Sustainable Finance market in the UK and Portugal

A contemporary snapshot

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Green Finance Report

Report on the state of play of Green Finance in the United Kingdom and Portugal

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Foreword

Among the many challenges presented by the Covid-19 pandemic, it has made the task of stronger and immediate Climate Change action even more urgent. As the world continues to recover from the punishing effects of the health crisis, we must seize the opportunity to rebuild the global economy in a sustainable way. The challenges of creating a sustainable and resilient economy are great, but the opportunities are greater still.

In November, the UK will host COP26 in Glasgow, in partnership with Italy, bringing world leaders together to accelerate action towards the goals of the Paris Agreement and the UN Framework Convention on Climate Change. We are committed to working with all countries and joining forces with civil society, businesses and people in the frontline of climate change to inspire climate action ahead of COP26.

The UK has a strong track record in tackling climate change and protecting the environment. Alongside Portugal, the UK was one of the first countries to commit to net zero emissions by 2050. The UK was also the first country in the world to set long-term and legally binding emissions reduction targets, through the Climate Change Act 2008. More recently, the UK government announced the end of direct financial incentives for the fossil fuel energy sector overseas. Furthermore, the Government has launched a Green industrial revolution, including an ambitious programme of job creation, which will mobilise £12 billion of government investment, support up to 250,000 highly skilled green jobs in the UK, and spur up to three times as much private sector investment.

Portugal has also set out ambitious steps to achieve its carbon neutral goal. Portugal has a high share of energy production from renewable sources. It has pledged to close all coal power plants this year and has committed to developing sustainable finance, signalling the need to finance the climate action ahead.

Equipping our financial systems for a greener future is crucial. The UK will be the first country in the world to make disclosures under the Task Force on Climate-related Financial Disclosures (TCFD) framework mandatory across the economy by 2025. The UK government will issue its first sovereign green bond in 2021, at least £15 billion to finance projects that will tackle climate change and support UK's 2050 net zero target. It will also launch the world's first sovereign green savings bond for retail investors, bringing the financing of the green agenda into the mainstream.

Internationally, we will lead these discussions through our G7 Presidency and the COP26 Private Finance campaign. We want to have an international conversation on how to i) include climate change assessments in every financing decision, ii) "green" the global financial system and iii) mobilise the necessary public and private money to fund our clean and net zero ambitions.

This report is part of a wider effort by the UK Government to promote stronger international collaboration, in this case with Portugal, on sustainable financing. It assesses the existing green finance offer in the UK and Portugal (including the key players; the range of services available; and policy and regulatory issues), and strives to identify areas for possible future collaboration as both countries seek to green their financial systems and finance their green ambitions. As 2021 unfolds with many challenges yet to be solved, I am proud to be working with Portugal towards an ambitious COP26 later this year and, looking further ahead, to a greener, more sustainable future.

1. Executive Summary

Promoted by the British Embassy in Lisbon, this is the first study published that aims at identifying the green finance products available in the Portuguese market.

The focus given on the green finance products since they are fundamental tools to allow countries to reach their carbon neutrality commitments and to accelerate a transition towards a green and inclusive economy.

The study also demonstrates the active role the United Kingdom (UK) has in incorporating climate and environmental issues within the financial sector, both by regulating and by having pro-active financial players. On the regulation side, it was the first country in the world create the Climate Change Act, incorporating carbon reduction targets into country legislations in 2008, and it was the first country to make the Task Force on Climate-related Financial Disclosures (TCFD) framework mandatory across the economy by 2025. On the market side, UK has been recognized by the EY Sustainable Finance Index of December 2020 has being within the top ten countries globally on reporting ESG activity, despite the recognised need for further progress. According with The Global City, about 100% of major UK banks offer green loan programmes and the London Stock Exchange (LSE) has created a dedicated Green Bond Segment - the Sustainable Bond Market - becoming the first exchange to do so, with an accumulated green issuance of over £35 billion.

In Portugal, sustainable finance market is giving its first steps. The Government, in partnership with the main Portuguese financial players, launched in 2019 a Think Tank for Sustainable Finance with the goal to promote a more sustainable financial system, in order to enable the country to achieve its carbon neutrality commitment by 2050. The first outcomes of

this Think Tank were the "Letter of Commitment to Sustainable Financing" in Portugal and the document "Guidelines to Accelerate Sustainable Financing in Portugal". These commitments, signed by the main financial institutions, are contributing towards accelerating the incorporation of sustainable finance practices within the core business of the financial players.

This study analyses nine financial Portuguese institutions (Banks and its Investment Funds, and two other sustainable funds). The seven banks represent 95% of sectors' market share, calculated considering the banks operating revenue of 2019. Therefore, this small sample of nine financial organisations provide a great snapshot of the Portuguese financial market.

This study concluded that the green finance market in Portugal is still at early stages, since only now the financial institutions are starting to define their ESG/Sustainability investment policies (only two financial institutions have one), despite the fact that most of the players already have a Sustainability Strategy.

It was possible to identify eight funds with ESG characteristics, and most of them invest in the renewable energy sector and energy efficiency, which means these investments contribute mostly for

the climate mitigation taxonomy's objectives. No funds invest in ecosystem and forest related issues.

Regarding green lending, it was possible to identify twenty-one different products, which have been divided in five different categories: Government-backed credit lines, Other Credit Lines, Personal Credit, Mortgages and Auto Loans and Leasing. The main environmental characteristics of all the green lending related to lending towards renewable energy and energy efficiency, which is very much linked with the climate mitigation objective from the EU taxonomy. On de deposit side, only one bank offers a wide range of EGS related structured deposits.

It was not possible to find specific green insurance products that go beyond the regulatory obligation to comply with the environmental responsibility of companies. Despite the growing offer of insurances for electric and hybrid cars, these are not clear about any commercial advantage for the client, and as such classifying them as green insurance could be seen an overstatement.

Portugal has some green financial products, most of them with contributions towards climate mitigation. Nevertheless, and, in order to be aligned with the Green Deal, with the EU Taxonomy and environmental goals, with the Portuguese carbon neutrality goal for 2050 and with the green recovery ambition expressed in the resilience and recovery plan, it is important to catalyse a wider range offer of green finance products and to increase the needs and incentives for companies to look for these type of products.

2. Objective, scope and methodogy of the study

2.1 Objective

Green finance is a key subject in the United Kingdom (UK) agenda and a central topic for discussion in the next COP 26 expected to take place in Glasgow in November 2021, under the UK Presidency in partnership with Italy. This study, promoted by the British Embassy in Lisbon, aims to better understand the current stage of green finance in Portugal and UK and identify further opportunities for its development in Portugal. The efforts of all countries are relevant to reach a net-zero and resilient economy, since such change requires trillions of dollars of investment and an unprecedented shift in the global financial system[1].

2.2 Scope and limitations

This report has some constraints that must be taken into account:

- It is a portrait of the present, as of February 2021;
- It is limited to information publicly available up to February 2021;
- Validation about the veracity of the information publicly available is restricted to the information on tables 3 and 4, which was confirmed by the respective financial institutions over emails and calls throughout the time of research;
- We refer to the Environmental, Social and Governance (ESG) risks, but this report if focused on the environmental aspects, and more specifically on climate change aspects;
- The section of this study that refers to green financial products only provides a brief overview on the current UK scenario. A special focus is given to the state of play in Portugal, which includes a detailed research on the existing green financial products provided by the main operating banks in Portugal and on the existing green Portuguese funds;
- The choice of Portuguese banks under this study was made taking into account a market share of 95%, calculated considering the banks operating revenue of 2019 and restricted to the members banks of Portuguese Bank Association (Associação Portuguesa de Bancos - APB);
- The green financial products presented in this report include personal credit and business credit that provide some kind of commercial advantage to the client and investment funds with ESG characteristics.

