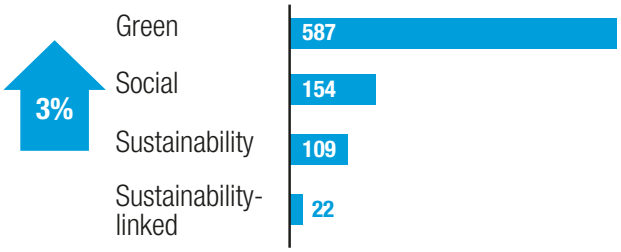
Chapter III

Sustainable finance trends

The sustainable finance market grew but signs of a slowdown persist

Sustainable bond market

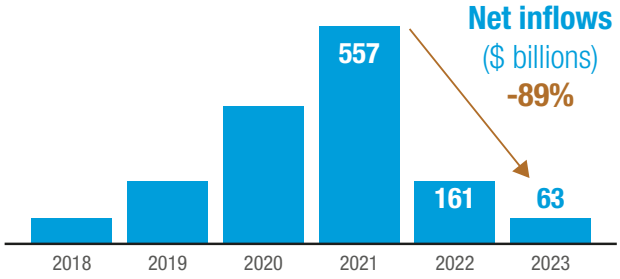
Global issuance, 2023: **$872 billion**



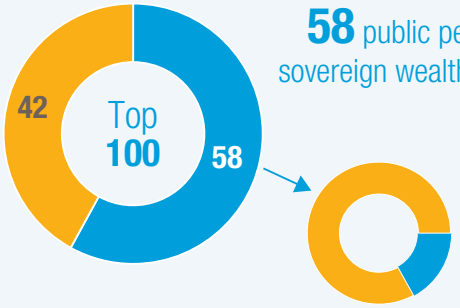
Cumulative issuance since 2018: **$4 trillion**

Sustainable fund market

Market value, 2023: **$3 trillion** +7%



More institutional investors reported on sustainability performance in 2023



58 public pension funds and sovereign wealth funds report…

…but only **17** target fossil fuel divestment and renewables investment

Stock exchanges help drive sustainability disclosure

59% provide written guidance

31% enforce mandatory rules

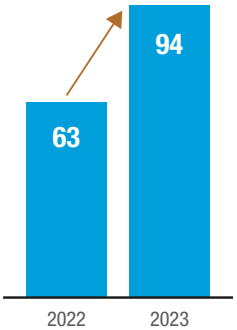
66% provide training +12%

Regulations and standards are proliferating; greenwashing remains a challenge

Sustainable finance regulation

50% growth in **sustainable finance measures,** 2023

Developing economies: 60% of new policies



Sustainability disclosure

17 countries adopted new **ISSB** standards

Greenwashing: only **20%** of "green fund" portfolios are exposed to climate-positive assets

A. Sustainability-themed capital market products

The sustainable finance market continues to grow. In 2023, the value of sustainable investment products, encompassing bonds and funds,[1] reached more than $7 trillion, a 20 per cent increase from 2022. Although the picture is nuanced, the overall positive trend in the sustainable finance market points to continued investor confidence and the resilience of sustainable investment strategies. Sustainable bonds were the main driver of growth in sustainable capital market products. Issuance climbed to $872 billion, a 3 per cent rise from 2022, bringing the cumulative value of the market since 2018 to more than $4 trillion. Despite continued growth in number and asset value, though, sustainable funds experienced strong headwinds in 2023. Net inflows dropped from $161 billion in 2022 to $63 billion in 2023. Greenwashing remains the most significant challenge to the sustainable fund market.

1. Sustainable bond markets

Global issuance of green, social, sustainability and sustainability-linked bonds (box III.1) has grown fourfold since 2018. As a share of global bond markets, the sustainable segment represented 5 per cent in 2023, unchanged from 2022. This consistent share as well as record levels of outstanding bonds and increased annual issuance of sustainable bonds signal the rising importance of such bonds as a mechanism for financing sustainable development. However, the near-record levels of issuance of green bonds and sustainability-linked bonds were offset by falls in issuance of social and sustainability bonds – partly related to the phasing out of social and sustainability bonds related to the coronavirus disease (COVID-19) pandemic (generally referred to as COVID-response bonds) – which contributed to a slowing in the five-year compound annual growth rate of the sustainable bond segment (figure III.1).

[1] This chapter covers publicly traded sustainable finance products only, namely bonds and funds. It excludes derivatives whose value may be unrealized, as well as voluntary carbon markets, whose value - for now - remains insignificant

Box III.1

What is the difference between green, social, sustainability and sustainability-linked bonds?

All four types of sustainable bonds are fixed-income securities designed to target sustainable outcomes while offering a financial return to investors. Green, social and sustainability bonds are generally tied to the financing of a specific project or use of proceeds, whereas sustainability-linked bonds instead integrate in their design a level of sustainability performance (such as greenhouse gas (GHG) emissions).

Green bonds raise funds specifically for projects with environmental benefits, such as renewable energy or pollution prevention, with issuers providing transparency on how the proceeds are used. These bonds are typically linked to assets and backed by the issuer's balance sheet. Historically, the focus has been on direct financing of physical assets and projects and indirect financing thereof (e.g. loans to suitable assets or projects).

Social bonds raise funds for projects with positive social outcomes, such as education, health care, affordable housing and employment generation, especially for underserved or marginalized communities. Issuers of social bonds also commit to transparency regarding the use of proceeds and the impact of the projects funded, ensuring that investors can see the social benefits derived from their investments.

Sustainability bonds combine elements of both green and social bonds to finance projects with both environmental and social benefits. The proceeds from these bonds are used to fund a diverse range of initiatives, such as renewable energy projects, water conservation, sustainable agriculture, affordable housing and health-care facilities. Sustainability bonds are also designed for investors looking to support comprehensive projects that contribute to the Sustainable Development Goals. Like green and social bonds, issuers of sustainability bonds provide transparency and reporting on the allocation of proceeds and the impact of the projects financed, ensuring accountability and alignment with sustainability objectives.

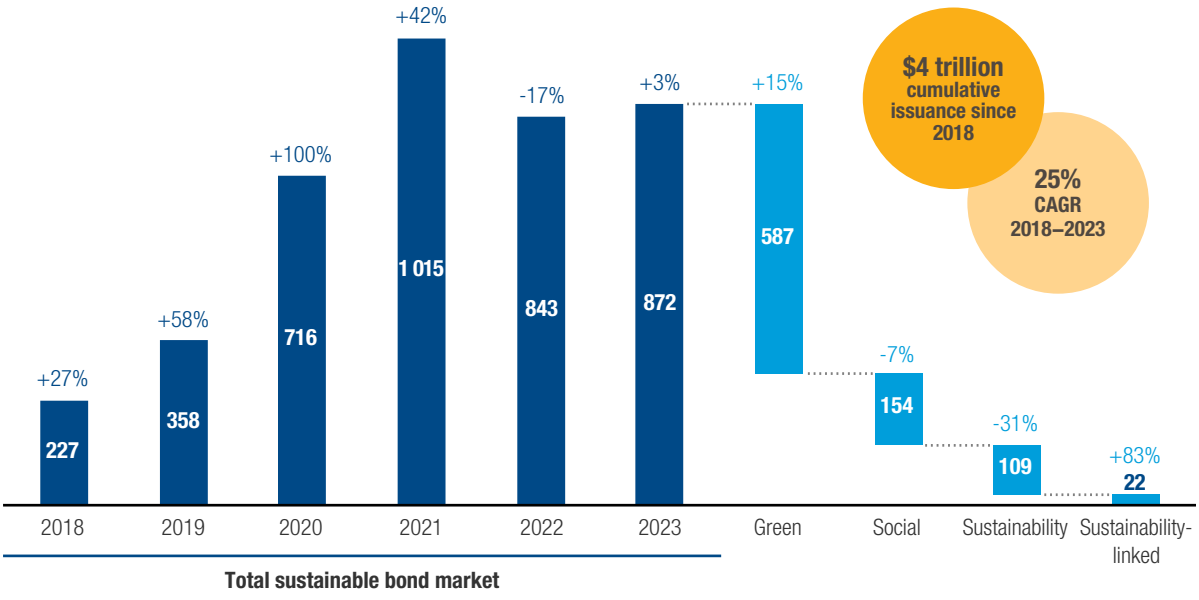
Sustainability-linked bonds tie the cost of financing to key performance indicators of sustainability. These bonds differ from green, social and sustainability bonds in their structure and objectives. Whereas traditional green, social and sustainability bonds focus on financing or refinancing projects that have specific environmental or social benefits, sustainability-linked bonds are uniquely characterized by their performance-based approach. The financial or structural characteristics of the bond (such as the interest rate) are directly linked to the issuer's achievement of predefined sustainability targets. Transparency and credibility are maintained through regular reporting on progress towards the targets and through third-party verification to ensure objectives are met, making these bonds a powerful tool for promoting sustainability in finance.

Sources: UNCTAD and Climate Bonds Initiative.

Figure III.1

The sustainable bond market recovered in 2023, aided by green bond growth

Global sustainable bond issuance by year and by category
(Billions of dollars and percentage year-on-year growth)



Source: UNCTAD, based on information from Climate Bonds Initiative.

Issuers based in Europe account for 46 per cent of the global market, with 2023 issuance up slightly from 2022 (figure III.2). The Asia-Pacific region accounted for a third of total issuance, a rise of nearly 40 per cent from 2022. Issuers in North America accounted for 11 per cent of the global market in 2023. Supranational issuance, which is an important source of sustainable bonds, fell to $24 billion in 2023, from $106 billion in 2022, a drop of 77 per cent.

Reflecting this regional distribution, the euro is the most common currency used for sustainable debt issuance, accounting for over 40 per cent of total cumulative issuance to date (in equivalent United States dollars). This is followed by the dollar (30 per cent), renminbi (9 per cent) and pound sterling (4 per cent), with the remaining 17 per cent in other currencies.

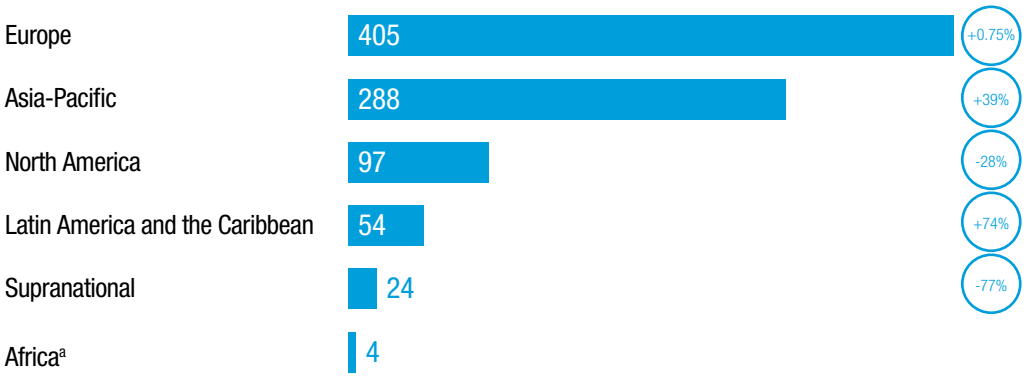
Developing countries that issue bonds in major reserve currencies while generating revenues in local currencies encounter currency mismatch risks. Investors, especially large institutional ones, often have better access to a variety of financial instruments such as futures, options or swaps, allowing them to hedge against these currency risks. However, this hedging can lead to demand for higher yields to compensate for the additional risks, ultimately increasing the costs of financing. The involvement of international development finance institutions such as the World Bank, the International Finance Corporation and regional development banks can be crucial in mitigating these risks and reducing the financing costs linked to currency mismatches in bond issuances (UNCTAD, 2023f). In addition, deepening local capital markets and issuing debt instruments in local currencies can also be effective, ensuring that sustainable bonds make a greater contribution to sustainable outcomes.

