Capital as a Force for Good
Capitalism for a Sustainable Future

The ‘Force for Good’ Initiative
In Support of the UN Secretary General’s Strategy and Roadmap for Sustainable Development in ‘The Decade of Action’ September 2021
CONTEXT, DECADE OF ACTION

“The pandemic has taken four million lives and devastated the global economy. It continues to inflict profound suffering, especially on the most vulnerable people. While some countries plan for recovery, the pandemic is gathering pace in others. As my latest report to this forum indicates, the COVID-19 pandemic has had a dramatic impact on progress towards the Sustainable Development Goals.

Rather than progress, we are moving farther away from our goals. Global poverty is now expected to be at seven percent by 2030 – only marginally below the level in 2015. And with the global temperature increase already at 1.2 degrees, we are on the verge of the abyss. I continue to believe that we can and must turn this around. We have the knowledge, the science, the technology, and the resources to do so. We have some inspiring examples of transformative change, including during this pandemic. What we need is unity of purpose; effective leadership from all sectors; and urgent, ambitious action. To end the pandemic everywhere and get the SDGs back on track, I am calling for decisive action.

In advanced economies, fiscal stimulus packages have reached nearly 28 percent of GDP. In middle-income countries, this figure drops to 6.5 percent; in least developed countries, to 1.8 percent. Many developing countries cannot afford to invest in response or recovery, because of crippling interest payments and reduced opportunities to raise taxes. By delaying a strong global recovery, this liquidity crisis could end up costing the world trillions of dollars and create new geographical hotspots of poverty and deprivation. Solidarity and self-interest dictate that advanced economies should extend an economic lifeline.

Let us renew our determination to build a strong, sustainable and inclusive recovery from the pandemic, and to take decisive action together to defeat the climate crisis and keep the promise of the 2030 Agenda.”

António Guterres, Secretary-General, United Nations

On the follow-up and review of the 2030 Agenda for Sustainable Development and the Sustainable Development Goals
FOREWORD, ADDRESSING THE SDGs

Nearly half-way through the 15-year timeline for achieving the 17 UN Sustainable Development Goals, the world’s challenges are perhaps the starkest they have even been. We face a series of four interrelated crises, climate change, biodiversity loss, pollution, and inequality and social instability, which together represent a fundamental threat to the 7.8 billion people living in the in the world today, and crucially for future generations too.

Following decades of steady, if uneven, development gains, the achievement of the SDGs hangs in the balance. The ongoing coronavirus pandemic, having cost millions of lives and counting, has highlighted not just the fragility of these gains and our shared vulnerabilities, but also asymmetries in the world’s and individuals’ ability to respond to the crisis. The inability of much of the world to comprehensively respond to the crisis risks not just delaying further progress on critical topics like the energy transition. It also risks undoing development and inclusion gains in the very regions where further progress is most desperately needed.

It is increasingly clear that none of the world’s challenges, and by extension the SDGs, can be solved in isolation or by any one actor. They must be addressed comprehensively and in a coordinated fashion by co-creating solutions that stack the social, environmental, and economic dimensions to take into account synergies and trade-offs among the SDGs. This requires bold action by leaders, not just from governments, but the financial and private sectors, all of whom have key roles to play along with other key stakeholders in addressing such systemic challenges. The financial sector can play a role in breaking the silos by offering innovative financing instruments that address interconnectedness and foster innovative solutions downstream.

The Capital as a Force for Good Initiative has been an important voice in highlighting how finance industry leaders have engaged to tackle the world’s biggest challenges, and by extension, in galvanizing the industry to step up its efforts in this regard. Against this backdrop we are delighted to see an increase in engagement by industry leaders in the current report against the previous year’s, with c.US$2.1 trillion of capital committed in pursuit of the SDGs by some of the world’s leading financial institutions in the past 12 months. However, further growth in the scale and scope of commitments is required given the large and growing financing gap in funding the SDGs, and the insufficient portion of financial commitments made towards developing countries, where the need is greatest, in light of the pandemic and the lack of fiscal space they have to respond to the related economic and financial crises alone.

We are currently in the first year of the UN’s Decade of Action. The international community needs to seize the opportunity and redouble its efforts to ensure a sustainable future for all, redressing inequalities, and capturing economic opportunities, associated with the SDGs. We need to address the war on nature that we continue to conduct with our lifestyles, industries, and energy use through a green, blue, purple, and orange recovery that addresses social and environmental issues simultaneously. Securing and directing the funding necessary to do so is therefore an urgent priority for the world. We can only do so in partnership, at the global, national, and local level. The finance industry has the expertise to create financial solutions that address these stacked issues, recognizing that no one institution is likely to have answers to all pieces of the puzzle. The industry, and its leaders, need to collaborate and accelerate knowledge, and play a leading role in funding the SDGs to fulfill its potential as a ‘force for good’ in the world.

Chantal Line Carpentier,
United Nations Conference on Trade and Development (UNCTAD), New York office of the Secretary-General

Will Kennedy,
United Nations Office for Partnerships
FOREWORD, MY LIFE

I am Patience Mkosana.

I grew up in a rural area in the Eastern Cape of South Africa. I failed my final school exams, and my parents were no longer able to support me, so I left home and moved to Cape Town to stay with my sister. I hoped to finish my schooling and then study tourism but that did not happen. In 2002, I was 19 years old and pregnant; there was no time to study due to needing to work to support myself and then my child, as a single mom. My first daughter, Luvwe, is now 19 years old and my second daughter, Nikita, is nine years old. We have no contact or support from their fathers. When I first arrived in Cape Town, I worked as a seasonal worker on a wine farm, and then in some restaurants part time. I am very lucky to now have a full-time job as the housekeeper at our local church. After work I go home to focus on my children, to cook and help them with homework.

I live in Westlake village in an informal settlement in Cape Town. People live in a mix of houses and shacks, all in very close proximity. A house rents space to five or six other shacks or bungalows, which we have to buy and set up in their yard. All these homes share the same water access and source of electricity. Some of the toilets are shared by ten people. We have one shared rubbish bin and rubbish is removed weekly, which is not enough and so it overflows. Our bungalow is around three meters by six meters in size and has two rooms. We are fortunate to be connected to electricity and cold water, as some are not.

The services to our area are not good, although they have improved since I first arrived. At first, there was no primary school and so, from age of six years old, my daughter had to travel to a school in Heathfield, around 5 kilometers away. This was expensive and dangerous. We are very thankful that the primary school was built in 2011 and now my second daughter Nikita is able to walk to school while I am at work. However, there is still no high school in the areas and the teenagers have to travel quite a long way to high school. I am afraid for the girls’ safety in a country given there is so much violence against women. They have to travel in groups and the main danger is from school to where they can share a ride. My daughter has to be home by 3pm and if she is even ten minutes late, I start to worry.

Access to electricity and water is the biggest problem. It is up to the owner of the house to pay the water and electricity, and many times the owner does not, and we all get cut off. We then need to walk some distance to the stream to fetch water in buckets and we light lamps.

There is no Wi-Fi in Westlake and so we are not able to connect to the internet at home. This is a big problem for schoolwork and projects and the few internet cafes are very expensive for us.

Alcoholism is a big problem, especially with the men. The women look after the families.

Covid has had a very strong effect on my children. Sometimes they have not been able to go to school at all. This is making studying extra tough for my eldest daughter who is supposed to be finishing her final exams this year. Luckily, we have a mobile phone. During Covid, the only way to get schoolwork is through WhatsApp, but this is very difficult to use, especially for math. Also, there is no Wi-Fi, and the data costs are also very expensive, so this has been very difficult. It is also not safe for
the children to go outside when they are not at school and so they need to stay inside when not at school and keep themselves busy.

I am very lucky to still have a job as many of my friends have lost work either completely or in part. Both of my sisters have lost most of their income and so I am helping to support them.

I have a bank account which was opened once I got my full-time job at the church. I do not have a loan at the moment but would like one to buy a house. I would really like to have my own home, but it is very expensive. I earn around 50,000 rand per year (c.US$3,500) and the cost of a house in Westlake is around 500,000 rand (c.US$35,000), which will cost me 10 years of salary. If I want to own a house, I will have to move to another area. I have been given a paper by the government stating that I will be able to get a loan of 109,000 rand (c.US$7,600), but the application process is slow, and the bank has not responded to my emails. I have also been told that I will need to pay a deposit, but I do not know how much, and in any case, I do not have any savings.

We do not get any help from the governments, and it would be good to have a grant of some kind.

I am very thankful for our community who help each other with small jobs like sewing and gardening projects, as well as helping to teach the kids, take them off the street and focus on the future rather than on drugs. Without my faith, I wouldn’t be the person I am today. My faith in God also helps me to trust and be patient with everything.

My main hope for the future is to have a home to live in and I would also like to set up my own business. So, I try to make extra money wherever possible. In my village, there are very few business opportunities. But I did notice that none of the shops we have sell ice cream so, in summer, I buy ice-cream in big tubs and sell it from my home in cones. I can buy eggs at 38 rand per tray and then sell them at 50 rand per tray, but this is not a lot of profit and I also have to pay the cost upfront. If I had a home with a yard, I could buy chickens to lay the eggs as well as keeping my job.

I would love my kids to finish school, get some further education, and a job doing something that they love. Luviwe would really like to work in technology and Nikita loves fashion design, but they need to make sure they get through school first.

Patience Mkosana

Cape Town, South Africa
MESSAGE FROM THE ADVISORY COUNCIL

“Force for Good” is a Powerful Call for All

In a world destabilized by the global coronavirus pandemic and its aftermath, the sense of urgency in addressing global challenges related to sustainability, development and inclusion has grown exponentially over the course of the past year. The pandemic has highlighted starkly the interconnected nature of the world and demonstrated that the achievement of the 17 UN Sustainable Development Goals is now even more clearly required to establish a sound platform from which the world can move forward. However, funding for the goals continues to lag far behind what is required, and the SDG funding gap continues to grow due to both the social and economic shocks of the pandemic and the increasing cost of addressing key issues such as climate change, with the funding shortfall for the SDGs estimated at US$8.4-10.1 trillion, every year for the next decade. Private sector capital will be critical if this gap is to be closed, and even that will not be sufficient without a new compact between all stakeholders. There is also a renewed sense of hope that many of these challenges can be addressed as more voices, and more capital, join the call to act.

Stimulus in the tens of trillions has been deployed by national governments and central banks across the world, backed by international and regional development financial institutions, in bold moves to forestall the worst of the consequences of a debilitating pandemic and protect their populations, contributing to an overall increase in global household wealth of nearly US$30 trillion during the past year. Given most of this has accrued in developed countries, these measures have not made a significant difference to the nearly 70% of the world’s economies that lack the financial capacity to engage in a significant level of fiscal or monetary stimulus on their own who, unaided, will continue to struggle with the virus and its long-term economic consequences. A two-tier world seems very possible. During the past year, the leaders among the finance industry have deployed capital in record amounts to address global issues with over US$824 billion dedicated to climate change, US$433 billion of local community financing and US$33 billion in social inclusion funding, and many, many smaller institutions the world over are playing their part too.

The world will need bigger ideas and innovations, bolder actions, greater financing, and heightened levels of cooperation if it is to avoid the severe competition, conflict and suffering that will result from the world failing to secure a sustainable future for all in the next decade. The world risks a human security crisis, alongside a planetary ecosystem one, in the decade to come.

While finance industry leaders are raising the scale and scope of their initiatives, this is clearly a problem beyond any one group and requires a multi-stakeholder approach as a matter of urgency, one in which the finance industry has an outsized role to play given its stewardship of over 85% of the world’s c.US$400 trillion gross liquid financial assets.
The second Capital as a Force for Good report is a resource that provides much-needed data required to understand the scale of the transition underway, the size of the current financing gap facing the world, as well as some of the important elements of potential answers on the way ahead. Achieving this transition is not only our collective challenge but also the opportunity to create a far better future for us all.

Best wishes for our collective future.

Ketan Patel, Chairman, Force for Good
Chair of the Advisory Council, Capital as a Force for Good Initiative

Helen Alderson | Edward Braham | Nitin Desai | Garry Jacobs | Anja Kaspersen | Jonathan Miller | Sir Alan Parker
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The Lead for the Report was Ketan Patel, Chairman, Force for Good; Chair of the Advisory Council, Capital as a Force for Good Initiative; Founder and CEO of Greater Pacific Capital.


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Final Review and Insights were provided by Chantal Line Carpentier of UNCTAD and Will Kennedy of the UN Office for Partnerships.


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ABOUT THIS REPORT

The Capital as a Force for Good Initiative was launched in 2020 to promote capital as being a force for good in the world at a time of profound and multi-dimensional global change. The finance industry has a critical role to play in addressing the major challenges facing the world today, mobilizing capital and breaking new ground in financing innovative, sustainable, and inclusive solutions that build a better future for all. The initiative seeks to engage the world’s major financial institutions and collaborate with industry leaders to conceive and execute ambitious initiatives that raise the bar for others to follow. In pursuit of these objectives the Capital as a Force for Good Initiative conducts primary research, including the publishing of reports and briefs, provides a platform for the finance industry to collaborate and share their efforts, and organizes events to promote the finance industry actively addressing the world’s biggest challenges as a force for good.

The first part of this report lays out the challenges the world faces in funding the SDGs, the growing funding need, and the current shortfalls in actual spending, against the backdrop of the world’s financial resources and an overview of the stakeholders who control them. The second part provides an overview of the global finance industry’s engagement as a ‘force for good’ based on their commitments and actions with regards to a broad range of objectives focused on ESG, sustainability, and stakeholder engagement (including equality, inclusion, and development), establishing the evolving common ground among finance industry leaders across banking, insurance, and the broader asset management sector. The report also examines the most ambitious and innovative initiatives by industry leaders across these areas that are breaking new ground for the finance industry’s engagement in terms of scale, or the impact delivered.

The report’s analysis is based on a detailed dataset/database capturing the engagement and initiatives of 100 of the world’s largest financial institutions across the globe, with c.30 of these actively participating in the research process, providing additional data, sharing information on their efforts, and engaging with the Capital as a Force for Good initiative. This report also benefits from the analysis and engagement of seven development financing institutions and multilateral development banks, and the examination of five global technology companies and five fintech companies.

The report builds on the research of the 2020 inaugural Capital as a Force for Good report, charting the growth in engagement by industry leaders and the growing common ground of action. This year’s report also seeks to measure the impact of the world’s largest financial institutions, reporting and measuring their force for good initiatives in a standardized fashion. This report would not have been possible without the decades of work by the United Nations, particularly UNCTAD, UNDP, UNEP, the Global Investors for Sustainable Development (GISD) Alliance, and the UN-PRI, which have pioneered the global efforts in sustainably, development and inclusion.

The Capital as a Force for Good report has been prepared and issued by the F4G Foundation, a non-profit organization established in 2021 to manage the reporting process, the outreach to active
participants and other stakeholders and to serve as a platform to engage the finance industry and manage broader initiatives that position capital as a force for good in the world.

The Advisory Council for the Capital as a Force for Good Initiative comprises:

Helen Alderson, Head of Regional Delegation to the UK and Ireland, International Committee of the Red Cross; former CEO of the World Heart Federation

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Sir Alan Parker, Chairman and founder of Brunswick; former Chair of Save the Children International; Chairman of HRH The Duke of Edinburgh’s Commonwealth Study Conferences

Ketan Patel, Chairman, Force for Good; CEO and Founder, Greater Pacific Capital; formerly Managing Director, Goldman Sachs, Head of Strategic Group; former Partner, KPMG
# TABLE OF CONTENTS

CONTEXT, DECADE OF ACTION.................................................................................................................. ii

FOREWORD, ADDRESSING THE SDGs .................................................................................................... iii

FOREWORD, MY LIFE ............................................................................................................................... iv

MESSAGE FROM THE ADVISORY COUNCIL ............................................................................................ vi

ACKNOWLEDGEMENTS ............................................................................................................................ vii

ABOUT THIS REPORT ............................................................................................................................... ix

TABLE OF CONTENTS ............................................................................................................................... xi

FIGURES, TABLES, AND INFOGRAPHICS ................................................................................................. xii

ABBREVIATIONS AND EXPLANATORY NOTES ....................................................................................... xiv

Executive Summary ..................................................................................................................................... 16

1. Saving the Planet and Creating the Future ......................................................................................... 23

2. Funding the SDGs and a Sustainable Future ....................................................................................... 35

3. All the Money in the World, And Who Has It ..................................................................................... 45

4. The Common Ground: Substantial and Growing Across the Industry ............................................... 54

5. Breaking New Ground: Industry Leaders Are Raising the Bar ......................................................... 73

6. Financial Performance: Doing Well by Doing Good ........................................................................... 81

7. SDG Funding and Impact: Record Deployment, Challenges Ahead .................................................. 94

8. Stakeholders Across the Broader Finance Ecosystem ......................................................................... 102

9. The Agenda for Change ....................................................................................................................... 116

ACKNOWLEDGEMENTS ........................................................................................................................... 128

REPORT OBJECTIVES, RESEARCH PROCESS AND METHODOLOGY ............................................... 136

DISCLAIMER, REFERENCES AND NOTES ............................................................................................... 143
FIGURES, TABLES, AND INFOGRAPHICS

Figure 1 - The Interrelated Nature of the SDGs
Figure 2 - Total ESG and Sustainable Investing AUM (US$ trillion)
Figure 3 - A Simple Framework for Financing the 2030 Global Sustainability Agenda
Figure 4 - The Cost of Addressing Basic Human Needs
Figure 5 - The Cost of Saving the Planet
Figure 6 - The Cost of Building Physical and Virtual Infrastructure
Figure 7 - The Cost of Creating Shared Prosperity
Figure 8 - Total Financing Gap Required for the 2030 Sustainable Development Agenda
Figure 9 - The Stock and Flow of Global Financial Capital
Figure 10 - The Consumption-Led Capitalism Model
Figure 11 - A Framework for Being a Force for Good and Delivering Impact
Figure 12 - Total Assets and AUM of the 100 Finance Industry Leaders Analyzed in this Report
Figure 13 - Adoption of ESG Policies and Practices by Finance Industry Leaders
Figure 14 - Business Activities the Finance Industry is Trying to Restrict Through Exclusions
Figure 15 - Key ESG Factors Considered by Financial Institutions
Figure 16 - Finance Industry Leaders’ Participation in International Associations
Figure 17 - Active Incorporation of ESG in Investing Strategies Across the Industry
Figure 18 - Sustainability-Linked Financing Activity by Industry Leaders in 2020
Figure 19 - Change in Finance Industry Leaders’ Carbon Footprints
Figure 20 - Growth of Net Zero Financing and Investment Portfolio Commitments
Figure 21 - Total CSR Spending and Key Focus Areas in 2020
Figure 22 - Focus on Investing in Employees and Building Resilience by Industry Leaders
Figure 23 - Focus on Diversity and Inclusion in the Workforce by Finance Industry Leaders
Figure 24 - Finance Industry Leaders Commitment to Sustainability and a Multi-stakeholder Approach
Figure 25 - ‘Force for Good’ Delivers Financial Returns
Figure 26 - Global ESG and Sustainable Mutual Fund AUM
Figure 27 - Correlation of ESG with Superior Corporate and Investor Performance
Figure 28 - ESG and Business Performance, “ESG Leaders” vs Peers
Figure 29 - Total Shareholder Returns for “ESG Leaders” vs. Peers
Figure 30 - ‘Force for Good’ Delivers Shareholder Returns
Figure 31 - Performance Across F4G Score Quartiles by Sector
Figure 32 - The Transformation of Next-Generation Finance Industry Leaders
Figure 33 - Scaled Commitments and a Widening Focus on the SDGs by Industry Leaders
Figure 34 - Comparing Focus by Leaders Across SDGs
Table of Figures

Figure 35 - Comparing Commitments by Leaders Across SDGs ................................................................. 96
Figure 36 - Mapping Current Sustainability Financing to the Total Funding Gap for the SDGs ............ 97
Figure 37 - Annual Financing Mobilized by Industry Leaders by SDG .................................................. 98
Figure 38 - Annual Financing Mobilized by Industry Leaders by Category ......................................... 98
Figure 39 - The Expected Position of Major Global Financial Hubs, 2020-2050 .................................. 104
Figure 40 - Current State of Global Financial Inclusion ......................................................................... 105
Figure 41 - The Growing Reach of Major Social Platforms ................................................................. 107
Figure 42 - Increasing Scale and Value of Fintech ................................................................................. 109
Figure 43 - Public Financing Available for SDGs in Least Developed Countries ................................. 111
Figure 44 - Largest MDBs and DFIs by Annual Financing ................................................................. 112
Figure 45 - The Global Transition: Two Potential Paths ................................................................. 117
Figure 46 - World View and Strategy .................................................................................................. 118
Figure 47 - Total Assets and AUM of the 100 Finance Industry Leaders Analyzed in this Report .... 136
Figure 48 - Actively Participating Financial Institutions ........................................................................ 138
# ABBREVIATIONS AND EXPLANATORY NOTES

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>AI</td>
<td>Artificial intelligence</td>
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<tr>
<td>AuM</td>
<td>Assets under Management</td>
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<td>BAME</td>
<td>Black, Asian and minority ethnic</td>
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<td>Bn</td>
<td>billion</td>
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<td>CDFI</td>
<td>Community development financial institution</td>
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<td>CDP</td>
<td>Carbon Disclosure Project</td>
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<td>CEO</td>
<td>Chief Executive Officer</td>
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<td>CII</td>
<td>Council of Institutional Investors</td>
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<td>CIN</td>
<td>Ceres Investor Network</td>
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<td>CIO</td>
<td>Chief Investment Officer</td>
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<td>CITES</td>
<td>Convention on International Trade in Endangered Species of Wild Fauna and Flora</td>
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<td>COP26</td>
<td>26th Conference of the Parties of the United Nations Framework Convention on Climate Change</td>
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<td>CSR</td>
<td>Corporate social responsibility</td>
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<td>DFI</td>
<td>Development finance institution</td>
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<td>EMEA</td>
<td>Europe, the Middle East and Africa</td>
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<td>EU</td>
<td>European Union</td>
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<td>ESG</td>
<td>Environmental, Social and Governance</td>
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<td>FDI</td>
<td>Foreign direct investment</td>
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<td>FinTech</td>
<td>Financial technologies</td>
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<td>FY</td>
<td>Financial year</td>
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<td>GCC</td>
<td>Gulf Cooperation Council</td>
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<td>GHG</td>
<td>Greenhouse gas</td>
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<td>GIC</td>
<td>Global Investment Corporation Private Limited</td>
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<td>Global Impact Investing Network</td>
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<td>GRESB</td>
<td>Global Real Estate Sustainability Benchmark</td>
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<td>HDFC</td>
<td>Housing Development Finance Corporation Ltd.</td>
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<td>HRH</td>
<td>His Royal Highness</td>
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<td>ICGN</td>
<td>International Corporate Governance Network</td>
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<td>ICMA</td>
<td>International Capital Market Association</td>
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<td>IIGCC</td>
<td>Institutional Investors Group on Climate Change</td>
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</table>
III Impact Investing Institute
ILO International Labour Organization
IMF International Monetary Fund
IoT Internet of Things
IPCC Intergovernmental Panel on Climate Change
JPY Japanese Yen
KPI Key performance indicator
LGBTQ+ Lesbian, gay, bisexual, transgender, queer/questioning
M million
MDB Multilateral development bank
MSME Micro-, small- and medium-sized enterprises
NGO Non-government organization
OECD Organisation for Economic Co-operation and Development
p.a. per annum
PMAY Pradhan Mantri Awas Yojana (housing scheme)
UK United Kingdom
UN United Nations
UNCTAD United Nations Conference on Trade and Development
UNEP United Nations Environment Program
UNGC United Nations Global Compact
UN-PRB United Nations Principles of Responsible Banking
UN-PRI United Nations Principles of Responsible Investing
US United States
US$ United States dollars
SDG United Nations Sustainable Development Goal
SASB Sustainability Accounting Standards Board
SWF Sovereign Wealth Fund
TCFD Financial Stability Board’s Task Force on Climate-related Financial Disclosures
TIAA Teachers Insurance and Annuity Association of America
The global coronavirus pandemic has triggered a series of cascading, social, economic, and political shocks over the past 18 months that have revealed the fragility and interconnectedness of the world at multiple levels and as a system too. The pandemic put a spotlight on our global interdependencies and interconnectedness, reinforcing the urgency of meeting the United Nations Sustainable Development Goals (SDGs), and importantly is a red line between a carbon past and a cleaner, more empowered future, demonstrating that there are no borders to stop major issues affecting all. During this challenging period, governments have led in stimulus and leading institutions in the finance industry have risen to the challenges of addressing not only the short-term dislocations from the crises, but also picking up the pace of financing medium- and longer-term global environmental and inclusion challenges, making trillions of dollars of commitments, and mobilizing funding for climate change and the SDGs at an unprecedented scale. However, the challenge of financing the SDGs and the transition to a superior sustainable future remains even greater than previously imagined, pointing to an urgent need for a more holistic approach.

Leading The World to a Sustainable, Inclusive, Superior Future

1. The SDGs need an estimated US$116-US$142 trillion. The funding gap of US$84-US$101 trillion represents a seemingly insurmountable hurdle
   - The global coronavirus pandemic has accentuated the need for social protection for the most vulnerable, and undone years of progress on the SDGs and decades of development advances
   - With less than ten years to go, the world is running out of time to meet the global SDGs
Achieving the SDGs is critical to build the sound base needed for the world to transition well to the emerging sustainable information age, without which risk and volatility will continue to mount.

This estimated funding gap represents c.10% of current global GDP, required annually, and therefore closing this gap lies beyond the power of the finance industry, or any other stakeholder, acting on their own.

A total of US$200-220 trillion is needed if the transition funding is added to the full cost of the SDGs for a period to 2050, an additional c.US$80 trillion being for the energy transition needed for climate change, which will be greater once other transition costs are added.

2. Failing to fund the SDGs threatens the peaceful transition to a superior future that is sustainable in the information age

The world has made great development progress in recent decades, with 1.1 billion people lifted from extreme poverty since 1990,² and childhood mortality down 60% over the same period,³ and further gains in life expectancy, literacy, and education.

Further progress is required, particularly on sustainability and inclusion, with c.70% of the world lacking adequate financial inclusion, and the SDGs reflect the shared agenda for the world to achieve this.

Failing to seize the opportunity offered by the pandemic to rebuild better using the SDGs as a guidepost will likely create two-tier world development, but the interconnectedness and interdependency of the world ensures that risks and costs will be shared by all, e.g., with 143 million new climate migrants expected by 2050.

While the transition to the sustainable information age is inevitable, the friction of the transition depends on the ability to deliver sustainable development for all, thereby avoiding the conflicts and crises that could derail it.

3. Finance industry leaders have significantly stepped up their sustainability, development, and inclusion funding, committing US$9.5 trillion to 2030, deploying a record US$2.1 trillion in 2020

US$9.5 trillion dollars in SDG funding commitments to 2030 have been made by the top institutions for deployment.

US$2.1 trillion of capital was mobilized in 2020 for sustainability and inclusion linked investments, c.US$1 billion dollar of which was financed by the top 10 leading institutions.

44% of total current spending is focused on climate change and related goals, while climate change represents only c.20% of the overall SDG funding requirement.

32% of actual current funding by finance industry leaders is in support of funding human, economic, and social SDGs, which represent almost half of the overall funding need.