2.3 Method

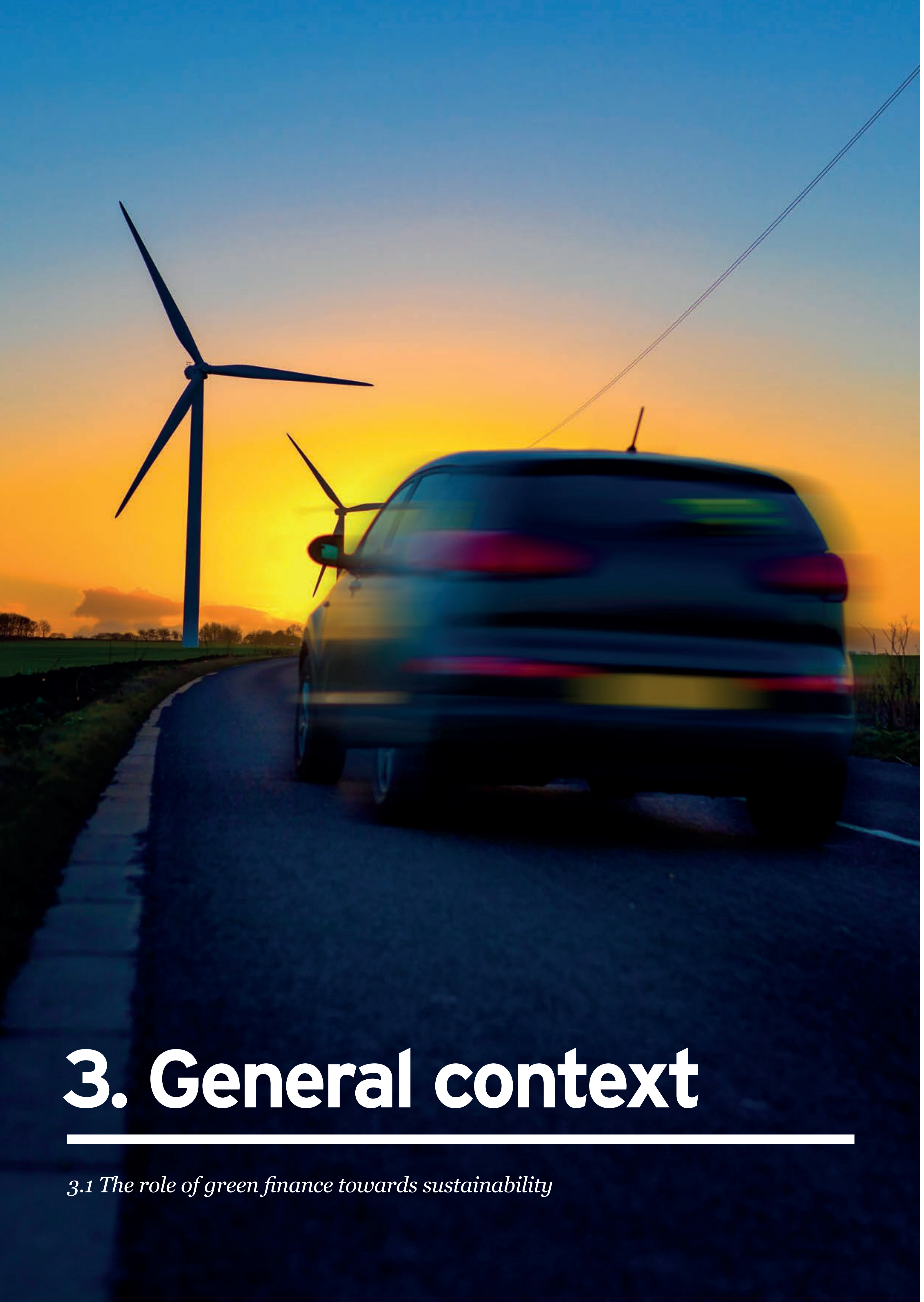
The development of this report was based on desk research, questionnaires and individual interviews with some of the key Portuguese players in order to deepen the knowledge the researchers obtained with the questionnaires.

Regarding the questionnaire for the green investment funds providers and banks, the research team created an excel spreadsheet, summarising information found online about each fund. Then, we sent it back to each institution for confirmation. This interaction allowed the institutions to send further information and to confirm or improve the analysis initially done based on the public available information.

For insurances, the research team scheduled a meeting with the Portuguese Insurance Association to have an overall perspective about the practices that insurance companies in Portugal were having in terms of sustainability. Furthermore, the team carried out online research, so that information about some products related with environment could be disclosed in this report.

In our calculations, we assumed the exchange rate of 26/02/2021: EUR to GBP = 0.8672 and USD to GBP= 0.7166.

1 Source: https://ukcop26.org/uk-presidency/campaigns/



3. General context

3.1 The role of green finance towards sustainability

> *"The transition to a sustainable global economy will be the most capital-intensive transition in human history. This creates a massive opportunity to address weak global growth and to soak up the glut of global savings that exists into productive and sustainable investment."*
>
> Dr. Ben Caldecott, Oxford University

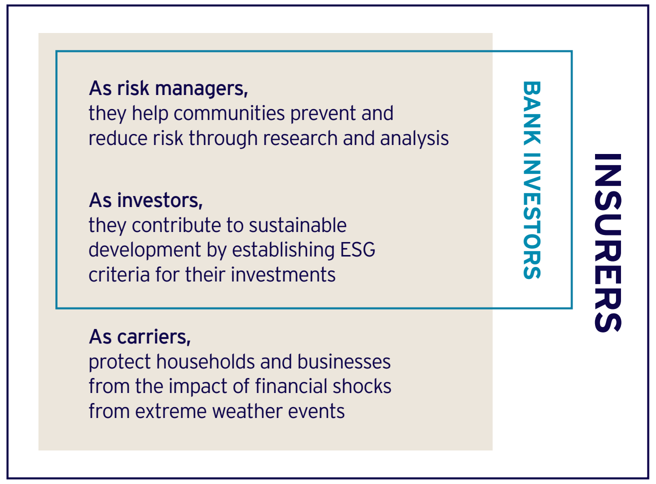
Sustainability issues are not new on international agenda. In 1992, the United Nations Environment Programme Finance Initiative (UNEP FI) was created as a global partnership established between the United Nations Environment Program (UNEP) and the financial sector, with the goal to promote the inclusion of sustainability issues within the financial industry. Since then, many activities have taken place from the financial sector initiative, but the sustainable finance has not yet became mainstream. Still, since 2015 there has been an acceleration of the importance of the topic worldwide. This might be due to the 17 Sustainable Development Goals (SGDs)[2] and to the Paris Agreement[3], both launched in 2015. In both of these international commitments, finance is recognized as a key tool to reach sustainability and carbon neutrality. The 17th SGD goal expresses "the importance in mobilizing additional financial resources for developing countries from multiple sources"; while the Paris Agreement, in article 2.1C, recognises the "need in making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development".

The Paris Agreement ambition for the world to reach carbon neutrality during the second part of this century implies large amounts of investments that need to be done in order to move from a fossil fuel-based economy to a renewable and energy efficient economy. This transition needs to be done in a just way, by helping those with less financial wealth to have access to cleaner vehicles and more energy efficient houses. According with UNEP-FI[4], and investment of about $5 to 7 trillion (£4-5 trillion) a year are needed just for the climate transition, which explains why both international organisations and governments all around the world have been recently pushing forward green finance agendas.

Financing sustainability is not a solely responsibility of the public sector, as it requires a profound transformation of our economies and overall society. Financial institutions also play a key role in this transition, since they have the capacity to shift financial flows, from unsustainable companies and activities, to others that can positively contribute to the needed transition. If happening, this could become one of the biggest advantage factors for sustainable business models and practices across all activity sectors.

To convey this, figure 1 illustrates the essential role of financial institutions in the green transition.

Figure 1: The role of financial institutions in the green transition



2 United Nations, Sustainable Development goals, 2015, available at https://sdgs.un.org/goals

3 UNFCCC, Paris Agreement, 2015, available at https://unfccc.int/sites/default/files/english_paris_agreement.pdf

4 UNEP-FI, Positive Impact, 2017, available at https://www.unepfi.org/investment/positive-impact/

Although there is still debate on the definition of green finance, the UK Government defines it as the process of "aligning private sector financial flows with clean, environmentally sustainable and resilient growth[5]". Moreover, the European Commission has a similar definition; even if the most commonly used term is not green finance, but instead sustainable finance. In their words, sustainable finance is the "process of taking due account of environmental, social and governance (ESG) considerations when making investment decisions in the financial sector, leading to increased longer-term investments into sustainable economic activities and projects." The EC also specifies, "Environmental considerations may refer to climate change mitigation and adaptation, as well as the environment more broadly, such as the preservation of biodiversity, pollution prevention and circular economy. Social considerations may refer to issues of inequality, inclusiveness, labour relations, investment in human capital and communities, as well as human rights issues."[6] For the purpose of this study, we will use the term green finance.