In terms of cumulative issuance (outstanding debt), supranational issuance remains larger than any single country and thus an important generator of finance for sustainable projects. As a group, developing countries remain underrepresented in global sustainable bond markets, even compared with traditional bond markets, although China and Chile rank among the top 15 issuers for cumulative sustainable bond issuance, with $431 billion and $53 billion, respectively, at the end of the third quarter of 2023. Their sustainable bond issuance has been helped by strong policy support

Figure III.2

European issuers of sustainable bonds lead the market

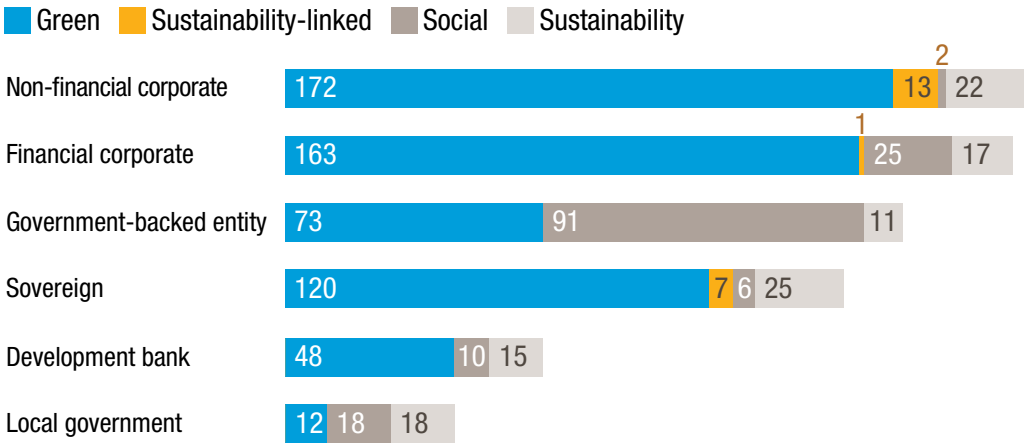
Global sustainable bond issuance by region, 2023
(Billions of dollars and percentage change from 2022)



Source: UNCTAD, based on information from Climate Bonds Initiative and Environmental Finance.

[a] Percentage change not available because data source and coverage for 2022 differed.

Figure III.3
Corporate issuers dominated sustainable bond issuance in 2023
Global sustainable bond issuance by issuer type
(Billions of dollars)



Source: UNCTAD, based on information from Climate Bonds Initiative.

for the growth of local and international markets (Climate Bonds Initiative, 2023).

Financial and non-financial corporate entities were the largest issuers of sustainable bonds in 2023, followed by government-backed entities (figure III.3). Among the latter, public pension and sovereign wealth funds (PPFs and SWFs) have become more active issuers of sustainable debt as well as more active buyers. Sovereign issuers, the next largest issuer type, account for one tenth of total cumulative issuance of sustainable bonds but about two thirds of the overall debt market, suggesting that there is significant potential to expand the share of sovereign debt in sustainable bond markets (Climate Bonds Initiative).

a. Green bonds

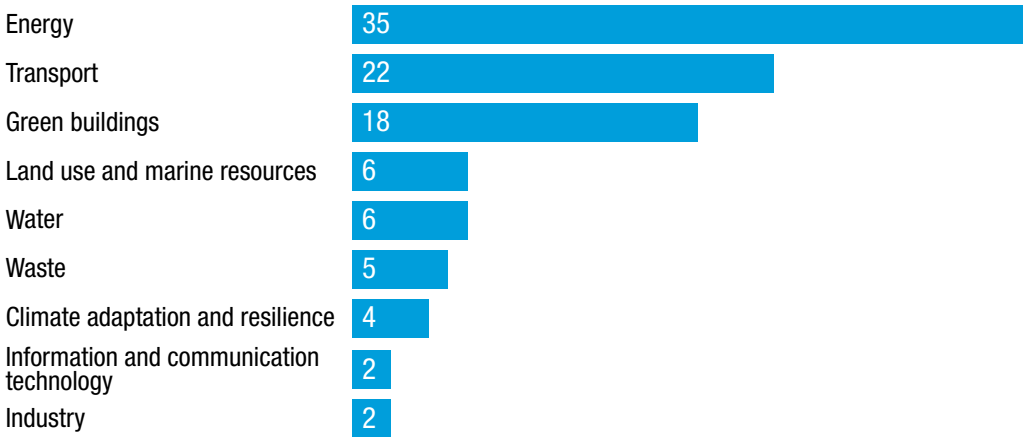
The value of green bonds issued grew 15 per cent to $587 billion in 2023, from $509 billion in 2022, representing two thirds of sustainable bond issuance. Looking at use of proceeds categories, this strong growth – reversing 2022 trends – was mainly driven by increases in the energy, transport, information and communication technology, waste and industry sectors (figure III.4). The increase was also supported by a recovery in sustainable bonds issued by financial corporates to $163 billion, eclipsing the record highs of 2021, and by non-financial corporates to $172 billion, which was just short of the 2021 high point of $174 billion. Notably, sovereign issuance jumped 45 per cent to $120 billion in 2023, up from $83 billion in 2022 and surging past the previous all-time high in 2021 of $92 billion (figure III.5).

In a year of declining values for some sustainable equity investments, the rising demand for green bonds in 2023 could be the result of investors looking for lower-risk routes to gain exposure to sustainable sectors and/or emerging markets, in addition to a general rebalancing towards fixed income in an environment of higher interest rates. Research by the Climate Bonds Initiative has shown that investors are willing to absorb a “greenium” (lower yield and/or higher price) that is usually associated with green bonds, indicating the strength of demand for green versus traditional bonds (Climate Bonds Initiative, 2021). On the supply side, the rise in sovereign issuance may be helping countries to diversify their investor base and provide credibility to green policies.

Figure III.4

Energy, transport and buildings accounted for 75 per cent of the green bond market in 2023

Global green bond issuance by sector
(Percentage)

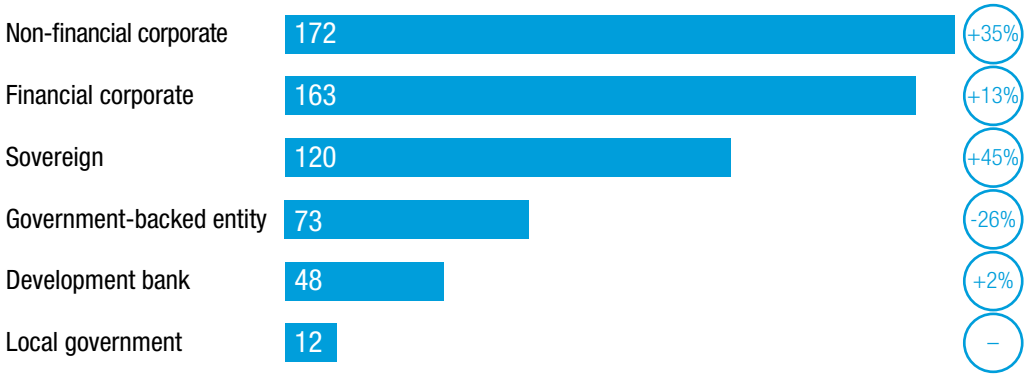


Source: UNCTAD, based on information from Climate Bonds Initiative.

Figure III.5

Sovereign issuance of green bonds saw the largest gains in 2023

Green bond market size by type of issuer
(Billions of dollars and percentage change from 2022)

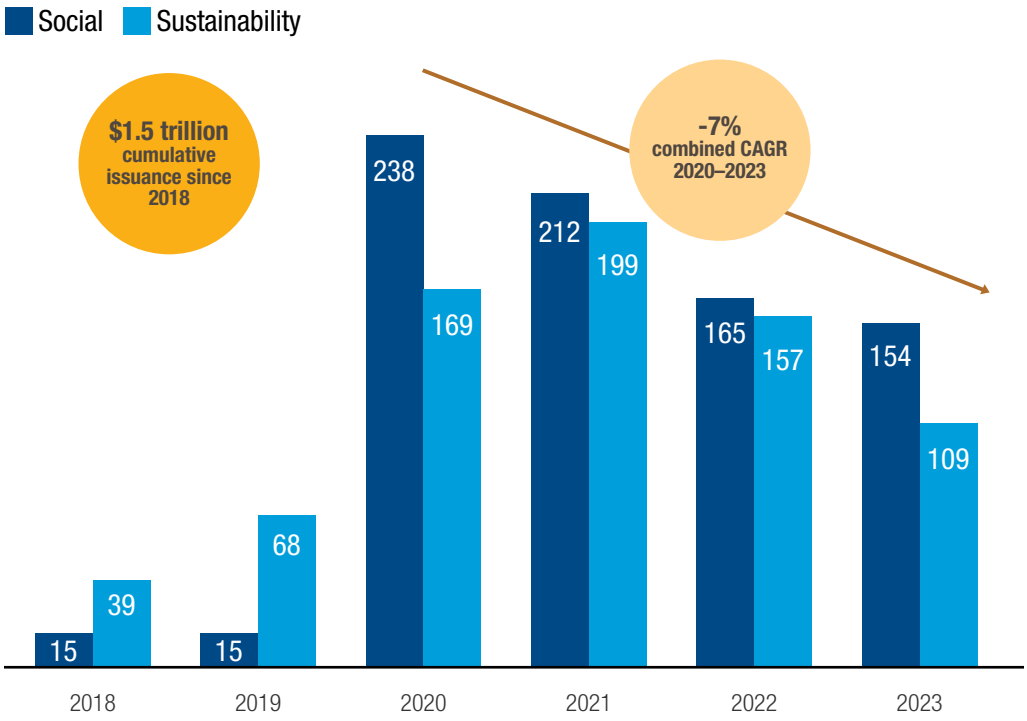


Source: UNCTAD, based on information from Climate Bonds Initiative.

b. Social, sustainability and sustainability-linked bonds

The values of both social and sustainability bond issuance both fell in 2023. Social bonds issuance declined by 7 per cent, from $165 billion to $153 billion, while that of sustainability bonds fell by 30 per cent, from $157 billion to $109 billion. Despite the growing awareness of climate and environmental sustainability issues and the opening of more investment opportunities in social and sustainable projects, both types of bonds continued falling to pre-pandemic levels of issuance (figure III.6). The fall is likely directly related to recovery

Figure III.6
Social and sustainability bond issuance continued to decline in 2023
(Billions of dollars)



Source: UNCTAD, based on information from Climate Bonds Initiative.

from the pandemic, during which the value of COVID-response bonds surged – momentum that has now subsided. Nevertheless, together these two categories still represent 38 per cent of cumulative sustainable bond issuance since 2018.