The majority of capital is focused on advanced economies given their geographic focus and mandates, despite the current funding shortfall being in developing countries.
4. The world has c.US$400 trillion of gross liquid financial assets, c.64% is owned by individuals, and more than 85% is managed or allocated by financial institutions

- The SDG funding gap is far beyond the ability of any one stakeholder in the financial system to fund and requires a multi-stakeholder effort, and the funding need will keep rising as more industries transition

- The finance industry manages or allocates more than 85% of gross liquid assets globally (c.US$350 trillion), and although its degree of control over the assets it invests varies, it clearly has a key role to play

- Individuals, who collectively own 64% of gross liquid assets (US$255 trillion), and represent over 80% of global consumption, are a key determinant of success

- Governments, including central banks, control c.36% of gross liquid assets (US$143 trillion) and have a critical role to play in policy shaping, as well as direct funding.

- Corporations (non-financial) directly control over US$156 trillion in total financial assets and are a key stakeholder but are themselves owned by individuals, financial institutions, and government shareholders. The value of this US$156 trillion is therefore largely reflected in the value of the shareholders assets (which total US$400 trillion).

5. A series of major global shifts are underway and these point to the need for a strategic and integrated multi-stakeholder approach to meet the SDG goals

- The global context is shifting to a very different scenario, changing everything from geopolitics to the role of the individual, with concurrent shifts to the information era from the industrial one, the rise of four power blocs from one superpower, the overuse and likely exhaustion of easily available natural resources, and a population of nearly 10 billion by 2050 fully interconnected by internet media

- The funding of the world’s challenges is a multi-stakeholder responsibility. Governments, individuals, philanthropies, NGOs, and the private sector need to help fund the transition, alongside financial institutions

- The financial hubs of the US, China, EU, and later India, will be the most powerful arbiters of what gets financed between now and 2050, given that between them they account for 68% of the world’s market capitalization, 63% of global GDP, and 45% of the world’s population, making their alignment on financing the SDGs critical

- Individuals acting collectively have proven to be a powerful and disruptive force in politics and have the potential to change the flow of capital too and are critical to supporting the SDGs through their individual choices as consumers and investors

- Technology companies provide platforms to half the world’s population, that can be used for collective action and give these individuals extraordinary power in politics and social movements, which will likely occur in finance and business too
• The next generation of specialty fintech solutions are solving neglected and intractable problems outside the scope of the finance industry’s current focus

• Development finance institutions and multilateral development banks as the original force for good institutions face the imperative to scale and given their relatively constrained capital will need to partner with the private sector, helping them to address the challenges of investing in countries, sectors and projects struggling to comply with increasing ESG requirements

• The finance industry has the opportunity to take a leading role in building a multi-stakeholder approach to funding the goals given its preeminent position in the financial system and faces a number of risks should it fail to do so.

6. The case of capital being deployed as a ‘force for good’ is associated with up to 8x outperformance for the most engaged companies

• 100% of leading financial institutions have adopted ESG considerations and 95% have integrated ESG into core business processes. The majority are driving the defunding of civilian firearms, child labor, coal mining, tobacco, and are promoting behaviors related to climate change, human rights, diversity and inclusion, biodiversity, community, data privacy and cybersecurity and fair labor practices, with c.US$33 trillion of managed assets now fully ESG integrated

• 93% are committed to a multi-stakeholder approach, 95% are enhancing diversity, 85% see their employees as key stakeholders with engagement programs in place

• 97% of leading financial institutions work with peers and international organizations through various forums and 60-80% are members of UN-PRI, TCFD and CDP, moving the industry to a common set of standards that drive greater transparency and disclosure in ESG and sustainability financing

• 86% are supporting the Paris goals, with US$88 trillion of assets committed to net zero by industry leaders

• Doing good is correlated to returns, with the most advanced financial institutions in this report generating c.8x greater returns to shareholders over the MSCI world financial index over a five-year period to 2021

• Overall, we have seen 5.7x greater returns to shareholders for all ‘force for good’ financial institutions over the same index

• The superior performance of ‘force for good’ organizations is differentiated and multi-dimensional. They are better run companies, able to attract and retain more diverse and more productive talent, with more resilient systems and processes and business strategies that position them to capitalize on high growth opportunities, and with innovative products and services that differentiate them from their competitors
The SDGs, the Transition, and a Superior Future Need to be Funded as Investible Opportunities for Capital to be Deployed at Scale

Achieving the SDGs and net zero carbon emissions are crucial parts of the long-term global transition to the sustainable information age, a transition that is broader and will define the global flow of funds and the creation of value for decades to come.

Deploying capital to fund the current world platform, the transition and key elements of the future requires a multi-stakeholder alignment, and this will likely not be mobilized at the scale required as a charitable endeavor, or one funded by governments through taxes, or one undertaken at losses. Hence, the requirement is to fund investment themes where profits are made at sufficient levels to reward bold action and risk taking, allowing for re-investment in the future, while providing for employment, taxes, social security, and pensions today.

The macro investment themes, indicating the scale of challenge and ambition required, whose funding will determine the shape of this global transition include:

I. Closing the SDG Funding Gap, investing US$116-US$142 trillion, with a current shortfall of US$84-101 trillion, over the next decade, with major financial institutions partnering with other stakeholders to adopt the SDGs, particularly the most neglected

II. Mass Scaling of Existing Green Energy Solutions, replacing the 83% of global energy still generated by fossil fuels (beyond net zero, representing a replacement of the current infrastructure to net negative)

III. Regeneration of the Environment and Ecosystem, renewing the 25% of global land that has been degraded and cleaning cities and industries (enhancing the SDGs by also renewing urban and industrial environments)

IV. Global Digital Participation and Inclusion, providing inclusion to the over three billion people without internet access (a universal project beyond the agreed SDG goals of access to move forward together)

V. Mass Education and Skill Development, providing mass education, skills and better awareness and mental resilience using digital platforms to break the boundaries of location and local restrictions (a move beyond education to a more inclusive, aware, and resilient population)

VI. Mass Financial Inclusion, providing financial access and services to the 67% of the world’s population that remains un- or underbanked (beyond basic bank accounts to meaningful inclusion in the financial system)

VII. Resilient Healthcare and Social Security Systems, caring for the 3.9 billion people lacking access to critical healthcare services (recognizing universal health and social security as a basic human right)

VIII. Stakeholder Aligned and Resilient Companies, influencing the priorities of the 99% of global companies not yet fully aligned to the SDGs (reflecting the resilience that comes with
businesses that are relevant to the values of sustainability in the world, and ready to tap the US$12 trillion business opportunities associated with the SDGs).  

IX. Reimagined Urban Life, creating sustainable living for the 2.4 billion new urban inhabitants by 2050 in the face of migration within and across boundaries (beyond 2030, reflecting the rise in urbanization)  

X. Mobilizing the Individual, shaping the flows of US$49 trillion of annual household spending globally as the individual becomes a responsible consumer and investor (reflecting the growing awareness and power of the individual as a collective and potential force for good)  

XI. Food and Water Security, increasing global food production by 70% to meet rising demand by 2050, providing safe, nutritious, and varied food for 9.7 billion people (turning low productivity arable land into industrial scale yield while maintaining farmer ownership)  

XII. Radical Energy Breakthroughs, enabling a step change in human civilization with energy sources that breakthrough in functionality, while being clean, affordable, reliable, and abundant (funding the future energy for a new civilization)  

The SDGs as fundable investments combine the idea of financial and non-financial returns, not as a trade-off but as a requirement for each, rewarding risk taking and execution with value. Such a conception can be funded, and given the vibrancy of the global financial system, will be pursued by the private sector. The success of that requires consumers, individual investors, scientists and technologists, corporates, governments, and development finance to support it too.  

The benefits of financing the SDGs through such investment themes go far beyond the immediate financial gains that they will accrue for the funders, holding the promise of a stable transition to a world of humanity without extreme hunger, illiteracy, avoidable diseases, poverty, and countless unnecessary deaths and renewed by working together as an interconnected and interdependent whole.  

The Way Ahead and its Implications, A Summary  

The fact that the world faces an existential threat is now well understood, thanks to the efforts of the UN and the many others across the world working on the front lines of addressing the issues facing the world and speaking to this challenge.  

The call to action has been heeded and the private sector is mobilizing resources with increasing speed, with the finance industry leading in the allocation of capital, recognizing that its current mandate is limited predominantly to stewardship on behalf of the ultimate owners of this capital.  

Closing a funding gap of nearly US$100 trillion to 2030, representing GDP allocations of c.10% every year, will not be possible without a new understanding between all stakeholders.  

Achieving this objective will require not only more funding but also a broadening of investment portfolios to place far greater emphasis on investments in people and human security by direct investments in the social inclusion, education, welfare, and well-being of human beings.
Governments, companies, and individuals (and many others) would need to align not only on the actions but also on the consequences of the actions required to address the challenges, including the political, social, and economic consequences, particularly in wealthy countries.

The benefits to all are clear but short-term costs will need to be managed with stakeholders by visionary leaders, in all walks of life.

For financial institutions, this is their potential moment in history to fund big changes and big ideas, taking big risks. And the smartest and most advanced financial institutions that lead the way will generate the greatest returns and have the greatest chance to endure as consequential financers of the transition to the future, renewing their role and commitment to people and planet as a whole.
1. Saving the Planet and Creating the Future

2020 was a pivotal year for the world in many respects with an era-defining crisis in the form of the ongoing human and economic shocks caused by the coronavirus pandemic. The COVID-19 pandemic, global in nature and multi-year in duration, has cost millions of lives to date and impacted the lives of billions, with its disruptions undoing years of progress on the SDGs. With less than a decade to go until the 2030 target date, the achievement of the SDGs is today at serious risk. Moreover, with the SDGs being deeply interconnected, the failure to address any one goal hinders progress on others. This interconnectedness also creates systemic risk for the world should the goals be missed, creating a potentially vicious circle of environmental degradation, political upheavals, economic disruptions and conflict, and human security risk, making the need of meeting the SDGs an urgent one for the world. Their achievement will require a whole new scale of initiatives and breakthroughs, of which the energy transition and the continuing digitization of the global economy are two critical factors to enable the transition to the sustainable information age.

The Pandemic is a Red Line Between a Carbon Past and a Cleaner, More Empowered Future

2020 was a year of records. The largest global pandemic in over a century, the worst global recession since the Second World War and the biggest stimulus package in history, were some of the landmarks. In the space of a few short months, the world’s modus operandi was overturned as nations around the globe scrambled to respond to successive waves of coronavirus outbreaks. The scope and scale of the shock of the virus and the responses was such that it more-or-less crowded out global engagement to make breakthroughs on other systemic risks, regarding sustainable development.
These two topics had been rising steadily on the agenda of both public and private sector leaders since the launch of the United Nations Sustainable Development Goals (SDGs), and progress on the one came with setbacks in the other.

The 2030 Agenda for Sustainable Development was launched in 2015 to “end poverty and set the world on a path of peace, prosperity, and opportunity for all on a healthy planet,” laying out 17 interrelated goals focusing on five factors of people, planet, prosperity, peace, and partnership. While progress against the 17 goals had been uneven and slower than required to meet the 2030 targets, real progress was indeed being made against the SDGs until the pandemic hit.

The COVID-19 pandemic has quickly emerged as the worst human and economic crisis of today’s lifetimes, global in nature and multi-year in duration, impacting the lives and livelihoods of billions of people around the world. However, although the virus has affected every person and every community, it has not done so equally. There has been a disproportionate impact on the poorest and most vulnerable, reflecting an asymmetry in capacity of countries and people to withstand these impacts, which has undone years of progress on the SDGs.

The negative development impacts of the pandemic also hit developed countries hard, delivering a harsh taste of the suffering of the poor to the rich. While governments in advanced economies moved swiftly to deploy an unprecedented US$23 trillion in fiscal and monetary stimulus (over 46% of their GDP) to protect their people and their economies from the virus’ impact, the human toll in these richer countries too was significant, with the brunt being borne by the most vulnerable members of society. Their poor suffered disproportionately high death rates from COVID-19, regular medical treatments for the sick and elderly were interrupted or suspended due to safety concerns and demand surges in hospitals, the security of women and girls deteriorated, and poorer families without access to the internet saw lost school years. Further, while most countries provided some form of income support for enterprises and families, as well as moratoria on evictions and home repossessions, millions of people across the world were at risk of losing their homes as these programs wound down, and millions of small to medium enterprises, particularly in the developing world, faced the risk of insolvency.

Beyond the harsh human impact, the pandemic’s positive environmental consequences are set to be temporary ones without the effort to institutionalize changes. While the pandemic and the related lockdowns led to the largest ever fall in global CO₂ emissions, down 6.4% in 2020, these reductions are not expected to last without big changes, and climate change continues to represent a major risk.
anticipated\textsuperscript{13}. 2020 was the second warmest year on record\textsuperscript{14}, and “it is unequivocal that human influence has warmed the atmosphere, ocean and land,” with “widespread and rapid changes in the atmosphere, ocean, cryosphere and biosphere\textsuperscript{15}.”

The coronavirus pandemic has emerged as a red line for the world. It has divided time between a world before, irretrievably breaking a past built on a carbon energy source that had delivered all it could on the one side, and on the other, a more sustainable world leveraging all the innovation the world has to offer. The transition period in between calls for unprecedented responses by states, organizations, and individuals in recognition of the interconnectedness and interdependency between people, communities, and nations regardless of their differences. In doing so, the pandemic provides a lesson for other global challenges, that they too require a “one world” approach and will not be solved in isolation.

Creating a sound foundation by achieving the 17 SDGs is a test of the world’s ability to leverage ingenuity and commitment to address a series of global systemic and interrelated risks. Few would now question that meeting these goals requires a program that brings together the stakeholders from the financial, economic, political, and community spheres that govern our world today to transform its capacity and impact. Importantly, solving for the SDGs provides the lessons and preparation for the next phase of the journey which is to create a future that is more inclusive, sustainable and able to perform at a higher level as a whole than the industrial civilization of today.

\textbf{An accentuated crisis affecting humanity emerging}

Before the pandemic, the world was already facing protracted crises driven by violent conflict, periodic natural disasters, political and social strife, and systemic challenges like persistent poverty and inequality that undercut prospects for peace, stability, and development, driving human insecurity. Resource scarcity, increasingly linked to climate change, has been driving intensifying intra- and inter-state competition for food, water, and other crucial resources, as well as increasing the frequency and severity of disease outbreaks. The resulting unrest and conflicts are already displacing populations at scale, with over 80 million people uprooted and displaced as of 2020\textsuperscript{16}. Further, up to two billion people live in countries that are impacted by conflict, fragility, and violence. These numbers were already expected to rise before the pandemic, with up to two-thirds of the world’s extreme poor living in fragile and conflict-affected countries by 2030\textsuperscript{17}, and three regions (Latin America, sub-Saharan Africa, and Southeast Asia) projected to generate 143 million more climate migrants by 2050\textsuperscript{18}. The scope and scale of projected human migration is due to test the limits of national and global responses and governance, as well as international cooperation.
The achievement of the SDGs within the next decade is critical for the world to avert these crises and to put the world on a more sustainable and equitable path. However, these unsolved challenges have been further accentuated by the pandemic threatening to create a further divided world and, in some cases, reversing past progress made on the SDGs. Some of the key social impacts made more acute by the pandemic include:

Extreme Poverty Rising. Absolute global poverty has increased for the first time since 1998, with over 70 million people having been pushed back into extreme poverty during 2020\(^9\). Lost incomes, limited social protection, and rising prices meant that even those who previously felt secure were at risk of poverty and hunger.

Lost Employment and Income. 114 million jobs were lost during 2020\(^20\), with an additional 1.6 billion people – half the global workforce – underemployed, and with their incomes estimated to have fallen by 60% in the first month of the crisis\(^21\).

Slumification. The lack of running water, sanitation, waste management, and access to formal healthcare, as well as the overcrowding experienced by the more than one billion slum dwellers worldwide, placed these populations acutely at risk from the effects of COVID-19 and other diseases\(^22\).

Maternal and Child Deaths. Disruptions of childhood programs and limited access to diet and nutrition services laid the ground for hundreds of thousands of potential additional child and maternal deaths. Many countries also reported increased domestic violence against women and children\(^23\).

Disrupted Education. 1.6 billion or 90% of students worldwide were affected by school closures, with many lacking access to the devices and connectivity required for at-home learning, while 370 million children missed out on school meals they depend on\(^24\).

Child Labor Increasing. The global gains in reducing child labor are at risk of being reversed for the first time in 20 years, as more poor and disadvantaged families fall into extreme poverty, increasing incidences of child labor, child marriage and child trafficking\(^25\).
Political Upheaval and Disruptions. Over 125 significant anti-government protests have erupted worldwide since the beginning of the pandemic, approximately 25% of which involved violence by or against the authorities.\textsuperscript{26}

Health Security Risks. The emergence of the novel coronavirus has created a severe global public health emergency, with over 4.5 million infected people dying within 18 months of the WHO declaring the pandemic, straining healthcare systems across both the developing and developed world and putting sick people at risk from postponed treatment.

Taken together, these factors significantly accentuate the human security and planetary ecosystem crises facing the world, placing the need to achieve the SDGs into even sharper relief.

\textit{Interrelated nature of the SDGs reflects the world being an interconnected system, and creates the risk of systemic failure as a result}

The SDGs are deeply interconnected (see Figure 1) and so the failure to address any one goal can hinder progress on others. For example, unsustainable energy consumption patterns and industrial production practices are driving the degradation of the ecosystem and placing vulnerable regions at increased risk of more frequent natural disasters. As these practices degrade critical resources like clean air, clean water, and arable land, they exact a steep economic, health, and security cost on local populations, further exacerbating inequalities.

\textbf{Figure 1 - The Interrelated Nature of the SDGs}\textsuperscript{27}

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\textit{Source: German Development Institute, Stockholm Environment Institute}
Failure to meet the SDG targets poses a series of interlocking threats to the world through both direct global economic and environmental consequences and the national, regional, inter-regional, and global instability that occurs as a result.

The impact is already being felt in mass protests across the world, regional conflicts, in the mass migration of peoples from south to north and in the barriers being erected to stop them, in the break-up of multi-decade unions of cooperative nations and alliances in Europe and elsewhere, and in the lack of critical cooperation in the face of a global pandemic which has left over four million dead and thrown 70 million back into extreme poverty, which in turn could lead to more mass migrations.

In an interconnected world, if citizens in richer nations are to be able to continue their way of life, others will need to allow them to do so by staying where they are and, in an interconnected world, that is only likely if where they live is not fraught with challenges. This migration need not only be people, the last few years have demonstrated that it can be a deadly virus, but it could also be a pervasive cyber-attack, pollution, a poisoned ocean, nuclear fall-out, and climate change. Walls are not effective against these consequences of unaddressed problems.

The 17 SDGs aim to break this potentially vicious circle of environmental stress, increasing inequality, and civil unrest, in a time window of now less than a decade. However, based on current rates of progress, the world is far off track to meet the goals.

**Clear need to avoid unnecessary trade-offs between SDGs**

The 17 SDGs are all interrelated in myriad and often complex ways but they are not necessarily complementary at this time. Particularly, the need to reduce humanity’s environmental footprint (SDG 12: Responsible Consumption and Production, SDG 13: Climate Action, SDG 14: Life Below Water, and SDG 15 Life on Land) can, at current levels of technology, likely only be achieved by 2030 in a world that produces (and consumes) less, while the need to drive inclusion in developing countries (e.g. through SDG 8: Decent Work and Economic Growth, SDG 9: Industry, Infrastructure and Innovation, and SDG 11: Sustainable Cities and Communities), and bring their living standards closer to the developed world, implies the need to produce significantly more.
Therefore, there is currently a tension inherent in the need to cut output to achieve environmental sustainability and the need to grow output levels required to deliver development, particularly for the more than 83% of the world’s population living outside of high income countries. Closing this gap requires dramatic breakthroughs across a number of fields, of which the most pivotal is likely the introduction of a clean, affordable, abundant, and more functional energy source. This has always been the case and is even more so now that digital connectivity is a necessity to benefit and contribute to society, and is not possible without modern electricity. If these breakthroughs are not funded, and more frugally, the world risks needing to prioritise SDGs by trading off growth and sustainability. And the need for radical financial, technological, and energy solutions is only exacerbated by the fact that two billion people are expected to be added to the global population in the next 30 years, 97% of the additions are expected to be in developing countries.

The world is at an inflection point for addressing the global sustainable development agenda

The pandemic has imperiled the achievement of the SDGs, but also shown the way forward. 2020 presents a contradiction between the environment and people. On the one hand, unprecedented financing, equal to US$10,000 per capita, has been injected into the developed economies to maintain living standards during the pandemic and to make record investments to fund climate change. On the other hand, there has been an absolute increase in poverty – with 70 million people pushed into extreme poverty, which could rise to 150 million by the end of 2021 – and the funding gap required to address the human, social and physical infrastructure requirements for developing countries to meet the SDGs has grown by c.60% to US$4.2 trillion.

Despite all the goodwill and financing commitments by governments, companies, and the finance industry, achieving the SDGs by 2030 appears to be getting further out of reach. The ‘Decade of Action’ to deliver the SDGs has unfortunately started with the coronavirus pandemic both reversing previous progress and imperiling future action. The pandemic has led to a sharp rise in inequality with the impact disproportionately felt by poorer segments of the population within countries, and on developing countries rather than advanced economies. At the same time, asset owners have seen sharp gains, with total wealth increasing by US$28.7 trillion or 7.4% in 2020, partly a result of the unprecedented fiscal and monetary stimulus by advanced economies.

The pandemic has also challenged international cooperation, as countries quickly turned inward to protect their citizens and economies, resulting in an absolute decline of c.US$700 billion in external financing for developing countries, and sharply unequal vaccine distribution, with only 1% of the population in low-income countries having received one dose, compared to 31% for the rest of the world as of August 2021.
However, there are also several important lessons and implications of the pandemic that point the way for the world to achieve the SDGs, including:

- **Demonstrating the World’s Ability to Transform Under Pressure.** As the virus spread across the world, countries responded in an unprecedented manner, with 60-75% of the global services workforce (including financial services, business services and IT services) transitioning to working from home without any productivity loss, schools went online, e-commerce’s share of total retail sales rose from 16% to 19%, and business travel is expected to decline by 19-36% going forward.

- **Showing the Path to a More Energy Efficient Economy.** Overall primary energy consumption fell by 4.5% and carbon emissions fell by 6.4% in 2020 (more than twice as much as the fall in global economic output), showing the world that radically re-orienting its economic structure and energy consumption to meet net zero targets is indeed feasible and any economic damage that occurs as a result can indeed be contained.

- **Evidencing the Capacity for Nearly Limitless Financing.** Governments that were previously focused on frugal fiscal and monetary supply management, injected c.US$23 trillion, or nearly 30% of world GDP, taking advantage of near zero interest rates, and showing that the advanced economies can mobilize substantial capital quickly to address existential threats, something that is not the case in developing countries.

- **Developing and Scaling Healthcare Solutions.** Pharmaceutical companies launched several effective vaccines within 12 months, demonstrating that they could develop, test, and commercialize at far greater speeds, and governments priced these at costs that were affordable across much of the world, albeit with initially limited supplies and some countries yet to receive meaningful supply.

- **The Ability to Solve Access Issues with Digital Technology.** Digital technology and connectivity helped address mass inclusion related challenges, demonstrating that access to quality education online, remote access to a doctor and medicines, carrying out white-collar jobs entirely from home and more, are a reality for the world utilizing established technologies and infrastructure at a very affordable price.

Most importantly, the pandemic has revealed the inherent interrelatedness, interconnectedness, and interdependence of everyone, with brutal penalties in death and suffering for failure to take note. At every point where one nation thought they had won against the virus, while others struggled, they faced another wave soon after declaring a return to their previous normal, and if they vaccinated and thought they were immune, they faced a mutation that could infect and kill anyway.

The repeated lesson of the pandemic has been that everyone must be saved, no one privileged group’s survival could be secure while others less advantaged remain vulnerable. This has important existential lessons for the world in addressing its other major global challenges, highlighting the need to build systemic resilience in the face of increasing vulnerabilities.

The lesson of the pandemic provides a reason to expect that as risk models take greater account of interrelatedness, interconnectedness, and interdependence of a broader set of variables that were
previously thought to be standalone, investment models will adjust to address the problems that seem to be others and lead to a more whole-systems view.

An integrated roadmap is needed combining the SDGs, the transition, and the future

An integrated roadmap would benefit from adding the UN’s experience in handling human security crises across the world. The UN Human Security approach supports a comprehensive and preventive responses by the United Nations "to help realize a world free from fear, want and indignity". The four key aspects of that are “From coordination to integration”, “Promoting multi-stakeholder partnerships”, “Localization and ‘leaving no one behind’”, and “Prevention and resilience”. The body of experience dealing with extreme scenarios in both Human Security and the SDGs is set to become invaluable in addressing the growing crises and break this potentially vicious circle of environmental stress, increasing inequality, and civil unrest, in a time window of now less than a decade. This may provide for the tools and resources required to make progress on the SDGs and address deeper human and planetary crises.

Need for mass roll-out of existing solutions in the short term

The world has sufficient scientific and technological solutions to many of its problems and can make huge progress while accelerating the significant breakthroughs that will be required to replace natural resources and create more functional ones to serve the rising aspirations of the current populations and the nearly ten billion expected by 2050. Providing food, basic healthcare and education, digital connectivity, and electricity to those who do not have access – 3.7 billion people lack internet access, and over 800 million still do not have electricity38 – does not require any new technological breakthroughs and will go a long way towards addressing some of the major SDG gaps in developing economies.

A parallel track is needed: the mass roll-out of current solutions to solvable problems while placing bold bets for significant breakthroughs that will be required to meet the rising aspirations of the current populations and the nearly 10 billion expected by 2050

Beyond 2030, breakthroughs are required to move the world beyond the current interlocking set of challenges

Of course, the world’s problems will not be solved even if the world meets all the SDG targets. The Paris Agreement commitments, for example, extend for decades beyond the 2030 target date for the SDGs and require continued investments and restructuring until 205039, and further investments will be required to provide for the two billion people that will be added to the world’s population by this time. Moreover, sustainable urban infrastructure will be required not just for the 4.2 billion people
living in cities globally today, but for the 2.6 billion additional urban inhabitants expected to be added by 2050.

The 2030 SDGs are not an end state for sustainable development, they represent a baseline level of progress that needs to be achieved in the next decade to establish a sound foundation of sustainable development. As such, the need for increasing environmental and social sustainability and inclusion will continue well beyond the timeframe envisaged by the SDGs, implying a need for longer-term planning and initiatives.

The planning horizon and assumptions of all stakeholders from individuals to the world’s major transnational institutions need to be informed by the following defining changes:

I. Climate and environmental challenges are set to be an on-going crisis that will likely occupy this century. The Paris Agreement climate commitments, critical to environmental stability, already extend to beyond 2050, and further commitments to carbon reduction and net zero emissions will be required at this year’s COP26 conference.

II. Global population growth implies the need to plan for a nearly 10 billion population by 2050, which is nearly 25% higher than the 7.8 billion alive in 2020, and more than 10 times the global population in 1750, at the dawn of the Industrial Revolution.

III. The transitions from the industrial to the information age upend everything that is the basis of the current world we live in, and “challenges all our old assumptions ... from the clash of new values and technologies, new geopolitical relationships, new life-styles and modes of communication, demands wholly new ideas ... a new economy; new political conflicts; and beyond all this an altered consciousness as well.”