Fundamental changes in the financial sector are vital to put forward the green finance agenda, since the financial system currently has a focus on short-term results at the expense of long-term interests. This shift requires that financial institutions agree to demand non-financial information from clients and to limit or penalize lending, investing and insuring to businesses that do not manage properly social and environmental risks, impacts and externalities. It also implies the creation of green financial products as being those that can induce companies and/or individuals' behaviour towards choices that result in low environmental impacts... Today several green financial products are available in the market, such as green bonds, green loans, linked bonds, green mortgages, etc. In addition, in the insurance market some specific environmental related products start to arise, but there is still a big field do be explored, since the insurance gap is still significant. In fact according to Mark Carney "the potential economic benefits of closing the insurance gap are striking. Lloyd's of London estimates that a 1 percent rise in insurance penetration can translate into a 13 percent reduction in uninsured losses and a 20 percent lower disaster recovery burden on taxpayers. Substantial macroeconomic benefits include increased investment, higher output (potentially up to 2 percent of GDP), and greater climate resilience"[7].

5 UK Parliament, Green finance: Mobilising investment for green growth, 24.06.2020, available at https://commonslibrary.parliament.uk/green-finance-mobilising-investment-for-green-growth/

6 European Commission, What is green finance?, https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/overview-sustainable-finance_en#what

7 International Monetary Fund – Finance and Development Magazine https://www.imf.org/external/pubs/ft/fandd/2019/12/a-new-sustainable-financial-system-to-stop-climate-change-carney.htm

The key issue to retain is that climate, environmental issues are today recognized as risks and opportunities for the financial sector, which means that sustainability, and climate issues have become relevant for the resilience and stability of the financial sector.

3.2 Sustainability for resilient and stable financial systems

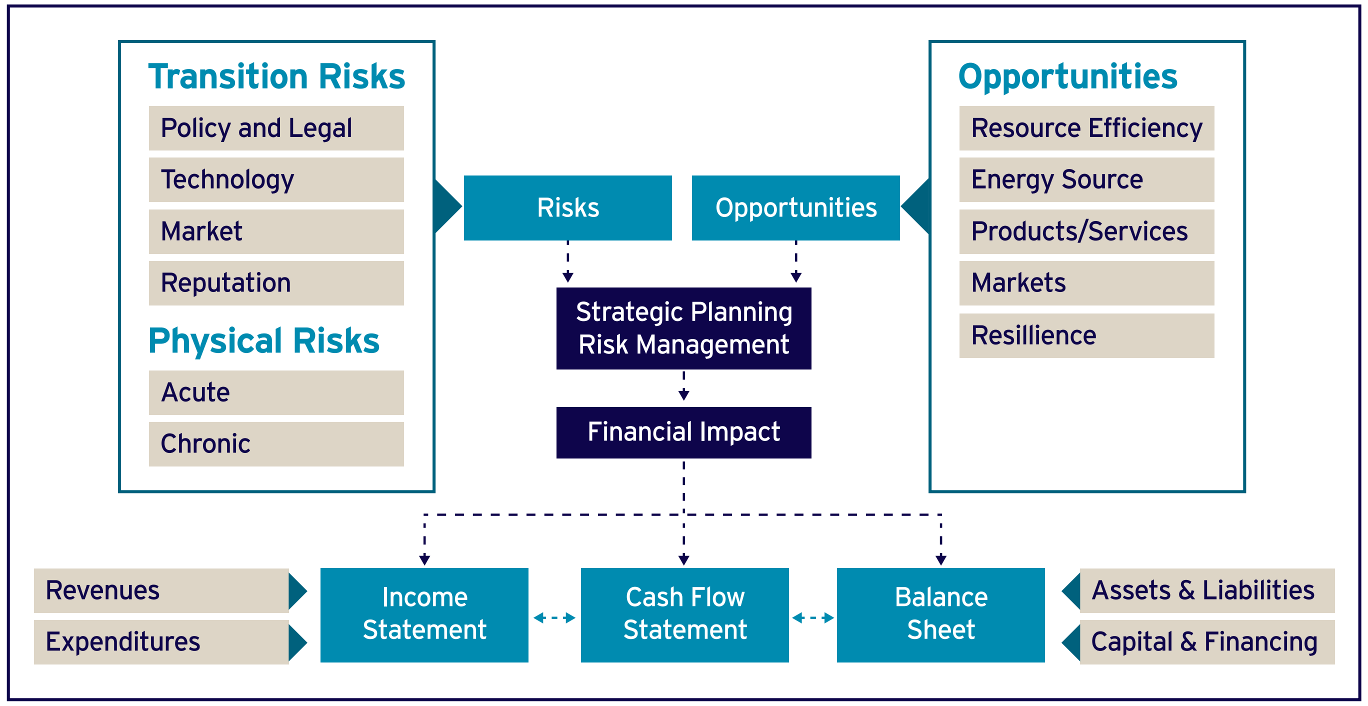
Integrating sustainability into the strategy and operations of mainstream financial system shall not only be solely seen as a matter of social and environmental responsibility, but also as a necessary step to ensure appropriate financial risk management and medium-long term economic stability of the financial system.

In fact, as global average temperature rises, natural disasters become more frequent, ecosystems are disrupted and human health is weakened, posing increasing risks for businesses and, consecutively for the financial system that serves them[8].

The Task Force on Climate-related Financial Disclosures (see 4.3.1 of this report) has identified two main types of climate-related financial risks for businesses:

- **Transition risks:** Related with financial and reputational risks that arise from increasing government and social pressure for sustainable businesses, which can occur in different forms through policy, legal, technology, and market changes.
- **Physical risks:** Related with specific climate events (acute) or longer-term shifts (chronic) in climate patterns, such as direct damage to assets and indirect impacts from supply chain disruption (e.g. availability, sourcing, and quality of water, food and other important materials for businesses).

Figure 2: Climate Related Risks, Opportunities and Financial Impacts (TCFD)



Source: TCFD, Recommendations of the Task Force on Climate-related Financial Disclosures, 2017

8 TCFD, The challenge we're addressing, available at https://www.fsb-tcfd.org/about/

The climate-related financial risks, opportunities and financial impacts in businesses are summarised in figure 2, which demonstrates that both transition and physical risks, impact companies 'strategic planning and risk management, which in turn affect the financial performance of businesses.

The relevance of climate risk is also recognised in 2019, by the Network for Greening the Financial System, composed by Central Banks from around the world, when they published its first comprehensive report acknowledging that climate change is a source of financial risk. Since then, several reports have been issued linking climate change with monetary policy, macroeconomic stability, prudential supervision and so on. It became clear that climate risks (and gradually environmental risks) are risks that all organisations and financial institutions must take into consideration.

Moreover, figure 2 also calls the attention to the opportunities that may arise from climate change if businesses are able to adapt and respond to new demands, namely through:

- **Less costs:** Increasing resource efficiency and cost savings, adoption of low-emission energy sources and higher resilience along the supply chain.
- **More profit:** Development of new products and services and access to new markets

As such, to mitigate the risks and capitalize on the opportunities from climate change, the financial system needs to align their strategy with international and national climate agendas and market expectations, develop integrated sustainability strategies, build sustainable management models, measure and report climate financial risks and other non-financial impact of their activities and develop green financial products and services. In order to do this, it is important to be able to identify possible future scenarios, mainly about the changes that can occur in the organisation (financial and non-financial) due to a temperature increase of 1.5ºC/2ºC in the second half of this century, as predicted by the IPCCC[9].