In contrast, the annual issuance of sustainability-linked bonds increased 83 per cent, from $12 billion in 2022 to $22 billion in 2023. This continues a constant annual increase since the introduction of the first such bond by Enel (Italy) in 2019, bringing cumulative issuance of such bonds to $47 billion. Unlike green, social and sustainability bonds, sustainability-linked bonds are not tied to use of proceeds. This potentially gives issuers more flexibility but may also call into question the sustainability impact of this debt instrument, reflected in the lower alignment of this category with sustainability screening criteria (for further discussion, see *WIR 2020* (UNCTAD, 2020).

Latin America and the Caribbean is the only region where the value of outstanding social, sustainability and sustainability-linked bonds is higher than that of green bonds; they account for more than 90 per cent of total cumulative issuance, according to the Climate Bonds Initiative. Despite social bond issuance there being on a par with that in Europe and in Asia, the region could be missing out on considerable financing opportunities in the green bond segment, especially in sectors such as energy, transport and industry.

In 2023, social bonds were more favoured by government-backed entities and financial corporate entities. Sustainability bonds were more popular with local government, non-financial corporates and sovereign issuers. Sustainability-linked bonds were overwhelmingly favoured by non-financial corporates and sovereign lenders.

2. Sustainable funds

a. Market trends

The sustainable fund market continued to expand in 2023, albeit at a slower pace. The number of sustainability-themed funds worldwide reached 7,485, up 7 per cent from 2022. These funds remain highly concentrated in Europe and the United States, representing 73 per cent and 9 per cent of the global market, respectively. The share of the market in the rest of the world increased slightly, from 16 per cent to 19 per cent, with growth witnessed in Australia and Canada and in developing Asia (figure III.7).

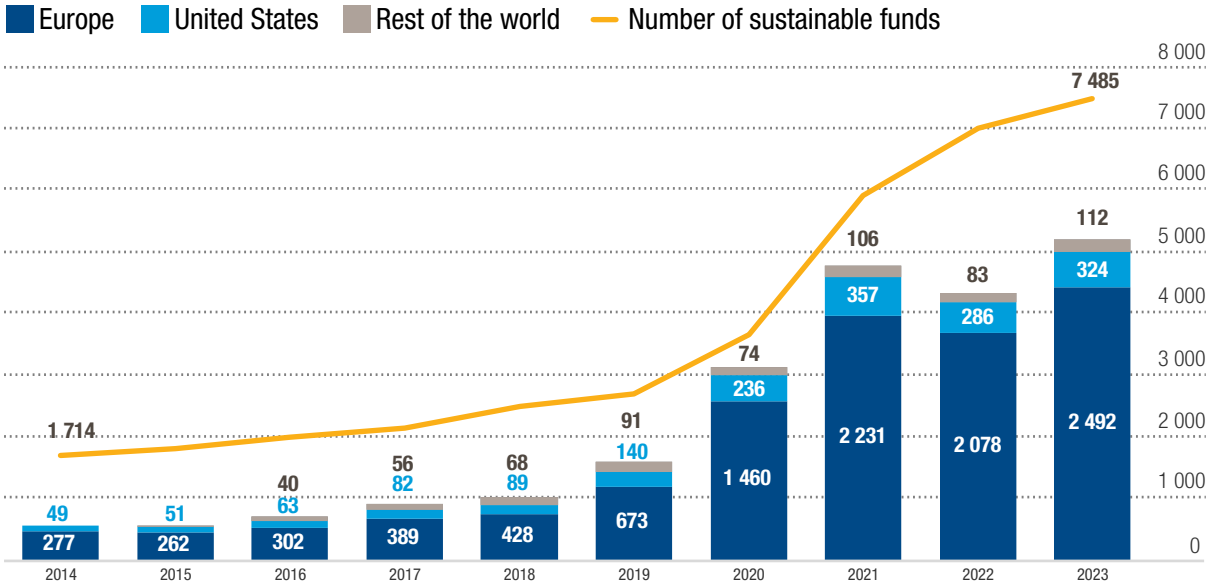
The total assets of sustainable funds reached almost $3 trillion in 2023, mainly driven by rising share prices in equity markets, in particular in Europe and the United States. Europe remains by far the largest market, with assets of nearly $2.5 trillion, or 85 per cent of the global market. The value of sustainable funds in the United States increased from $286 billion in 2022 to $324 billion in 2023, representing about 11 per cent of the global market. The market share in the rest of the world remains at about 5 per cent.

Although the increasing number and value of sustainable funds indicate continued growth, sustainable funds faced a challenging environment in 2023. High interest rates, lagging performance, lukewarm demand and rising concerns about greenwashing issues all contributed to growing uncertainties in the market. As a result, the number of new launches has continued to drop, from a record high of 240 in the fourth quarter of 2021 to 121 in the fourth quarter of 2023. In total, 565 launches were recorded in 2023, down from 682 in 2022. The decline was more than offset by the restructuring of conventional funds into sustainable ones, in particular in Europe, leading to continued expansion of the universe of sustainable funds. Sustainability-themed funds remain an important tool to tilt capital markets

Figure III.7

The market value of sustainable funds recovered in 2023, reaching a record high

(Billions of dollars and number)



Source: UNCTAD, based on Morningstar data.

towards more sustainable investment and thus direct capital to sectors and areas that can contribute to sustainable development.

Net investment flows to sustainable funds also continued to drop, from $161 billion in 2022 to $63 billion in 2023, marking a significant decrease from the record of $557 billion set in 2021 (figure III.8). Throughout 2023, European sustainable funds received net investment inflows of $76 billion, nearly halved from the $149 billion of 2022. In addition to a challenging macroeconomic environment and persistent geopolitical risks, some investors have remained cautious about environmental, social and governance (ESG) investing because of the overall underperformance in 2022 and lukewarm returns from popular sustainable investment assets, such as renewables, in 2023. However, compared with annual outflows of $50 billion from European conventional funds, the European sustainable fund market has remained relatively resilient, demonstrating continued interest by investors in this asset category.

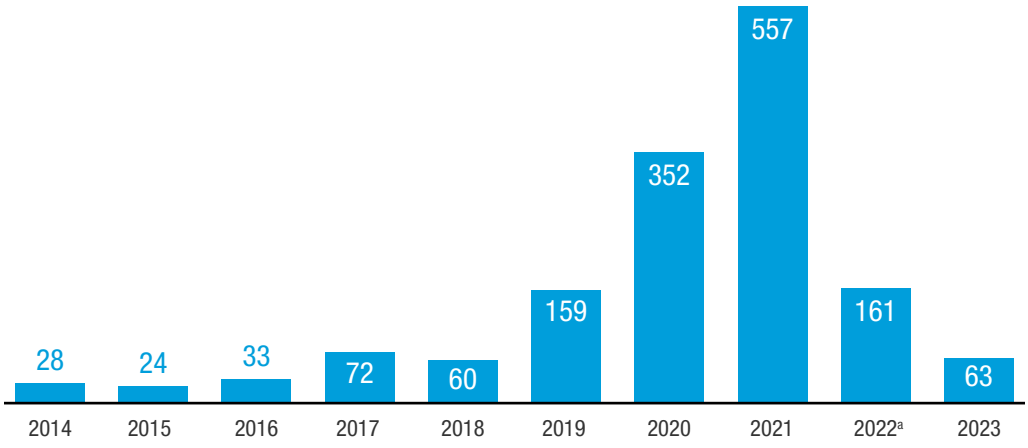
The investment momentum in sustainable funds in the United States reversed completely in 2023. Following a surge in inflows in 2020 and 2021 ($290 billion and $472 billion, respectively), new inflows plummeted to only $3 billion in 2022. Moreover, 2023 marked the first annual outflows, which totalled $13 billion. In addition to dismal returns, persisting greenwashing concerns and a backlash against sustainable investment strategies in the United States market (see section C.2) also contributed to a chilling effect on demand.

In terms of financial performance, sustainable equity funds underperformed relative to conventional funds for the second consecutive year (Henry and Furdak, 2024). Article 9 funds, the "dark green" products known for their commitment to specific sustainable investment objectives and substantive approach to sustainability integration under the European Union Sustainable Finance Disclosure Regulation (SFDR), underperformed their benchmark by more than 6 per cent in 2023. Article 8 funds, the "light green" products that take environmental or social sustainability into consideration in asset allocation, also underperformed, but by a narrower margin of less than 1 per cent. Only Article 6 funds, which do not incorporate sustainability considerations into their investment strategies beyond basic ESG risk assessments, nearly matched their benchmarks.

Figure III.8

Net flows to sustainable funds continued their slide in 2023

(Billions of dollars)



Source: UNCTAD, based on Morningstar data.

[a] The figure for 2022 has been updated since its publication in *WIR 2023*.

This disparity in performance may be attributed to short-term market dynamics that work against some popular sectors in sustainable investments. Renewable energy, for example, has been particularly affected by elevated interest rates, since the sector is particularly characterized by higher upfront costs and lower operational expenses over time. Such short-term fluctuations should not overshadow the long-term benefits of sustainable investing, underscoring the importance of taking a long-term perspective.

b. The greenwashing challenge

As sustainable investment products gain popularity, concerns about greenwashing are also growing. Greenwashing poses the most significant challenge to the sustainable fund market, primarily because of the lack of specific product standards for sustainable funds, including in leading markets. UNCTAD analysis of global green funds published in WIR 2023 revealed that their average net exposure to climate-positive assets (low-carbon assets minus total fossil fuels) is slightly more than 20 per cent, casting doubt on their proclaimed green credentials. According to Morningstar data, just over 20 per cent of Article 9 funds reported minimum sustainable investments aligned with the European Union taxonomy between 0 and 10 per cent, and only 8 per cent target taxonomy-aligned investments of at least 10 per cent. Meanwhile, only 4 per cent are completely free from oil and gas investments, and 15 per cent allocate more than 5 per cent of their assets to oil and gas as of December 2023 (Bioy et al., 2024). These figures suggest that, even among products regarded as “dark green”, a substantial portion might not live up to their sustainability claims. It is not surprising that concerns about greenwashing have dampened investor demand, partly explaining the loss of momentum in investment within the European market and leading to outflows in the United States market.

The persistence of greenwashing has demonstrated that more systemic efforts are needed to tackle the issue. In response to concerns about the implementation of the SFDR, in December 2023 the European Union Commission launched a consultation with the industry and other stakeholders on a general review of the regulation, focusing on bringing more clarity and credibility to the sustainable fund market so as to tackle greenwashing concerns. This consultation addresses critical issues such as the interaction with the European Union taxonomy and other sustainable finance legislation, potential changes to disclosure requirements and the establishment of a categorization system for financial products. In parallel, the European Supervisory Authorities published a final report amending the draft Regulatory Technical Standards for the Delegated Regulation supplementing the SFDR. The report proposes additional social indicators for disclosing the principal adverse impacts of investment decisions on the environment and society, new product disclosure requirements regarding GHG emissions reduction and improvements to disclosures on the “do no significant harm” principle. These measures are designed to bring more clarity to the SFDR and its implementation standards and enhance its consistency with the European Union Taxonomy Regulation with the aim of improving its robustness and effectiveness in addressing greenwashing. (For further discussion of policy responses to greenwashing in other countries, see section C.)