IV. The transition from carbon-based economies to a new energy source that is clean, affordable, abundant, and more functional for a future of nearly 10 billion people, without which the transition to a more inclusive and sustainable way of living, including through digital solutions, may not be possible given the globalization of expectations.

V. The rise of a multipolar world with four major powers – the US, EU, China, and India - that today already have between 37% to 68% of the world’s trade, arable land, population, GDP, defense spending and market capitalization are set to determine the rules of engagement for others as they align with and compete against each other.

**A successful transition sets the stage for long-term thriving**

These five changes (and the many not examined here) provide an indication of the challenges of transitioning to a global sustainable information age. For that future to be sustainable, it would have a few essential characteristics, beyond political ideologies; it would be one that protects the biosphere, cultures, and individuals; it would help its underprivileged in a systematic way, encouraging and enabling growth and innovation that creates prosperity for all while rewarding those that lead the way in making the breakthroughs.
Such a world would have several defining characteristics, including among other things clean, abundant, and virtually free energy, universal healthcare and social security access, global inclusion across healthcare, education, finance, and employment, regenerative natural and built environments, universal digital access, and economically and environmentally sustainable industries. The transition to such a world necessitates a sharp departure from the global economic, political social and technological status quo today to herald the emergence of a sustainable information age.

Such a future sustainable information age world would be both post-industrial and more or less post-scarcity, in which goods required for basic survival can be manufactured and distributed at near zero cost. Achieving such a state is dependent on a scientific renaissance unleashing dramatic breakthroughs of which a cornerstone is the development of an affordable, clean, reliable, and highly functional energy source to move beyond the transition offered by the current suite of renewable energy sources to a more advanced world beyond it, making the cornerstone transition to the future.

This would be the third major energy transition since 1500. Each of these transitions has not only led to exponential growth in absolute energy output, but they have also been accompanied by revolutions in production and consumption, enabling innovations in manufacturing, transport, infrastructure, and materials. The first transition from biofuels to coal, gave rise to steel, steamships, railways, and national transportation networks; while the second one, from coal to oil and gas, gave rise to internal combustion engines, plastics, electrification, and mass production processes.

With each historical energy transition having triggered a series of revolutions it is therefore highly likely that the energy source of the next generation holds the key to solving many of the transitions laid out above. Each of these innovations, not to mention the next energy revolution itself, needs to be funded and their mass rollout financed as well.

This current decade is a critical turning point. It has been named the ‘Decade of Action’ by the United Nations, recognizing that action to meet the SDGs is not yet advancing at the speed or scale required for the targets to be met. Given the urgent nature of the sustainability and development challenges facing the world today, the achievement of the SDGs is not an optional ‘nice-to-have’ for the world. Against this backdrop, the next decade is a critical one for humankind to pass the test of survival, manage a transition, and lay the foundation for thriving long-term.
1. Saving the Planet and Creating the Future
2. Funding the SDGs and a Sustainable Future

The additional financing required to meet the SDGs by 2030, has grown to nearly US$100 trillion over the next decade, according to our estimates. Sustainability financing to date focuses overwhelmingly on environmental and climate issues, some argue rightly so given the threat that it poses to everything on the planet, whereas the funding needed for the human-related aspects of the SDGs has not attracted proportionate attention. Many would argue that this will destroy social cohesion and our common humanity. These clearly interconnected problems lead to the conclusion that funding the SDGs requires a far more integrative and radical approach.

Increasing commitments are being made to ESG and sustainability investments

2020 saw a surge in ESG and sustainability themed investing globally with total ESG-integrated assets under management exceeding US$35 trillion, growing more than 1.5 times since 201644, and expected to grow to US$50 trillion by 202545, supported by the emergence of green, social, and sustainability bonds as scaled asset classes in 2020, but more importantly by the old stock of investments falling away, and being replaced by a new stock that is built on ESG and sustainability criteria.

This is tangible progress demonstrating a shift in the norms of investing and is being seen by some as providing hope that the SDGs will get funded in the “natural” course of the sustainability megatrend that the 2020 Capital as a Force for Good report described.
A deeper look highlights two important considerations. Firstly, not all “ESG” or “sustainable investing” directly or materially contributes to funding the SDGs; most of it is focused on responsible investments in assets that do not harm the goals as opposed to those that address them proactively. And secondly, of those contributing to the goals, a disproportionate amount is focused on renewables and climate-related projects, rather than the broader set of SDGs, raising the specter of on-going social cohesion crises with social and political issues, from migration and lack of opportunity, that may derail the commitment to the climate crisis. A more integrated and transparent approach will help progress and allow the risks to be better understood.

A simple, practical framework is required to enable the SDGs to be targeted, funded, and measured

The idea of “sustainable development” balances environmental and climate concerns with human development requirements, however much of the recent surge in funding has been focused on climate change and in economically advanced countries which have comparatively fewer acute human development needs. However, addressing climate-related goals is not possible without providing economic and energy security for developing countries, and hence funding the goals requires an integrated approach which looks at the human, social, and environmental goals, and their financing holistically.

Given the complex inter-linkages between the 17 SDGs, and the need to achieve them in tandem, how should the finance industry together with other stakeholders, used to approaching these issues in silos, think about financing the goals?

The “climate” theme provides an important lesson for the other SDGs which lack the focus and funding. It has been presented in its entirety as one idea, and now 70% of the population in the developed world accepts its compelling nature. It is unlikely that 17 SDGs will be able to be held in
the mind of the world in the same impactful manner, without which they will not capture the attention of the individual or the financiers.

In examining the activities of the leading financial institutions, a simple and practical approach applied to the 17 goals results in the four interrelated, interconnected, and interdependent categories with one important enabling category:

i. People. Addressing basic human needs
ii. Planet. Saving the planet
iii. Physical and Virtual Infrastructure. Enabling human activity
iv. Prosperity. Creating shared prosperity
v. Peace and Partnership. Delivering peace and partnerships

The diagram below illustrates the SDGs that fall into each of these categories and examples of the key financing needs in each of the categories.

Figure 3 - A Simple Framework for Financing the 2030 Global Sustainability Agenda

Revised Assessment of the Funding Need for Meeting the SDGs

Headline estimates of the cost of meeting the SDGs have ranged widely, but importantly, all the estimates suggest a significant gap vs. current funding, and this gap appears to have gotten bigger because of the pandemic. These estimates have evolved since the SDGs were introduced as follows:

- 2014, Total Funding Requirement Estimated at US$5-US$7 trillion, with US$2.5 trillion Shortfall. In 2014, as the SDGs were being formulated by various stakeholders, UNCTAD estimated a
total financing requirement of US$5-US$7 trillion annually between 2015 and 2030 to meet the SDGs, of which US$3.3-US$4.5 trillion was estimated to be required in developing countries and US$1.7-US$2.5 trillion in developed countries. This estimate calculated an annual funding shortfall of US$2.5 trillion for the SDGs in developing countries. A wider set of important SDG-related items, including financial inclusion, social security, biodiversity, operating expenditure for health and education, and the subsequent higher cost of climate change estimated as part of the Paris Agreement in 2015 were not included in this original estimate.

- 2019, Revised Shortfall Estimate of US$2.6 trillion, partial coverage of SDGs. In 2019 the IMF provided an updated estimate for the funding shortfall in developing countries, at c.US$2.6 trillion annually, consisting of c.US$2.1 trillion for lower middle-income countries and US$0.5 trillion for low income developing countries. This estimate covered only a portion of the SDGs, focusing on those related to human, social and physical infrastructure. The calculations did not include cost estimates for telecommunication, food security and agriculture, or climate change and mitigation, and is therefore difficult to compare directly to the initial estimates prepared by UNCTAD. However, holding up the calculated shortfall of US$2.6 trillion for only a subset of the SDGs, against the previous shortfall US$2.5 trillion for all the SDGs indicates a potentially significant increase in the gap in the intervening period.

- 2020, Revised Shortfall Estimate of US$4.2 trillion, partial coverage of SDGs. In 2020, the OECD updated the 2019 IMF shortfall estimates, considering the impact of the unfolding coronavirus pandemic and estimating that the annual funding gap in developing countries had grown from an estimated US$2.5 trillion to US$4.2 trillion annually due to the reduction in SDG spending (from declining external financing for developing countries of c.US$0.7 trillion) and the increasing cost burden created by the coronavirus (measured as the gap in public spending for coronavirus recovery measures vs. the advanced economies of c.US$1.0 trillion). This calculation was incremental to the 2019 IMF analysis and was based on the same core assumptions.

Stepping back, the various estimates produced to date now need to be updated to avoid underestimating the challenge of funding the SDGs in total, and the current funding gap. The estimates need to address the following:

1. Bring Up to Date. The earlier estimates are now out of date, predating the Paris Climate Agreement, the subsequent successes and failures in the measures taken, and more fully incorporating the implication of the coronavirus pandemic, in particular.

2. Include Broader and More Comprehensive Factors. The estimates need to be based on a more comprehensive set of variables related to the 17 SDGs, in particular for climate change and mass inclusion, for which previous estimates have focused largely on the costs of public goods like infrastructure while not including certain key measures that drive individual prosperity and financial inclusion (such as MSME financing and microfinancing, social security, and affordable housing).

3. Inflation Considerations. Prior estimates have been made at that time’s constant prices and need to account for the cost of inflation.
An accurate up to date calculation of the cost of the SDGs needs to address these shortcomings with comprehensive and current estimates for each of the spending categories. The true cost of fully funding the SDGs in the next decade is therefore significantly higher, and the gap to funding the SDGs is far greater, than the current estimates imply.

### Quantifying the Real Cost of Funding the SDGs

An updated estimate of the current funding gaps across four of the SDG categories outlined above, People, Planet, Physical and Virtual Infrastructure and Prosperity, are illustrated below. Consistent with previous SDG funding estimates, Peace and Partnership, are crucial to the SDGs overall success, and are not included in the financing estimates below, but are recognized as requiring policy and strategic commitment. While governments and policy makers play the leading role in addressing peace and facilitating partnership, their success or failure (from a financier’s perspective) results in financiers supporting or withholding investments in states that do not meet their criteria.

![Figure 4 - The Cost of Addressing Basic Human Needs](image-url)
2. Funding the SDGs and a Sustainable Future

Figure 5 - The Cost of Saving the Planet

Figure 6 - The Cost of Building Physical and Virtual Infrastructure

Sources: ETC, UN Convention on Biodiversity, See Appendix for details
Based on the above, (and after including the US$700 billion drop in annual financing estimated by the OECD) the total gap in developing countries to fully fund the SDGs is estimated at c.US$8.4-US$10.1 trillion per annum between now and 2030. On an annualized basis, this funding gap is equal to 9-11% of est. 2021 global GDP (recognizing that GDP is a flawed indicator of economic activity, for example excluding non-market transactions and informal economic activity).

Current annual spending on the SDGs across developed and developing countries is estimated at c.US$3.2-US$4.2 trillion (consisting of c.US$1.1 trillion in developing countries and US$2.1-US$3.1tn in developed countries)47.

Adding current spending to the gap results in an estimated total funding need for the SDGs of US$11.6-US$14.2 trillion.

This analysis implies that global spending on the SDGs will need to more than triple from their current levels for the goals to be fully funded.
Clearly, there may be opportunities to find synergies between areas and frugal innovations, reducing the complexity and cost of goods and services and their production. These could be further developed, and deployed at scale, which would reduce the total cost. On the other side, the cost of developed country funding may also drive the numbers higher. However, the key conclusion from the analysis above is that the cost to fund the SDGs is significantly larger than existing estimates, with similar amounts of capital being required to meet each of the four broad SDG groups of addressing basic human needs, saving the environment, building infrastructure, and creating shared prosperity.

It is important to note that these are the funding requirements to an agreed target date of 2030, and that the need to invest in people, planet, prosperity, and physical and virtual infrastructure, as well as peace and partnerships is essentially a perpetual one. For example, one of the ongoing costs, climate change, is estimated to require additional investments in excess of US$80 trillion between 2030-2050 to fund the global transition to net zero. The other categories may well require funding of similar magnitudes over this period to underwrite a stable transition to a more sustainable future.

The SDG targets are at risk, the approach and funding solutions need rethinking

Given the size of the current gap laid out above, it is increasingly clear that the world is not currently on track to fund the SDGs. This is due not only to the absolute quantum of capital that is required but also due to challenges of funding sustainability and related goals more generally.
Given the geographic focus of the SDGs in developing countries and their thematic emphasis on issues normally funded by governments, official development assistance (ODA) has been an essential public policy and funding source for the achievement of the goals to date, particularly in the least developed economies which lack financing capacity and mechanisms of their own. The logic has moved from funding developing countries as part of the Cold War to a shared agenda for widely accepted goals like sustainable development and inclusion, among others, sponsored by the UN. This approach has been adopted by national aid agencies as well as MDBs like the World Bank.

However, while the SDGs clearly provide an agreed basis for cooperative action, the scale of the funding requirement is so large that existing pools of development finance can barely scratch the surface of what is required. Funding the SDGs will therefore require new models of financing, ones that unlock unprecedented amounts of private capital with new roles for sovereign investors and development institutions. It may also require more systemic measures, such as the accurate and consistent pricing of externalities, which would impact the financial system itself, as well.

The gap to fully funding the SDGs is both large and growing. Despite estimates having been revised upwards several times, the true gap to funding the SDGs, including critical climate and inclusion spending, is likely twice as a high as current estimates indicate. Given that the current funding gap is equal to a significant portion of global output, a multi-stakeholder effort will likely be required to close this gap, requiring the support and coordination of the largest pools of capital in the world.
3. All the Money in the World, And Who Has It

The finance industry, controlling more than 85% of the world’s gross financial wealth, is increasingly being called upon to fund the world’s problems. This ever-rising call to act is not set to abate and the industry’s leading financial institutions have begun to fund issues that were previously considered beyond their scope and mandate. However, the modern financial system does not allow for one player to have the discretion to fund, and without changes to the behaviors of all stakeholders, the world’s challenges will not get funded and expectations will keep rising. Neither the SDGs nor the long-term future can be achieved in the absence of funding at a level far beyond that currently envisaged. Ultimately, history shows that major world projects and transitions are funded and this time will be no different. The questions is only whether that can happen in a managed manner with stakeholders working together.

The SDG funding gap requires capital well beyond previous estimates and current means

The funding gap to fully achieving the SDGs could be as high as US$84-US$101 trillion over the next decade. This sum is well beyond the finance industry’s mandate and scope to finance without the support of the ultimate asset owners, in particular the individuals and households that control 60% of these assets, as well as the support of their shareholders.
The world’s governments, under current frameworks and constraints, are not set up to meet commitments of this magnitude. Governments spent US$23 trillion in fiscal and monetary stimulus in 2020/2021\(^\text{49}\), of which the fiscal spending was US$16.5 trillion, nearly 11 times the amount spent by the G20 countries in response to the Global Financial Crisis of 2008\(^\text{50}\), and the monetary quantitative easing programs were US$9.1 trillion\(^\text{51}\).

The stimulus measures were clearly critical to avoiding the domino effect of institutions and economies collapsing across the world, but they cannot be said to have addressed the SDG funding shortfall mentioned above in any material sense. As such, the gap has grown wider between the poorest and the richest economies and people in the world. And in addition, further capital will be required to fund investments in infrastructure, health systems, education, digital technologies and communications, and other critical building blocks of the future beyond 2030.

Given these circumstances, it is clear that private sector capital will increasingly and more urgently be called on to fund the SDGs, and in unprecedented amounts by other stakeholders. For this to be feasible, it is unlikely to succeed as an exercise in charity. It has to be in pursuit of the profitable construction of a new world with far greater wealth creation across the board.

**A (Rough) Guide to All the Money in the World – The Stock and Flow of Global Capital**

There is a temptation to think that banks, asset managers and financial institutions can finance the gap, at will, and not doing so is an indication of their lack of commitment to doing good. This view is based on a misunderstanding of the ownership and allocation of global financial assets in the system of capital. The global stock and flow of capital needs to be looked at from the perspective of who is the ultimate owner and critical decision maker. The Stock (wealth) and Flow (consumption) of capital can be analyzed to paint a picture of how capital flows through the system and where the key levers are. While precise figures are difficult to pin down given the lack of unified data sources and the potential overlap between various categories and definitions, the analysis points to a series of important indicative observations.

Some of the observations that arise from examining the “global stock of capital” (see Figure 9) are:

1. US$571 trillion of total net financial assets are estimated to be in the stock of capital in the global financial system in the year 2020, comprising US$329 trillion in net liquid financial assets
and US$242 trillion of net illiquid assets, 71% and 79% of which, respectively, are held by individual households. ‘Net’ denotes the amounts before debt.

2. US$717 trillion of gross financial assets are estimated adding the associated debt, comprising US$401 trillion in gross liquid financial assets (56%) and US$316 trillion of gross illiquid assets (44%).

3. Taking the US$401 trillion in gross liquid financial assets only, US$255 trillion or 64% are owned by individuals, 36% are owned by governments (through their central banks, sovereign wealth funds and public finance institutions), with less than 1% coming from endowments and foundations.

4. 68% of these liquid financial assets (US$274 trillion) are allocated by asset owners (individuals and governments) to ‘asset gatherer-allocators’, and the balance of 32% being invested either directly or through other ‘direct investors’ (asset managers, hedge funds etc.), although the degree of control that asset gatherer-allocators have over the assets they invest varies widely.

5. US$87 trillion in assets are controlled by direct investors, or third-party asset managers, who receive funds from both asset gatherer-allocators and from asset owners directly.

6. The finance industry as a whole therefore allocates or manages in the order of US$350 trillion in total assets, more than 85% of the world’s total gross liquid assets, recognizing that there will be some double counting in the US$361 trillion of assets due to direct investors receiving funds from asset gatherer-allocators.

7. Additionally, US$156 trillion in gross liquid assets, are held by non-financial corporations, who while not the ultimate owners of their assets (belonging to their shareholders), make an important impact with their asset allocation.

8. 55% of the world’s liquid capital is held as debt, the largest category of liquid asset classes by far, followed by public equities. Liquid asset classes in order of size are public equities, government debt, corporate debt, financial institution debt, cash and deposits, consumer debt and private equity. These numbers have some double counting between them.

9. In terms of illiquid assets, US$217 trillion, 69% of the US$316 trillion in gross illiquid assets, are owned and managed by individuals, while 31% are owned and managed by governments (through direct investment and public sector undertakings).
Figure 9 - The Stock and Flow of Global Financial Capital

Notes: 1) Net wealth of each Asset Owner arrived at by adjusting the gross wealth by the debt held by each Asset Owner; 2) Asset Classes’ value is estimated at US$717tn (gross assets of Asset Owners) + US$116tn for double counting (cross holdings between companies and cross ownership of assets classes e.g., companies owning cash and deposits); 3) US$165tn of assets managed by banks includes current liabilities; 4) Insurance companies while...
Observations that arise from examining the “global flows of capital” (see bottom of Figure 9) include:

1. US$85 trillion of global GDP represents the ‘flow’ of capital and is created every year based on the total GDP of the economies of the world, representing value created, and the total flow of goods and services across the world.

2. c.73% (US$62 trillion) of total GDP of US$85 trillion is made up of consumption, and 27% goes into forming capital for further investment.

3. c.78% (US$49 trillion) of the total consumption of US$62 trillion is accounted for by individuals, and 22% of consumption is by governments, a portion of which is transferred to individuals through fiscal measures.

4. US$22 trillion of trade is led by China, the US, Germany, with the EU exceeding the US, not far behind China in exports.

This analysis is a snapshot of the system but is broadly representative of how the system allocates capital. It leads to several important insights into the system of capital in the world today:

I. There are four powerful players in the global stock and flow of capital:
   i. The individual, who holds 75% of global net financial assets (holding 71% and 79% of total liquid and illiquid assets respectively), as a collective.
   ii. The finance sector, allocating or managing over 85% of the world’s gross liquid assets.
   iii. Governments, with 28% and 20% of total liquid and illiquid, respectively, net financial assets at inception, being the other side of the equation of the individual.
   iv. Corporations, with effective management control over the equivalent of 39% of total gross liquid financial assets (recognizing that they themselves are ultimately owned by individual, financial and government shareholders).

II. The individual and the financial sector are the most powerful players in the system in terms of the largest stock of capital in the system.

III. The financial sector has a pivotal position of power as the agent that allocates or manages more than 85% of the world’s gross liquid financial assets and is required by law and regulation to provide returns, services, and other mandated outcomes on that capital to meet the requirements of its clients and its investors.
IV. Banks, Pension Funds and Asset Managers hold the largest stock of capital, with Banks having US$165 trillion or 60% of the sector’s total, Pension Funds having US$53 trillion or 14% of the sector’s total, and Asset Managers having US$74 trillion or 19% of the sector, some of whom manage funds on behalf of banks and pension funds, hold the largest stocks of capital. These institutions act as managers of the assets and cannot act without the mandate and discretion provided by the individual in how their capital is allocated. (It is worth noting that financial institutions are often conglomerates and often have multiple businesses including, banking, asset management and other direct investing businesses.)

V. This naturally points to the individual as a power player with ownership of 75% of global net financial assets of US$571 trillion and therefore with a critical role to play in determining how their agents, the financial institutions, allocate their capital and to what extent it can be directed towards achieving sustainability outcomes vs. pure financial returns.

VI. US$316 trillion of gross illiquid assets has a turnover too and places the individual as the most powerful. While these tend to be relatively fixed assets, for example houses, they do experience turnover and so decisions regarding them matter too. Here the individual with owning and managing 69% is the most powerful, while governments with 31% are also very important.

VII. The individual is also a power player in their consumption, representing c.78% of total consumption of US$62 trillion in the past year. Their decision to choose differently on what they buy has a material cumulative impact on the value generated by corporations that hold their stock.

VIII. Governments, having long held the responsibility to fund society at large, play a central role, but have a far lesser amount of this capital, with 27% of the total liquid financial capital. Their power in the financial system comes from their allocation of this capital of course but also from their law making, fiscal and monetary policy and spend.

IX. Corporations with direct control over US$156 trillion of total financial assets have an impact through the capital they allocate to activities and actors around the world. While this sum nearly equals the total capital controlled by banks, corporations are significantly more constrained in terms of their investing flexibility due to their mandates and need to fund the cost of their own business activities with working capital and investments, with only a small portion of their total liquid financial assets ‘invested’ in the traditional sense.

X. Trading relationships account for US$22 trillion and have seen China rising in importance and the US falling to a far second place among countries, and similarly if the EU is taken as a whole.$^{53}$

An important note is that given the world has 7.8 billion people, over 45,000 (listed) corporations and businesses, c.25,000 banks and 193 governments, the individual is powerful as a collective, while power is relatively concentrated in each of the other stakeholder categories.
Capitalism is a multi-stakeholder system

While financial institutions have a mandate to hold and manage capital on the individual, the fact that this mandate is held by a highly concentrated number of institutions (particularly when compared to the number of people in the world) means that there is huge power concentration in financial institutions. However, social media has demonstrated the collective power of the individual in their political choices and finance and business are likely the next to experience the power of choice.

So, the mandate for allocating the world’s capital towards sustainability will ultimately come from those for whom the finance industry’s assets are ultimately held and managed, namely individual households in their capacity as customers of financial institutions and corporations. Individuals have the power to make choices for their investments, spending and savings and this a powerful lever as individual awareness and activism increases.

Consumer choices reflect their priorities and preferences, and as such can fund and defund products, services, activities, companies, and entire industries. In the past year alone, global household financial assets increased by US$22.5 trillion\(^5\)\(^4\) representing significant potential pent-up consumer demand. How this money is deployed can make a significant difference to sustainability.

However, households too are only one part of the global economic system prevalent in the world today. As described in the 2020 Capital as a Force for Good report, governments and political systems rise and fall based on their ability to deliver to the aspirations of citizens to increase consumption, businesses work to deliver the products and services demanded, and financial institutions fund them. Every stakeholder is a contributor to this system and everybody – consumers, media companies, resource businesses, manufacturers, trade organizations, politicians, entrepreneurs, and scientists – plays their part in a process that is exhausting the planet’s resources and creating potentially irrevocable damage to its ecosystem, whose negative externalities are exacerbating rather than solving the world’s challenges. They can collectively and singularly make a different choice.
While the most forward-looking financial institutions are deploying capital at scale in response to global challenges and placing increasingly ambitious bets on longer-term breakthroughs, a multi-stakeholder approach is ultimately the solution to resolving differences of view on the mandate and priorities of financiers. Addressing global challenges, that are systemic in nature, will ultimately require solutions that are systemic as well, requiring multiple stakeholders to align on priorities and work together. If households demand sustainable products, and if producers innovate and make these, and if financiers fund their development and scaling, having been empowered by households to do so, then the SDG goals, the transition and the future can ultimately be funded, in partnership between stakeholders.

Financial institutions investing boldly in both short-term survival and long-term thriving during this process are set to have a disproportionate position in their industry and indeed the world at large, providing them with opportunities to emerge as industry leaders in this new world.

**Engagement highlights the finance industry’s ambition to lead**

Since the issuance of the 2020 Capital as a Force for Good report in December 2020, the Capital as a Force for Good Initiative has engaged with major global financial institutions across banking, insurance, asset management, pension and sovereign wealth and hedge funds, as well as a number of development banks and DFIs, on the key findings of the report and the broader issues facing the industry and the world laid out above. This year has seen the beginning of the inclusion of an additional stakeholder in the form of the world’s largest technology companies. These provide the platform for billions of individuals to engage in everything they care about. In keeping with the
mandate of the Capital as a Force for Good Initiative, the focus is on those agents of change that can shift capital in the many trillions of dollars towards a sustainable future.

The UN SDGs will not be funded to 2030 without a comprehensive mobilisation of stakeholders. The most powerful in terms of the scale of capital are the individual and the financial institutions, the latter being most often the agent of the former. The analysis and engagements supporting this report confirm the increasingly ambitious actions of leading financial institutions and their growing confidence and commitment to being a force for good, tackling increasingly complex and interrelated challenges such as climate change, biodiversity loss and pollution, and equality and inclusion.

The subsequent chapters of this report examine the details of the industry’s increasing engagement as a force for good and its implications and the role of other stakeholders including major development agencies and major technology platforms and specialist innovators.
4. The Common Ground: Substantial and Growing Across the Industry

In 2020, the finance industry took a much larger role investing in a sustainable future, rising to meet the challenges created by widespread economic and social disruption. The common ground among leaders in the industry is expanding and encompasses commitments to aligning their businesses to ESG criteria, enabling inclusive growth, driving inclusive economic growth, and developing scalable climate solutions.

The 2021 Capital as a Force for Good analysis of the initiatives of 100 leading global financial institutions accounting for c.US$170 trillion of assets (or c.50% of the total assets owned, controlled, or managed by the finance industry) finds:

- 100% of leading financial institutions have ESG policies in place and 95% have integrated ESG into core business processes, with a majority of institutions defunding civilian firearms, child labor, coal mining, tobacco, and promoting behaviors related to climate change, human rights, diversity and inclusion, biodiversity, and community, among others, with c.US$33 trillion in ESG integrated AuM
- 97% of leading financial institutions work with peers and international organizations through various forums and c.60-80% are members of UN-PRI, TCFD and CDP, moving the industry to a common set of standards that drive greater transparency and disclosure in ESG and sustainability financing
4. The Common Ground: Substantial and Growing Across the Industry

- 93% have stated their commitment to a multi-stakeholder approach to business, with 95% enhancing diversity, 85% seeing their employees as key stakeholders with engagement programs in place
- 86% are supporting the Paris goals, with US$88 trillion of assets committed to net zero by industry leaders
- US$2.1 trillion in sustainability linked finance deployed in 2020, across renewable energy and low carbon investments, green, social and sustainability bonds, and development finance, among others

What Does it Take for a Financial Institution to be a ‘Force for Good’?