However, since these concerns are not yet worldwide mainstream, and many investors, lenders, and insurers are not currently addressing climate related risks, it is likely that the financial system is not properly assessing the risk of their investments, which means that economic losses are can arise, causing damage to the stability of the sector.

To illustrate this, figure 3 summarizes why integrating sustainability into the financial sector is important for financial stability and profitability.

Figure 3: Sustainability and Financial Stability and profitability

INSURERS
BANKS

INVESTORS

As risk managers,
it is essential to include in risk analyses the growing financial impact of climate change in order to avoid losses from incomplete risk analyses

As investors,
it is essential to understand the various risks and opportunities inherent in the climate transition in order to ensure the financial return of investments

As risk carriers,
there are opportunities for the creation of new products (eg: green bonds, global weather insurance)

9 IPCC, Summary for Policymakers of IPCC Special Report on Global Warming of 1.5ºC approved by governments, 2018, available at https://www.ipcc.ch/2018/10/08/summary-for-policymakers-of-ipcc-special-report-on-global-warming-of-1-5c-approved-by-governments/

"Without reliable climate-related financial information, financial markets cannot price climate-related risks and opportunities correctly and may potentially face a rocky transition to a low-carbon economy, with sudden value shifts and destabilizing costs if industries must rapidly adjust to the new landscape"

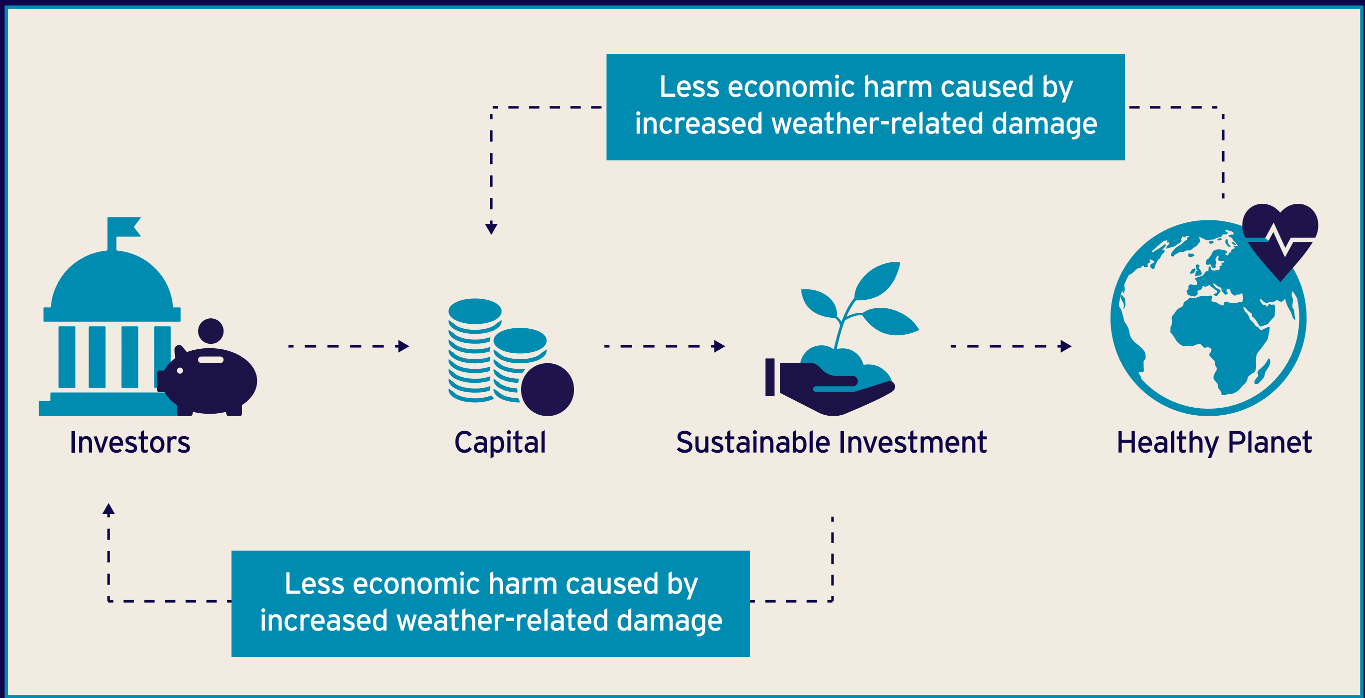
Source: TCFD

The repercussions of poor risk management and governance practices were already seen by the world in the 2007-2008 crises, being an important reminder that without transparency and the right information, investors and others may incorrectly price or value assets, leading to a misallocation of capital. Moreover, the COVID-19 pandemic has reinforced the need to build more resilient economies, businesses and societies, prepared to respond to known economic global risks, such as infectious diseases like the COVID-19 and climate change[10].

There is no doubt about the strong and close relationship between sustainability and the financial sector. These interdependences are summarised in figure 4, showing that, while it is true that the sustainability transition needs the financial sector in order to flourish, the stability of the financial system will be compromised if the sustainability agenda is not properly delivered. This brings a new purpose to the financial sector. In order for this purpose to flourish with speed, it is necessary proactivity from the financial industry and soft and hard regulation.

10 WEF, The Global Risks Report 2020, 2020, Available at https://www.weforum.org/reports/the-global-risks-report-2020

Figure 4: Key role of the financial system in sustainability and vice-versa



Source: European Commission, Financing Sustainable Growth Factsheet

To mitigate the risks and capitalise on the opportunities from climate change, the financial system needs to align their strategy with international and national climate agendas and market expectations, develop integrated sustainability strategies, build sustainable management models, measure and report climate financial risks and other non-financial impact of their activities and develop green financial products and services.

4. Green Finance Agenda - International Level

4.1 International Agenda

As previously referred, the discussions around green finance started in 1992, with the creation of the UNEP FI[11]. Their work led to the creation of a number of documents and initiatives, which have had a major impact in accelerating sustainable finance within the industry, even before the Paris Agreement and the Sustainable Development Goals, also known as 2030 Agenda.

Still, it was only in 2015, with the signature of the Paris Agreement, that green finance effectively started to gain relevance within the financial sector. It was the first time that countries collectively agreed to align financial flows with a pathway towards climate-resilient development.