Exposure to climate-positive assets only 20 per cent, casting doubt on green credentials

The complexity of defining and combating greenwashing underscores the critical need for clear, verifiable sustainability disclosure rules and effective enforcement to ensure market integrity. In addition, it is essential to establish well-defined rules and product standards that clearly outline the criteria required for a product to be labelled as sustainable. Moreover, reliance on self-assessment should be replaced by external auditing and third-party ratings to ensure market transparency and credibility.

B. Sovereign and public institutional investors

Institutional investors made progress on sustainability performance and compliance with international sustainability reporting standards in 2023. Since UNCTAD began monitoring in 2019, the number of these funds that report has grown from one in four to almost three in five. Nevertheless, this means that a significant number of these funds still do not disclose any information on their sustainability performance. SWFs and PPFs, with their long-term investment horizons, continued to integrate sustainability into their investment strategies and improve their climate risk management. Yet, a majority of funds still have not committed to net zero in their investment strategies. Both SWFs and PPFs must comply with a range of reporting standards and obligations and have tried to keep pace with the rapidly evolving international landscape for sustainability reporting, especially on climate action.

With assets of more than $30 trillion at the end of 2023 – a significant portion originating from developing economies – SWFs and PPFs have received growing attention as potential sources of investment, especially in sectors relevant to the Sustainable Development Goals and in developing countries. As the world's largest institutional asset owners, some SWFs and PPFs have substantial market influence through their allocation decisions and strategic influence over the investments they hold through active ownership. PPFs and SWFs also differ from other investors in terms of their liabilities, which are generally long term, and their mandates, which are often aligned with public policy objectives, such as achieving net zero. However, these funds are not always required to disclose and report on their governance or sustainability performance.

Robust regulatory and policy frameworks are needed to ensure that institutional investment can contribute to the sustainable development agenda, especially in developing countries. For many funds, fiduciary obligations still limit their exposure to sustainable sectors and to developing countries, which have a higher risk premium. Addressing this challenge may require education and training for funds about markets and opportunities in developing countries.

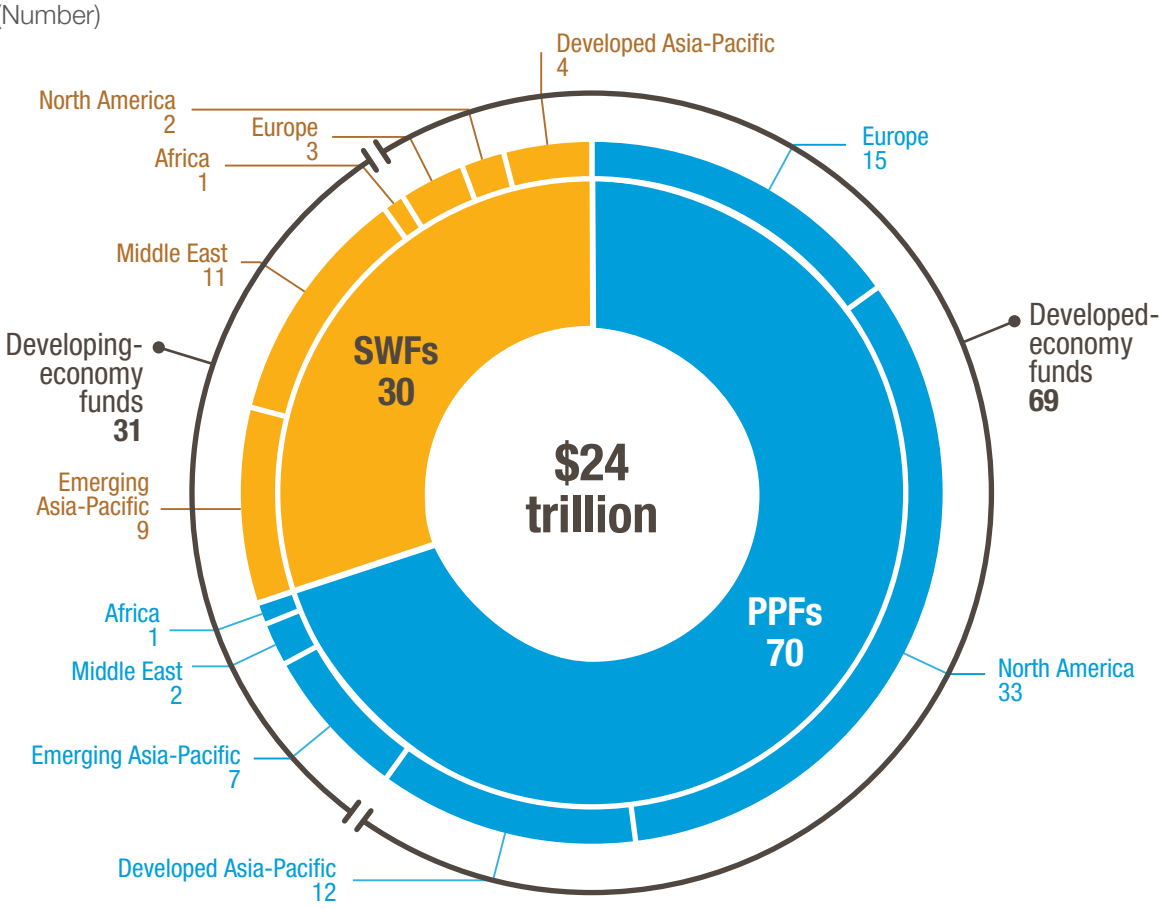
UNCTAD analysis of the top 100 institutional asset owners identified 70 PPFs and 30 SWFs, representing more than $24 trillion in assets under management in 2023, or 80 per cent of global PPF and SWF assets. More than two thirds of the top 100 are from developed economies; SWFs are predominantly based in developing countries (figure III.9).

In 2023, some 58 of them reported on their sustainability performance, either in a dedicated sustainability report or in annual financial reporting. Among these funds, PPFs are, in general, relatively better at disclosing sustainability-related information

Figure III.9

The top 100 sovereign wealth funds and public pension funds manage $24 trillion in assets

Funds by type and by region and economic grouping
(Number)



Source: UNCTAD, based on Global SWF (2023).

Abbreviations: PPF = public pension fund, SWF = sovereign wealth fund.

than SWFs (60 per cent of PPFs disclose, against just over 50 per cent of SWFs). Disclosure is strongly linked to the regulatory environment in a fund's jurisdiction. Europe stands out, where 90 per cent of the funds report on sustainability performance, a figure related to the more comprehensive reporting requirements of the European Union.

Among the funds that report, Canadian pension funds make up the majority of those in North America, again reflecting the relatively advanced regulatory environment in that country. Conversely, some funds in the United States recently experienced pushback against their sustainable investment strategies and sustainability disclosure at the State level as well as from public campaigning.[2]

Among the top 100, developing-country funds tend to report on sustainability performance less than developed-country funds. A majority of funds in the emerging Asia-Pacific markets do report, but even in countries that have relatively advanced policy environments, such as China and Singapore (see section C),[3] several

[2] Economist Intelligence Unit (2023), Anti-ESG sentiment in the US weakens ESG markets, 29 June, https://www.eiu.com/n/anti-esg-sentiment-in-the-us-weakens-esg-markets.
[3] UNCTAD Sustainable Finance Regulation Platform: http://gsfo.org.

58 of top 100 PPFs and SWFs **reported on sustainability performance** in 2023

funds in the top 100 do not report. This reflects some implementation challenges and weaker disclosure obligations in these jurisdictions. In the Middle East, a region with many SWFs, fewer than one in three SWFs – and no PPF – reports sustainability-related information, indicating that policy measures to strengthen sustainability reporting would be helpful.

Despite advances, the dichotomy in disclosure persists. Forty-two funds still do not report on their sustainability performance. This group includes almost half of the SWFs in the top 100, with a noticeable concentration in the Middle East and emerging Asia. In the case of PPFs, the tendency not to report is skewed towards North America. This is partly the result of the weight of these regions in the top 100 but also likely related to regulatory requirements that are weaker than in Europe.

At the same time, the funds that do report exhibit some of the most advanced policies on sustainability integration. They are making sustained efforts to address sustainability risks, both for the material threat to their business models and out of an ethical stance towards future generations. This group of asset owners comprises many first movers, several of which have been addressing sustainability issues for many years already and now employ, for example, complex climate modelling analysis and valuation models and rigorous screening of investments. The following analysis is based on the public disclosures of the 58 reporting funds in the top 100.

1. Sustainability integration strategies and practices

Most reporting funds articulate a clear vision for sustainability integration and have implemented policies and guidelines to manage sustainability risk, such as specific strategies on climate change mitigation. Many funds have also created dedicated sustainable investment teams. Yet, despite the existence of such climate strategies, only one in three of these funds reported a target for fossil fuel divestment in 2023, a share unchanged from the preceding year.

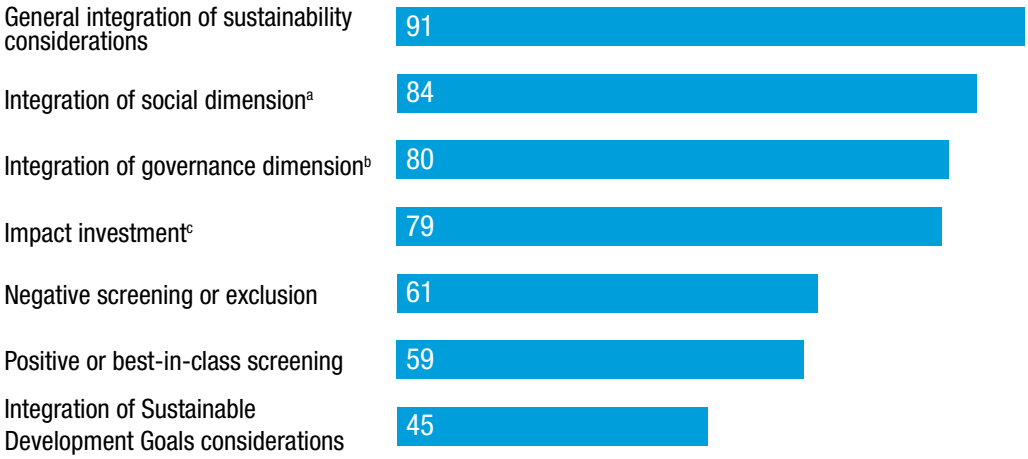
a. Investment strategies

Sustainability risk has been driving PPF and SWF investment strategies and decision-making for several years. In 2023, 9 out of every 10 funds reported the general integration of sustainability considerations in their investment strategies (figure III.10).

Four out of every five funds reported the integration of social and governance dimensions in their investment strategies by taking into account issues such as labour rights, executive pay, tax contributions and board diversity. A similar number of funds also reported impact strategies, especially on the environmental side; these can involve sectoral targeting, such as renewables, and capital market instruments, such as green or sustainability bonds. Less than half mentioned the integration of the Sustainable Development Goals in their investment decisions.

Another way funds integrate a sustainability perspective in their investment strategies is through active ownership. In 2023, almost 80 per cent report engagement with their investees (figure III.11). This enables funds to influence the behaviour of their portfolio holdings through discussion or voting for policy changes. While more than two thirds of funds reported providing guidance on ESG criteria and Goals criteria to their asset managers and investees, less than a quarter offered their asset managers training on these topics.