The ‘Capital as a Force for Good’ initiative defines ‘force for good’ in terms of the activities of financial institutions in three overlapping areas in the context of transitioning to more sustainable business models: (i) The adoption and integration of ESG considerations into business processes, ‘Mindful Conduct’; (ii) Driving sustainable development, ‘Caring for the Planet’; and (iii) Engaging deeply to drive value for other stakeholders, including employees, customers and others, ‘Compassion for All’, (see Figure 5).

![Figure 11 - A Framework for Being a Force for Good and Delivering Impact](image)

The analysis builds an overall assessment of the leading financial institutions and their activities and initiatives across the three categories to identify the common ground that is emerging amongst them, the areas where they are breaking new ground and the likely direction of travel for the industry, given the ability that leaders in the industry must influence change amongst other industry participants.

World’s Leading Financial Institutions Included

*Summary of Research Process and Methodology, and Overview of the Dataset*
In keeping with the mission to examine how the largest pools of capital are and can play an outsized role in allocating capital for good, this report examines the ongoing evolution of the largest allocators of capital, the finance industry, as a high potential force for good in the world, based on their commitments, actions, and initiatives.

The report analyzes the initiatives of the world’s leading financial institutions across ESG, sustainability, and broader stakeholder engagement, examining their development over time and the increasing priority of these activities within the respective organizations. It also examines the roles and lessons from the leading development finance agencies, a group of fintech innovators and the leading technology platforms that engage individuals.

This chapter focuses on the leading financial institutions, examining 100 financial institutions (up from 63 in 2020), with assets of c.US$170 trillion (up from c.US$100 trillion in 2020), representing an estimated 50% of total finance industry assets (up from 29% last year). Subsequent chapters draw on the insights from the engagement with the other stakeholders.

### Table: Total Assets and AUM of the 100 Finance Industry Leaders Analyzed in this Report

<table>
<thead>
<tr>
<th>Numbers in US$tn</th>
<th>Banks</th>
<th>Asset Managers</th>
<th>Insurance</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Americas</td>
<td>30</td>
<td>49</td>
<td>10</td>
<td>89</td>
</tr>
<tr>
<td>EMEA</td>
<td>46</td>
<td>7</td>
<td>13</td>
<td>66</td>
</tr>
<tr>
<td>Asia</td>
<td>7</td>
<td>6</td>
<td>3</td>
<td>17</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>83</td>
<td>63</td>
<td>25</td>
<td>171</td>
</tr>
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</table>

In keeping with last year’s report, c.30 of the largest financial institutions in the world were active participants in the Capital as a Force for Good Initiative, representing c.US$70 trillion in total assets, or 41% of the total database and c.20% of total global financial assets. These institutions actively contributed to the report’s underlying dataset, providing additional information, and engaging directly with the project team on their activities and initiatives during the year.

### 1. ESG is Increasingly Embedded in Core Business Strategy, Mindful Conduct

**ESG considerations are now closely integrated into core business strategy and practices**

All the leaders in the finance industry examined in this study have continued to publicly affirm their commitment to ESG, have adopted ESG (or similar) policies and practices and have provided regular reporting to their shareholders on ESG matters.

The industry has firmly embedded ESG policies into day-to-day business operations; 97% of institutions have also established detailed ESG frameworks (or management systems) and 96% track detailed ESG metrics and performance indicators. 95% of institutions screen new business...
opportunities for ESG risks and 92% conduct additional due diligence on those perceived to have a higher degree of risk.

Leading financial institutions have additionally committed to transition to more sustainable business practices; 83% of the financial institutions measure environmental and social outcomes from investments and 76% have sustainable portfolio balance targets, which includes targets to reduce exposure to non-ESG compliant assets, sectoral caps, and caps on exposure to carbon-emitting activities (for example).

There is meaningful progress in managing the transition from the older non-ESG compliant mode to the new ESG based one. 64% of financial institutions have targeted specific sustainability outcomes from loans and investments and 66% have decided to divest from non-ESG compliant assets.

The flip side is also true, 36% of financial institutions have yet to target specific sustainability outcomes from loans and investments, and 34% have not yet decided to divest from non-ESG compliant assets. And 17% of the financial institutions do not yet measure sustainability outcomes from investments, while 24% do not have sustainable portfolio balance targets for their investments including sectoral caps or caps on exposure to certain activities.

Exclusions are moving from a ‘compliance’ tool to a mechanism to accelerate the energy transition by de-funding heavily polluting industries

The leaders in the finance industry continue to update their framework with enhanced guidelines; c.64% of the companies have publicly disclosed exclusion criteria based on local and international compliance requirements (e.g., such as not financing forced or child labor, cluster munitions and activities that are banned under international conventions) compared to c.50% last year.
Further, institutions in the finance industry have taken a leading role in accelerating their own operations and clients’ transition to a net zero global economy by implementing various restrictions for high-emission sectors. The leaders are increasingly committed not to finance, and/or have put significant restrictions on financing, sectors with significant climate or other impacts they perceive to be negative, such as thermal coal mines and power plants (c.64%), oil and gas exploration in the Arctic circle (45%), shale gas production (41%), oil sands development (39%), and nuclear power plants (39%).

Figure 14 - Business Activities the Finance Industry is Trying to Restrict Through Exclusions

While institutions continue to restrict activities that they believe to be harmful - such as tobacco products (64%), production of civilian firearms (56%), gambling (31%), violation of indigenous peoples’ rights (25%) and wildlife products regulated by CITES (25%) – there is not an alignment of the priority of these activities. Given that not all financial institutions publish exhaustive investment exclusion lists, the actual percentage of institutions that follow the compliance standards on these items may be higher than the disclosure levels captured would indicate.
Climate change, inclusion and diversity, and data security are at the forefront of ESG factors

Global events in 2020 have brought climate-related risks, racial equality, and data privacy to the forefront. Financial institutions are increasingly integrating these considerations into investment and business decisions, seeking to achieve attractive financial returns alongside positive environmental and social impact.

Many finance industry leaders remain focused on confronting environmental risks while evaluating transactions, such as climate change (86%), pollution (56%), biodiversity (52%) and carbon intensity (48%). Further, following the intensification of racial equality movements across the world over the last year, 85% companies conduct enhanced diligence for investments with potentially heightened human rights risk and 83% evaluate a counter-party’s policy on inclusion and diversity.

Leading financial institutions have also become focused on safeguarding client information to retain customers’ business and trust while maintaining the financial institutions’ reputation for integrity. Companies are evaluated for data protection and privacy (69%) and cybersecurity (60%) to protect misuse of client and employee data, unauthorized disclosure and meet regulatory requirements.

Figure 15 - Key ESG Factors Considered by Financial Institutions
These substantial positives also imply though that for many institutions issues like carbon intensity (52%), biodiversity (48%), pollution (44%) and cyber security and data privacy (40% and 31%) are yet not a priority. Moreover, the tightening requirements across many key ESG factors risks reducing private sector inflows into otherwise commercially viable development projects, particularly in least developed economies where local conditions have yet to catch up to the rising bar to funding being employed by the (private sector) finance industry.

Participating in international associations that are helping to define a common set of standards for ESG and sustainability financing

Leaders in the finance industry have indicated through their actions their belief that, along with their clients, they will need to undertake a massive global collaborative effort to effectively advance the goals of the Paris Agreement (with 86% publicly committing their support its 2050 targets). These international institutions are working directly with finance industry leaders to embed climate and sustainability issues at the strategic, portfolio, and transactional levels, across all business areas, and to help establish a common set of standards and increasing transparency through disclosures of climate and emissions data.

The finance industry’s leaders are actively participating in major climate and sustainability related associations such as the UN’s Principles of Responsible Investing (UN-PRI) (80%), the UN Global Compact (60%), the Sustainability Accounting Standards Board (SASB) (43%) and UN’s Principles of Responsible Banking (UN-PRB) (28%) to partner with peers and other organizations to effect real change on climate change and structural inequity.

Over and above the SASB, companies have also adapted reporting standards from the Task Force on Climate Related Financial Disclosures (TCFD) (68%) and the Carbon Disclosure Project (CDP) (59%) to create a voluntary, consistent, global framework for providing emissions information to investors, lenders, insurers, and other stakeholders.
4. The Common Ground: Substantial and Growing Across the Industry

This progress means that, even among leading financial institutions, 20-40% that have yet to sign up to collaborating in international associations such as UN-PRI, TCFD and CDP.

**ESG investing strategies and ESG-integrated AUM with built-in ‘positive screening’ is growing rapidly, while strategies using only ESG exclusions are falling**

Finance industry leaders do not take a ‘tick-the-box’ approach. ESG exclusions (or ‘negative screening’) are used alongside an ESG lens for business and investment decisions with a view to creating sustainable and inclusive long-term growth. Institutions have focused more on differentiated responsible investing strategies including ‘positive screening’ for companies that add value from an ESG perspective, sustainability themed impact investing, active ESG-integration, and corporate engagement and shareholder action.

Assets under management utilizing ESG integration across the industry increased to c.US$25tn at the start of 2020 (vs. US$18tn in 2018), growing at 28% in the last two years. Assets under management utilizing corporate engagement and shareholder action across the industry increased to c.US$11tn at the start of 2020 (vs. US$10tn in 2018). Meanwhile, assets under management utilizing only a strategy of negatively/exclusionary and norms-based screening have reduced to US$19tn and US$4tn.
respectively (vs. US$19tn and US$5tn in 2018), declining by 24% and 12% respectively in the last two years.

The finance industry leaders included in this report have actively integrated at least US$32.6 trillion in assets under management (or 19% of their total owned and managed assets vs. 12% in 2019) by consciously incorporating key ESG factors into investment decisions to help drive positive environmental, social, and economic impact. This represents a significant portion of the estimated US$35 trillion of global sustainable investing assets.

The 100 leaders in the data set have contributed to US$4.5 trillion of the total ESG and impact funds. Further, the global racial equality movement through the second half of 2020 has led to commitments of over US$32 billion by leaders in the finance industry to support minority owned businesses.

While this is meaningful progress, it is also clear that across the industry, for the 100 financial institutions examined, US$15 trillion of AUM has still not shifted from doing purely negative screening and US$4.1 trillion is still allocated based only norms-based screening, with a comparatively smaller portion, US$3.6 trillion, invested in positive screening, sustainability-themed, or impact investing strategies.
2. The Pandemic has Accelerated Funding for the Environment and Sustainability, Caring for the Planet

Total commitments to 2030 rose to US$9.5 trillion, and of that c.US$2.1 trillion was mobilized in 2020 for environmental, climate, sustainability, and inclusion themed investments by industry leaders.

Sustainability-linked financing is increasingly becoming a core business strategy for leaders in the finance industry, with several large industry leaders making trillion-dollar commitments over the next decade, and the finance industry leaders included in this report collectively mobilized over US$2.1 trillion of capital in 2020 for environmental and sustainability finance. The leaders represent a substantial share of the rapidly growing sustainable debt market, accounting for US$646 billion of green, social, and sustainability bonds issued.

In addition to sustainable debt, the industry leaders also mobilized financing for clean energy, clean transport, and sustainable housing projects, and for inclusion-linked investments in areas such as affordable housing, education, healthcare, economic and financial inclusion, racial diversity, workforce development and gender equality.

Figure 18 - Sustainability-Linked Financing Activity by Industry Leaders in 2020
Although the finance industry leaders have made significant strides in sustainability-linked and impact investments, these accounts for less than c.1% of total owned and managed assets by these institutions, suggesting significant potential to increase these further in the coming years. Given the extent of the funding gap for the SDGs and Paris treaty targets, existing commitments may well need to exhausted, and new, larger ones made, well before 2030.

**Industry leaders commit to Net Zero emissions by 2050, shifting from reducing their own footprint to a proactive approach to their customers and investments**

The Intergovernmental Panel on Climate Change (IPCC) has reported that effects of climate change could potentially be irreversible for centuries and are unequivocally driven by greenhouse-gas emissions from human activity. Even the most severe carbon emission cuts are unlikely to prevent global warming of 1.5 degrees Celsius above pre-industrial temperatures by 2040, a level that many scientists believe must be achieved to avert catastrophic climate change.

The finance industry has adopted a high-profile approach to playing a leading role in helping drive the transition both in its own operations and its clients to a net zero global economy. 86% of the industry leaders actively measure their direct and indirect carbon footprints through the Greenhouse Gas Protocol Accounting and Reporting Standards (vs. 79% in 201960) as they build on rigorous efforts in recent years to actively reduce their own carbon footprints, finance and facilitate climate-transition themes and environmental projects, and reduce exposure to sectors with significant climate impact such as coal-fired plants and thermal coal mines. Following the various mitigation measures, direct emissions by finance institutions have reduced by c.17% and indirect emissions by c.28% over the last three years.

**Figure 19 - Change in Finance Industry Leaders’ Carbon Footprints**

![Graph showing changes in carbon footprints over four years](image-url)

*Numbers in mtCO2e (metric tons of carbon dioxide equivalent)
Further, the number of finance industry participants that have signed up to net zero commitments not only in their operations but in their investment and business portfolios has seen a step change during the past year. The total value of investment portfolios subject to 2050 net zero emission targets has increased from US$7.6 trillion in at the end of 2020 to US$88 trillion currently, an increase of nearly 12x, while the number of financial institutions analyzed in this report making net zero commitments increasing from seven to 40.

This rapid growth has been facilitated by the establishment of an increasing number of associations (many of them convened by the United Nations) designed to rally and align commitments from institutions from across the finance industry. While at year end 2020 there was only one association with members among the industry leaders tracked, the Net Zero Asset Managers’ Initiative, 2021 has seen the establishment of the Net Zero Banking Alliance, the Net Zero Asset Owners Alliance and the Net Zero Insurance Alliance, alongside significant membership growth in the asset managers initiative.

Figure 20 - Growth of Net Zero Financing and Investment Portfolio Commitments

Finance industry net zero commitments have therefore quickly moved from being innovative initiatives to sitting squarely in the common ground of their force for good engagements. This trend is not limited to the finance industry. 137 countries around the world have now announced national net zero emission commitments, with 90% of them targeting 2050 for carbon neutrality, and an increasing number of countries enshrining their commitments into law. Further net zero commitments are expected to occur during the global COP26 conference being held in September 2021, with all countries also being urged to submit more ambitious targets for reducing emissions by 2030. Such targets are likely to create further opportunities for private sector capital and will trigger further commitments by financial institutions to fund targets and further reallocate global funds.

While there is a clear and growing consensus in the finance industry on the need for net zero, few institutions to date have formulated clear execution plans to reach these targets, raising questions around portfolio construction and balancing, around the timing, nature, and extent of defunding
carbon emitting investments, and measuring, tracking, and monitoring of emissions across the portfolio.

3. The Pandemic and Racial Injustice Rallied the Finance Industry to Commit Nearly US$6 trillion to Support the Vulnerable, Stakeholder Engagement, Compassion for All

Large-scale relief efforts to support communities

In 2020, the finance industry’s leading institutions addressed the most pressing challenges faced by those in their communities hardest hit by the pandemic and by racial injustice. Financial institutions spent a combined US$7.6 billion in 2020 supporting various organizations and initiatives focused on addressing social and civic challenges across education, healthcare, disaster relief, and other types of community development interventions. Among their key efforts, leading financial institutions have spent over US$1 billion in efforts aimed at helping to drive racial equality and economic opportunity for individuals from minority communities, with a focus on employment, education, healthcare, and housing, as well as over US$500 million on community health related topics. Further industry leaders in the scope of this report have contributed over US$800 million to provide immediate, on-the-ground relief in the world’s hardest-hit communities and to support longer term economic recovery efforts, with Covid-19 relief programs have been among the largest disaster relief initiatives for several large financial institutions.

Figure 21 - Total CSR Spending and Key Focus Areas in 2020

<table>
<thead>
<tr>
<th>Illustrative Initiatives</th>
<th>US$1 billion</th>
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<tbody>
<tr>
<td>Racial Equity Initiatives</td>
<td></td>
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<tr>
<td>Fund for racial equity that provides capital and support to leading organizations</td>
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<tr>
<td>addressing racial injustice, structural inequity and economic disparity</td>
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<tr>
<td>Initiative to invest in black entrepreneurship, expand credit to communities of color</td>
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<tr>
<td>and promote affordable housing in order to build long-term wealth</td>
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<tr>
<td>Setting up a foundation to fostering innovative ideas to solve economic and social</td>
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<tr>
<td>issues, and enable progress in underserved communities globally</td>
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<table>
<thead>
<tr>
<th>Impact</th>
<th>US$1 billion</th>
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<tr>
<td>US$37m deployed to organizations addressing racial injustice and</td>
<td></td>
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<tr>
<td>the pandemic’s impact on communities of color</td>
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<tr>
<td>Invested in 13 companies through $200 million Impact Fund, US$1+</td>
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<tr>
<td>Billion in strategic initiatives by the end of 2023.</td>
<td></td>
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<tr>
<td>US$1.8 billion in grants for 8,000 nonprofits in 109 countries around</td>
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<tr>
<td>the world.</td>
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<thead>
<tr>
<th>Covid-19 Initiatives</th>
<th>US$1 billion</th>
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<tbody>
<tr>
<td>Partnered with community-based financial institutions to support those</td>
<td></td>
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<tr>
<td>businesses and populations most impacted</td>
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<tr>
<td>Dedicated grants to organizations fighting hunger, supporting disease control</td>
<td></td>
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<tr>
<td>and channeling financial aid to the most vulnerable people, particularly low wage</td>
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<tr>
<td>earners.</td>
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<tr>
<td>More than US$90 million in 2020 in response to COVID-19, the related economic</td>
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<tr>
<td>fallout due to the pandemic</td>
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<thead>
<tr>
<th>Nutrition, Healthcare and Community Development Schemes</th>
<th>US$30 million</th>
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</thead>
<tbody>
<tr>
<td>Support to organizations tackling social disadvantage issues such as</td>
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<tr>
<td>domestic abuse, mental health, modern slavery, and human trafficking, and</td>
<td></td>
</tr>
<tr>
<td>homelessness</td>
<td></td>
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<tr>
<td>‘Move for meals’ campaign as part of organization’s commitment to support</td>
<td></td>
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<tr>
<td>children’s health and provide sustained access to nutritious food</td>
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<tr>
<td>US$32m funding to support c. 3,000 shelters that help overcome</td>
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<td>complex social issues and rebuild lives.</td>
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<tr>
<td>Grants of US$5m to 22 hunger relief organizations worldwide,</td>
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<tr>
<td>equaling 50 million meals</td>
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<tr>
<th>Education and Skill Building Initiatives</th>
<th>US$160 million</th>
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<tbody>
<tr>
<td>‘Pathways to Progress’ initiative, a job skills building initiative that</td>
<td></td>
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<tr>
<td>addresses the persistent, global issue of youth unemployment</td>
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<tr>
<td>‘Future Workforce’ campaign to invest in the educational success of</td>
<td></td>
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<tr>
<td>underserved populations, and up-skilling and re-skilling individuals within the</td>
<td></td>
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<tr>
<td>company’s footprint.</td>
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<tr>
<td>US$300m invested in 6 years to address the skills mismatch and</td>
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<tr>
<td>equip young people, particularly from underserved communities, with skills and</td>
<td></td>
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<tr>
<td>networks</td>
<td></td>
</tr>
<tr>
<td>US$20 million multi-year commitment in support of skill educational</td>
<td></td>
</tr>
<tr>
<td>and workforce development to academic and job training organizations</td>
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Source: The Milken Institute, Capital as a Force for Good 2023 Dataset
It is worth noting that while Corporate Social Responsibility has been an important ingredient in addressing on-going and current issues, the amounts expended are overshadowed by the amounts committed to community financing for similar causes when the business case is clear, for example, a small business loan for a business impacted by the pandemic vs. charitable grants to organizations fighting the pandemic.

The new working model forced by the pandemic led to new mental and physical wellness programs to support employees during the pandemic

Heightened mental and physical health issues were a collateral damage of coping with the pandemic, with various reports pointing to 20-40% of the adults in the US and UK suffering mental health problems.

Leaders in the financial industry recognized the challenges faced by employees in remaining healthy and productive and maintaining a healthy work-life balance following the rapid transition from offices to a remote work environment and responded with various employee support initiatives including providing resources for both mental and physical wellness.

The resilience of an organization’s people has become an important criterion for success in the most advanced leading financial institutions. Prioritizing the well-being of employees in these unprecedented circumstances, 84% of the industry leaders have publicly disclosed mental health and/or mindfulness programs (vs. 71% in 2019) and 90% have physical health and wellness programs (vs. 77% in 2019). Several companies also saw increased employee engagement across wellness and stress management programs ranging from personalized resilience-building programs to counseling services and meditation classes designed specifically to enable employees to adapt more seamlessly to the realities of a new virtual work environment.

Figure 22 - Focus on Investing in Employees and Building Resilience by Industry Leaders
The industry continues to make progress on creating a more inclusive and diverse work environment, free of discrimination

Leading financial institutions have long acknowledged the importance and value of having a diverse workforce. As a result, they have promoted equity, diversity, and inclusion at the board level and across the workforce to drive their collective ability to innovate and deliver cutting-edge ideas, products, and services to their clients. 95% of the companies in the dataset have policies in place to increase diverse representation within their workforce (vs. 78% in 2019) from entry-level to senior management. Women make up c.47% of the employees at leading financial institutions, much higher than the representation in Fortune 500 companies, in which women comprise one-third of the workforce. Additionally, 34% of board seats were held by women at the leading financial institutions, higher than Fortune 500 companies, in which women comprise c.26% board representation. There is clearly further to go.

Leaders have committed to prioritize equity, equality, diversity, and inclusion and have acted with growing urgency to eradicate workplace discrimination and create a more equitable and inclusive work environment. 95% have disclosed policies to prevent discrimination against minorities (vs. 63% in 2019), 93% of the institutions have policies in place to prevent discrimination against individuals with disabilities (vs.73% in 2019) and 90% have disclosed policies to prevent discrimination against individuals based on sexual orientation (vs. 82% in 2019).

Figure 23 - Focus on Diversity and Inclusion in the Workforce by Finance Industry Leaders
Finance Industry leaders have moved to a broader stakeholder approach, despite the challenges they see

In 2019 leading financial institutions participating in the Business Roundtable committed to a stakeholder interest approach beyond shareholder interests.²⁴²

Figure 24 - Finance Industry Leaders Commitment to Sustainability and a Multi-stakeholder Approach

Nearly 90% of institutions continue to pursue a multi-stakeholder approach

“We are targeting to finance and facilitate more than $2.5 trillion over 10 years to advance climate action and sustainable development. In addition, we are aligning key financing portfolios with the goals of the Paris Agreement and working with our clients to finance their decarbonization strategies — efforts that are intended to drive near-term actions that will help set the world on a path to achieving net-zero carbon emissions by 2050.”

Jamie Dimon, Chairman and CEO of JPMorgan Chase

“The world is moving to net zero, and BlackRock believes that our clients are best served by being at the forefront of that transition. We are carbon neutral today in our own operations and are committed to supporting the goal of net zero greenhouse gas emissions by 2050 or sooner. No company can easily plan over thirty years, but we believe all companies – including BlackRock – must begin to address the transition to net zero today.”

Laurence Fink, Chairman and CEO of BlackRock

“2020 was an extraordinary and unusual year. We remain in the midst of a global public health crisis that has caused serious humanitarian and economic issues. There were a number of well-publicized events that led to a heightened and necessary focus on racial and social justice. These crises further emphasize the importance of Morgan Stanley’s commitment to bring our resources together to help ensure a sustainable and healthy future.”

James Gordan, Chairman and CEO of Morgan Stanley

“We assessed our sustainability and positioning with the group’s purpose and growth aspirations. The outcome was a commitment to apply a sustainability lens to everything we do operationally; with our clients; and with our communities; with the aim of ensuring a cleaner, resource rich, inclusive world.”

Farhl Titi, CEO of Investec

“Our ESG agenda cannot just be a separate layer that sits above what we do day to day. It is embedded in what we do... We recently took another step and committed $1 trillion to sustainable finance by 2030, aligning with the agenda of the United Nations’ Sustainable Development Goals.”

Jane Fraser, CEO of Citigroup

“Sustainability, in every dimension, is one of our top priorities... To do justice to the urgency and complexity of the challenges we face, we once again increased our sustainability efforts... We further emphasized the sustainability goals within our compensation structures and incentive systems for managers – especially members of the Board of Management.”

Oliver Bete, Chairman of Board and CEO of Allianz SE

“In December 2019, we announced our 10-year target of $750 billion in financing, investing and advisory activity focused on our two priorities of climate transition and inclusive growth... But then COVID-19 hit, markets plummeted and concerns grew that sustainability would lose steam. But, instead of slowing down, it actually sped up. A record of $732 billion in sustainable debt was issued in 2020.”

David Solomon, Chairman and CEO of Goldman Sachs

“One component of our management vision is “achieving sustainable growth by helping solve social issues”. In order to realize this vision, we need to break away from our existing business model and take forward thinking actions to reach a “Next Stage of Growth.”

Kentaro Okuda, Group CEO of Nomura
This was set to be a difficult commitment to fulfill given today’s financial system has evolved to serve shareholder interests. However, a recent report prepared by Freshfields Bruckhaus Deringer, a leading international law firm, examined the extent to which institutional investors can use their position to make a positive sustainability impact and whether the law supports this. The research found that, “while there are differences across the jurisdictions and investor groups, we analyzed, where sustainability impact approaches can be effective in achieving an investor’s financial goals, the investor will likely be required to consider using them and act accordingly.

While corporate actions may not yet have fully aligned with their intent in all cases, if we follow the money, we find that major financial institutions have been making clear financial commitments beyond short term and direct shareholder return considerations. The next steps might include integrating stakeholder interests across corporate bylaws, director pay incentivization and governance policies. This may go some way towards public confidence in the commitments made and begin to change the mandate of fiduciaries. This is no doubt set to be a long and difficult transition for them given the opposing forces calling for the status quo and those calling for rapid and dramatic change, that they will face.

**Conclusion: The Common Ground Expanded, Raising the Bar**

Over the last year, the leaders of the finance industry have raised the bar for the common ground in terms of ESG, sustainability and stakeholder engagement practices. Financial institutions have increasingly integrated ESG considerations into investment and business decisions, and the sharp increase in various forms of sustainability financing, as industry leaders seek to achieve attractive financial returns while delivering a tangible environmental and social impact. There is a growing willingness to lead on major global issues including climate change, inclusion and diversity, and data security and in their CSR programs they have prioritized the pandemic and racial justice.

The analysis of the data on the leaders of the finance industry supports nine key conclusions on the substantial common ground for the industry that has emerged over the last year:

1. **96-97% have Integrated ESG Considerations Closely into Core Business Strategy.** For leaders in the finance industry, ESG is not a separate activity independent of day-to-day business operations. It has become an essential part of the long-term firm-wide strategy, deeply integrated into critical business and investment decisions with 97% of institutions establishing detailed ESG frameworks (or management systems) and 96% tracking detailed ESG metrics and performance indicators.

2. **95% have Policies in Place to Increase Diversity within their Workforce.** 95% of the leaders have policies to increase the diverse representation at the board level and across the workforce as they aim to get a broader range of experiences and skillsets to deliver more innovative products and services to clients.