Figure 5: Overview of International Agenda of Green finance

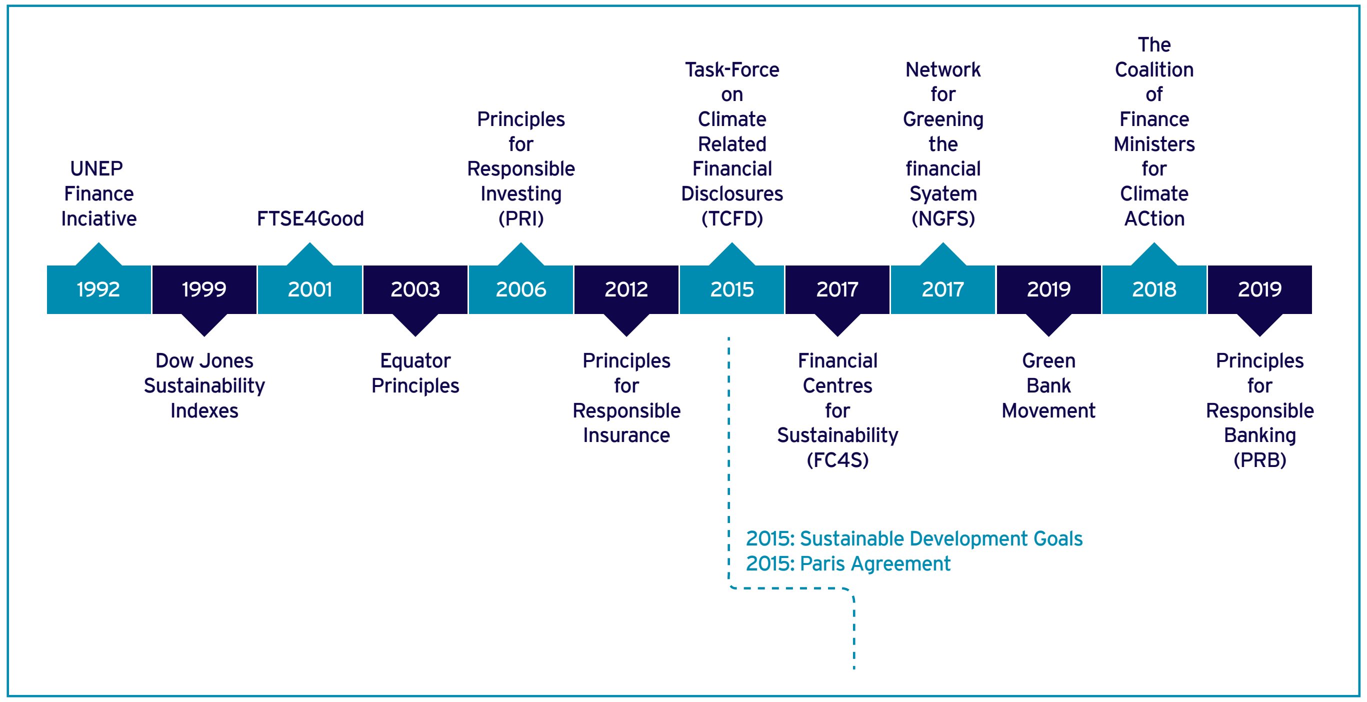


Figure 5 provides an overview of the international green finance agenda, which will be further explored in the next sections.

11 UNEP FI, About us, Available at https://www.unepfi.org/about/

4.2 Main Existing Principles

4.2.1 Principles for Responsible Investing

Principles for Responsible Investment (PRI) was one of the first initiatives ever created aiming to promote responsible investing. It was launched in 2006 in the New York Stock Exchange by the UNEP FI and the Global Pact of the UN, being defined as a network of investors committed to integrate and promote the integration of environmental, social and governance issues into the investment decision making process[12]. In order to make this happen, they have created a voluntary and aspirational set of investment principles, which the signees of the PRI network should aware:

- **Principle 1 -** Incorporate environmental, social and governance (ESG) criteria in investment analysis and in the process of investment decision making.
- **Principle 2 -** Be proactive in the incorporation of environmental, social and governance issues into ownership policies and practices.
- **Principle 3 -** Request appropriate disclosure of ESG issues to the entities in which the company invests.
- **Principle 4 –** Promote acceptance and implementation of the Principles within the financial sector.
- **Principle 5 -** Work together to increase efficiency in the implementation of the Principles.
- **Principle 6 -** Report activity and progress on implementation of the Principles.

PRI signatories are asset owners, investment managers and service providers. By signing the PRI principles, they also gain access to investor tools, guidance, case studies, collaborative engagement opportunities, the Collaboration Platform, the Data Portal and a regional relationship manager.

Recent highlights:

- By 2020, more than 3,000 signatories worldwide had committed to implement these principles
- For the first time, in 2020, Portuguese asset owners joined the PRI initiative
- By January 2021, there were 14 signatories from Portuguese companies and 582 of companies from the United Kingdom

Sources:
UNPRI, 2020 Annual Report, 31.01.2021
UNPRI, Signatories directory, 31.01.2021

12 UNPRI, What are the Principles for Responsible Investment?, available at https://www.unpri.org/pri/what-are-the-principles-for-responsible-investment

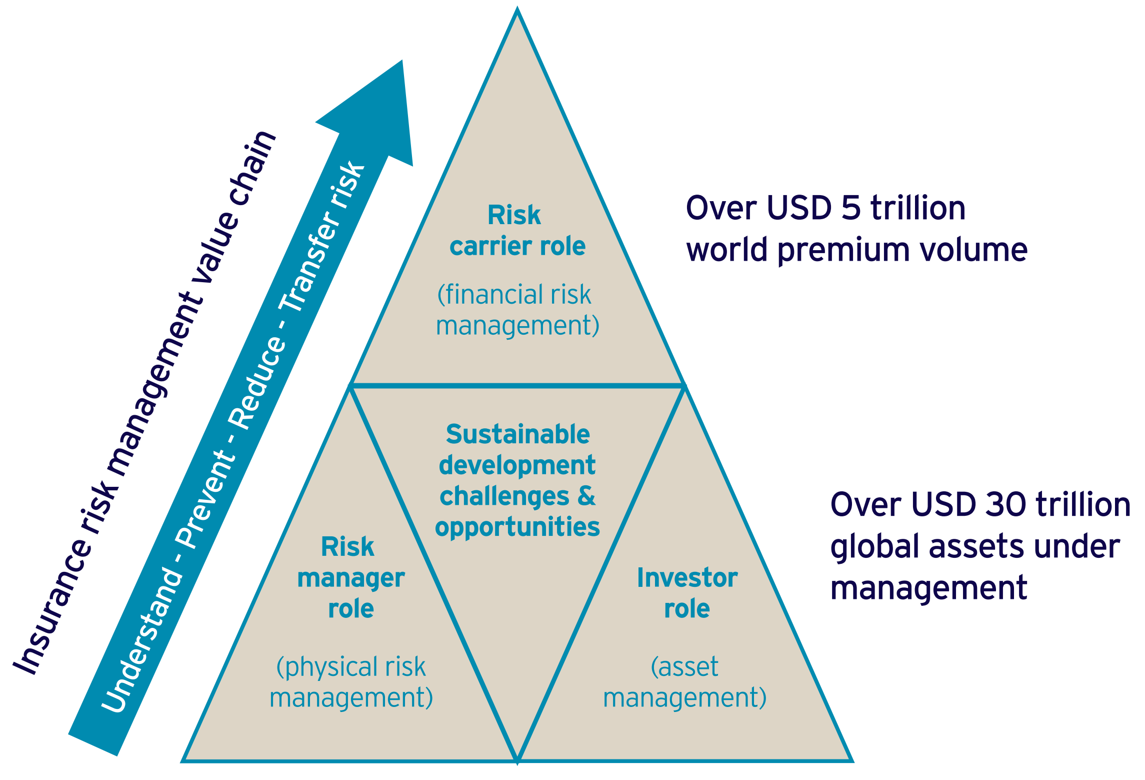
4.2.2 Principles for Sustainable Insurance

Just as the PRI, the Principles for Sustainable Insurance (PSI)[13] are a set of global, voluntary and aspirational principles created by the UN aiming to address the risks and opportunities associated with ESG issues. However, these principles, launched in 2012, are specifically aimed at the insurance industry, an industry particularly exposed to climate change, since its core business is to carry and manage risk. Therefore, the PSI is an essential tool to "understand and reduce risk, to seize unprecedented business opportunities in climate action, and to ensure an insurable, resilient and sustainable world" (UN Environment Chief, Erik Solheim).

The Principles are:

- **Principle 1:** Include environmental, social and governance issues that are relevant to the insurance sector in the decision-making process.
- **Principle 2:** Work together with customers and business partners to raise awareness on environmental, social and governance issues, risk management and solution development.
- **Principle 3:** Work together with governments, agency regulators and other strategic audiences to promote action on environmental, social and governance issues.
- **Principle 4:** Report periodically and in a transparent manner, the progress in the implementation of the Principles.

Figure 6: The triple role of the insurance industry in sustainable development



Sources: UNEP-FI, Principles for Sustainable Insurance, 20.09.2017

13 UNPRI. The UNEP FI Principles for Sustainable Insurance, Available at https://www.unepfi.org/psi/the-principles/

As seen in figure 6, the insurance industry can be seen a key ally in sustainable development. As risk managers, they help communities to prevent and reduce risk, through research and analytics, catastrophe risk models, and loss and damage prevention. As risk carriers, they protect families and businesses from the impact of financial shocks due to extreme weather events, which are increasingly more common due to climate change. Furthermore, they can provide green insurance solutions (e. g. insurance for renewable energy, usage-based insurance), and risk signals and rewards for risk reduction efforts through insurance pricing. Finally, as major institutional investors, insurers can contribute to sustainable development by establishing ESG criteria to their investments and by shifting their investments to sustainable projects and companies.