Figure III.10
Sustainability shapes investment strategies used by funds in 2023
(Percentage of reporting funds)



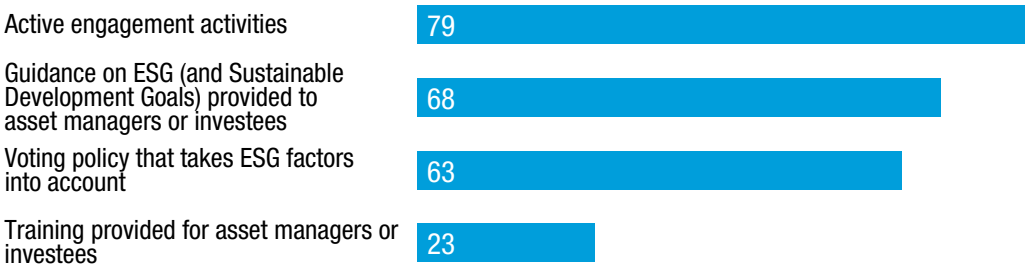
Source: UNCTAD, based on latest fund reporting (2023); some latest reports from 2021 and 2022.

Note: Funds can report more than one strategy.

Abbreviation: ESG = environmental, social and governance.

[a] Includes issues related to child labour, diversity and others.
[b] Includes issues related to to executive pay, board diversity, tax and others.
[c] Includes ESG-oriented sectors (e.g. renewable energy, green housing) or capital market instruments (e.g. green bonds, ESG funds) or markets (emerging and developing economies) in ESG investment.

Figure III.11
Institutional investors are active owners of their assets
(Percentage of reporting funds)



Source: UNCTAD, based on latest fund reporting (2023); some latest reports from 2021 and 2022.

Abbreviation: ESG = environmental, social and governance;

b. Climate-related actions

Reporting funds demonstrate significant engagement on climate change mitigation, with 9 out of 10 funds having developed specific strategies addressing climate issues. This is partly the result of regulations and fund commitments in this area and partly because of the nature of climate-related reporting metrics available to funds. Nonetheless, while this commitment is significant, the actions taken vary in depth and potential effectiveness and point to areas for further development.

Funds are more likely to set targets for investment in renewable energy than to define a target for divestment from fossil fuels, with just under a third of funds doing both (figure III.12). Among those that do have targets for both, funds in Europe, particularly those in Nordic countries, take the lead with a dual strategy that includes significant investments in renewable energy and assertive fossil fuel divestments. This approach aligns with the comprehensive climate policies in Europe and reflects strategic diversification. This is also true for hydrocarbon funds, such as Norges Bank Investment Management (Norway), which are transitioning towards more sustainable energy solutions.

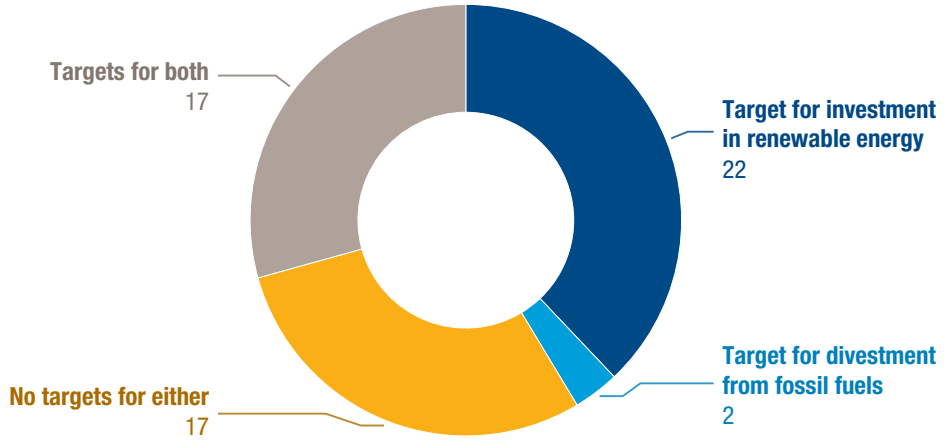
Despite robust investments in renewable energies, PPFs in North America take varied approaches to fossil fuel divestment, influenced by diverse state-level policies and public opinion. PPFs, such as the Healthcare of Ontario Pension Plan (Canada) and the New York State Common Retirement Fund (United States), lean heavily towards renewable energy investments, but these funds are less proactive in divesting from fossil fuels. This difference reflects the balancing act between sustainable commitments and funds' fiduciary duty to ensure stable returns.

Middle Eastern and African funds, such as Mubadala (United Arab Emirates), which receives funding from sources in the hydrocarbons industry, and the Public Investment Corporation (South Africa), which is linked to an energy sector still dependent on coal, temper their approach. The result is a careful balance between exploring renewable energy investments and maintaining stakes in fossil fuels. This nuanced approach reflects the complex interplay between these

Figure III.12

Only 30 per cent of funds have targets for renewables investment and fossil fuel divestment

Funds by type of target
(Number)



Source: UNCTAD, based on latest fund reporting (2023); some latest reports from 2021 and 2022.

regions' economic priorities, including employment in fossil fuel industries, and their sustainable development objectives.

Among funds that have committed to achieving net zero or carbon neutrality, most have set the target year of 2050. Some have set more ambitious targets, while others, particularly those associated with hydrocarbon sectors, have set later targets, such as 2060.

Three quarters of reporting funds have adopted sophisticated, systematic climate risk assessment strategies. This signifies a commitment by a majority of reporting funds to integrate climate risk into their risk management frameworks, aiming to mitigate vulnerabilities and exposure to transitional and physical risks, and to explore new opportunities (table III.1). North American funds, such as the California State Teachers' Retirement System, are pioneers in climate scenario analysis, exploring how various global warming scenarios could influence its portfolio. SWFs in oil-rich regions often integrate broader risk management approaches, possibly because of their exposure to the fluctuating dynamics of the energy sector amid global decarbonization efforts. Sectoral analysis is gaining traction among European funds, which scrutinize specific industries for climate-related vulnerabilities, allowing for more targeted risk mitigation efforts. About 20 per cent of funds also conduct climate stress testing of their investment portfolio.

Table III.1
Most funds systematically assess sustainability and climate risk

Category	Number of funds
Integrated risk management	25
Climate scenario analysis	20
Sectorial analysis	7
Stress testing	7
Portfolio testing	6

Source: UNCTAD, based on latest fund reporting (2023); some latest reports from 2021 and 2022.

Note: Number of reporting funds = 41.

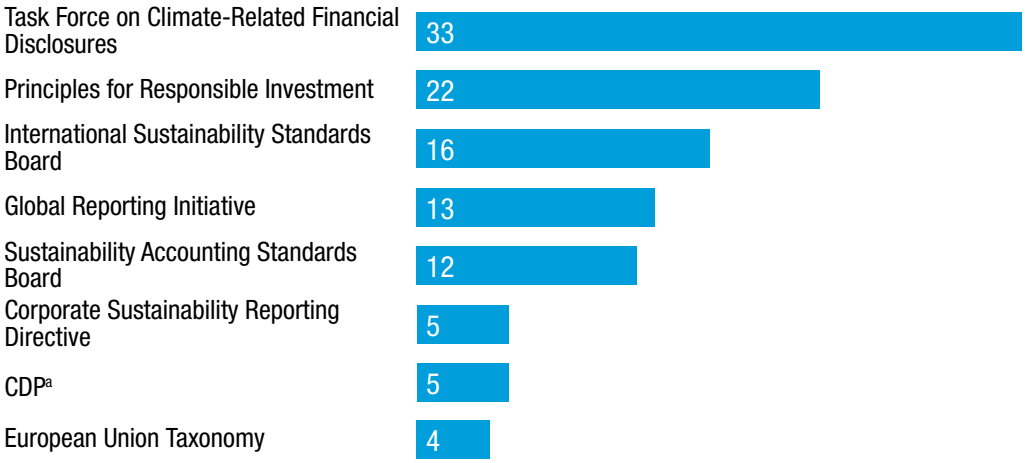
2. Sustainability disclosure

a. Reporting frameworks and standards used by funds

In 2023, PPFs and SWFs maintained their commitment to the standardization of sustainability reporting. The Task Force on Climate-related Financial Disclosures (TCFD) and the Principles for Responsible Investment are the two main frameworks that funds use for their sustainability reporting (figure III.13). Following closely are the new International Financial Reporting Standards (IFRS) Sustainability Disclosure Standards set by the International Sustainability Standards Board (ISSB), the Global Reporting Initiative (GRI) and the Sustainability Accounting Standards Board (SASB).

The growing adoption of the new ISSB standard, which incorporates the elements of the TCFD standard, represents a significant development in SWF and PPF sustainability reporting, showing the

Figure III.13
Most funds use a global sustainability reporting standard or framework
(Number of reporting funds)



Source: UNCTAD, based on latest fund reporting (2023); some latest reports from 2022.

[a] CDP was formerly known as the Carbon Disclosure Project.

potential rise of the standard as a global baseline for sustainability disclosure. Nonetheless, the variety of frameworks and standards in use shows that further convergence will be beneficial for enhancing comparability and consistency in disclosure among SWFs and PPFs.

b. The main reporting metrics used for sustainability disclosure

While almost 95 per cent of reporting funds have put in place policies on sustainability, fewer funds – 64 per cent – clearly disclose the metrics or methodologies they use to measure sustainability performance and impact.

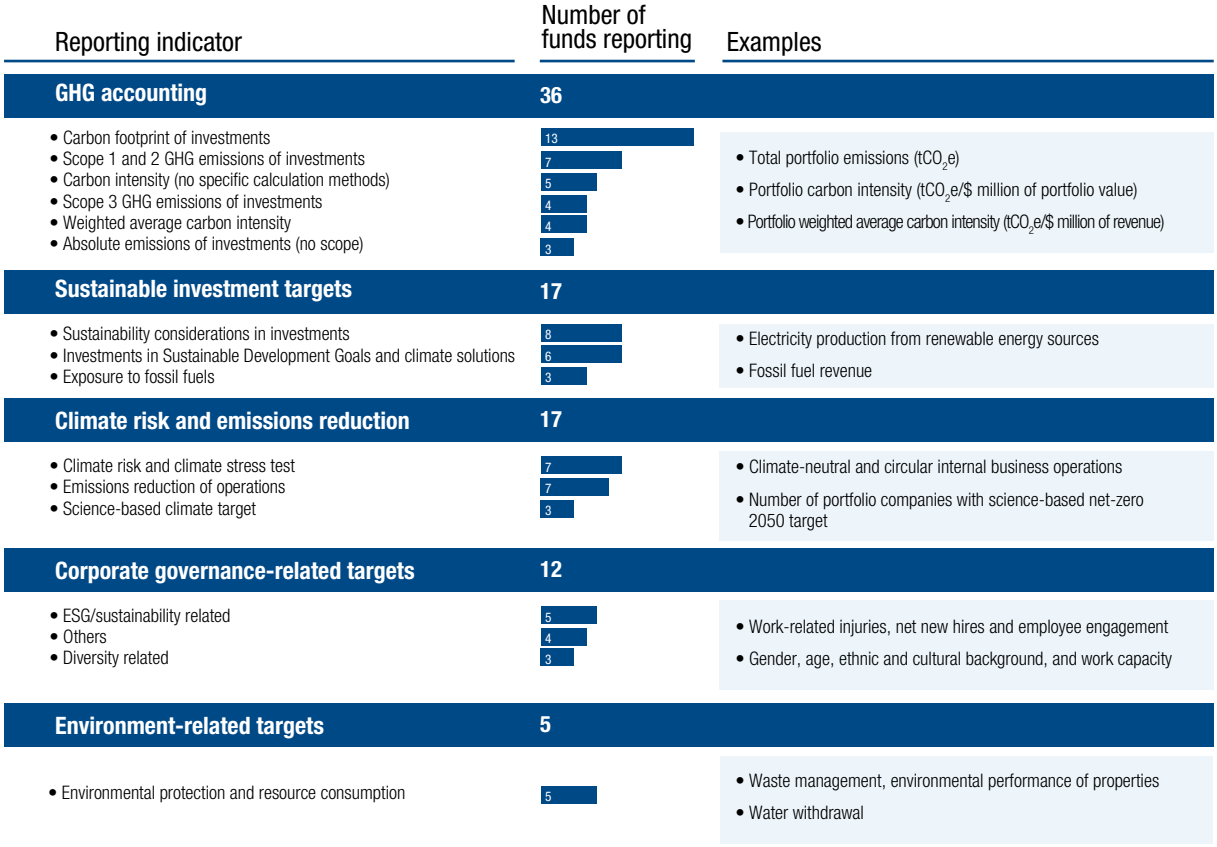
Reporting funds mainly use 16 indicators to measure their sustainability performance, categorized into five reporting areas (figure III.14). Climate and GHG emissions are the main area of disclosure and measurement: among the 37 funds reporting on indicators, more than 60 per cent have set specific ones for GHG accounting. The indicators are categorized into three types: absolute emissions, emissions intensity and total carbon footprint.