3. **Over 90% of Financial Institutions Evaluate Specific ESG Risks and Conduct Extensive ESG Due Diligence.** Financial institutions have demonstrated their commitments to more sustainable business practices with 95% of institutions screening new business opportunities for ESG risks, and
92% conducting additional due diligence on those transactions that are perceived to have a higher degree of risk.

4. 86% have GHG Accounting Protocols and Reporting in Place. The majority financial institutions analyzed measure and report on their own greenhouse gas emissions with many setting ambitious targets to reduce their carbon footprints

5. 84% of Leaders Have Focused on Mental Health Programs for Employees During Pandemic. 84% of the leaders in the financial industry publicly disclosed mental health and/or mindfulness programs (vs. 71% in 2019), recognizing the challenges faced by employees to stay focused and maintain a healthy work-life balance in a remote working environment.

6. 70% of Leaders in the Finance Industry are Seeking to Drive the Energy Transition. 70% of financial institutions in the dataset have committed not to finance (and/or have put significant restrictions on financing) various high-emission businesses with significant climate impact, including among others hydraulic fracturing, oil sands exploration, thermal coal mines and power plants, oil and gas exploration in the Arctic circle, and shale gas production.

7. $88 trillion of Assets Committed to Net Zero Carbon Emissions. 40% of the financial institutions in the dataset have committed to net zero targets for the investment portfolios up from fewer than 10% in the previous year, indicating that rapid speed with which the commitment carbon neutrality has joined the common ground of the industry’s engagement as a force for good.

8. US$32.6 trillion of AUM have ESG Considerations Deeply Integrated. The finance industry’s leaders have moved away from the ‘tick-the-box’ approach of exclusion lists and ‘negative screening’, to now consciously incorporating key ESG factors related to resilience and sustainability into US$32.6 trillion of total AUM, representing c.19% of the total assets (vs. 12% in 2019).

9. US$9.5 trillion of Sustainability-Linked Financing Commitments Have Been Made to 2030, of Which c.US$2.1 trillion Has Been Mobilized by Leaders in 2020. The financial institutions in the dataset have committed over US$9.5 trillion to sustainability-linked financing in 2020 and mobilized US$2.1 trillion of that in 2020 across various forms of environmental finance and sustainability and inclusion-linked investments, indicating that environment and sustainability-linked finance is now a core part of the business strategy and offering for the finance industry, and not a ‘nice-to-have’ specialty activity.

The new market standard to be a leader in the finance industry has clearly moved to include (i) the adoption and deep integration of ESG standards and practices, (ii) leveraging the core business to drive financing for climate, sustainability, and inclusion financing solutions, and (iii) deep and meaningful engagement with various stakeholders including employees, customers, communities, governments, international organizations and others to create a more inclusive and sustainable financing ecosystem. The next chapter of this report will look beyond the common ground to the innovators and leaders who are pushing the boundaries of finance industry’s engagement as a force for good. Their competitiveness points to the makings of a ‘race to the top’, with the largest financial institutions vying with one another for leadership on these issues based on the scale of the initiatives launched. The initiatives of leading financial institutions are raising the bar in terms of scale, scope
and innovation for what it means to be a force for good in the world, and therefore challenging the industry as a whole to follow them, expanding the common ground of the future.
5. Breaking New Ground: Industry Leaders Are Raising the Bar

Following a year that has seen broad and deep economic disruption from the pandemic, the finance industry has taken on a leading role in building towards a more sustainable future through large capital commitments, ambitious environment-focused goals and driving long term economic and financial inclusion initiatives among underserved communities. Leading financial institutions have increasingly aligned their core business strategy to advance the United Nations’ 2030 Sustainable Development Goals (SDGs) and in particular to tackle challenges such as climate change, as well as various socio-economic issues impacting under-served and low-income communities.

“Doing Good” has Become the New Mantra for Financial Institutions

The 2020 Capital as a Force for Good report looked at financial institutions across three categories: (i) those that were “Being Good” and conducting themselves as good corporate citizens, including incorporating ESG, diversity and CSR, (ii) those that were “Doing Good” and leveraging their core businesses to drive a meaningful measurable impact, and (iii) those that were “Leading for Good” and seeking to drive transformational change through ambitious initiatives and leadership. This distinction is less relevant today, because as outlined in the previous chapter, ‘Being Good’ has virtually become a market standard with nearly 95-100% of financial institutions having ESG policies, diversity and
inclusion initiatives for employees and initiatives to reduce their carbon footprints. In that sense, these initiatives are no longer a criterion by which financial institutions can differentiate themselves, they are the minimum requirement to have a seat at the leadership table.

The key characteristics of the platform of an industry leader that is essentially positioned to be a “good” player include integrating ESG into their core business processes, creating new products to finance climate and inclusion solutions, setting sustainability targets, and measuring and reporting against these targets as well as embracing a broader stakeholder approach. In that sense, ‘doing good’ is or is rapidly becoming now the new normal for leading financial institutions. With the bar raised, differentiation in this new normal requires financial institutions to think far more deeply about how best they can use their businesses to drive positive change in the world.

A few important themes of 2021 have been pivotal in defining the changes in the role of the most advanced actors in the finance industry ranging from the global to the national and individual:

1. Global big issues. The industry has demonstrated awareness and continuous improvement on the issues and metrics that matter for the world, and climate change in particular has risen to become an industry wide mission.

2. Social justice movement. Financial institutions have taken on a leading role to address the structural barriers and systemic inequities faced by minority communities brought to the fore by the global racial and social justice movement, with a focus on employment, education, healthcare, and housing for minorities.

3. Resilience and flexibility. The industry has actively looked to build resilience for their employees as they made a wholesale shift to remote working environment during the pandemic, offering mental health and physical wellness programs including personalized resilience-building, meditation, and stress management programs, healthy eating, and exercise programs.

The industry’s leaders are also making commitments to address what appear to be intractable world issues, promote access to capital for underserved communities, funding solutions to immediate crises, excluding activities that do not meet their values or views and enhancing the resilience and well-being of their people. New ground is being broken in the process by the most advanced industry leaders, going well beyond their peers and include trillion-dollar commitments to drive the SDGs, redefining scale in climate change commitments in particular, driving inclusion and making an impact to underserved local communities, elevating social issues to a critical level, and making the case to address them, funding crises as leaders along the lines governments would and seeking to address underfunded SDGs.
Leaders Make Trillion Dollar Commitments to the SDGs

Leading financial institutions have made large financial commitments including a number of trillion-dollar commitments to sustainability linked themes, aligning with the SDGs and the Paris Agreement. Sustainable-linked finance has become core to the long-term business strategy of these leaders, and among the most advanced, it is no longer seen as a specialty field. The 100 industry leaders examined have been highly proactive in driving and supporting various sustainability-linked initiatives including:

US$7.0 trillion
Total financing committed to the SDGs until 2030

Trillion-dollar Commitments
Approximately 85% of the finance industry leaders have made a public commitment to SDGs, several which have made significant financial commitments to funding the SDGs over the last year, including for example, five global banks which collectively have committed over US$7.0 trillion to funding the SDGs between 2020-2030.

US$4.25 trillion
in climate related financing

Climate Related Financing
Of the US$7 trillion in total commitments, these industry leaders have allocated US$4.25 trillion to support climate action and related financing with the goal of accelerating the deployment of solutions for cleaner sources of energy and facilitating the transition to a low-carbon economy.

US$2.75 trillion
for social and inclusive development

Social and Inclusive Development
The remaining US$2.75 trillion (of the US$7 trillion) has been allocated for social inclusive development, scaling capital to advance community development, healthcare, and education, in addition to racial and gender equality as well as small business financing, home lending and affordable housing.

Redefining Scale in Climate Change Commitments
The finance industry’s leaders have taken on the mission to tackle long-term climate challenges by transitioning both their own operations and their clients’ operations to a net zero global economy with the Paris Agreement in mind. Several leaders in the financial industry have committed to the Paris Agreement’s target to achieve net zero greenhouse gas emissions by 2050 and mobilized significant funding for long-term climate change in the past year, redefining scaled investing in alternative energy and low carbon strategies through their commitments.

US$691 billion
mobilized for climate change

Mobilizing Environmental Solutions
Ten leading financial institutions have mobilized over US$691 billion for environmental finance in particular for climate change and energy.
transition related investments as they look to tackle longer-term climate challenges beyond 2030.

Renewable Energy Financing
Of the US$691 billion in environmental financing, US$484 billion has been mobilized for renewable energy financing, focusing on clean technologies, retrofitting, rehabilitating, or constructing accredited energy-efficient buildings, as well as supporting financing strategies around risk hedging to manage the energy transition.

Low Carbon Economy Commitments
The remaining US$206 billion (of the US$691 billion) in environmental financing is focused on facilitating the low carbon economy, including investments and loans to help clients reduce the sector exposure to high carbon industries and supporting the transition to a low carbon economy through targeted loans.

Driving Inclusion and Impact for Under-Served Communities
This shows signs of the industry tackling various social and economic issues in a systematic way, laying the groundwork for the sustainable information age.

The global pandemic has revealed longstanding systemic issues that have impeded economic opportunity for communities around the world. In recognition of the broad and deep impact of the crises, leading financial institutions have deployed innovative initiatives to find commercial solutions to drive more equitable and inclusive economic growth across underserved communities globally. The industry leaders have advanced financial inclusion for all through ‘community financing’, which includes lending and investing activities for affordable-housing, economic development, and small businesses across various underserved communities.

Community Finance
Ten leading financial institutions have deployed a total of US$407 billion in community finance in 2020, with funds deployed across affordable housing, small businesses, quality education, energy efficient housing and infrastructure development. These commitments demonstrate how development finance has quickly become core to their long-term business strategy.
Small Business and Community Loans
Of the US$407 billion, community finance focused institutions last year disbursed US$393 billion in community small business and affordable housing loans, driving financial inclusion for business owners and residents, and promoting inclusive economic growth in previously underserved communities.

Community Development Initiatives
Additionally, these institutions have deployed US$14 billion in community development initiatives, combining corporate social responsibility funds alongside investment capital to maximize their impact in developing communities through a range of initiatives across healthcare, education, skilling, and housing, among others.

Elevating Social Issues to a Critical Level of Importance
The world witnessed one of the largest racial equality and social justice movements in modern history in 2020, which clearly demonstrated the systemic inequities that minority communities face on a regular basis. The largest financial institutions in the finance industry responded to the growing calls for racial justice through various initiatives to drive economic and social progress among the minority communities and augmented their policies to increase diversity in the workforce.

Commitments to racial equity initiatives
Leading financial institutions have committed over US$33 billion over the next ten years towards advancing racial equity including loans, investments, and direct funding for minority business owners and home buyers.

Affordable Housing
Of the US$33 billion committed to racial equity by industry leaders, over US$26.5 billion is being allocated towards affordable housing and mortgages for minority communities, recognizing the important role of home ownership in providing stability and security and in increasing prosperity in these communities.
US$3.0 billion
for minority business
loans and investments

Business Loans and Investments
Leading financial institutions have also committed to providing over US$3.0 billion in small business loans and equity investments in minority owned businesses, contributing to economic growth and development in minority communities and accessing new customers with significant future development potential.

Championing Underfunded Opportunities Within the SDGs
A small number of the industry’s leaders have risen to the challenge of tackling the most difficult problems in the world. They realized that simply funding the most easily accessed SDGs, such as renewables, is not enough to achieve the SDGs and increasingly focused on neglected SDGs (which are covered in greater detail in the next chapter), where there has not been as clear a business and investment case established compared to renewables financing. These include initiatives related to clean water and sanitation (SDG6), ending world hunger (SDG2), and preserving biodiversity (SDG15).

SDG 6 (Clean water and sanitation)
12 of the 40 financial leaders have publicly disclosed business initiatives totaling US$37.6 billion aligned to Sustainable Development Goal 6 (Clean water and sanitation). These include financing for water and sanitation infrastructure and storage solutions that are critical to help communities and businesses grow.

SDG 2 (Zero hunger)
9 of the 40 financial leaders have publicly disclosed business initiatives totaling US$39.2 billion aligned to Sustainable Development Goal 2 (Zero Hunger). This includes commitments towards providing nutrition services to vulnerable children through sustainability related bonds.

SDG 15 (Life on Land)
9 of the 40 financial leaders have publicly disclosed business initiatives totaling US$27.2 billion aligned to Sustainable Development Goal 15 (Life on Land) including commitments towards integrating biodiversity risks into financing and investment considerations.
Conclusion: A sub-group of leaders emerging

The industry’s most ambitious leading financial institutions have adopted an aggressive stance that differentiates them from those that are at an earlier stage of developing their approach. The key features of the more advanced strategy include making big bold commitments, addressing fundamental issues in the world and their defined communities, stepping to addressing major issues such as the pandemic. These initiatives hold the promise of not only repositioning the organizations in the mind of the public, building a more positive and modern culture, but also creating whole new competences that can have a highly positive impact on the business at large.

- Trillion Dollar Financial Commitments to Drive the SDGs - US$7.0 trillion of capital commitments by five institutions to funding the SDGs over the next 10 years
- Redefining Scale in Climate Change Commitments - US$690 billion mobilized for environmental finance by ten institutions to tackle long-term climate challenges outlined by the Paris agreement, (representing 84% of the total climate finance by all 100 companies analyzed.)
- Elevating Social Issues to a Critical Level of Importance - US$33 billion committed over next ten years by five institutions to advance racial equality including loans, investments and direct funding for minority business owners and home buyers
- Driving Inclusion and Impact for Under-Served Communities - US$407 billion of community finance deployed by ten institutions for sustainable and inclusive long-term growth of underserved communities (representing c.94% of all community finance mobilized by the 100 companies analyzed.)
- Championing Underfunded Opportunities Within the SDGs – US$104 billion of commitments. A few leaders are specifically targeting neglected SDGs, specifically focusing on ending hunger, delivering clean water for all, and cleaning the oceans.

Given financial institutions manage or allocate c.US$350 trillion, more than 85% of the world’s gross liquid financial assets, the world is increasingly looking to them to do that in a way that they judge to be responsible and to fund the solutions to big issues. Financial institutions’ actions demonstrate they understand this well, are willing to deploy capital to address critical issues, and still discharge their fiduciary responsibilities.
5. Breaking New Ground: Industry Leaders Are Raising the Bar
The link between being a force for good and financial performance is a strong one. Among the companies examined in this report, there was a clear correlation between the scope and scale of their impact engagement and their shareholder returns, with all ‘force for good’ organizations outperforming the index by over 5x on average and the most engaged institutions achieving 8x outperformance.

Doing good pays in return, risk, and differentiation and shows signs of creating organizations that are more resilient to the many changes at this complex time with many simultaneous discontinuities and mega trends playing out. Key points to note are:

- An analysis of the force for good engagement by major institutions reveals sharp differences between lower and higher performers in terms of priorities, strategies and increasingly capabilities, with two different classes of financial institutions emerging.

- There is a strong correlation in returns between those doing good and superior returns, with greatest returns going to those doing the most good:
  - 8x greater returns to shareholders for those doing the most good over the MSCI world financial index over a five-year period to 2021
  - 5.7x greater returns to shareholders for all ‘force for good’ financial institutions over the same index
• 3.4x greater returns to shareholders between those leading in doing good versus those with early-stage programs within even the group of leading financial institutions.

Figure 25 - ‘Force for Good’ Delivers Financial Returns

<table>
<thead>
<tr>
<th>Quartile of Scores</th>
<th>0-25th Percentile</th>
<th>25th-50th Percentile</th>
<th>50th-75th Percentile</th>
<th>75th-100th Percentile</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Organizations</td>
<td>18</td>
<td>18</td>
<td>17</td>
<td>18</td>
</tr>
</tbody>
</table>

While we do not impute causality, many other studies and meta studies go much further.

• An increasing body of research demonstrates the link between ESG and sustainability more broadly on the one hand and operating and investing performance on the other, which is helping to drive the sharp increase in sustainable investing globally.

• The most advanced financial institutions are not only learning to address ‘force for good’ initiatives, but they are also more adaptive to broader systemic changes in the world at large.

• The organizational changes that this transformation implies is driving the emergence of companies whose key assets and competitive advantages look very different to those of traditional industry leaders, creating competitive advantages and leading to the emergence of the financial institutions of the future.

• Being a force for good confers a multi-dimensional performance advantage to institutions, creating better run companies with more productive talent, resilient systems, and processes, differentiated and innovative products and services, and business strategies with long-term sustainability.
The architecture of a new breed of financial institution is now becoming evident and the first to embody that end-to-end, in its physical, structural, and cultural dimensions, will likely make breakthroughs in terms of its power and influence as well as its scale, scope, impact and returns.

Record Fund Flows to ESG and Sustainable Investing Strategies Driven by a Clear Link Between ESG and Superior Performance

The link between doing good and doing well from a financial performance perspective is an increasingly accepted one, a factor that is clearly contributing to the record inflows into ESG and sustainable investing strategies during 2020 and 2021, with ESG mutual fund AUM growing by 29% in the fourth quarter of 2020 alone (see Figure 27). This growth was repeated during the first quarter of 2021, despite it being a challenging one for ESG funds’ performance in general, given that the best performing sector in global equity markets was energy, while technology was the worst. (ESG screening tended to favor technology and avoid the carbon-intensive energy sector.)

The Business Case: The link between ESG and better performance has been well established

A wide array of studies has sought to determine the specific link between ESG and positive outcomes for investors, as well as the strength of the correlation across asset classes, regions, and specific factors. After more than a decade of research on the topic, these studies are too numerous to reference individually or even as groups and their findings are best summed up by way of meta-studies. One of the most recent and comprehensive ones was released in 2021 by the NYU Stern Center for Sustainable Business and Rockefeller Asset Management\(^67\), which examined over 1,100 peer-reviewed papers and 27 meta-reviews – themselves based on approximately 1,400 studies. The study split the underlying papers into those focusing on corporate financial performance (with metrics like return on equity) and those focusing on investment performance (with metrics like alpha), a distinction also highlighted in the 2020 Capital as a Force for Good Report.
With regards to the corporate performance of organizations embracing ESG themselves, the link between ESG and operating and financial performance is increasingly well established. Companies that embraced sustainable business practices and scored higher on their ESG scores generated superior operating performance on average compared to their peers across a range of financial metrics, including better operating margins, a higher return on equity and higher return on assets.
Further, the causal link between performance and ESG is also increasingly accepted, although the materiality of individual ESG factors and their impact on a business will of course vary significantly from industry to industry, with ESG impacting overall performance in myriad ways.

Better ESG practices have a direct impact in terms of better relationships with suppliers (such as improved reliability and credit terms), a more engaged and productive workforce (because of fair pay, diversity, and inclusion initiatives), and improved operating margins from better resource and energy efficiency.

In terms of indirect benefits, companies with strong ESG credentials will appeal to certain customer groups, driving revenues, while avoiding the reputational risk that may come from poor ESG performance. Further, companies strong in ESG will avoid the fines and litigation costs associated with non-compliance with the increasing body of ESG legislation and regulation around the world. These factors together are driving an increasingly strong case for corporate ESG adoption.

**The Investment Case: ESG also drives superior investment performance**

The factors and considerations laid out above also have a significant impact on the correlation between ESG and investment performance, a positive link that appears to be somewhat less strong that of ESG and corporate performance (see Figure 29 below). Based on this correlation, investors are increasingly screening stocks not just on financial fundamentals such as value and growth, but also on factors like ESG scores, governance practices, disclosure practices, fossil fuel exposure, and workplace diversity. ESG investment strategies, and ESG funds, in particular, have mushroomed in recent years, driven by both investors’ increasing demand to align capital to values and by this promise of higher returns. These strategies have historically delivered strong returns for investment fund managers, with evidence from Europe – the most established market for sustainable funds – indicating that the majority of ESG funds have outperformed non-ESG funds over one-, three-, five- and 10-year time periods.
However, given the nature of the relationship between ESG and financial performance laid out above, successfully using these factors to identify future outperformance requires a nuanced view that goes beyond screening and ‘box-ticking’, both by prospective investors and by the underlying investments themselves, requiring an understanding of an organization’s commitment to the goals they are pursuing and the quality of their engagement. This evolution can be seen in three ongoing phases:

1. The first generation of companies embracing ESG, and responsible business strategies more broadly were often pioneers that were committed to change and to leading their industries through the process. These companies embraced a series of values that drove their actions and they generated superior performance as a result, with early ESG investors benefitting accordingly. However, with the adoption of ESG among public companies now becoming a market standard, an increasing number of companies are taking a process-driven approach to ESG, treating it as a control function or compliance requirement, without internalizing its values, lessons, or the implications for their business.

2. As ESG becomes the market standard in an industry, outperformance is achieved by companies that have fully internalized the principles underlying ESG and have embraced sustainability as part of their culture, in a similar fashion to companies embracing quality or safety as core to their mission independent from their business objective of generating profits, resulting in better run, more forward-looking, more profitable, and more resilient companies. Companies that fail to do

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*Figure 29 - Total Shareholder Returns for “ESG Leaders” vs. Peers*

Source: SEAL Awards, Note: SEAL Awards recognize (a) the 50 Most Sustainable Companies in the World and (b) the most impactful and innovative Environmental Initiative, 2021
so on the other hand will remain in the mind-set of twentieth-century leaders and are therefore less likely to generate superior business performance over the long term, all other things remaining equal.

3. Continued outperformance over the long-term requires a more nuanced approach to asset selection, because while the rising tide may continue to lift all boats in terms of ESG outperformance, as the large-scale shift into sustainable investing strategies leads to a repricing that benefits all ESG compliant assets, regardless of their underlying commitment and quality, by definition, the alpha generated by ESG investment strategies will decline the more widely ESG standards are adopted, and accrue to only the leaders with the strongest commitment and quality of assets.

**Being a Greater ‘Force for Good’ Produces Greater Returns**

The ‘Force for Good’ framework is well suited as a tool for comparing and measuring companies’ fundamental commitment to many of the activities that drive long term performance. By going beyond adherence to traditional ESG to include broader environmental and social sustainability as well as stakeholder engagement, the framework captures the full breadth of a company’s engagement on these topics and recognizes companies that do more than others to pursue these goals.

An analysis of the 71 publicly listed financial institutions included in this year’s report examined the extent of their ‘Force for Good’ engagement based on a ‘Force for Good’ scorecard Total Shareholder Returns of Force for Good Companies. These companies have been awarded an ‘F4G Score’ based on the qualitative and quantitative factors described there and placed in relative performance quartiles. The financial institutions considered for the analysis differ in their respective approaches to being a ‘force for good’, leading to different levels of overall impact of the F4G score. The scorecards reveals that the group as a whole are outliers from the industry standard in terms of their leadership and overall engagement as a ‘Force for Good’, and this is true across all quartiles.

The ongoing engagement with the active participants across all the quartiles has further confirmed the findings of the 2020 report which highlighted several common characteristics and areas of focus that the most active companies shared, namely:

1. A commitment and quality of approach to ESG, sustainability and stakeholders.
2. A high level of integration and alignment of the organization to be and do ‘good’.
3. Quality of adaptation, innovation, and skill in designing product, process, and business for changes in the external environment.
4. Scale and scope of ambition in positioning the organization at the intersection of big issues, big ideas and capital.
5. Desire to Influence changes in the global system of capital.
In term of financial performance benchmarking the F4G scores were then compared to a series of corporate financial metrics including return on equity, earnings growth, and operating margins as well as three- and five-year total shareholder returns. Relative returns and financial metrics performance by financial institutions are measured across each quartile within the segments to demonstrate how ESG performance impacts returns and operational performance.

**Figure 30 - ‘Force for Good’ Delivers Shareholder Returns**

<table>
<thead>
<tr>
<th>Quartile of Scores</th>
<th>0-25th Percentile</th>
<th>25th-50th Percentile</th>
<th>50th-75th Percentile</th>
<th>75th-100th Percentile</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Organizations</td>
<td>18</td>
<td>18</td>
<td>17</td>
<td>18</td>
</tr>
</tbody>
</table>

**Summary Methodology for Determining F4G Scores for Finance Industry Leaders**

1. **Sub-Categories Considered.** Six subcategories considered for scorecard- Capital deployed towards sustainability linked finance, policies in place for ESG integration in core business, inclusion linked commitments, SDG and ESG considerations for loans & investments, environment, diversity & employee policies and peer partnerships through associations.

2. **Scoring Methodology.** For sub-categories with binary responses, one point awarded for affirmative responses. Actual amounts mobilized as a share of total assets (company + client assets) considered for sub-categories with capital commitments towards sustainability finance and inclusion. Percentile calculated for each sub-category to normalize the scoring between binary responses and actual finance commitments. A final weighted average percentile by assigning equal weights to each category.

3. **Weighted Score for Final ESG Scorecard.** Customised weights applied for each category based on number of institutions who have a score in the sub-category and its relative importance to five year returns and financial metrics. The final weighted average percentile for each company based on customized weights are applied is then marked on a total score of 5 to calculate the final ESG scorecard for the company.
This analysis holds true across the different sectors of the finance industry – banking, insurance, and asset management – where in each case the F4G score was highly correlated with shareholder returns in all cases, as well as with sector specific operating metrics as laid out below

Figure 31 - Performance Across F4G Score Quartiles by Sector

1. **Banks** – The highest scored force for good banks have over three times the average five-year shareholder returns and median return on assets compared to the lowest scoring ones

<table>
<thead>
<tr>
<th>Category</th>
<th>Average F4G Score</th>
<th>Average 5 Year Returns (%)</th>
<th>3 Year Median Return on Assets (%)</th>
<th>3 Year Median Asset Growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fourth Quartile</td>
<td>3.9</td>
<td>77%</td>
<td>0.7%</td>
<td>6.1%</td>
</tr>
<tr>
<td>Third Quartile</td>
<td>2.7</td>
<td>50%</td>
<td>0.5%</td>
<td>6.0%</td>
</tr>
<tr>
<td>Second Quartile</td>
<td>2.1</td>
<td>44%</td>
<td>0.4%</td>
<td>5.1%</td>
</tr>
<tr>
<td>First Quartile</td>
<td>1.4</td>
<td>25%</td>
<td>0.2%</td>
<td>4.6%</td>
</tr>
</tbody>
</table>

2. **Insurance** – The highest scored force for good insurers have nearly twice times the average five-year shareholder returns compared to the lowest scoring ones

<table>
<thead>
<tr>
<th>Category</th>
<th>Average F4G Score</th>
<th>Average 5 Year Returns (%)</th>
<th>3 Year Average Return on Equity (%)</th>
<th>3 Year Median Premium Growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fourth Quartile</td>
<td>3.6</td>
<td>80%</td>
<td>8.4%</td>
<td>0.2%</td>
</tr>
<tr>
<td>Third Quartile</td>
<td>2.8</td>
<td>58%</td>
<td>10.4%</td>
<td>3.6%</td>
</tr>
<tr>
<td>Second Quartile</td>
<td>2.2</td>
<td>56%</td>
<td>7.4%</td>
<td>-1.2%</td>
</tr>
<tr>
<td>First Quartile</td>
<td>0.9</td>
<td>46%</td>
<td>8.4%</td>
<td>-0.6%</td>
</tr>
</tbody>
</table>

3. **Asset Management** – The highest scored force for good banks have more than twice the average five-year shareholder returns compared to the lowest scoring ones

<table>
<thead>
<tr>
<th>Category</th>
<th>Average F4G Score</th>
<th>Average 5 Year Returns (%)</th>
<th>3 Year Average Return on Equity (%)</th>
<th>3 Year Median Asset Growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fourth Quartile</td>
<td>3.4</td>
<td>156%</td>
<td>3.0%</td>
<td>4.4%</td>
</tr>
<tr>
<td>Third Quartile</td>
<td>2.5</td>
<td>144%</td>
<td>7.7%</td>
<td>12.3%</td>
</tr>
<tr>
<td>Second Quartile</td>
<td>2.0</td>
<td>142%</td>
<td>2.7%</td>
<td>4.9%</td>
</tr>
<tr>
<td>First Quartile</td>
<td>1.1</td>
<td>72%</td>
<td>4.3%</td>
<td>-4.5%</td>
</tr>
</tbody>
</table>
Of course, the corporate financial, and operating uplift associated with being a force for good represent only one aspect of the benefits it confers. Much greater than the internalized performance implications are the positive externalities of being a force for good, the customers included, the communities uplifted, the environments preserved, and the sustainable activities promoted. While these benefits do not show up directly on company’s financial statements, their impact is potentially much more significant, and to the finance industry’s collective power to help change the world. The industry today neither measures nor prices such positive externalities (just as it does not currently account for negative externalities). Were these to become part of the accounting system, this would not only likely reveal a strong correlation between positive externalities and financial performances, it would also likely impact investing future investment calculations and decisions, ultimately helping to drive systemic change.