Recent highlights:

- As of January 2021, none Portuguese insurer had signed the PRI. Still, insurance companies like Ageas, Allianz, Liberty Seguros and Zurich Insurance Group, with presence in Portugal, are signatories of these principles.
- As of January 2021, 5 companies from the United Kingdom were signatories of the Principles for Sustainable Insurance.
- In January 2021, PSI issued the final report "Insuring the climate transition", a project of UN Environment Programme's Principles for Sustainable Insurance Initiative to pilot the TCFD recommendations".

Sources:
UNEP-FI, Signatories and Supporters, 31.01.2021
UNEP-FI, Publications, 31.01.2021

4.2.3 Principles for Responsible Banking

After the launch of the PRI in 2006 and the PSI in 2012, the UNEP-FI launched the Principles for Responsible Banking (PRB) in 2019, a framework that promotes the integration of the Sustainable Development Goals and the Paris Agreement commitments in the strategy and practices of banks.

The Principals to which the signatory banks commit to are:

- **Principle 1 | Alignment:** Aligning business strategy with the Sustainable Development Goals, the Paris Agreement and other relevant national and regional frameworks;
- **Principle 2 | Impact & Target setting:** Continuously reduce the negative impacts resulted from the bank's activity, products and services while maximizing its positive impact, by setting targets and monetarisation;
- **Principle 3 | Clients and Costumers:** Working together with client and costumers to promote sustainable practices and activities;
- **Principle 4 | Stakeholders:** Consulting, engaging and partnering, in a proactive and responsible way, with stakeholders that are relevant to the sustainability transition;
- **Principle 5 | Governance and Culture:** Ensuring that governance and company's culture is aligned and committed to these principles;
- **Principles 6 | Transparency and Accountability:** Reviewing the individual and collective implementation of these principles periodically and in a transparent and accountable way.

Furthermore, by jointly delivering tools, methodologies and practical guidance, the PRB signatories have access to collaboration opportunities that are aimed accelerate the sustainability transition of the banking sector.

Recent highlights:

- 214 banks had joined the movement, representing 1/3 of the global banking industry
- Between the signatories are the Portuguese bank Caixa Geral de Depósitos and the British bank Barclays.

4.3 Financial Market Players Initiatives

4.3.1 Task Force on Climate Related Financial Disclosures

Established by the Financial Stability Board (FSB) in 2015, upon request of Ministers of Finance and Central Bank Governors of the G20 countries and under the FSB presidency of Mark Carney, the TCFD[14] was created to deliver recommendations for effective climate-related disclosures. In their words, these recommendations were aimed at "promoting more informed investment, credit, and insurance underwriting decisions and, in turn, enable stakeholders to understand better the concentrations of carbon-related assets in the financial sector and the financial system's exposures to climate-related risks." The TCFD believes that appropriate assessment and pricing of climate-related risks and opportunities, will increase awareness about the present and future financial implications of climate change, which in turn will nudge markets to shift investment to sustainable and resilient opportunities and business models.

The four key recommendations, presented in 2017[15] and described in Figure 7, are based on four key elements of organisation's operations. They identify specific information that organisations across sectors and jurisdictions should report when they are disclosing financial information, in order to provide useful elements to the decision-making process of investors and other stakeholders, related with climate change risks and opportunities.

14 FSB-TCFD, About TCFD, Available at https://www.fsb-tcfd.org/about/

15 TCFD, Recommendations of the Task Force on Climate-related Financial Disclosures, 2017, available at https://assets.bbhub.io/company/sites/60/2020/10/FINAL-2017-TCFD-Report-11052018.pdf

Figure 7: TCFD Recommendations and Supporting Recommended Disclosures

Governance	Strategy	Risk Management	Metrics and Targets
Disclose the organization's governance around climate-related risks and opportunities.	Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material.	Disclose how the organization identifies, assesses, and manages climate-related risks.	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.
Recommended Disclosures	**Recommended Disclosures**	**Recommended Disclosures**	**Recommended Disclosures**
a. Describe the board's oversignt of climate-related risks and opportunities	a. Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.	a. Describe the organization's processes for identifying and assessing climate-related risks.	a. Describe the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.
b. Describe management's role in assessing and managing climate-related risks and opportunities	b. Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.	b. Describe the organization's processes for managing climate-related risks.	b. Disclose Scope 1, Scope 2 and if appropriate, Scope 3 greenhouse gas (GHG) emissions and the related risks.
	c. Describe the resillience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2˚C or lower scenario.	c. Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.	c. Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.

Source: TCFD, Recommendations of the Task Force on Climate-related Financial Disclosures, 2017

Specifically concerning the element of strategy, TCFD states that "an organisation's disclosure of how its strategies might change to address potential climate-related risks and opportunities is a key step to better understanding the potential implications of climate change on the organisation". This is why the financial statements disclosure following TCFD reccommendations should take into consideration climate-related scenarios of different propotions (e. g. 1.5 and 2 degrees celsious).

Recent highlights:

- **+ 1,500 organisations** globally supported TCFD, representing a market capitalization of $12.6 trillion (£9.03 trillion) and $150 trillion (£107.49 trillion) of assets of financial institutions, representing an 85% growth in just 15 months.
- **5 National Governments** support the TCFD recommendations: United Kingdom, Canada, Chile, France and Sweden).

> "The UK will become the first country in the world to make Task Force on Climate-related Financial Disclosures (TCFD) aligned disclosures fully mandatory across the economy by 2025, going beyond the 'comply or explain' approach."
> **-HM Treasury, UK Government**

- **Disclosure under TCFD recommendations is still low,** even if it increased by six percentage points, on average, between 2017 and 2019.
- Over **500 investors** with more than $47 trillion (£34 trillion) of assets under management are demanding the world's largest corporate GHG emitters to implement the TCFD recommendations
- **26 regulators and supervisors** from around the world support the TCFD, including 26 entities from the United Kingdom and 1 from Portugal
- **269 entities from the UK support the TCFD,** including the Bank of England, Association of British Insurers (ABI) and UK Export Finance
- **5 portuguese entities support the TCFD:** Autoridade de Supervisão de Seguros e Fundos de Pensões (ASF), EDP, Euronext Lisbon, Galp and Grosvenor House of Investments – SCR, S.A

Sources:
TCFD, 2020 Status Report, 2020
TCFD, Supporters, 31.01.2021
GOV.UK, Chancellor sets out ambition for future of UK financial services, 9.11.2020
AT https://www.gov.uk/government/news/chancellor-sets-out-ambition-for-future-of-uk-financial-services

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4.3.2 International Network of Financial Centres for Sustainability

The International Network of Financial Centres for Sustainability (FC4S Network)[16] aims to promote sharing of experiences and implementation of actions that contribute to the acceleration of green finance, in order to help achieve the Sustainable Development Goals and the goals of the Paris Agreement. Its members are financial centre entities responsible for market development and national, regional, or international promotion, who go through a 6-step cyclical process in order to improve their sustainability performance: Assessing position; setting priorities; building capacity; catalysing action; promoting; reviewing and refining.

"FC4S's core mission is to empower financial centres to accelerate the shift to green finance by providing the tools and insights to engage local institutions, inform and influence policy, and ultimately catalyse market transformation"

Recent highlights:

- **42% of respondent entities were public-private partnerships,** with increases in the number of municipally linked entities.
- **33 financial centres as members,** including the Portuguese Think Tank on Green finance (see 4.4. of this report) and City of London Corporation.
- The FC4S Network collectively represented over **US$1 trillion (£0.7 trillion) in listed green and sustainable debt instruments**
- **Lisbon and London are part of this network for Financial Centres for Sustainability**

Sources: FC4S, Shifting Gears II, 2021

4.3.3 Central Banks and Supervisors Network for Greening the Financial System

Worldwide Central Banks and Supervisors have also joined forces to promote better climate-related risk management in the financial sector and to mobilise capital to the climate transition. In order to do so, they have created the Network for Greening the Financial System (NGFS) in 2017 and decided to focus its work on three main workstreams:

- **Workstream 1:** Analysis of macroprudential and supervisory practices, in order to identifying and promote the best supervisory practices related with climatic and environmental risks
- **Workstream 2:** Macro-financial analysis in order to estimate the size of the impacts associated with climate risks in the economy, and identification and promotion of appropriate tools for this purpose;
- **Workstream 3:** Study and debate of the different ways in which central banks and supervisors can contribute to the promotion of green financing

16 FC4S, About us, available at https://www.fc4s.org/

In 2019, the network released its first report "A call for action: Climate Change as a source of financial risk", where it explicitly recognized climate change as a source of financial risk and presented six key recommendations in order to mitigate such risks:

1. Integration of climate-related risks into activities to preserve financial stability and micro-supervision;
2. To integrate sustainability criteria into the asset portfolios management processes;
3. Need to address shortfalls in quantitative information;
4. Promotion of knowledge and technical capacity in this area, encouraging technical assistance and knowledge sharing;
5. Achieve a robust and internationally consistent standard of transparency in the disclosure of relevant climate and environmental information;
6. Support the development of a taxonomy of economic activities.