These calculations are typically applied to portfolios: funds generally monitor scope 1 and scope 2 GHG emissions (in tons of carbon dioxide equivalent), with a small minority of funds going further and reporting on scope 3 emissions.

For those funds that use emissions intensity metrics, the largest number use the carbon footprint indicator, describing the total carbon emissions for a portfolio. Nearly half use the TFCD-recommended weighted average carbon intensity, which indicates the portfolio's exposure to carbon-intensive companies, expressed in tons of carbon dioxide equivalent per million dollars of revenue. It assesses a portfolio's carbon efficiency by considering each investment asset's revenue-based emissions intensity and its weight in the portfolio.

Some funds consider operational emission reduction actions of invested companies, including energy consumption, renewable energy usage and operational carbon footprint calculation. However, few funds incorporate science-based climate targets into their metrics system. Regarding environmental protection and resource consumption, specific indicators include

Figure III.14
SWFs and PPFs reported sustainability metrics in five areas in 2023



Source: UNCTAD, based on latest fund reporting.

Abbreviations: ESG = environmental, social and governance, GHG = greenhouse gas, PPF = public pension fund, SWF = sovereign wealth fund, tCO2e = tons of carbon dioxide equivalent.

expenditure on environmental protection by portfolio companies, water withdrawal rates and whether portfolio companies have a responsible waste management system. Regarding corporate governance, funds predominantly use ESG and sustainability-related metrics; company diversity and issues such as employee training are also reported. In general, social areas are underreported compared with environmental and climate areas. Social issues are typically considered within the broader context of sustainability, with only one fund specifically addressing the social impact of portfolio companies.

To ensure the quality of sustainability reporting, third-party verification or auditing is important, in the same way that financial reporting is audited. Yet only one in four reporting funds use third-party verification. Despite its importance for ensuring credibility and trust (and combating greenwashing), auditing is currently voluntary. Nevertheless, the International Auditing and Assurance Standards Board (IAASB) is developing the International Standard on Sustainability Assurance (ISSA) 5000, General Requirements for Sustainability Assurance Engagements, which will be issued before the end of 2024. It is intended to serve as a general standard suitable for any assurance purpose. According to the IAASB, it will apply to sustainability information reported across any sustainability topic and prepared under multiple frameworks, including the recently released IFRS Sustainability Disclosure Standards S1 and S2.

C. Policies, regulations and standards

In 2023, the IFRS Foundation launched the Sustainability Disclosure Standards, which have attracted significant interest globally. The emergence of international standards, including the IFRS and European standards, has created spillover effects that affect developing economies and their small and medium-sized enterprises (SMEs). Progress has been made in enhancing the interoperability of international standards. Stock exchanges also continue to play a vital role in the adoption and implementation of sustainability reporting. Governments from both developed and developing economies have accelerated sustainable finance policymaking, focusing on leveraging capital markets for climate transition. In 2023, 26 of the 35 economies tracked by the UNCTAD Global Sustainable Finance Observatory introduced more than 90 measures dedicated to sustainable finance, marking a significant increase from the 63 measures adopted in 2022. Countries are integrating sustainable finance into national development strategies more and more, prioritizing policy impact and effectiveness.

1. International sustainability reporting standards

a. New standards

June 2023 saw the launch of the first two of the IFRS Sustainability Disclosure Standards by the ISSB, after a global consultation process. The International Organization for Securities Commissions (IOSCO) issued a statement endorsing the standards and called on its 130 member jurisdictions, which regulate more than 95 per cent of the world's financial markets, "to consider ways in which they might adopt, apply or otherwise be informed by the ISSB standards within the context of their jurisdictional arrangements, in a way that promotes consistent and comparable climate-related and other sustainability-related disclosures for investors." This statement has been received as a strong signal from market regulators to encourage the adoption of the ISSB standards.

The ISSB, created in 2021 by the IFRS Foundation, develops standards that form a global baseline for disclosure of sustainability-related risks and opportunities, to meet the needs of investors and other capital market participants. It was formed in response to strong demand from capital market participants and international policymakers, including the members of the Group of Seven, the Group of 20 and the Financial Stability Board, to harmonize and simplify the landscape of investor-oriented sustainability disclosure standards.

The first standard, IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information, sets out a requirement for an entity to disclose information about all risks and opportunities related to material sustainability that could reasonably be expected to affect the entity's prospects. It provides conceptual foundations to aid the disclosure of this information, as well as core content requirements applicable to all sustainability-related risks and opportunities. IFRS S2 Climate-related Disclosures provides more detailed requirements for the disclosure of climate-related information.

At its formation, the ISSB merged with four formerly independent bodies: the TCFD, the Climate Disclosure Standards Board (CDSB), the SASB and the International Integrated Reporting Council (IIRC). As a result, the ISSB standards draw heavily from the voluntary investor-focused standards and frameworks produced by those four bodies. Companies using ISSB standards should make disclosures about their governance and risk management of sustainability and climate-related risks and opportunities, as well as the strategy, metrics and targets used to manage those risks and opportunities. In line with the concept of providing a globally consistent baseline, national policymakers may add building blocks to the ISSB's standards in order to meet local reporting objectives, provided that local provisions do not obscure information required by the global baseline.

Following the launch of the ISSB standards and their endorsement by IOSCO, the ISSB set three new priorities. First, for future areas of disclosure standardization, the ISSB is exploring biodiversity, ecosystems and ecosystem services, as well as human capital. It has also published educational material on nature and social aspects of climate-related risks and opportunities. Second, in support of adoption of the standards by market participants, the ISSB has established a partnership framework for capacity-building, working with public and private organizations, global and local, to ensure accelerated readiness among jurisdictions to adopt the standards. A dedicated IFRS Sustainability Knowledge Hub was also launched to guide report preparers. Third, in support of adoption of the standards by jurisdictions, the ISSB has been engaging with regulators worldwide and has published a preview of a jurisdictional guide for the adoption or other use of the standards.

17 jurisdictions using ISSB standards, with others working towards adoption

b. Status of adoption

An increasing number of jurisdictions have already adopted the ISSB standards, with many others working on adoption (table III.2). While some intend to implement the standards fully as the globally consistent baseline, others plan to introduce amendments to them, which may result in inconsistencies in the information reported by complying entities.

In response to the rise of international and regional standards and their spillover effects through global supply and investment chains, many countries, including developing ones, are taking action to modernize their company reporting systems by aligning them more closely with international best practices.

However, several challenges could pose severe barriers to policymaking in this area in developing economies (UNCTAD, 2024c). They include (a) the fragmentation of international standards, (b) the lack of robust national sustainability reporting infrastructure, (c) insufficient knowledge and human capacity, and (d) limited access to sustainability data. Addressing these issues would require enhanced international coordination on sustainable finance regulations, especially in standard-setting, while considering the specific needs and challenges faced by developing economies.

Technical support will also be essential. Towards this end, UNCTAD, through its Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting, is supporting countries in reinforcing their regulations and

Table III.2
Jurisdictions move toward adopting ISSB standards

Jurisdiction	Status as of April 2024	Implementation date
Australia	Consulting on standards until 1 March (currently adopting only IFRS S2)	Staggered implementation from January 2025
Bangladesh	Introduced mandatory requirements for banks and finance companies	January 2024
Brazil	Adopting in full (IFRS S1 and S2)	January 2026
Canada	Consulting on draft standards from March to June 2024	January 2025 for listed companies, January 2027 for unlisted companies with assets of more than $1 billion
Costa Rica	Adopted in full (IFRS S1 and S2) in 2024	Phased mandatory adoption for public companies (January 2025) and companies classed as large taxpayers (January 2026)
Japan	Issued standards for consultation	March 2025
Kenya	Developing a road map	-
Malaysia	Consulted on standards	Phased mandatory adoption for listed and unlisted companies December 2025–December 2027
Morocco	Reviewing disclosure and target-setting requirements	Early 2025 (currently only for banks)
Nigeria	Consulted on adoption road map	Phased mandatory adoption for listed companies and SMEs between January 2027 and January 2030
Pakistan	Consulting on adopting IFRS S1 and S2	Phased mandatory reporting between January 2025 and January 2027
Philippines	Revising sustainability reporting guidelines for listed companies to incorporate IFRS S1 and S2	January 2025 for listed companies, January 2027 for unlisted companies with assets of more than $1 billion
Republic of Korea	Finalizing standards for June 2024	January 2026 or later
Singapore	Introduced mandatory climate-related disclosures (currently adopting only IFRS S1 for climate reporting)	January 2025 for listed companies, January 2027 for unlisted companies with assets of more than $1 billion
Türkiye	Adopted in full (IFRS S1 and S2)	January 2024
United Kingdom	Consulting on standards until July 2024	-
Hong Kong, China	Developing adoption road map	-

Source: UNCTAD.

institutions, and building human capacity to implement international standards, such as those of the ISSB. Since 2021, UNCTAD has been launching regional partnerships to promote high-quality sustainability reporting in developing countries. The Partnerships in Africa (29 countries and 58 institutions) and in Latin America (30 institutions in 15 countries) have become operational over the past two years. At the 2023 World Investment Forum, UNCTAD announced additional regional partnerships for Asia, Eurasia, and the Gulf States and neighbouring countries. These partnerships are vehicles for facilitating the exchange of good practices in the implementation of sustainability reporting standards.

c. Policy spillover effects

The effects of these international standards can extend beyond the jurisdictions where they are formally adopted, through global supply chains. Large companies and financial institutions increasingly require their suppliers or investee companies to report on sustainability. For example, beyond disclosing scope 3 GHG emissions

along supply chains, the ISSB S2 standard requires financial institutions to report "financed emissions" – the emissions associated with their investments, including those in SMEs. The SFDR of the European Union includes similar requirements. As sustainable finance gains traction, all companies, including SMEs, are increasingly expected to provide sustainability reports to meet investor demands.