**Conclusion: A Model of the Future of Financial Institutions is Emerging**

A strategic change is underway whereby a large proportion of the industry, even among the leading 100 institutions examined for this initiative, are stuck in an old industrial financial model and a smaller group is re-conceiving their identity and nature. The key points to note are:

Data reveals two different classes of financial institutions emerging. Examining the dataset of activities and initiatives and engaging with active participants reveals distinct differences between those that are more “traditional” or conservative in their approach to engaging in doing good and those that have more fully embraced what they see as a new paradigm in sustainable development and impact financing.

The industrial model of finance characterizes most financial institutions. The model for twentieth-century leaders has been evolving since the emergence of today’s financial services giants during the Second Industrial Revolution, with institutions developing a ‘stack’ of organizational assets and capabilities that have defined the modern corporation, including functions like customer management, risk management, product distribution, human resources, and investor relations. While
each of these functions will of course continue to be critical to the success of businesses, they alone will be insufficient in determining who the future leaders of industries will be.

An advanced sub-group is embracing a direction that is set to have a different strategy and modus operandi. The most advanced financial institutions have embraced the view that sustainability and making a positive impact are the direction of change and confer significant advantages if done well. As such, they have decided to begin the process of embracing and excelling at them.

Addressing complex initiatives and measuring the impact is making them different along multiple dimensions. These organizations are not only learning to address ‘force for good’ initiatives, but they are also more adaptive to broader systemic changes in the world at large. The organizational changes that this transformation implies is driving the emergence of companies whose key assets and competitive advantages look very different to those of ‘industrial era’ leaders who dominated the finance industry in the 20th Century.

As one looks at the initiatives, the language, market positioning, commitments and actions, the finance industry’s most aggressive and ambitious institutions seem to be stepping in for governments, with agendas well beyond traditional banking, finance, insurance, and funds

The emerging model for financial institutions in the sustainable information age is different in almost all ways to the past. Financial institutions embarking on the transition to next generation leadership are accordingly changing this stack qualitatively and with a series of additional assets and capabilities that can provide competitive advantages moving forward. While no single institution has the fill stack of practices and attributes, this new stack can be constructed by taking the evident best practices to form a profile of the “best in class” 21st Century model of the financial institution of the future. The key elements of this are:

1. Responsible Custodian. Forward looking organizations are embracing ESG as a matter of responsible asset custodianship for their clients and for broader stakeholders based on a common set of values, rather than as a business process driven by compliance of regulatory requirements.

2. Inclusive and Shared Goals. Future industry leaders are unlocking the value of their people by investing heavily in their workforce, attracting diverse talent, and increasing their productivity based on shared goals and objectives.

3. Serving All Communities. Future industry leaders are leveraging technology and innovation to drive inclusion and profitably serve diverse communities in addition to outreach based on corporate social responsibility.

4. Resilience. The most sophisticated companies are applying 360° risk lenses to their business, focusing on building overall corporate and financial resilience, rather than focusing on loss exposure.

5. Caring for Communities. Global finance industry leaders will need to be equipped to address opportunities and challenges in communities across the globe, in developed and developing markets, opening up long term business development opportunities as we result.
6. Investing for Impact. The most ambitious financial services companies are embracing impact investing not only as means of generating returns while ‘doing good’, but also as a means of identifying future business opportunities ahead of the curve.

7. Networked Partnerships with Stakeholders. Major industry leaders are increasingly working together with stakeholders including government to address local, national, and transnational issues, helping to shape the policy and regulatory environment for the industry in pursuit of their strategic goals, pointing to an evolution of the lobbying model to something more partner-like.

8. Product, Service, Solution Innovation. Future leaders are also committing to solving issues of relevance in the world today, using product and service innovation to develop solutions that have eluded both the public and private sector.

9. Mobilizing Strategic Change. Finally, tomorrow’s industry leaders are increasingly willing to cooperate within the industry, mobilizing their peers to pool resources for united action, while continuing to compete with them across other business areas, as well as across boundaries.

The superior performance of ‘force for good’ organizations is multi-dimensional: they are better run companies, able to attract and retain more diverse and more productive talent, with more resilient systems and processes and business strategies that position them to capitalize on high growth opportunities, and with innovative products and services that differentiate them from their competitors. While no company today has fully made this transition yet, the most ambitious
companies engaging as a force for good have started the transformation, providing a potential explanation for their superior operating performance vs. their peers and the industry as a whole.
Having recognized both the strategic importance and value of being a force for good, finance industry leaders are increasingly embracing supporting the SDGs as priority across their organizations, developing an increasing number of business cases that are allowing them to commit capital at scale in pursuit of the goals, with c.US$2.1 trillion in financing deployed in 2020. Further, leaders have publicly committed to spending a further US$9.5 trillion toward financing the SDGs over the next decade.

The Leading Financial Institutions are Committing Capital at Scale

The finance industry leaders examined for this initiative have committed a total of US$9.5 trillion of environmental and sustainability financing in support of the SDGs in the next decade, with c.US$2.1 trillion of financing deployed in 2020 towards various environment, climate change, and inclusion initiatives.

The industry’s focus on SDGs is growing rapidly, evident in the number of institutions that are explicitly setting sustainability targets and outcomes, publicly committing to the SDGs and to achieving net zero emissions by 2050,
measuring outcomes, and offering sustainability financing products and services (see Figure 34).

The total of US$9.5 trillion committed through 2030 is substantial. It reflects the commitment by over 86% of the leaders examined to the Paris Treaty and net zero, the SDGs, to measuring their impact and reporting it and offering sustainable financing products to their clients.

**Leaders are embracing the SDGs and re-aligning their businesses**

A substantial sub-set of the leading financial institutions explicitly target the SDGs, prioritizing specific SDGs, and measuring and reporting (in varying degrees) their commitments and the outcomes achieved, leading to a broader business reorganization aligned with the goals. A closer analysis of the 40 companies within the data set that are explicitly targeting the SDGs and providing the most detailed reporting on their sustainability financing commitments and impact targets reveals both the scale and the breadth of their engagement, with a broad array of goals targeted and significant commitments made in their pursuit.

These leaders appear increasingly aligned with the overall financing requirements for the SDGs, and are investing not only in the environment and climate-related SDGs, but also in the SDGs relating to human development and infrastructure, with both large scale investments to finance the energy transition and initiatives across health, education, financial inclusion, infrastructure, water and other areas which are being neglected by others, leading the industry in the direction of a more holistic approach towards financing the SDGs. The table below breaks down the financing by the 40 SDG leaders by allocating it to specific SDGs and/or categories. Mapping this financing to the SDGs reveals the areas of specified focus (green space), of general focus (grey space) and the goals which are currently not be targeted with spending (white space).

![Figure 34 - Comparing Focus by Leaders Across SDGs](image-url)

<table>
<thead>
<tr>
<th>Financial Institution</th>
<th>Total Owned and Managed Assets (USD)</th>
<th>Total Annual SDG Financing (USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Institution 1</td>
<td>USD 9.5 trillion</td>
<td>10,000</td>
</tr>
<tr>
<td>Institution 2</td>
<td>USD 7.6 trillion</td>
<td>9,400</td>
</tr>
<tr>
<td>Institution 3</td>
<td>USD 4.2 trillion</td>
<td>12,174</td>
</tr>
<tr>
<td>Institution 4</td>
<td>USD 3.3 trillion</td>
<td>30,364</td>
</tr>
<tr>
<td>Institution 5</td>
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<td>12,064</td>
</tr>
<tr>
<td>Institution 6</td>
<td>USD 4.1 trillion</td>
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</tr>
<tr>
<td>Institution 7</td>
<td>USD 11 trillion</td>
<td>11,554</td>
</tr>
<tr>
<td>Institution 8</td>
<td>USD 5.6 trillion</td>
<td>8,958</td>
</tr>
<tr>
<td>Institution 9</td>
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<tr>
<td>Institution 10</td>
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</tr>
<tr>
<td>Institution 11</td>
<td>USD 1.6 trillion</td>
<td>11,900</td>
</tr>
<tr>
<td>Institution 12</td>
<td>USD 2.5 trillion</td>
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</tr>
<tr>
<td>Institution 13</td>
<td>USD 4.1 trillion</td>
<td>41,990</td>
</tr>
<tr>
<td>Institution 14</td>
<td>USD 1.0 trillion</td>
<td>1,990</td>
</tr>
<tr>
<td>Institution 15</td>
<td>USD 3.1 trillion</td>
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<td>Institution 16</td>
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<td>Institution 17</td>
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<td>Institution 18</td>
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<td>Institution 19</td>
<td>USD 6.4 trillion</td>
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<td>USD 6.9 trillion</td>
<td>6,906</td>
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<td>USD 10.6 trillion</td>
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<td>6,493</td>
</tr>
<tr>
<td>Institution 40</td>
<td>USD 1 trillion</td>
<td>1,494</td>
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</table>


![Table showing financing by SDG leaders](image-url)
**Finance Industry Leaders' SDG Focus (% of Companies Targeting Each SDG)**

<table>
<thead>
<tr>
<th>Financial Institution</th>
<th>Total Owned and Managed Assets (US$Bn)</th>
<th>Total Annual SDG Financing (US$Bn)</th>
<th>Total Commitment of Financial Institutions (US$Bn)</th>
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<td>1,784,00</td>
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<tr>
<td>Institution 3</td>
<td>55.006</td>
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<td>7,800</td>
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<tr>
<td>Institution 4</td>
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<td>Institution 5</td>
<td>43.098</td>
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<td>Institution 6</td>
<td>30.064</td>
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<td>Institution 7</td>
<td>9,660</td>
<td>-</td>
<td>7,800</td>
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<tr>
<td>Institution 8</td>
<td>63.000</td>
<td>-</td>
<td>7,800</td>
</tr>
<tr>
<td>Institution 9</td>
<td>132.800</td>
<td>-</td>
<td>7,800</td>
</tr>
<tr>
<td>Institution 10</td>
<td>38.150</td>
<td>-</td>
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</tr>
<tr>
<td>Institution 11</td>
<td>41.800</td>
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<td>Institution 12</td>
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<td>-</td>
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</tr>
<tr>
<td>Institution 40</td>
<td>5,074</td>
<td>-</td>
<td>7,800</td>
</tr>
</tbody>
</table>

**Notes:**
- 'Yes' response marked for SDG 16 indicates the institution has explicitly stated targets and 'Yes' response marked for SDG 17 indicates the institution actively partnering for the goals.
- The total value of the commitment for most institutions is in the billions, reaching to the hundreds of billions for the largest companies.

**Figure 35 - Comparing Commitments by Leaders Across SDGs**

Note: 'Yes' response marked for SDG 16 indicates the institution has explicitly stated targets and 'Yes' response marked for SDG 17 indicates the institution actively partnering for the goals.
SDG Funding Gap Remains High

The world is at the early stage of funding the gap

The analysis described in Chapter 2 of this report points to a total funding requirement of US$11.6 to 14.2 trillion per annum. Hence, the commitment of US$9.5 trillion for the decade to 2030, and the actual spending of US$2.1 trillion during 2020, can only be the beginning of determining how to fund the SDGs. Importantly, this gap varies significantly across the four categories of SDGs with current spending priorities misaligned with the overall funding need as the figure below highlights.

In addition, the categories of Peace and Partnership (represented by SDG 16: Peace, Justice and Strong Institutions and by SDG 17: Partnership for the Goals) do not appear to receive material direct funding from private sector financial institutions, nor have any of the previous cost estimates for the SDGs included these goals. This is due in part to both the absence of commercial business cases for these targets as well as to the geographic mismatch between large pools of capital and the countries where the need is greatest. More fundamentally though, these goals, in particular peace, are seen as prerequisites for the participation of much of the private sector financing institutions, rather than as an investment opportunity. For many institutions, risk factors like conflict, corruption and a weak rule of law represent insurmountable barriers for deploying capital, often particularly for those institutions with strong ESG policies prohibiting investments based on governance deficiencies.

Stakeholders will need to work together to change priorities, make more SDGs fundable

Three SDGs receive most of the private sector funding, climate change, clean energy and sustainable cities and communities, with least funding being provided to life under water, life on land and zero hunger.
A strategic perspective will be required if the mix of funding is to be balanced

When grouped into the four categories of SDGs, there are significant variations in the level of funding, with people and their prosperity receiving only approximately half the level of funding that flow into the planet and infrastructure categories.

Figure 38 - Annual Financing Mobilized by Industry Leaders by Category
While closing the SDG funding gap is not a responsibility of the finance industry per se (it is not their fiduciary mandate to do so), the leading institutions have recognized the importance of the industry’s role within a multi-stakeholder effort. While other stakeholders – individual investors who allocate the majority of global assets, governments who are responsible for fiscal policy and public investments, and corporations who are often the recipients of these investments – all have critical roles to play, the challenge of funding and the fact that the finance industry manages or controls most of the world’s capital, it is in the interest of the industry to lead in creating a holistic approach to financing the SDGs.

Conclusions: Good progress but a collective solution is required as well as continued action by individual financial institutions

Financial institutions that are aligning most strongly to the SDGs are also the most successful. The evidence is clear that there is a correlation between financial performance and alignment to the SDGs. It is reasonable to conclude that, by aligning as they have, the best aligned institutions have also lowered their risk profile relative to other financial institutions.

The overall volume of SDG financing is insufficient, and its allocation is imperfect.

- The finance industry cannot provide the funding alone. US$11.6-14.2 trillion that is required annually to fund the SDGs. Even if the entire finance industry was hypothetically investing the same ratio of the total assets into the SDGs as the 40 companies explicitly focusing on them profiled in this report, the total amount of annual implied SDG funding would rise to c.US$8.3 trillion.

- Climate itself needs more funding, but the other SDGs that are connected to climate also need to be funded. The extent of focus is striking: c.44% of current funding is focused on climate change related goals when these two goals only accounting for c.22% of the total SDG funding requirement. This is to be expected given that a strong business case has been established for renewables and green investing. However, the climate targets are unlikely to be met if the other SDGs relating to uplifting the developing world economically and socially are not sufficiently addressed.

- Most of the funding is going to climate transition in advanced economies. This is natural but it leaves developing countries with greater shortfalls. While most institutions do not specifically indicate the location of their sustainability investments, it is apparent from the analysis of the disclosed information that most of the current spending appears to be allocated to advanced economies to fund their climate transitions.

- Significant shortfall in funding for human, economic, and social SDGs. The funding required to meet the SDGs related to People and Prosperity are chronically underfunded, accounting for c.40% of the total need, but only 32% of actual current funding by finance industry leaders. As the shortfall is unlikely to be made up elsewhere – from local government transfers, charities, government aid, international organizations, and other stakeholders – these goals stand to be unmet.
The current funding gap creates strategic risk for the finance industry as well as society more generally. This strategic risk has several components, including:

- **Transition Risk.** While finance industry leaders in 2020 deployed US$824 billion in renewable energy and low carbon investments, the industry as a whole also deployed US$750 billion to finance fossil fuels over the same period. While some of this funding is intended to support incumbent fossil fuel industries in their transition, not all of it can be justified in this way today and it would not take much for public attitudes to change such that all financing of fossil fuel industries is viewed as tarnished.

- **Perception risk.** Critics are increasingly alert to suggestions of “green-washing” and “SDG-washing” risk. It will become increasingly important to link sustainability financing to actual outcomes both to mitigate this risk and to align the financing better with the required investment areas and specific SDG objectives.

- **Legal Risk.** Sustainability and particularly climate change is becoming an issue of legal risk. A recent landmark ruling in the Netherlands held the oil and gas major, Shell, legally responsible for its role in the climate crisis, ordering it to reduce its emissions by 45% in under ten years. A recent legal opinion concluded that governments could face litigation over their export credit agencies’ continued financing of fossil fuel infrastructure and activities overseas. While financiers are one step removed from the producers of carbon emissions, it is becoming more widely believed that they too risk facing litigation in the future and so face similar risks to others in the future.

- **Fiduciary Risk.** As the allocator of capital equal to 83% of the world’s net financial assets, the finance industry in effect manages almost all the world’s wealth. As such, it will be called on to bear responsibility for managing the funding of most if not all its challenges. With the argument that investors have no wider responsibility than to generate returns being challenged by both their customers and shareholders, and the legal grounds for a broader mandate becoming clearer, the case for a fiduciary to act for stakeholders is set to emerge as a major issue.

- **Societal Risk.** As the most visible stakeholders in the financial system, the finance industry risks being held accountable by the public for any failures of the system overall. The Occupy Wall Street protests provide an example of broader economic inequality targeting financial institutions as a proxy for the system and this then became part of the populist agenda in a different guise. The finance industry risks being in a similar position today and is already beginning to be targeted by climate activists for their fossil fuel loan portfolios. Importantly, with social media amplifying public sentiment and the ability of individuals to act collectively, the risk institutions face can quickly go from merely reputational to existential, driven by mass movements to boycott businesses.

- **Regulatory Risk.** While finance industry leaders are stepping up efforts to fund sustainable development, the industry as a whole has done very little in this respect to date. If the industry fails to mobilize and develop funding solutions to be deployed at scale, it faces not only reputational risk, but the risk of increased regulatory and legislative action, with governments
stepping in to mandate actions that the industry is perceived to be unwilling to take on its own, not dissimilar to the regulations placed upon it following the Global Financial Crisis.

Individual institutions will likely be impacted by the overall strategic risk for the industry. The transition to a net zero world, and more broadly sustainable information age, is driving the rise and fall not only of companies but of entire industry sectors. While the finance industry will of course endure, many of its members may not, rising and falling with the sectors that they choose to back. Institutions will be defined by the extent to which they adapt to the new customers, financing models and products and services that will help facilitate this transition risk.

The underlying problem is nevertheless collective not individual, and it needs a collective solution. Individual institutions can and will make decisions what they see to be their own and their customers’, shareholders’, and clients’ best interests. Further, opportunities to make money will tend to be greatest in the more developed economies, simply because of their size. However, this report demonstrates repeatedly how the funding of the SDGs is an issue for all humankind. The existing political and economic structures are not on track to resolve this and a new blueprint for financing is required. Developing that blueprint is an urgent priority.

The leading financial institutions have made a substantial shift towards funding and measuring against the SDGs with many declaring this in their sustainability strategies. However, this is a multi-stakeholder challenge and time is running out, and with less than a decade left to meet the SDGs, a detailed blueprint is required encompassing various stakeholders to map the investments required to meet all 17 goals, the current investments in these areas (and therefore the additional funding needed), and the sources of capital for the gap. Such clarity on financing the SDGs could create a more comprehensive plan to fund the requirements. The next chapter considers the role of other stakeholders in this critical and growing challenge.
The challenge of financing the solutions for climate change and sustainable development is not one that the finance industry should, or can, bear on its own. The scale of the funding challenge is simply too large for the finance industry to address and requires alignment across stakeholders including individual savers, governments, and corporations. The inherent limitations and mandate restrictions for finance industry leaders provides the space for other stakeholders to help fund the transition, and in the process, they will become both competitors to and collaborators with the finance industry. Financial hubs, governments, development finance institutions, large technology companies, innovative financial technology disruptors, and the individual can all play a critical role in financing sustainable development and will play a critical role in determining whether the world is able to rise to the challenge of the SDGs.

The Finance Industry’s Transition to the Sustainable Information Age

While finance industry leaders have demonstrated their increasing ambition to make an impact for good and play a critical role in the world’s survival and future, the financial system has other powerful participants which are potential allies and competitors. These include the individual, government and related agencies and corporations. As the analysis of the stock and flow of funds analysis in Chapter 3
shows, these are also powerful allocators and/or managers of capital. These stakeholders interact with the finance industry in myriad ways, collaborating, competing and as potential catalysts for bigger changes that may transforming the financial system as a whole.

This year’s study points to some of the critical factors that are set to determine the shape of capitalism in the future, including:

1. Disruption in global financial hubs which are the nerve points of the financial system and are set for critical changes in their power position based on geo-political and geo-economic changes.

2. Individuals, who collectively own c.75% of the world’s net financial assets and generate c.80% of its consumption, are being empowered through digital inclusion as both consumers and investors.

3. Technology companies as a platform for collective action have provided individuals with the means to exercise extraordinary power in politics and social movements, and this is set to impact finance and business too, in potentially equally disruptive fashion.

4. The next generation of specialty fintech solutions create new markets in developing new and innovative solutions to what seemed like intractable funding problems, and some of these can scale to become the giants of the future and while others are likely to be bought and scaled by established financial institutions.

5. Governments across the world have an imperative to unlock investment opportunities if they are to attract capital, creating the conditions for private sector capital deployment.

6. Development finance as a theme and capability that is growing in diversity including in new regions such as rising Asia and in the private sector.

Changes in the Hubs Through Which Money Flows

A major challenge for the finance industry is that its very context is in flux, operating in a period of global discontinuity which is transforming the world in terms of how the world order works. Beyond the shift to the information age and the shift to a more sustainable way of doing business previously described, the world is also undergoing a transition to a multi-polar world order driven by four superpower blocks: the US, the EU, China, and India. These discontinuities are reshaping the power dynamic for the dominant financial hubs to date, and resulting in some major hubs eroding their position, while other rise to prominence.
A closer analysis of the metrics that drive the success of financial hubs leads to several important conclusions:

Power of scaled sophisticated finance. The world’s current pre-eminent hub, New York, has the established base and scale to continue to be at the center of global capital flows, particularly given its increasing focus on innovation, sustainability, and digital technologies, and London’s advantages maintain its position too, for a while.

Geopolitical power, sustainability, and technology. America is well positioned with both New York and San Francisco, two of the world’s most powerful hubs in their fields. Others that that can catch up and join the US in the coming decades to 2050 on one or more of these fronts include the EU and China.

Four superpower blocs emerge. America, the EU, and increasingly China, as well as their cities, emerge as the dominant players across many categories, reflecting their countries continued economic power and the depth of capital in their domestic markets, with India increasingly showing the potential to join that group as an Asian power.

America and China, and New York and Beijing. An increase in the relative importance of three factors, the “Economic Power of Countries and Blocs” which is driven by GDP, the “Power Assertion of Host Countries and Blocs” which is driven by trade and investment, and the “Strength of a Hub’s Asset Base” which is driven by asset base of financial institutions in the hub, by very little would see Beijing surpass New York City as the world's leading financial hub in 2050.

Hub and spoke model for large and leading countries and blocs. Countries with multiple financial centers such as the US, EU, and China have the chance to create a hub and spoke model with one core hub (such as Beijing for China) and satellites (such as Shanghai and Shenzhen for Beijing) and
gain advantages that others cannot replicate, particularly as all three are much like continents with diverse industries that matter to the future of a sustainable information era.

Split into strategic decision-making hubs and distribution hubs. Given the requirements of power, scale and strategic decision making, many face a relative demotion from global leadership positions to regional distribution centers for pooling capital and distributing products, but not as strategic allocators of capital that solves the world’s biggest problems. Being part of the global system, linked to multilateral institutions, trade flows, trading blocs matters and in this regard some such as London and Hong Kong have seen their positions hurt for local political reasons, jeopardizing their relevance in an interconnected world.

Population and financial inclusion matter. Countries or blocs with huge populations, such as China and India, if they can navigate out of poverty and drive financial inclusion, can create the biggest consumer base and therefore financial users in the world.

This has profound implications for which countries and financiers control the global flow of capital, and therefore set the rules of that flow. This control is set to dramatically change over time as the dominance of various countries and their hubs changes, leading to the concentration of finance and financial institutions from the US, China, EU, and later India, as the most powerful arbiters of what gets financed between now and 2050. The alignment of these countries on financing the SDGs and the creation of a common agenda for doing so is critical if the 2030 targets are to be met.

**Individuals, a Connected, Networked and Powerful Collective**

The majority of the world’s capital and an even larger proportion of its annual spending is in the hands of private households, and ultimately controlled by individuals. Recognizing that the options available to individuals varies significantly due to differences across geographies, incomes and circumstances, the collective choices of the world’s 7.8 billion people as investors, consumers, and citizens will ultimately decide which of the world’s challenges are addressed and which ones are not.

**Figure 40 - Current State of Global Financial Inclusion**

Source: Global Findex Database 2017
Consumption is key, and it is controlled by individuals. Consumption represents over 70% of annual global output, nearly 80% of which is in the hands of individuals. Their US$49 trillion of annual spending is equal to nearly 15% of the world’s total stock of total net liquid assets and represents a critical flow in funding systemic change, (recognizing that the level of discretion available on a given dollar of consumption will vary).

Increasing digital inclusion will unlock c.70% of the global population. Nearly 70% of the world’s population today is not fully financially included today. Digital technology will increasingly reach and unlock these 5.6 billion people as both investors and consumers.

A lack of financial inclusion creates the risk of increased conflict and migration. Should governments and the private sector fail to financially include these populations in their own countries, many will choose to move to countries which are perceived to offer greater economic opportunities, triggering further mass migration and the conflicts and security risks that come with it.

The world’s lower and lower middle-income population of 5.5 billion\(^{71}\) is potentially a highly disruptive global force for the status quo. When networked, connected, and mobilized the world’s poor and aspiring have significant potential to disrupt the status quo socially, economically, and politically as voters, protesters, migrants or as revolutionaries if ignored and left in poverty. And if nurtured, they become a new and vibrant class of consumer, investor, and participant in the world system.

At current levels of global income distribution, the world’s richest 12% own 85% of its total wealth. The influence of the rest of the world on how money is spent however goes far beyond the investment of their financial assets and includes their control of 80% of annual global consumption, their determination of elections and politicians that determine public spending, and their ability to create movements that favor and alienate other stakeholders. The mandate to act for the finance industry and other stakeholders will therefore come not only from the small minority of the population that ultimately owns the majority of the industry’s assets today, but it will also come from the empowerment and inclusion of the rest of the world’s population and the choices that they will make.

"Big Tech" Platforms Empowering Collective Action

Given the critical importance of individuals in allocating the capital required for both survival and thriving, the players who access them and empower their spending and investment decisions are of critical importance in the finance industry. Big Tech companies have created digital platforms with unprecedented global reach that provide deep insights into the behavior of individuals consumers. The reach of major tech platforms to over half the world’s population is captured below.
Deep Consumer Access Has Created Unprecedented Value. Seven of the ten most valuable companies in the world are technology companies, and the world’s five most valuable tech companies (valued at US$8.7 trillion) are worth nearly six times as much as the five most valuable financial services companies (valued at US$1.5 trillion), reflecting the value of the deep relationships with individuals their platforms have created, among other things.