Highlights:

- **83 members,** as of December 14th 2020, including Bank of England, European Central Bank and Banco de Portugal
- **13 observers,** as of December 14th 2020, including the International Monetary Fund and the Organisation for Economic Cooperation and Development (OECD)

4.3.4 Green Banks movement

The increasing need for green finance has led several countries to consider the creation of Green Banks, defined by OECD as public or non-profit financial entities dedicated to increasing and accelerating private investment into domestic low-carbon, climate-resilient infrastructure. That need let to the development of Green Bank Network[17] and Coalition for Green Capital[18], two organisation that support the creation and development of Green Banks worldwide.

"Green banks can help financial institutions and providers of climate finance achieve internal goals to align their portfolios with the Paris Agreement. Green banks also have ripple effects for domestic financial institutions, helping them understand the opportunities of investing in sustainable projects and transitioning to a green financial system."[19]

17 Green Bank, About, available at https://greenbanknetwork.org/

18 Coalition for Green Capital, About us, available at https://coalitionforgreencapital.com/

19 Rocky Mountain Institute, State of Green Banks 2020, 2020, available at https://rmi.org/insight/state-of-green-banks-2020/

Recent highlights: (2020)

- **$24.5 billion (£17.6 billion) of climate funds have been deployed by Green Banks**
- **12 countries worldwide have Green Banks,** including the UK with the public entity UK Green Investment Bank
- **25 countries are currently working in the development of Green Banks,** including Portugal that is currently in the stage 3 of the process, meaning that it is developing the institutional design of a Green Bank
- **67% of Green Banks are situated in high-income countries**
- **70% of existing Green banks are Public**

Sources: Rocky Mountain Institute, State of Green Banks 2020, 2020

Recently the European Investment Bank has claimed to be the Climate and Green bank for Europe.

4.4 Ministers of Finance worldwide initiative

In 2018, The Coalition of Finance Ministers for Climate Action[20] was created after the 2018 Annual Meetings of the World Bank Group and the International Monetary Fund by governments from 19 countries. The goal was "to promote cohesion between domestic and global action on climate change, boost ambitions, reaffirm commitments, and accelerate actions to implement the Paris Agreement".

Since then, finance ministers and other fiscal and economic policy makers from all around the world, including Portugal and the UK, have joined the coalition, committing to promote national climate action through fiscal policy and use of public finance. That commitment is expressed through the signature of the Helsinki Principles:

- **Principle 1:** Aligning policies and practices with the Paris Agreement goals;
- **Principle 2:** Sharing experience and expertise with other finance ministers and countries;
- **Principle 3:** Promote measures that result in effective carbon pricing;
- **Principle 4:** Creating macroeconomic policies, fiscal planning, budgets, public investment management and procurement practices that take into account climate change;
- **Principle 5:** Mobilizing private sources of climate financing by working together with the national financial sector in order to align the sector with climate goals;
- **Principle 6:** Engaging actively in the preparation and implementation of Nationally Determined Contributions (NDCs).

20 Coalition of Finance Ministers for Climate Action, who we Are, available at https://www.financeministersforclimate.org/about-us

Recent highlights: (2020-2021)

- 52 country members, which account for 30% of global GDP, and 17 institutional partners
- The Work Program for 2021 includes the following themes: carbon pricing, macro-modelling, green budgeting, climate- and biodiversity-related financial risks, greening financial system roadmaps, and NDC enhancement
- Portugal and UK have signed the Helsinki Principles

Sources:
The Coalition of Finance Ministers for Climate Action, Work Programme for 2021, 2021
The Coalition of Finance Ministers for Climate Action, Member Countries

This initiative is of extremely relevance, since policy makers, and particularly finance ministers, can have an important role in the promotion of green finance, as they can incentivize climate-informed public expenditure and use fiscal triggers that can stimulate the climate transition of the private sector.

5. Green Finance Agenda - United Kingdom

United Kingdom (UK) is a country with long-standing commitment with sustainable development and climate change issues. Already in 2005, the UK Government, in the commissioned Stern report[21], expressed that climate change would result into enormous social and economic implications to society. Those conclusions led the UK government to create the Climate Change Act[22], incorporating carbon reduction targets into country legislations in 2008, becoming the first country to do so. Since then, the UK has reduced its emissions faster than any other G7 country[23], 42% compared with 1990, which might explain partially why several important world-wide sustainability initiatives and organisation have had its start in the UK, like is the case of UNPRI and TCFD.

Moving forward to recent years, in 2015, the UK subscribed the Sustainable Development Goals and signed the Paris Agreement, committing this way to achieve carbon neutrality by the end of the 21st century. Furthermore, in 2017, the UK government, in accordance with article 4 of the Paris Agreement, developed its long-term strategy for carbon neutrality, the Clean Growth Strategy(CGS)[24], and, in 2018, it launched the 25 Year Environment Plan[25], a broader document of the Clean Growth Strategy that includes other environmental goals (e.g biodiversity protection).

Later, in 2019, the country strengthened its carbon neutrality commitment by announcing its objective to anticipate the carbon neutrality goal to 2050[26].

Green Finance, as realised early in the 2005's Stern Report, is seen by the UK as a key element to realise the transition to a greener and more sustainable economy. In 2016, the government, together with City of London Corporation, launched the Green Finance Initiative[27], aiming to provide public and market leadership on green finance, to advocate on specific regulatory and policy proposals and, to promote the UK as a leading centre for green finance. Moreover, this given importance and ambition is reflected in the Clean Growth Strategy (CGS), which sets Green Finance as one of its key building blocks to achieve carbon neutrality. Between other proposed actions, CGS appointed to the need for setting up a Green Finance Taskforce, with the objective to meet carbon budgets and maximize the share of the global green finance market. That taskforce would be launched in 2017 (see section 5.1).

To make forward the key themes of the task force, in 2019 the UK Government created the Green Finance Strategy (see section 5.3) and, in the same year, to support that same strategy, the Green Finance Taskforce evolves to the Green Finance Institute (see section 5.4) which is launched also in 2019.

At the end of 2020, the UK's Chancellor of the Exchequer Rishi Sunak made several green finance announcements, including the ambition for the country to be the first in the world to mandate economy wide disclosures in line with the Task Force on Climate-related Financial Disclosures (TCFD). Moreover, in the same speech, the UK's Chancellor announced that the UK would issue its first sovereign

21 LSE, The Economics of Climate Change: The Stern Review, 2005, available at https://www.lse.ac.uk/granthaminstitute/publication/the-economics-of-climate-change-the-stern-review/

22 GOV.UK, Climate Change Act 2018, available at https://www.legislation.gov.uk/ukpga/2008/27/contents

23 Clean Growth Strategy,

24 GOV.UK, Clean Growth Strategy, 2017, available at https://www.gov.uk/government/publications/clean-growth-strategy

25 GOV.UK , 25 ear Environmental Plan, 2018, available at https://www.gov.uk/government/publications/25-year-environment-plan

26 GOV.UK,net zero target 2050, 2019, available at https://www.gov.uk/government/news/uk-becomes-first-major-economy-to-pass-net-zero-emissions-law