In some cases, companies may need to comply with regulations in markets where they have significant operations, even if they are not listed there. For example, under the European Union Corporate Sustainability Reporting Directive (CSRD), non-European Union companies will have to report if they generate more than €150 million in the European Union market. It is estimated that about 3,000 United States companies and more than 10,000 businesses worldwide will be affected by the requirements (Huck, 2023). Similarly, the climate disclosure rules released recently by the United States Securities and Exchange Commission (SEC) include requirements for not only local, but also foreign incorporated entities (SEC, 2024).

Sustainability reporting requirements can further arise from legislative developments beyond the immediate standard-setting community. For instance, the European Union Carbon Border Adjustment Mechanism is not specifically a sustainability disclosure regulation, yet its implications for climate-related disclosures will extend well beyond Europe. Starting in October 2023, importers of certain goods into the European Union are required to report quarterly on the direct and indirect emissions embedded in each product.

The requirements related to these standards and related regulations will have a cascading effect, affecting exporters and their suppliers, including SMEs from other regions, and posing notable challenges for developing economies. This challenge urgently requires international coordination, including enhanced interoperability and consistency among international and regional standards.

d. Interoperability

With the shift from voluntary disclosure initiatives towards mandatory reporting requirements, there has been a renewed impetus to examine the consistency and interoperability of the sustainability reporting landscape. As new requirements are introduced, businesses operating across jurisdictions may face inconsistent disclosure obligations, leading to greater workloads and potential inconsistencies in the information reported from one jurisdiction to another. Similarly, investors operating internationally may face an additional challenge when comparing the disclosures of companies they are assessing.

Overall, the newly developed requirements can be classified by their focus on single materiality or double materiality. Single materiality (sometimes referred to as "investor materiality" or "financial materiality") is primarily intended to inform a general investor audience and thus focuses on the impact of sustainability on an entity's prospects and financial performance. Examples of such requirements include the ISSB standards and the climate rule of the United States Securities and Exchange Commission. Other requirements, such as the European Sustainability Reporting Standards and the proposed requirements in China, take a double materiality (also known as "impact materiality") approach, covering both the impact of sustainability on the entity and the impact of the entity on sustainability. The GRI standards focus specifically on double materiality.

Inconsistent disclosure obligations across jurisdictions **creates more work for reporting entities**

To minimize potential inconsistencies and issues with interoperability, standard-setters have been working to align their standards more closely. Notable examples are the efforts by the European Financial Reporting Advisory Group, which develops the European Sustainability Reporting Standards, in achieving a "high level of alignment" with the GRI standards and the ISSB IFRS S2 standard on climate change.

The IFRS Foundation and GRI have also published a summary of interoperability

Markets that require sustainability reporting: 38 and growing. **SDG 12.6 on track**

considerations for GHG emissions, to support more efficient reporting for companies that use both the ISSB standards and the GRI standards. This resource was developed under the two organizations' collaboration agreement, to coordinate their sustainability-related work programs and standard-setting activities.

As jurisdictions continue their implementation of sustainability disclosure regimes, international investors and others continue to highlight the importance of consistent requirements. Where existing requirements are in place or well under way, some have proposed that international standards should be given equivalence to local requirements, especially in the case of foreign entities, to avoid potential conflicts within the requirements and allow for more streamlined global sustainability reporting. Such equivalence has been achieved in financial reporting, where for example foreign private issuers listed on a United States exchange are permitted to prepare their financial statements according to IFRS accounting standards as an alternative to the Generally Accepted Accounting Principles standards more commonly used by United States companies.

e. Stock exchanges promoting adoption and implementation

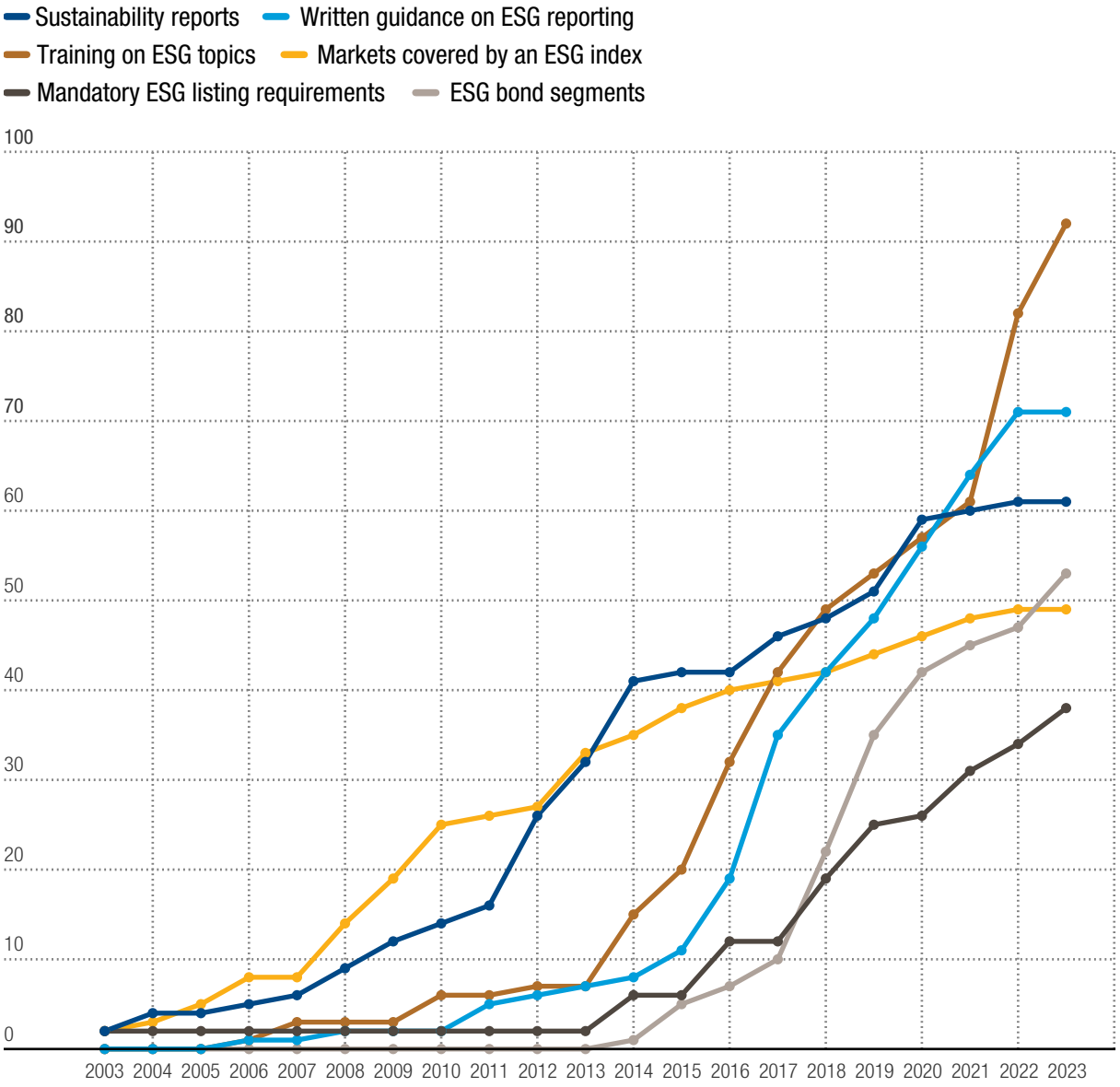
As the interface between market regulators, issuers (both bond and equity), investors and standard-setters, stock exchanges are playing an important practical role in promoting the implementation and adoption of sustainability reporting standards and new sustainable finance products (figure III.15). In 2023, the number of exchanges with ESG-themed bond segments increased, continuing a sharp rise in these segments since 2017 and for the first time exceeding the number of markets covered by an ESG equity index. For many years, sustainable finance focused primarily on equity markets, but this has changed in recent years as sustainability-themed products also emerged in the bond market, derivatives markets and elsewhere. The past year also saw a continued upward trend in mandatory listing requirements related to sustainability reporting, with 38 markets having such rules, up from close to zero just a decade ago. The standardization and regulation of sustainability reporting is also creating greater demand for market education on this topic, as a core mandate of exchanges is to educate market participants on compliance issues and transparency and reporting. The past year saw a continued sharp upward trend in the number of exchanges providing such training.

As of the close of 2023, about 59 per cent (71) of all exchanges offered written guidance to issuers on sustainability reporting, a more than tenfold increase from a decade earlier. This written guidance, often voluntary, plays a critical role in preparing market participants for mandatory rules that typically follow. The trend lines over the past decade show a strong relationship between exchange guidance issuance and mandatory listing rules. In light of these ongoing trends, the objective of Sustainable Development Goal 12.6 concerning sustainability reporting is on track to be attained by 2030. The market is gravitating towards a more concentrated set of standards. Exchanges are actively endorsing global ESG reporting frameworks. The GRI standards remain the most frequently cited, followed by the four component standards of the ISSB (those of CDSB, IIRC, SASB and TCFD).

Figure III.15

Stock exchanges continue to play an important role in promoting sustainability standards and products

(Number of exchanges with standard or product)



Source: UNCTAD, Sustainable Stock Exchanges database.

Abbreviation: ESG = environmental, social and governance.

2. Policymaking at national and regional levels

a. Overview

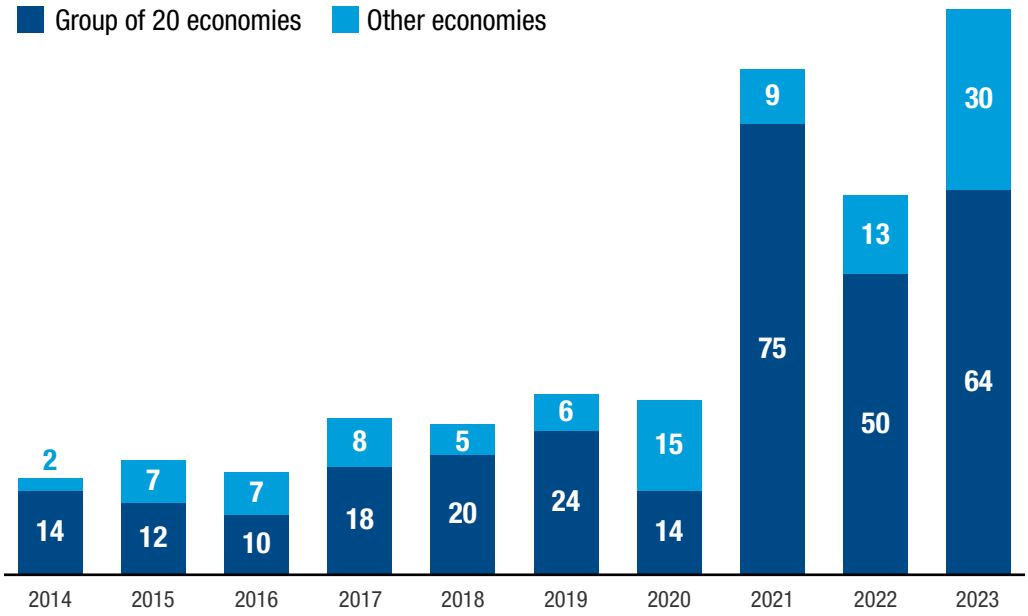
The rapid expansion in the sustainable finance market has brought about the parallel growth of national sustainable finance measures. National and regional governments are increasingly creating policies and regulatory frameworks to leverage capital markets to achieve their net-zero goals. The UNCTAD Global Sustainable Finance Observatory monitors sustainable finance regulations and policy measures in 35 economies (countries and economic groupings). They include the members of the Group of 20, the largest developing economies outside the Group of 20 and selected financial centres. Together these economies represent more than 90 per cent of global GDP and the world's largest capital markets.