Nine out of Ten Global Internet Users Currently Reached by the Leading Tech Companies. With 4.0 billion unique social media users, over half the world’s population is reached by Big Tech. Among these, Facebook has 2.8 billion active users, Google maintains a global market share of internet searches of over 90%, and Amazon represents half of all US e-commerce – allowing these companies to generate unprecedented amounts of data and insight on their customers.

Public Opinion on Big Tech Shifting to Negative, Creating a Need to Re-position for Good. The concentration of monopolistic power among major platforms, concerns over personal data usage and privacy and the abuse of social media platforms enabling the propagation of fake news and misinformation is driving a negative shift in the public perception by both consumers and governments of an industry that widely perceives itself to be a ‘force for good’.

The ‘Force for Good’ Initiatives of the Tech Industry’s Engagement Early-Stage Relative to the Finance Industry. Big Tech companies were early adopters of ESG practices and policies, and have also excelled at corporate-level sustainability initiatives, and several companies have set targets for their operations to go carbon negative before the end of the decade. However, few tech companies have
developed business cases that align purpose and profit to become meaningful forces for good in the world relative to their value, size, and reach.

The Industry is Becoming a Leader in Renewable Energy, But Has Not Yet Strategically Unlocked the Potential of its Platforms for a Broad Impact. Tech companies have become the world’s biggest corporate purchasers of clean energy, setting targets for clean energy’s share of their total consumption. Given the massive power needs of data centers and IT infrastructure in general, these commitments are significant in terms of their impact and scope. However, their use of their platforms to directly initiate large projects with significant global impact on social, human development, and environmental challenges is still in its infancy.

Its Opportunity to Empower Individuals for Funding Change is Likely Unrivalled. Big Tech’s ultimate opportunity as a force for good lies in its ability to empower and unlock what will soon be nearly every individual in the world as a decision maker in consumption and investment, as to the ultimate owners of 63% of the world’s gross liquid financial assets as a group and providing them the opportunity to facilitate mass funding for change.

While Big Tech platforms have the potential to disintermediate financial companies’ relationships with their customers, few Big Tech firms have to date displayed an appetite for competing directly with the traditional finance industry. With Silicon Valley/San Francisco set to emerge as a top five global financial hub by 2050, the partnership between the finance industry and Big Tech is a highly strategic one for both parties. The tech platforms either consciously or without their involvement, as hosts to the individual across the world, is likely to be a powerful conduit for the impact of the individual on the theme of sustainable development. The challenge will be whether that is a strategic intent for its most powerful players, as it has been in the finance industry and in doing so they will transform too.

Fintech Innovators Disrupting Traditional Models

The bigger changes to the traditional finance industry leaders’ model come from a wide range of disruptive FinTech platforms that have emerged in the last decade, leveraging technology to deliver financial products, and services which if scaled can augment and hold the potential to disrupt the traditional finance ecosystem. These FinTech disruptors are dis-intermediating and democratizing finance by using technology to create highly scalable products and business models, by driving down the cost of delivery, becoming far more efficient than traditional finance institutions and by increasing the transparency in the system for customers. Based on these drivers, the FinTech industry and its leading companies have seen rapid growth and inflows in funding.
A number of FinTech companies have scaled rapidly over the last decade, in some cases collaborating with traditional finance institutions and in other cases circumventing them to build a direct touchpoint with the customer, rendering the financial institution into merely a conduit for funds. In the coming years, FinTech innovators are well-positioned to benefit from the rise in sustainable finance, and while there are a wide variety of FinTech companies, their ability to disrupt traditional finance players can be seen in a number of such platforms that are driving the sustainable investing transition.

**Breaking New Ground in Unlocking Opportunities Outside of Traditional Finance.** FinTech’s initial targets have been on market, product, and customer opportunities outside of the focus of the traditional finance industry, using technology and innovation to access and unlock these opportunities.

**Significant Competitive Advantages Established.** Given their access to technology and innovation and the superior cost structure of their (largely digital) operations, many FinTech companies can successfully compete directly with financial services companies across a range of products.

**Disintermediation of Specialty Traditional Finance Underway.** FinTech companies’ unique advantage lies in their ability to deliver functionality to customers that are agnostic to the underlying financial product. Online and mobile payment services for example can seamlessly link into credit cards,
PayPal accounts, or checking and savings accounts in a manner that makes the invisible to users, allowing them to transact without engaging with the underlying financial service providers.

Majority of FinTech Challengers Face Limits to Scaling. However, the majority of FinTechs seeking to challenge traditional finance players will likely face limits to their scaling given the absolute size disadvantage they suffer from. For example, the largest online bank in the US has raised nearly US$15 billion in equity capital to amass c.15 million customer accounts, less than a third of the digital banking users of each of several of the major US banks have.

Multiple FinTech Models Emerging Pointing to the Potential for Systemic Change and a Broader ‘Democratization’ of Finance. There are a number of FinTech models and categories that are disrupting the sustainable investing transition, including ‘People’ FinTechs – that allow individuals to connect to finance each other, or borrowers outside of the traditional finance system to borrow or raise funds commercially, ‘Planet’ FinTechs that help drive capital towards addressing climate change, ‘Physical and Virtual Infrastructure’ FinTechs that disintermediate traditional financial services providers, democratizing the access to financial services, and ‘Prosperity’ FinTechs using technology and data to drive financial inclusion.

The potential of Fintech leaves traditional financial service with a risk of missing growth segments and, as these scale (often by funding from more established financial institutions), poses the threat to those that do not adapt of being left with undifferentiated products and services being delivered at a cost structure that is neither competitive nor sustainable. However, the likely challenges to scaling that many FinTech challengers will face may limit the number of competitors with the potential to displace today’s financial leaders. Moreover, many challengers may find themselves ultimately being acquired by traditional competitors who can integrate their technologies and IP to compete more effectively themselves.

**Governments’ Role in Unlocking Investment Opportunities**

‘Development’ spending furthering education, healthcare, infrastructure, conservation, security, and other social goods has traditionally been the role of national governments. However, with the funding need for global sustainable development far exceeding the resources of even the world’s richest nations, private investors will need to supply the vast majority of the funds required to meet the SDGs.
National government have an insurmountable gap to fund the scale of change required. While governments (including central banks) control nearly 30% of the world’s net financial assets and represent over 20% of global spending annually, the majority of these funds are tied to existing national spending priorities, with only minimal levels of ‘discretionary’ spending in any year. Although sovereign wealth funds are a relatively small part of the capital of the world (representing 4% of asset gatherer-allocators’ capital), they are influential, but have much to do as a group to exert influence on sustainable investing.

Significant emergency capacity as the ‘bank of last resort’ exists in rich western economies, but not for the SDGs. Given significant emergencies however, governments (and central banks) can step up as lenders, investors, and consumers at scale, as the US$20 trillion of fiscal and monetary stimulus by the G7 nations during 2020 demonstrated. However, given the recent stimulus, the capacity to do enough to meet the SDG gap is unlikely to be forthcoming given the scale of the shortfall.

ESG cuts both ways, making investing compliant to high standards and excluding countries that do not meet them. Developing countries, particularly least developed countries, will likely see the challenge to attract funding become more acute given both the risk requirements and the rising ESG requirements of private sector investors. The challenge of making local opportunities investible by ensuring peace, justice and strong institutions will need fundamental thinking for a tier of countries not to be excluded by the ESG movement itself.

Developed countries have a role to play in direct financing, but this is insufficient on its own to close the shortfall. Developed countries, acting through their national aid agencies, have an important direct investing role to play, providing low-cost finance to bridge the gap in countries and opportunities that do not qualify for commercial lending, as they have often done in the past, the challenge of how to do that without making bad loans and creating dependency remains.

Governments can drive capital flows to priorities through policy and execution, but not at the expense of creating a robust system of wealth creation. Governments’ most important lever for unlocking capital flows is through policy making, setting the rules of engagement and providing incentives that
link the world’s deepest pools of capital to the largest funding needs, both at the origin and at the
destination of capital flows. If this is to be robust it would need to result in a robust system of wealth
creation, avoiding the many traps of sub-optimal capital flows, disincentives, outflows and ultimately a
corrupted system of capitalism.

With only limited direct spending capacity governments will need to facilitate private investment into
solving the world’s biggest challenges (and opportunities). Developed and developing countries both
have important, although very different, roles to play in this regard.

Role of Development Finance Increasing in Importance

Development finance has traditionally been the remit of development finance institutions (or DFIs)
and multi-lateral development banks (or MDBs), like such as the World Bank, institutions with a clear
mandate and long history of financing development. As government and quasi-government
institutions, MDBs and DFIs have an inherently low cost of capital and their financial objectives are
typically limited to being self-financing rather than maximizing profits, allowing for a broader focus on
developmental and environmental goals and so are well-suited to funding the SDGs and helping
developing countries to transition their development.

<table>
<thead>
<tr>
<th>MDB / DFI</th>
<th>Annual Financing (US$bn)</th>
<th>Date of Establishment</th>
</tr>
</thead>
<tbody>
<tr>
<td>European Investment Bank (EIB)</td>
<td>74.4</td>
<td>1958</td>
</tr>
<tr>
<td>The World Bank Group</td>
<td>65.9</td>
<td>1944</td>
</tr>
<tr>
<td>Asian Development Bank (ADB)</td>
<td>21.6</td>
<td>1966</td>
</tr>
<tr>
<td>Inter-American Development Bank Group (IDB)</td>
<td>16.0</td>
<td>1959</td>
</tr>
<tr>
<td>European Bank for Reconstruction &amp; Development (EBRD)</td>
<td>11.8</td>
<td>1991</td>
</tr>
<tr>
<td>International Finance Corporation (IFC)</td>
<td>11.1</td>
<td>1956</td>
</tr>
<tr>
<td>Islamic Development Bank Group (IsDB)</td>
<td>7.8</td>
<td>1973</td>
</tr>
<tr>
<td>African Development Bank (AfDB)</td>
<td>7.3</td>
<td>1964</td>
</tr>
<tr>
<td>New Development Bank (NDB)</td>
<td>7.2</td>
<td>2015</td>
</tr>
<tr>
<td>Council of Europe Development Bank (CEB)</td>
<td>4.7</td>
<td>1956</td>
</tr>
<tr>
<td>Asian Infrastructure Investment Bank (AIIB)</td>
<td>4.5</td>
<td>2016</td>
</tr>
<tr>
<td>Total (Top-11 MDBs and DFIs)</td>
<td>232.3</td>
<td></td>
</tr>
</tbody>
</table>

Source: AIIB

Mandated Positioning is as the Original ‘Force for Good’ from Inception. Development finance
organizations’ mandates position them as a ‘force for good’ in the finance industry, having been
established to fund development, growth, and prosperity, and having been early leaders in ESG.

Their Focus is on the Most Critical Issues, including the SDGs. Development finance has traditionally
focused on many of the most critical issues facing the world, providing inclusion-linked finance and
infrastructure development for developing and least developed countries and aligning closely the
SDGs. Major investment areas during 2020, for example, included renewable energy, green, sustainable, and social bonds, public health infrastructure and education and training.

Significant Experience in Managing Risk that the Private Sector Does Not Address. Many DFIs and MDBs have decades of long track records in funding critical issues in many of the world’s least developed regions, both making and losing money, provide them with significant experience in managing country and product risk and in structuring investments.

Engagement Model Provides Deep Expertise in Investing for Impact. DFIs have always engaged and worked closely with customers and borrowers to pursue positive impact for its investments, positioning them among the pioneers of impact investing.

Established Partnership Models Being Deployed, Available to Scale. MDBs and DFIs tend to work closely with both governments (both in donor and recipient countries’) and private sector finance providers, by setting common standards and co-financing opportunities, often at lower returns, rather than trying to supplant them.

Absolute Funding Scale Remains Marginal in the Context of Global Capital Stock. Despite their increasing scale and importance, development institutions are a fraction of the size of their private sector peers, with the top-11 MDBs/DFIs having US$232 billion of annual financing, while JPMorgan’s newly launched for-profit Development Finance Institute, which leverages third party capital to fund projects, deployed US$146 billion of capital in its first year, nearly as much the two largest global DFI’s combined.

Significant Potential Additional Financing. Existing capital adequacy frameworks of MDBs limit their ability to provide further funding. There is the potential to unlock US$500 billion to US$1 trillion of additional lending, while preserving MDBs’ current credit ratings, through revisions in their capital adequacy framework policies, based on the engagements with some of the leading institutions.

A key role of DFIs and MDBs traditionally was played a ‘bridging’ role to filling gaps where the private sector either cannot or is not acting, and this role is one that needs scaling in geographic and deployment scope. The natural engagement model between traditional private sector finance industry participants and development finance institutions, with the latter also bringing their expertise in working with governments, is one of partnership. With highly complementary skills and assets and an increasing alignment around the need for investing in the pursuit of sustainability and development goals, a partnership between private sector financial companies and DFIs can unlock capital in pursuit of the SDGs at unprecedented levels of scale.

Conclusions

The analysis and engagement of development banks, Big Tech companies, and disruptive FinTech platforms, and the role they are playing in driving sustainability and inclusive growth across the world points to a number of important conclusions, both for the finance industry and for these stakeholders too:
The Scale of the Funding Challenge is Beyond Traditional Financing Routes. As highlighted in previous chapters of this report, the funding challenge of the SDGs needing an additional US$84-101 trillion of funding, and climate change needing over US$80 trillion between 2030 and 2050 on top of this, is simply impossible for the finance industry to address on its own. Other stakeholders, as well as entire segments and industries will need to play an important role and the industry will need to grow to a totally different scale.

The Flow of Capital Across the World is Set to Change as Four Superpower Blocs Dominate. The major discontinuities underway in terms of the transition to the sustainable information age and changing geopolitics seeing the emergence of four major power blocs in the US, EU and China followed over the coming decades by India, will result in money flowing through new centers of finance, displacing some of today’s leading hubs, and changing the flow of capital across the world.

Big Tech Companies with an Unrivalled Engagement with the Collective Individual are a Powerful Player in Mobilizing Big Changes to the Flow of Funds. The Big Tech companies have built deep connections with individuals across the world and can and will ultimately cultivate the individuals’ social conscience and activism that is fundamentally changing the flow of capital; and hence hold the potential to be an ally for the finance industry, but also a disruptor if the industry fails to transition rapidly enough.

Finance and Tech Combined Creates Path-Breaking Solutions That Needs Scale. By combining finance and technology and, by their very nature, operating on a virtual platform, FinTech platforms are potential pathbreakers in finding solutions that were not feasible for traditional players and hubs and as such will continuously challenge both finance and Big Tech to do more, and in the process, many will likely be funded or acquired by traditional financial institutions.

Governments Unlock Investment Opportunities Through their Policies, Capital, and Governance. Despite highly constrained direct spending capacity, both developed and developing country governments have key roles to play in unlocking development investment from the private sector, acting as bridges and enablers for private capital and arbiters of policy, with a need to do it in a way that creates wealth, avoiding the many traps.

DFIs Have Deep Experience as a Force for Good and are Natural Partners. Development finance institutions are an experienced partner in sustainable development and have deep experience of funding across developing countries and dealing with complexity, as such they are an important collaborator with the finance industry and given that they have a clear mandate to drive capital towards sustainability and development, they can help the finance industry transition, and fill the gaps where it is not viable for private finance institutions to provide funding.

The funding of the world’s challenges clearly exceeds the mandate and the capacity of the finance industry to execute and is a multi-stakeholder responsibility that will require the coordination of governments, individuals, and private corporations beyond traditional financial services companies. Efficient collaboration between these parties however will require a shared blueprint of goals, deliverables, roles, and actions for the world to own. Such global blueprints have traditionally been
the remit of the UN, which has convened its member states to build consensus on the biggest issues facing the world and to promote united action. Given the projected future flows of global capital the UN will need to include the four major power blocs (initially the US, EU and China and later India) and will quickly need to expand beyond national governments to become a true global compact. Given the power of financial institutions and the individual in the stock and flow of global capital, the UN and others will need to more comprehensively mobilize the experience and expertise of the leading financial institutions and tech platforms that host the individual.
Based on current financing trends, the world will not achieve the SDGs by 2030 despite the increasingly intense engagement by governments, individuals, and the finance sector. Without the solid foundation that meeting the SDG goals would provide, the world will be at a severe disadvantage in addressing further challenges facing the world beyond 2030 such as the fight against climate change and the related energy transition underway today, which in turn will further delay the world’s transition to a more sustainable information age, multiply the disruptions that the world will encounter along the way and significantly increase the human, environmental and financial cost of the transition itself. However, while success is not guaranteed, neither is failure inevitable given the increasing ambition. A multistakeholder approach engaging leading financial institutions in particular given their outsized role in the world’s capital flows, across key areas of sustainability, development and inclusion is essential to funding near-term survival, a far superior future for a world of nearly 10 billion and the transition between the two. The investment themes and potential execution models that will allow international investors to participate in these developments seem clear.

The Imperative and Opportunity to Shape a Better Future

Achieving the 17 Sustainable Development Goals by 2030 so that the world has a sound platform to build the future is the prerequisite for progressing beyond today’s issues and focusing on building for a superior future.

At the same time the risks of not meeting the SDGs are significant. The world faces the twin challenge of a human development crisis and an ecosystem disaster. This manifests in global income disparities, and the lack of inclusion and economic opportunities putting pressure on governments and societies around the world, while environmental degradation, resource depletion and the effects of climate change are destroying human habitats and leading to increasing conflicts and human security risk, all
of which will drive increased mass migration and create further political civil and economic upheavals around the world. The problem is circular and financing the breakthrough solutions is the circuit breaker.

Despite the importance of the SDGS being widely recognized, the targets today remain well off track with less than a decade left to go. Among the most critical challenge in meeting the goals is funding: by some estimates, without immediate action, the achievement of the SDG targets could be pushed out by up to a further decade. The need for the world to act now is therefore imperative.

The Challenge of Managing a Global Transition

The next 30 years promise to be a time of unprecedented change with technological, social, environmental, economic and political upheaval. The extent of this upheaval and the costs associated with it depend largely on how well the global transition is managed.

Global issues require global solutions, which in today's globalized and interconnected world requires the coordination and cooperation of multiple stakeholders. At the highest level these are the world’s 193 sovereign states, which will need to develop shared global model for managing the transition. Such a model will need to include new rules of engagement, new principles of competition and collaboration, new rules of resource management, and new principles of fiscal and monetary policy, while encompassing a diverse range of national strategies, power blocs and international coalitions.

New because the old rules and ways have left the world with a funding gap of an estimated US$84-US$101 trillion for just the next decade, before the world starts to invest in breakthroughs that can create a new future for almost 10 billion people on the planet by 2050 and maintain a healthy equilibrium with the rest of the planet’s systems.
Depending on whether the leading states can develop such a shared model, the world is set to travel along two very different paths in the coming decades. If the world comes together and can collaborate, the transition will be an orderly one, with shared costs and burdens, strong partnerships and collaboration and the inevitable economic and social shocks mitigated. Should the world fail to come together though, the coming decades will witness increased conflict, competition, and uncertainty, as the world fails to meet the SDGs and pays the price of in terms of exacerbated economic, social, and political shocks that will hinder further its ability to manage the energy transition.

Whether the world manages to align for an orderly transition is unclear in a world recently ravaged by political, social, and economic divisions, made even more complex by the assault of the recent pandemic. The United Nations has traditionally played a critical role in convening the countries of the world to do so for over 75 years but its absence during the recent pandemic has left a vacuum which its allies have learnt to fill for themselves but with still the wish that the US will surely rise to this coming challenge as well. Global opinion points to a median of 74% who have confidence that the current US leader(ship) will do the right thing regarding world affairs, up from 17% in 2020.80

However, more fundamentally, alignment is also a challenge stemming from different world views. Whether states choose to work together in the first place is a function of both their mentality with regards to collaboration and competition, and their assumption around the nature of the global opportunity, specifically its growth prospects. The 20th century post-war liberal order was built on the assumption of global growth to be shared by a global community linked by transnational institutions, while the 19th century ‘Great Power’ order was a zero-sum game built on the primacy of national interests, (which therefore lacked the flexibility to avoid the First and ultimately the Second World War, too).

Figure 46 - World View and Strategy
A Simple Model Delineating Sharing, Competing and Resources

<table>
<thead>
<tr>
<th>Assumption of Plenty - Growing Pie</th>
<th>Assumption of Scarcity – Fixed or Declining Pie</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Collaboration Mentality</strong></td>
<td></td>
</tr>
<tr>
<td>Share and Grow Together</td>
<td>Work to Rules for Sharing</td>
</tr>
<tr>
<td><strong>Competition Mentality</strong></td>
<td></td>
</tr>
<tr>
<td>Stock-pile First and then Trade</td>
<td>Take Assets for Own Interests</td>
</tr>
</tbody>
</table>
Emerging Investments Themes That Will Shape the Future

The challenge of funding the current world platform to a more equitable level - overcoming the extremes of difference between communities within and across countries, the transition and key elements of the future - requires a multi-stakeholder alignment and will likely not mobilize at the scale required as a charitable endeavor, one funded by governments or taxes, or one undertaken at losses. Hence, the requirement is to fund investment themes where profits are made sufficient to allow for re-investment in the future, while providing for employment, taxes, social security, and pensions today.

So, in plotting the way ahead, a number of themes, which will be investment themes, will define the global transition. The SDGs are of course a critical part of this transition and given their 2030 target date are often only the starting point for more fundamental transformations. Taken together, these themes determine the global transition to the sustainable information age, and each implies a development arc that will unfold over decades, not years. Some of the key themes in summary can be identified already for the agenda of stakeholders.

Investment Theme: Mass Scaling of Existing Clean Energy Solutions

17% of global primary energy from non-fossil fuels

The Challenge: Meeting 50% carbon emission reduction targets made by many countries by 2030 highly challenging given current primary energy mix

Potential Solutions: Mass scaling of current alternative energy technologies to maximize practical capacity

Core Investment Opportunities: Funding at scale of photovoltaic, wind, tidal, geothermal, and other commercial renewables

Investment Theme: Regeneration of the Environment and Ecosystem

68% decline in global animal populations since 1970

The Challenge: Ongoing environmental degradation through pollution, ocean acidification, loss of biodiversity, and other causes.

Potential Solutions: Scaled technologies to counter or minimize humankind’s environmental footprint, including regenerating legacy industrial and urban environments

Core Investment Opportunities: Investments in pollution extraction, carbon capture material science, recycling, ozone repair
Investment Theme: Global Digital Participation and Inclusion

40% of the world still lacks access to the internet

The Challenge: Over three billion people lack access to the internet in a world where value is increasingly created and delivered online.

Potential Solutions: Universal access to high-speed fixed and mobile broadband at virtually zero cost creating a fully inclusive common global platform.

Core Investment Opportunities: Blended finance models for developing countries.

Investment Theme: Mass Education and Skill Development

260 million children out of school globally

The Challenge: 14% of the world’s population remains illiterate while nearly half the world lacks secondary education, creating critical barriers for employment in a world growing to nine billion people.

Potential Solutions: Enable universal access to high-quality affordable education, with superior learning outcomes, leveraging virtual presence technologies.

Core Investment Opportunities: Supporting online education, upskilling training, and hiring and recruiting.

Investment Theme: Mass Financial Inclusion

67% of the world’s population remains un- or under-banked

The Challenge: Nearly 70% of the world’s population remains un- or under-banked without access to formal financing and markets.

Potential Solutions: Universal adoption of digital payments and FinTech tools, creating universal access to financial services with new digital industry, participants, products, and services.

Example for Leveraging: India’s digital infrastructure stack has increased financial inclusion from under 50% in 2013 to over 80% today, providing a potential solution for other developing countries.
Investment Theme: Resilient Healthcare and Social Security Systems

3.9 billion people lack access to critical healthcare services\(^\text{66}\)

The Challenge: Half of the world’s population does not have access to the health services they need, and over 800 million people spend at least 10% of their household income on healthcare.

Potential Solutions: Creating resilient systems, including healthcare infrastructure, care providers, products, insurance and human resilience for better health outcomes and a higher quality of life.

Example for Leveraging: Digital services have proven their value in other settings and during the pandemic for healthcare.

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Investment Theme: Stakeholder Aligned and Resilient Companies

0.2% of companies ‘strongly aligned’ with the SDGs\(^\text{67}\)

The Challenge: Solving the world’s challenges requires the active participation and leadership of the corporate sector across all industry sectors.

Potential Solutions: Active investment strategies pushing businesses to widen their purpose to include sustainability and impact goals.

Core Investment Opportunities: Responsible and impact investing with enhanced performance criteria for asset selection.

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Investment Theme: Reimagined Urban Life

2.4 billion urban inhabitants being added globally by 2050\(^\text{88}\)

The Challenge: The world’s urban population is expected to approximately double by 2050, creating the need for new cities and new urban environments to effectively handle these inflows.

Potential Solutions: Technology and infrastructure enabling more sustainable cities, with a higher quality of life, and non-urban working.

Core Investment Opportunities: Green housing and infrastructure, building materials, smart city infrastructure and mobility.
US$84–101 trillion-dollar shortfall to fully fund the SDGs

The Challenge: SDGs targets will be missed at current spending trajectories, with major SDGs significantly underfunded

Potential Solutions: Global initiative for major institutions to adopt an SDG, with a lead SDG financier (private or sovereign) appointed for each of the underserved ones

Core Investment Opportunities: SDG 14: Life Below Water, SDG 15 Life on Land, SDG 2: Zero Hunger, SDG 6: Clean Water & Sanitation have received the least private sector capital

80% of global consumption driven by household spending

The Challenge: With c.80% of global consumption controlled by households, systemic change and progress requires mass participation by individual consumers

Potential Solutions: Technologies and platforms that engage and mobilize consumers to make investment and consumption decisions that facilitate both survival and thriving.

Core Investment Opportunities: Empower consumers through data to make point of purchase decisions

70% increase in global food production required to meet rising demand by 2050

The Challenge: Increasing populations and prosperity are driving food demand globally while challenges in food distributions continue to lead to malnutrition and starvation risk in least developed countries

Potential Solutions: Food system transformation including increased climate resilience, supply chain and food environment improvements

Core Investment Opportunities: AgriTech and services increasing crop yields and sustainability, supply chain optimization
Investment Theme: Sustainable Infrastructure

**US$6.9 trillion annual infrastructure investment need to meet the Paris Agreement Goals**

The Challenge: Current energy, transport, building, and water infrastructure make up more than 60% of global greenhouse gas emissions.

Potential Solutions: Transforming existing and deploying new infrastructure leveraging low emission technologies.

Core Investment Opportunities: Energy efficiency, low carbon infrastructure, material sciences.

Investment Theme: Radical Energy Breakthroughs

**55,000 barrels of oil can be replaced with 1 kg of fusion fuel**

The Challenge: Current and near-term energy technologies do not provide the step change in functionality that enable breakthroughs to humanity’s next civilization.

Potential Solutions: Innovation of cheap, clean, renewable, and more functional energy sources.

Core Investment Opportunities: Fusion technologies, advanced solar, and others that have the potential to change the functionality equation.

