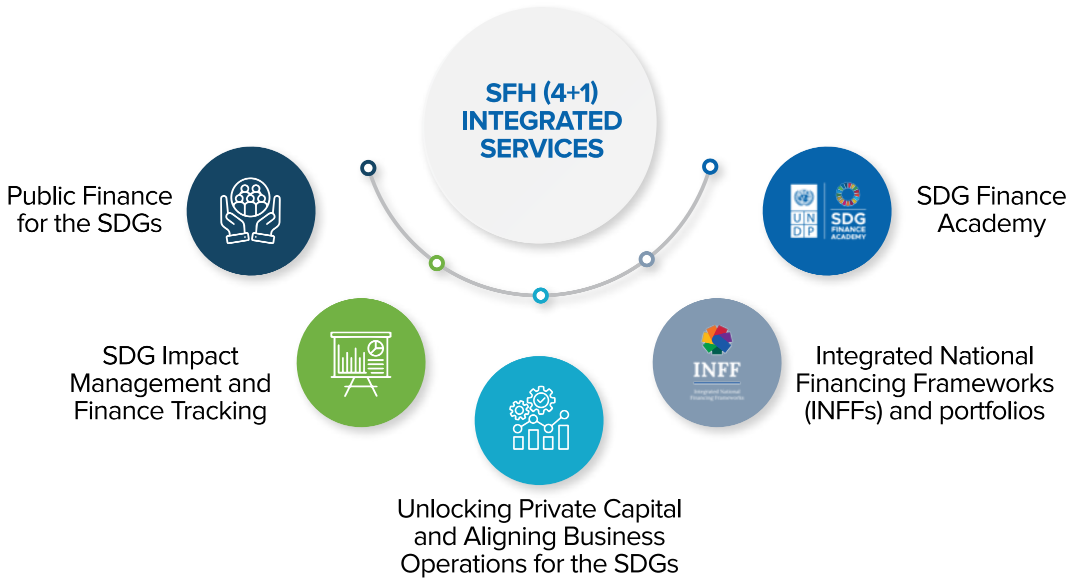
MARKET PARTICIPANTS' COMMITMENTS RISE
(8%),
WITH AN INCREASE IN QUANTIFIABLE TARGETS
(5%)
WHEN COMPARED TO
2021 RESULTS.

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.

2024: The Year of IMPLEMENTATION

The AP offers FC4S members a baseline of where they stand in terms of sustainability, enabling strategic priority setting. In 2024, the delivery of the Global and Personalised Reports will be complemented with a strong local support to members, aiding their progress in sustainable finance. This will include the implementation of FC4S and wider UNDP Sustainable Finance Hub (SFH) tools and services from a team of sustainable finance experts.



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