In 2023, these economies introduced a total of 94 sustainable finance policies and regulations. This brings the cumulative number of sustainable finance measures since 2014 to 516, with nearly 60 per cent of them introduced in the past five years, partly in response to the rapid expansion of the sustainable finance market and product availability (figure III.16). Meanwhile, at least 69 sustainable finance measures are in development.

Figure III.16

Record level of new sustainable finance policy measures and regulations adopted in selected economies in 2023

(Number of measures adopted by year)



Source: Global Sustainable Finance Observatory (GSFO.org), based on UNCTAD, PRI and World Bank data.

Notes: Encompasses seven key policy areas for sustainable finance: national strategy, national framework and guidelines, taxonomy, product standards, sustainability disclosure, sector-specific regulations and carbon pricing. Other economies are Switzerland; 13 developing economies (Bangladesh, Chile, Colombia, Egypt, Kenya, Malaysia, Nigeria, the Philippines, Singapore, Thailand, the United Arab Emirates and Viet Nam, as well as Hong Kong, China); and ASEAN. Relevant measures of the European Union included in Group of 20 economies.

[a] Number updated to include incentive-related measures.

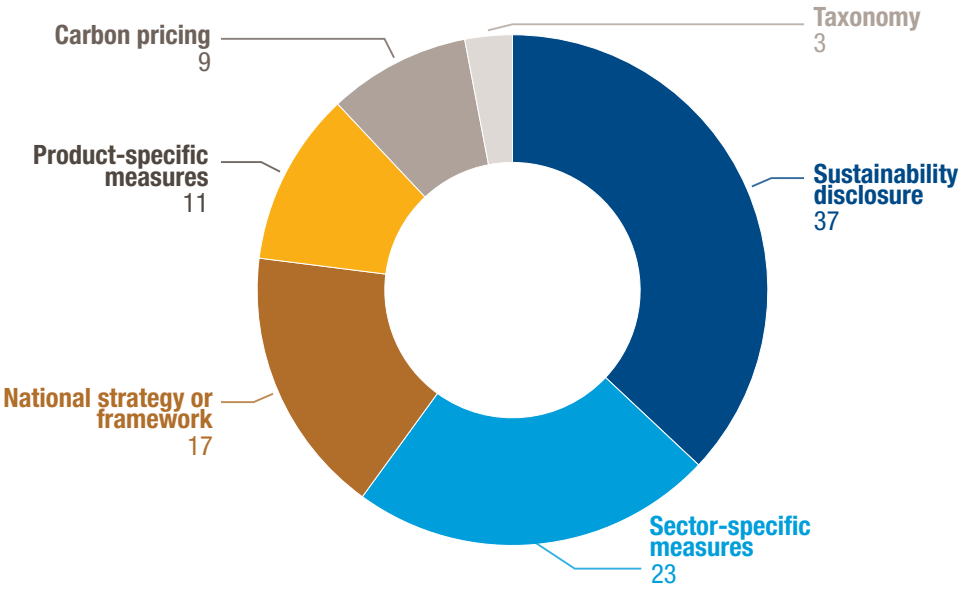
The most popular policy area is sustainability disclosure, accounting for 37 per cent of all measures (figure III.17). This highlights the priorities of improving market clarity and credibility and addressing greenwashing concerns. Sector-specific measures, which covered sustainable banking, insurance, asset management and others, constituted 23 per cent of total measures, and national strategies and frameworks another 17 per cent. Although specific measures targeting products such as sustainable bonds and funds, carbon pricing and taxonomy represent a smaller portion of the policy pool, policymaking in these areas has been notably dynamic in recent years, with a significant number of measures currently in development.

Thematically, most of the policy measures introduced in the last five years have focused on climate change and the green transition; however, social sustainability and inclusive development have started to attract more attention. Examples include the development in the European Union of a social taxonomy, the inclusion of economic activities targeting social sustainable development in the South Africa taxonomy and policy measures adopted by Bangladesh and China and by the Association of Southeast Asian Nations (ASEAN) to support the development of SMEs.

Figure III.17

Sustainability disclosure measures remain the most common policy category

Sustainable finance policy measures by category, 2014–2023
(Percentage)



Source: Global Sustainable Finance Observatory (GSFO.org).

b. Regional developments

In 2023, the 35 economies or country groupings tracked by the Global Sustainable Finance Observatory adopted substantive measures across six key policy areas: national strategy or framework, taxonomy, sustainability disclosure, sector-specific measures, product-specific measures and carbon pricing. Policymaking was most active in national strategies and frameworks, sustainability disclosure, and sector- or product-specific measures focusing on green bonds, sustainable banking and investment (table III.3).

The European Union established a comprehensive sustainable finance regulatory framework with the CSRD, which entered into force in January 2023. Together with the Taxonomy Regulation and the SFDR, these regulations lay the foundation of an integrated policy framework governing sustainable finance in the European Union. To further strengthen the framework, the European Union is conducting a comprehensive review of the SFDR, the taxonomy and related technical standards, aiming to improve their usability and effectiveness and to ensure consistency among different pillars of the framework. It also announced a new package of measures to further strengthen its sustainable finance regime, which includes expanding the taxonomy to cover additional activities contributing to climate as well as non-climate environmental objectives, such as water and marine resources protection, circular economy transition, pollution prevention and control, and biodiversity and ecosystem restoration. The measures also bring more transparency and integrity to the market by introducing rules on the ESG rating and provide guidance to support transition finance.

In the United States, at the federal level, measures were adopted to promote climate disclosure and sustainable finance; however, at the State level, the backlash against sustainable investment strategies continues: 17 States have passed legislation prohibiting fund managers from considering ESG factors in their investment decisions or prohibiting States from contracting with asset managers that exclude certain industries, such as fossil fuels, from their portfolios (Malone et al., 2023).

A sharpening focus on policy effectiveness has also led to policy consolidation in other developed economies. Australia, Japan, Switzerland and the United Kingdom are reviewing legislation related to sustainable

Table III.3
Measures in six policy areas adopted by monitored economies, 2023

Policy area	Economy
National strategy or framework	Argentina, Brazil, China, France, India, Japan, Mexico, Switzerland, Türkiye, United Arab Emirates, ASEAN
Taxonomy	Mexico
Sustainability disclosure	Brazil, China, France, Germany, India, Republic of Korea, United Kingdom, United States, European Union
Sector-specific measures	Argentina, Australia, Brazil, China, India, Indonesia, Italy, Mexico, Switzerland, European Union
Product-specific measures	Argentina, Australia, Brazil, China, Republic of Korea, European Union
Carbon pricing	Australia, Canada, European Union

Source: UNCTAD GSFO Sustainable Finance Regulations Platform.

Note: Sector-specific measures cover sustainable banking, insurance, investment and credit ratings; product-specific measures cover sustainable funds and bonds. Measures in development are not included.

finance, with a focus on sustainability disclosure and the development of sustainable finance taxonomies.

Developing economies are becoming increasingly active in sustainable finance policymaking. They accounted for 60 per cent of new policy measures in 2023 – a record high. This surge demonstrates their systemic efforts to leverage sustainable finance for sustainable development. They are actively developing national strategies and frameworks for sustainable finance. In 2023, seven of them (Argentina, Brazil, China, India, Mexico, Türkiye and the United Arab Emirates), together with ASEAN member States, rolled out national strategies or frameworks on sustainable finance. Most of these national strategies were informed by the overall national development agenda, aligning with national objectives under the 2030 Agenda for Sustainable Development and the Paris Agreement. Such strategies help establish policy objectives, priorities and key areas for actions to provide guidance and stimulate national efforts to support the growth of sustainable finance.

This trend underscores a growing commitment among countries to adopt a systematic approach to policymaking related to sustainable finance.

Another important development concerns the increase in sector- or product-specific measures, focusing on sustainable banking, sustainable insurance and green bonds. For example, in 2023, Brazil and Chile adopted national frameworks for sustainable bonds; the Philippines released guidelines on the issuance of "blue" or ESG bonds; and Bangladesh, China, India, Singapore and Thailand released policies to support the banking industry in integrating sustainable development considerations into operations, covering sustainable deposits, sustainable loans and green credits (see table III.3).

Except for the largest States, developing countries in general continue to face challenges in leveraging sustainable finance for development owing to a lack of human resources and knowledge, weak market infrastructure, and the fragmentation and inconsistency in international standards (UNCTAD, 2024c). The persistently low level of sustainable investment in many developing economies poses another challenge to their adoption of sustainable finance policies.

Larger developing economies are active in sustainable finance policymaking, but **smaller economies face multiple challenges**

* * *

Some of the findings in this chapter are positive and give hope for a future financial system that is sensitive to sustainability criteria and measures of performance that go beyond financial return. Other findings are less positive, including the continued prevalence of greenwashing, a backlash against sustainable investment in some jurisdictions and foot-dragging by some important categories of investors that are reluctant to report on sustainability risks.

Overall, the analysis in this chapter shows that the sustainable finance market continues to expand and offers further potential for financing sustainable growth, including in developing countries. It shows that a majority of the top 100 PPFs and SWFs, with patient capital, understand the threat of sustainability risks to their business model. Finally, it reveals the positive trend in sustainable finance policymaking, as governments have made more efforts to leverage the potential of sustainable finance, including through better harmonization of international standards to achieve comparable, high-quality reporting criteria.

Going forward, policymakers, regulators and other stakeholders will have to address three challenges:

First is spillover effects resulting from national and regional standard-setting and regulation, which have implications for companies around the world. These effects primarily occur through global supply and

investment chains, where large companies and financial institutions increasingly require their suppliers or investee companies to report on their sustainability.

Second is integrating sustainable finance frameworks into national sustainable development strategies. Most such strategies have been informed by the overall national development agenda, aligning with national objectives under the 2030 Agenda for Sustainable Development and the Paris Agreement. Such strategies help establish policy objectives, priorities and key areas for actions to provide guidance and stimulate national efforts in supporting the growth of sustainable finance.

Third is ensuring that sustainable finance policymaking becomes more impact oriented, focusing on policy effectiveness. Prioritizing the impact and effectiveness of sustainable finance measures is essential, given the concerns about a rising backlash against sustainable investment.

Addressing the issue will require improving the credibility of sustainable finance and combatting the persistent challenge of greenwashing, in particular through enhanced disclosure aligned with leading international standards, and the clear definition of sustainability concerning economic activities and sustainable financial products. Meanwhile, delivering visible impact would also be important, particularly for developing economies that have not yet benefited from increased sustainable investment flows to the real economy.

The signals sent through capital markets can influence, direct and ultimately shape a future economy that is environmentally sustainable, socially equitable and fairly governed. Addressing policy challenges and implementation issues, including policy harmonization and spillover effects, will be essential for realizing any benefits from sustainable finance for the 2030 Agenda for Sustainable Development.