Realizing these themes holds the promise of a stable transition to a world that is very different from today’s, the sustainable information age. Such a world would be one of universals – universal connectivity, universal inclusion, universal education, and universal healthcare access – that eliminates hunger, illiteracy, diseases, and countless unnecessary deaths. Such a world would also be one of abundance – abundant food and water, abundant energy, and abundant essentials – that eliminates absolute poverty and creates economic opportunities for all. And such a world would be one of balance – with regenerated ecosystems and man-made and natural environments operating in harmony, balancing biodiversity, and thriving communities.
Multi-stakeholder Execution Considerations

The investment potential of the themes laid out above far exceeds the c. US$100 trillion total bill to achieve global net zero emissions or the c.US$120-150 trillion total bill for the world to meet the SDGs. Given that these themes collectively represent no less than the future of human civilization their funding is of course of critical importance. The attractiveness of each theme (or parts thereof) to private sector capital may vary widely, however, implying the need for a multi-stakeholder blueprint for funding the future that incorporates all the major participants of the financial system. The key stakeholders and their role in such a blueprint would include the following:

- The United Nations (and other transnational organizations) – Consensus and Legitimacy. At the highest level, the UN and other transnational organizations have a critical role to play, securing agreement between states on the key priorities and actions which needs to be taken, and importantly, providing legitimacy for the implementation measures executed by member states as a result.

- International Community – Policy and Legal Alignment. The international community of states will need to align and pass a series of resolutions, frameworks and agreements for legislation that align behavior to sustainable development, including performance targets (and requirements), reporting and disclosure, and accompanying incentive programs.

- Sovereign Investors and DFIs – Blended, Bridge and Low-Cost Finance. Developed nations with financial resources will need to strategically provide direct funding to support key themes, whether domestically through R&D support or abroad through national aid agencies that can provide low-cost finance, directly or as blended finance, which may be particularly important for people-oriented SDGs that may not qualify for commercial lending. Development finance institutions, which are semi-governmental institutions by nature, can also play this role, providing a link between political policy objectives and private finance.

- Developing Nations – Becoming Investment Opportunities. Developing and particularly least developed economies reliant on external financing will need to provide an environmental allowing for the creation of attractive investment opportunities suitable for foreign investor participation. Given the rising ESG requirements of private sector capital, governments will need to adopt and abide by a series of policies and requirements that meet investor’s governance standards without hampering the countries’ growth and governments’ ability to respond to challenges, such policies, and requirements to potentially be codified as an improved ‘Washington Consensus 2.0’ for the private sector.

- Leading Financial Institutions – Leadership and Bar-setting. Private sector capital will of course ultimately fund the vast majority of virtually any global investment opportunity, with investors deploying capital according to investments’ risk, return and (increasingly) impact profile. Within the private sector however, leading financial institutions have a critical role to play, leading the industry in targeting new opportunities and themes, raising the bar in terms of commitment levels, innovating new products and services, and setting standards in terms of policies, behaviors, and rules, particularly in less regulated markets.
† Individuals – Powerful Collective Action. With the true democratization of finance, the role of the individual in funding the future will become even more important. The global “Skynet” moment in finance, when a critical mass of transactions by individuals occurs without needing an intermediary is possible, when technology is pervasive across the population such that everyone is connected to everyone else, when the transactions platform has built in security, when considerations of cost and convenience trump relationships and trust, and when enough people globally are sufficiently financially included to participate. Blockchain, social networks, identity and privacy laws and universal internet access are paving the way to this effective democratization of finance.

The Role of Capital in the 21st Century, Building a Superior Civilization as a Force for Good

The global context is flowing at great speed to a very different scenario, changing everything from geo-politics to the role of the individual with concurrent shifts, to the information era from the industrial one, the rise of four power blocs from one superpower, the overuse and likely exhaustion of easily available natural resources, and a population of nearly 10 billion by 2050 fully interconnected by internet media. This level of simultaneous change signifies a transition of civilizations, and such changes disrupt the status quo as they usher in a new age and with it a new set of great powers and new systems defining the order of everything from geopolitics to individual rights.

Finance is an essential ingredient - alongside science, technology governance, security, commerce, and industry - without which civilizations cannot be built. Historically however it has been distinct from the other ingredients in that it underpinned the others as the one element without which they could not survive. During the past 5,000 years, the finance industry (including the financial markets, their participants, and the instruments they employ) has adapted and innovated to scale civilization by financing economic development, technological advancement, and human progress, as well as conflicts of political adversaries.

Each era of humankind and the transitions between them have been made possible by financial innovations that funded commerce, science, art, war, and all the endeavors of humanity. The art of the Renaissance was financed by Italian merchant bankers who had created massive wealth based on the modern holding company and letters credit. The breakthroughs of the Scientific Revolution of the 17th Century were enabled by the wealth created by burgeoning international trade, facilitated by joint stock companies and financing by central banks and a national debt. A century later the Industrial Revolution brought the world modern exchanges, bond underwriting and building societies. In the 20th Century, particularly following two wars that wreaked havoc on the European powers, a new model emerged built on trade and multinational corporations, and it saw the creation of global financial institutions, regional financial zones, personal credit, derivatives and futures contracts and hedge funds.

Through these eras, the world has transformed beyond recognition many times over as new developments have opened new opportunities but also brought new challenges. Today, in the early 21st Century, while the world enjoys more peace, prosperity, and freedom than at nearly any other
time in human history, it also faces the perhaps the greatest existential risk to human life flourishing. Solving for the world’s global interconnected risks will require coordinated actions across countries, governments, markets, communities, and individuals on a scale that has seldomly been achieved.

However, the world is not only facing challenges, but also opportunities that will define its next civilization, the emerging sustainable information age. These opportunities include laying the foundations for the next part of man’s journey including innovations that change the scale, reach and character of humanity and its civilization, ranging from the development of a cheap, clean, and abundant energy source, the ongoing development of artificial intelligence and the expansion of civilization’s footprint beyond its current terrestrial boundaries, to name a few.

In the transition to a sustainable information era already underway, capital is not the exclusive territory of financial institutions, indeed other stakeholders are powerful players with a role to play. The individual, the technology platforms providing the means for the global flow of information, networking and value transfer have an outsized role too. Governments and transnational institutions have an essential role in galvanizing and supporting change. Given the finance industry’s role as the allocator of the vast majority of the world’s wealth, and its traditional role as a facilitator of growth and development it has an essential part to play in both addressing the world’s fundamental challenges and in ushering in the next phase of its civilization to which we are transitioning. The actions of industry leaders, as outlined in this report, indicate that the industry is rising to this challenge. Moreover, it points to the finance industry’s increasing willingness to take a leading role in these efforts, galvanizing other critical stakeholders to contribute to an orderly and timely transition to an age of even greater peace prosperity and freedom. This a development that can be welcomed and encouraged. While most of the industry is stuck in an industrial era model of finance, some of the largest are becoming bold financiers of change and are feeling their way to leading in addressing fundamental issues.

The world faced great multi-faceted social, economic, and political challenges, which were neglected or accentuated, by the pandemic which revealed the fragility of the world, while highlighting the global interrelatedness, interdependencies and interconnectedness of the world’s major challenges, and the urgency of meeting the UN SDGs. A stable platform for the world requires the SDGs to be met to avoid a human and ecosystem crisis, a transition to be managed and a far superior future to be financed that is not only inclusive but can accommodate the aspirations of nearly 10 billion people by 2050. Failure leads to chaos and uncontainable risks, as the past year’s pandemic has shown. The challenge ahead requires ingenuity beyond anything achieved thus far and financing beyond our apparent means, a worthy endeavor for the world at this point.
ACKNOWLEDGEMENTS

1.1 ACTIVE PARTICIPANTS

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<tr>
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1.2 FULL LIST OF ORGANIZATIONS PART OF THIS REPORT

FINANCIAL INSTITUTIONS

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15. BBVA
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<table>
<thead>
<tr>
<th>19</th>
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<td>Credit Suisse</td>
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<td>Deutsche Bank</td>
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<td>EFG International</td>
</tr>
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<td>Fidelity Investments</td>
</tr>
<tr>
<td>35</td>
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</tr>
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<td>Future Fund</td>
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<td>37</td>
<td>GIC Singapore</td>
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<td>41</td>
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</tr>
<tr>
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</tr>
</tbody>
</table>
53 KKR
54 Korea Investment Corporation
55 Legal & General
56 Liberty Mutual Insurance Group
57 Lloyds Banking Group
58 Man Group
59 Manulife Financial Corporation
60 MetLife, Inc.
61 Mitsubishi UFJ Financial Group, Inc
62 Mizuho Financial Group, Inc
63 Morgan Stanley
64 NatWest Group plc
65 New York Life Insurance Company
66 Ninety-One Group
67 Nippon Life
68 Nomura Holdings
69 Nordea
70 Norges Bank Investment Management
71 Northern Trust Corp
72 OMERS
73 PGGM
74 PIMCO
75 Principal Financial Group, Inc.
76 Prudential Financial, Inc.
77 Prudential plc
78 Putnam Investments
79 Rabobank
80 Royal Bank of Canada
81 Schroders plc
82 SEB AB
83 Société Générale
84 St. James's Place plc
85 Standard Chartered
86 Standard Life Aberdeen plc
<table>
<thead>
<tr>
<th>87</th>
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**TECHNOLOGY COMPANIES**

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MULTILATERAL AND GOVERNMENT INSTITUTIONS

1. Asian Development Bank (ADB)
2. Asian Infrastructure Investment Bank (AIIB)
3. DEG / KfW Group
4. European Investment Bank (EIB)
5. InterAmerican Development Bank
6. New Development Bank
7. World Bank

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3. Ripple
4. Robinhood
5. Stripe

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Report Preparation
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Final review and insights were provided by Chantal Line Carpentier of UNCTAD and William Kennedy of the UN Office for Partnerships.
REPORT OBJECTIVES, RESEARCH PROCESS AND METHODOLOGY

Creating the ‘Force for Good’ Initiatives Dataset

This report utilizes a detailed dataset of initiatives developed ‘organically’ across the categories of the framework described above in this report compiled using publicly available information for 100 leading financial institutions listed in Annex 1.2. It analyzes the initiatives of the leading financial institutions across ESG, sustainability, and broader stakeholder engagement, examining their development over time and the increasing priority of these activities within the respective organizations.

The report examines 100 financial institutions with assets of c.US$171 trillion representing an estimated 50% of total finance industry assets. Annex 1.2 provides a complete list of the institutions which have been examined in this report.

It is important to note that the dataset does not represent an exhaustive list of institutions leading on matters of sustainability, and that by nature of the industry’s size and diversity, many companies that may well be leading in this regard have not been included. These companies have been selected to provide as broad and representative a sample as possible for the leaders of the global finance industry across major geographic regions, and asset classes (see tables below), such that their activities and initiatives can be evaluated against the idea of being a ‘force for good’ and provide an important indicator of the progress of the industry as a whole in this regard. Further, the report has focused on established companies with visible public footprints, creating a strong bias for large companies over smaller ones. Further, the database excludes China’s largest financial institutions due to the lack of detailed disclosures on ESG available from these. Given these exclusions, it is important to note that the quantitative outputs of the Force for Good dataset are not extrapolated accurately to the finance industry as a whole and should be construed as a trend set by the industry’s leaders in the identified markets and asset classes.

Figure 47 - Total Assets and AUM of the 100 Finance Industry Leaders Analyzed in this Report

<table>
<thead>
<tr>
<th>Numbers in US$tn</th>
<th>Banks</th>
<th>Asset Managers</th>
<th>Insurance</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Americas</td>
<td>30</td>
<td>49</td>
<td>10</td>
<td>89</td>
</tr>
<tr>
<td>EMEA</td>
<td>46</td>
<td>7</td>
<td>13</td>
<td>66</td>
</tr>
<tr>
<td>Asia</td>
<td>7</td>
<td>6</td>
<td>3</td>
<td>17</td>
</tr>
<tr>
<td>Total</td>
<td>83</td>
<td>63</td>
<td>25</td>
<td>171</td>
</tr>
</tbody>
</table>

The position and visibility of those identified as leaders in the finance industry points provides a sense of the direction of travel for the industry. It is important to note that the companies included do not represent an exclusive or exhaustive list of institutions leading on matters of sustainability, and that by nature of the industry’s size and diversity, many companies that may well be leading in this regard have not been included in the interests of having a more representative sample. Further, while the dataset includes companies of a range of sizes, the report has focused on visible companies with large public footprints. Given the many smaller private institutions that populate the industry and have much lower public visibility, the overall scope and impact of the industry’s activities in terms of ESG and sustainability is likely significantly larger than what is outlined in this report.
In terms of the database’s scope, the study has updated the organically developed template developed in the inaugural report, included publicly available sources of information as a base, added both qualitative and quantitative data captured from the companies examined. The database was expanded to cover include a more granular analysis of the financial institutions’ ESG and sustainable investing assets and the extent to which these are contributing to the various SDGs, providing richer insights on the scope of industry leaders’ initiatives. The methodology to assemble the ‘Force for Good’ Initiative’s dataset was as follows:

- Identification of Finance Industry Institutions. Leading companies from the finance industry were identified across all key regions and key segments including banking (including commercial banks, investment banks and diversified banking institutions), asset management (including traditional mutual fund asset managers, government and private pension funds, sovereign wealth funds and hedge funds) and insurance (including life, general and re-insurers and diversified institutions). Based on a preliminary screening, the 100 institutions listed in Annex 1.2 were selected for further data collection based on the following factors:
  - Scale and Industry Leadership. Institutions were selected based on their total assets (including both owned assets on the balance sheet and client-owned assets under management or supervision) to identify a group of industry leaders that represented as broad a sample of the total assets globally as much as possible.
  - Availability of Public Information. Institutions were also identified for further data collection based on an initial assessment of the extent of publicly available information on their initiatives across ESG, sustainability and stakeholders (Note: in certain cases, institutions with limited public information which were willing to engage as Active Participants in the projects were identified for further data collection).
  - Regional and Asset Class Representation. Institutions were selected for further data collection by distributing them across regions and asset classes. In cases where institutions had businesses across multiple geographies and asset classes, they were listed in their primary geography (where their headquarter is based) and primary asset class (usually accounting for most total assets). It is important to note that certain regions such as Latin America and the Middle East are underrepresented in the sample due to the limited data availability. Notably, Chinese financial institutions have not been included in the study due to the relative concentration of assets with large state-run banks and the lack of publicly available data on their activities in terms of ESG, sustainability and stakeholder engagement.

- Sample Representation was determined by aggregating the total assets and AUM for all institutions (with assets greater than US$1 million) in the respective assets classes) based on data from S&P CapitalIQ. Additional data on government pension funds and sovereign wealth funds was sourced from Willis Towers Watson (for government pension funds) and the Sovereign Wealth Fund Institute. Total asset figures were compiled for the most recent period available (in most cases either as of 30th June 2020, 31st December 2020, or 31st March 2021) and, at c.US$350 trillion, and are in line with other publicly available estimates of total financial assets globally (which range from US$300-400 trillion).

Active Participants in the Project

Of the 100 companies in the Capital as a Force for Good 2021 Dataset, c.30 companies listed in Annex 1.1 are ‘Active Participants’ that have actively contributed to the report’s underlying dataset, providing additional information across the areas outlined above, and engaged directly, with the project team where required. The Active Participants come from various geographical regions and industry segments within the finance industry and were identified based on a combination of factors including:

i. Scale and Influence. Active Participant were prioritized based on absolute scale (within their industry segments) given their pivotal role in shaping global asset allocation. Most of these industry leaders are
also transnational businesses (often generating the majority of their business outside their home countries) which therefore can make an impact across the world, with several of these leaders also being diversified across various industry segments.

ii. Established Commitment  Active participants as group display a high level of organizational commitment to ESG, sustainability and/or stakeholder needs, which ensures that there is sufficient track record and information available enable a meaningful assessment of their engagement.

iii. Willingness and Capacity to Engage. Institutions were further prioritized based on their ability and willingness to engage with the project team at the senior management level to (a) provide additional information on their initiatives and, (b) identify major initiatives with the potential to deliver systems level changes.

The Active Participants collectively represent c. US$70 trillion in total assets, or c.41% of the total data base and c.20% of total global financial assets. While representing multiple industry segments and geographic regions, a significant concentration of Active Participants is U.S based, given the criteria. However, many of these institutions have significant businesses outside the US (often larger than their domestic businesses). Asset managers are also well represented among Active Participants given that the dataset considers both owned assets and assets under management, and because these institutions play a critical role in shaping the global capital allocation.

The level of engagement by Active Participants varied from case to case. Among other things, Active Participants provided information, reviewed draft materials, and signed off on the data pertaining to their respective companies, which was initially gathered by the project team. In many cases, company executives engaged actively with the project team to describe their sustainable development strategies and major initiatives. Initial project support was initially provided by the companies’ senior management, including chief executive officers and chief investment officers, with day-to-day engagement carried out by executives in charge with sustainability.

Figure 48 - Actively Participating Financial Institutions
Data Collection Methodology

The dataset used in this year’s report consists of publicly available quantitative and qualitative sources of information, covering a granular analysis of the financial institutions’ ESG and sustainability initiatives and the extent to which these are contributing to the various SDGs, providing richer insights on the scope of industry leaders’ initiatives

- Core Data Sources. All publicly available information on initiatives relating to ESG, sustainability, climate change, stakeholder engagement (including employee and corporate social responsibility programs) for the companies considered in this report was collected and reviewed. Information sources include annual reports to shareholders, ESG and sustainability reports, ESG policies and frameworks, company websites, and public statements by company leaders.

- Data Collection Methodology. Information on the initiatives was extracted from the above sources, into a template designed to capture all publicly available information on these initiatives irrespective of how each institution captured it, more akin to a register. The key categories in the information template are provided below. For Active Participants, the information templates were shared with the respective fore review and the provision of additional information in some cases. All initiatives have been either directly sourced to a public document or to direct inputs from Active Participants.

- Data Analysis. The information from the templates was then aggregated into a common database to complete the analysis which is shown in this report.

Key Categories of Data Captured

The information template for each of the institutions listed in Annex 1.2 captures information on initiatives across two sections. All the information outlined was collected for all 100 institutions in the dataset. The key information in each of these sections is shown below:

Basic Information Checklist: Data Supporting the Breadth of "Force for Good" Policies, Practices, and Initiatives

- Total owned and managed assets
- Women’s empowerment including information on policies, % of employees and leadership
- Minority empowerment including information on policies, % of employees and leadership
- ESG policy, framework, and public reporting
- Formal adoption of multi-stakeholder focus
- Employee policies and programs including diversity and inclusion, wellness, mental health, and mindfulness
- Sector-specific ESG standards
- ESG oversight and governance
- ESG integration with core business processes
- Governance policies and training

Exclusion List, ESG Risk Factors Assessed and ESG Associations: ESG "Exclusion Criteria", Specific ESG factors considered/prioritized, Participation in international ESG or sustainability associations, Greenhouse gas protocol accounting and reporting

- ESG Exclusion criteria
- ESG Risk Factors considered in screening
ESG associations
- Climate change, sustainability, and inclusion related associations
- Greenhouse gas protocol accounting and reporting standards and carbon footprint data

Sustainability Related Financing: Sustainability related financing mobilized in 2020, Assets / AUM targeted to sustainability outcomes, CSR Spending and Community Financing
- Sustainability related financing across different asset types and products mobilized in 2020
- Assets / AUM are targeted to sustainability outcomes (both on-balance sheet and client assets)
- Corporate social responsibility (CSR) spending and initiatives
- Other SDG or inclusion related initiatives (Community financing)

Organization Resilience Programs: Programs in place to increase institutions’ organizational resilience
- Resilience of employees (health and well-being)
- Resilience of organizational processes
- Resilience to technological disruption
- Resilience to global macro shocks

Detailed Methodology for F4G Scorecard
1. The three and five-year total shareholder returns, calculated as the change in the stock price and cumulative dividends paid per share for the five-year period from 30th June 2016 until 30th June 2021 and for the three-year period from 30th June 2018 until 30th June 2021, has been calculated for all publicly listed institutions in the analysis

2. A custom F4G scorecard calculated for each of the three segment – banks, insurance, and asset managers. To arrive at the initial score, six sub-categories are considered - capital deployed for sustainability linked finance, policies in place for ESG integration in core business, inclusion linked commitments, SDG considerations, ESG considerations for loans & investments, environment, diversity & employee policies, CSR investments,

3. Of these sub-categories that are binary - policies in place for ESG integration in core business, SDG considerations, ESG considerations for loans & investments, environment, diversity & employee policies - are assigned a score of 1 point if the company has policies or consideration in place. The percentiles are then calculated in each of the four sub-categories for the different companies based on their score by adding the total number of points assigned for each policy and consideration in place.

4. Percentiles are also calculated for each firm on the remaining three sub-categories based on their capital deployed for sustainability linked finance, inclusion linked commitments and CSR investments relative to other firms. The percentile system has been used to normalize the scoring between binary factors and actual financial commitments.

5. Each of the sub-categories are initially assigned equal weights to calculate an initial weighted average percentile for each company. Following this, customized weights are calculated for each sub-category based on number of institutions who have a score in the sub-category and its relative importance to five year returns and financial metrics.
6. Once the final weights are assigned to each sub-category, a final weighted average percentile is calculated for each company. The weighted average percentile for each company is then marked on a total score of 5 to calculate the final F4G score for the company.

Detailed Methodology for SDG Funding Requirement Estimates

The US$11.6-14.2 trillion p.a. funding requirement for the SDGs from 2021-2030, has been estimated as the sum of the following three components:

1. Funding Gap in Developing Countries (total: US$8.4-10.1 trillion p.a.)
   - People. Total funding gap of US$1.6-2.0 trillion p.a. is a sum of the following:
     - US$0.6-0.7 trillion p.a. for health and education is based on the IMF’s estimate for additional funding for health and education capital and operating expenditures in 2030, converted to an average annual funding from 2021-2030 by assuming a gradual ramp-up from 2019 level to the targeted IMF levels. The lower end of the estimate (US$0.6 trillion) assumes a 20% cost savings due to adoption of digital technologies.
     - US$1.0 trillion p.a. for Covid-19 relief measures is based on the OECD estimate of additional spending required in developing countries to keep pace with the additional spending in developed countries in 2020.
     - US$0.3 trillion p.a. for ending world hunger is based on UNCTAD’s estimate of the funding gap for food security and agriculture in 2014, adjusted for inflation from 2014-2020 based on average global consumer price inflation based on estimates from the IMF World Economic Outlook (Apr-2021). The lower end of the estimate (US$33bn p.a.) is a limited estimate from the Gates Foundation and Ceres2030 study titled ‘Sustainable Solutions to End Hunger’.
   - Planet. Total funding gap of US$1.7-2.3 trillion p.a. is a sum of the following:
     - US$1.5-1.8 trillion p.a. towards the cost of meeting net zero is based on estimate from the Energy Transition Commission (ETC) which includes additional investments in renewables, transmission, distribution, storage, carbon capture technologies, hydrogen capacity, investments in industry and transportation (including charging networks for electric vehicles)
     - US$0.2-0.5 trillion p.a. for biodiversity and ecosystem restoration is based on an estimated funding requirement of US$150-440bn p.a. from the UN Convention on Biodiversity (CBD) for the cost of meeting the Aichi Biodiversity Targets (which includes restoring global land and water ecosystems)
   - Physical and Virtual Infrastructure. Total funding gap of US$3.2-3.7 trillion p.a. is a sum of the following:
     - US$1.3 trillion p.a. for infrastructure investments in roads, electricity access, water and sanitation are consistent with both UNCTAD estimates for Power, Transport, and Water and Sanitation from 2014 (adjusted for inflation from 2014-2020) and the IMF’s more recent 2019 estimate.
     - US$0.2-0.3 trillion p.a. for telecommunications networks and access is based UNCTAD’s estimated US$155bn p.a. funding gap as of 2014 (adjusted for inflation from 2014-2020) while the higher end of the estimate is based on a 2012 World Bank estimate of US$238bn p.a. (adjusted for inflation)
     - US$1.7-2.0 trillion p.a. for affordable housing is based on McKinsey’s estimate of providing affordable housing for all (including upgrading existing stock) which includes US$9-11 trillion for the cost of construction and US$3.9-5.0 trillion for land costs. Estimates have been adjusted for inflation from 2012-2020 and annualized assuming they are to be funded over 10 years. The lower end of the estimate is based on McKinsey’s estimate of potential cost optimization of land
(e.g., through public provision) and the costs of construction (e.g., through an industrial approach).

- **Prosperity.** Total funding gap of US$1.3-1.4 trillion p.a. is a sum of the following:
  - US$0.9 trillion p.a. for MSME financing is based on the IFC’s estimated US$8.9 trillion total financing gap for MSMEs across developing countries (both formal and informal). This requirement has been adjusted for inflation and is assumed to be funded equally over the decade.
  - US$84-116 billion p.a. for microfinance is a F4G Foundation estimate based on growing the current microfinance gross loan portfolio (US$124bn as of 2018) and active borrower base (140m borrowers as of 2018) to 750m-1bn borrowers as of 2030. The average loan size is projected to grow in line with inflation, resulting in an estimated debt and equity capital requirement by 2030, which is annualized and assumed to be funded over the next ten years.
  - US$250-350 billion p.a. for social security is a F4G Foundation estimate based on the cost of a pay-as-you-go system of 0.5-0.7% of GDP annually. This is applied to the projected GDP of developed economies from 2021-2030 based on the IMF World Economic Outlook forecasts (extended from 2026 to 2030).

- **Decline in External Funding for Developed Countries in 2020.** The OECD estimates that external private finance for developing countries declined by US$0.7 trillion in 2020. This amount is reduced from the ‘current’ funding in developed countries in the IMF’s estimate, resulting in the funding gap increasing by the same amount.

2. **Current Funding in Developing Countries (total: US$1.1n p.a.).** Based on UNCTAD’s estimate of current funding for the SDGs in developing countries as of 2014 (US$1.4 trillion p.a.) increased at the rate of inflation from 2014 to 2020 and reduced by US$0.7 trillion to account for the decline in external private finance as noted above.

3. **Total Funding Requirement in Developed Countries (total: US$2.1-3.1 trillion p.a.).** Based on UNCTAD’s estimated implied investment needs for developed countries in its 2014 estimate (US$1.7-2.5 trillion p.a.) adjusted for inflation from 2014-2020. This analysis focuses primarily the funding gap in developing countries, and therefore the developed country requirement is assumed to be fully funded, except to the extent of the investment required towards climate action and net zero, which is factored into the ‘Planet’ funding gap above.
DISCLAIMER, REFERENCES AND NOTES

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The following symbols have been used in the tables:

• A slash (/) between dates representing years, e.g., 2010/11, indicates a financial year.
• Use of a dash (–) between dates representing years, e.g., 2010–2011, signifies the full period involved, including the beginning and end years.
• Reference to “dollars” ($) means United States dollars, unless otherwise indicated.

Annual rates of growth or change, unless otherwise stated, refer to annual compound rates. Details and percentages in tables do not necessarily add to totals because of rounding.
End Notes, Sources

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65 ‘A legal framework for Impact’, July 2021 (commissioned by The Generation Foundation, the UN Principles for Responsible Investment (PRI) and the UN Environment Programme Finance Initiative (UNEP FI)),
66 Source: Freshfields (Link)
68 Where the financial institution explicitly allocates sustainability financing initiatives to one or more SDGs, the financing has been allocated to these SDGs. For investments which have not been explicitly allocated to an SDG, have been allocated to the respective categories and SDGs based on reported descriptions of the financing initiatives. In case a financing initiative is allocated to more than one SDG, the investment has been split proportionately across the SDGs.
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Certain geographies such as China and the Middle East are underrepresented in the sample due to the lack of public information.