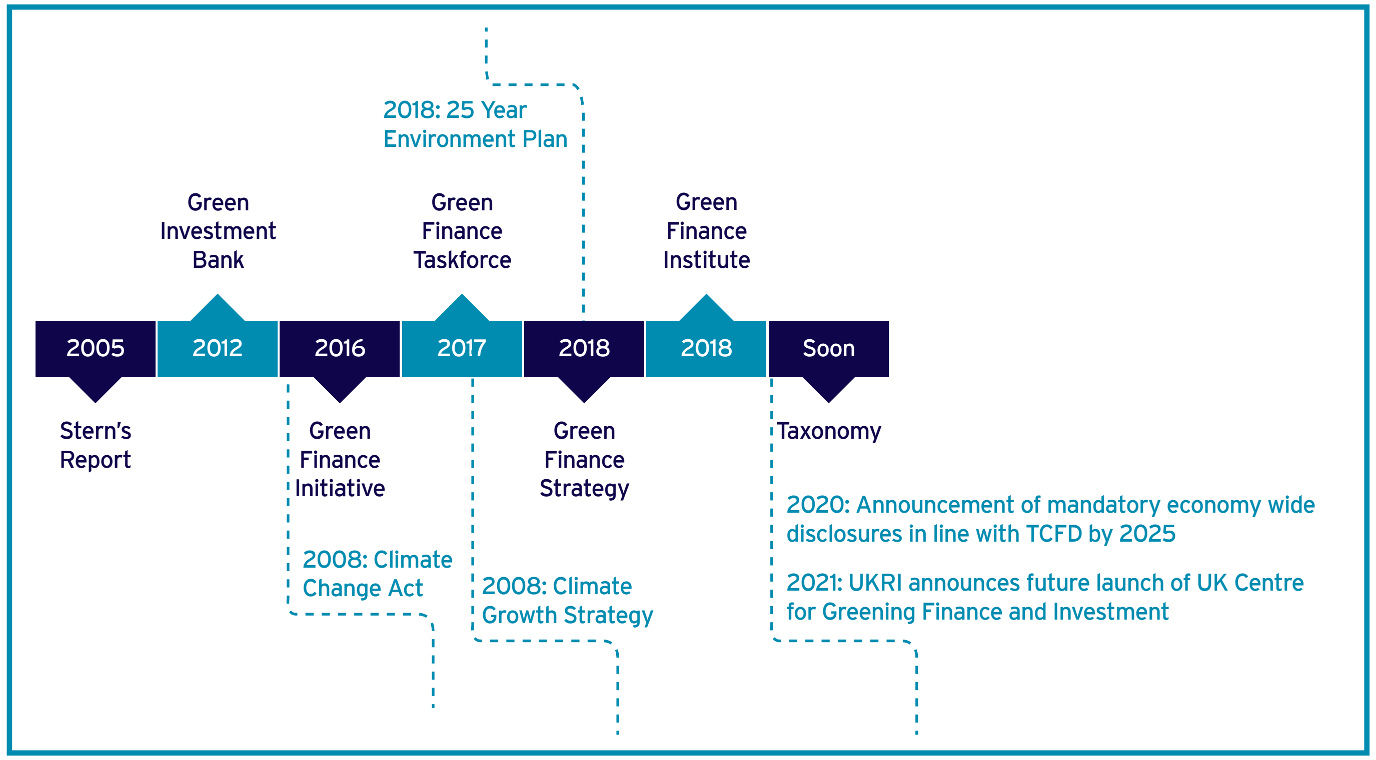
27 Green Finance Initiative, who we are, available at https://greenfinanceinitiative.org/about/who-we-are/

green bond, and implement a green taxonomy, which will constitute a common framework for determining which activities can be defined as environmentally sustainable[28].

More recently, in February of 2021, the UK Research and Innovation (UKRI) announced the future launch of the UK Centre for Greening Finance and Investment[29], which will be supporting lenders, investors & insurers to make environmentally sustainable decisions. According to the UKRI, the centre, which will be led by Oxford University, will put climate and environmental data at the heart of global finance.

With these and other green finance initiatives that have been set up by British organisations and government, the UK is seen today as the world leader of Green Finance. The next sections explain in more detail the key initiatives developed by the UK on green finance.

Figure 8: UK Green Finance Milestones



28 https://www.esgtoday.com/uk-becomes-first-country-in-the-world-to-make-tcfd-aligned-disclosure-mandatory/

29 Twitter, UK Research and Innovation, 15.02.2021, available at https://twitter.com/UKRI_News/status/1361263608219504640

5.1 Green Finance Taskforce

In 2017, The UK Government launched the Green Finance Taskforce (GFT)[30] in order to make recommendations within a six-month window on accelerating the growth of green finance and the low-carbon economy.

The Green Finance Taskforce report was then launched in 2018 drawing on challenges and opportunities for green finance in the UK, which set the baseline for the taskforce recommendations on how the government and the private sector can work together to make green finance an integral part of UK's financial services.

On the opportunities side, Figure 9 shows the role of green finance in the growth of the Clean Growth Sectors of the UK, when aligned with the Clean Growth Strategy.

Figure 9: Clean Growth and Green Finance

Clean Growth Sectors	Ambition set out in Clean Growth Strategy	How green finance can help deliver
Innovation	Interesting over £2.5bn in low carbon innovation	Increasing venture investment to support the commercialisation of innovative clean technologies Theme 5
Business and Industry	Improve business energy efficiency by at least 20%	Developing new green lending products that can facilitate widespread and affordable energy efficiency improvements Theme 4
Homes	Aspiration for as many homes to be EPC Band C by 2035	
Power	Phasing out unabated coal by 2025	Mobilising increased investment in large and small-scale power Themes 6, 7 and 8
Transport	End the sale of new conventional petrol and diesel cars and vans by 2040	Driving investment and finance that can reduce the cost of low emission vehicles both for manufacturers and consumers Themes 4 and 5
Natural Resources	Deliver better environmental outcomes	Ensuring the financial sector is resilient to climate change, and that investors consider environmental factors Themes 3 and 10
Public Sector	Voluntary public sector target of 30% reduction in carbon emissions by 2021	Maximising the carbon reduction impact of public spending, through targeted investment and flexible procurement Theme 9

Source: Green Finance Taskforce, Accelerating Green Finance - A report to Government by the Green Finance Taskforce, 2018

30 GOV.UK, Green Finance Taskforce, 2017, available at https://www.gov.uk/guidance/green-finance#green-finance-taskforce

In the other hand, major challenges to green finance in the UK mentioned in the report are related with the risk of falling behind other countries, as global recognition of the importance of green finance rises and, at the same time, the challenge of coping with domestic green finance needs, estimated at 1% of the GDP.

Recommendations for the public and private sector are then presented in the end of the report, following the work of experts in academia, the financial sector and civil society. These recommendations are divided into 10 different areas:

- Theme 1: Relaunch UK green finance activities through a new unified brand;
- Theme 2: Improve climate risk management with advanced data and analytics;
- Theme 3: Implement the recommendations of the TCFD;
- Theme 4: Drive demand and supply for green lending products;
- Theme 5: Boost investment into innovative clean technologies;
- Theme 6: Clarify investor role00s and responsibilities;
- Theme 7: Issue a sovereign green bond;
- Theme 8: Build a green and resilience infrastructure pipeline;
- Theme 9: Foster inclusive prosperity by supporting local actors;
- Theme 10: Integrate resilience into the green finance agenda.

5.2 Green Investment Bank

Launched in 2012 by the UK Government, the Green Investment Bank (GIB)[31] is considered the first Green Bank in the world - a publicly funded bank designed to mobilise private finance into the green energy sector. In 5 years, GIB helped to finance more than £12bn of UK green infrastructure projects. In 2017 it was acquired by the company Macquarie Group Limited (Macquarie), changing its name to Green Investment Group[32].

5.3 Green Finance Strategy

Building on the premise of the key role of the financial sector in delivering global and domestic climate and environmental objectives and, in response to the recommendations of the Green Finance Taskforce, the UK Government launched the Green Finance Strategy[33] (GFS) in 2019.

Figure 10 presents a summary of the key strategic pillars set out by the Green Finance Strategy in order to align private sector financial flows with clean, environmentally sustainable and resilient growth and, to strength competitiveness of the UK financial services sector.

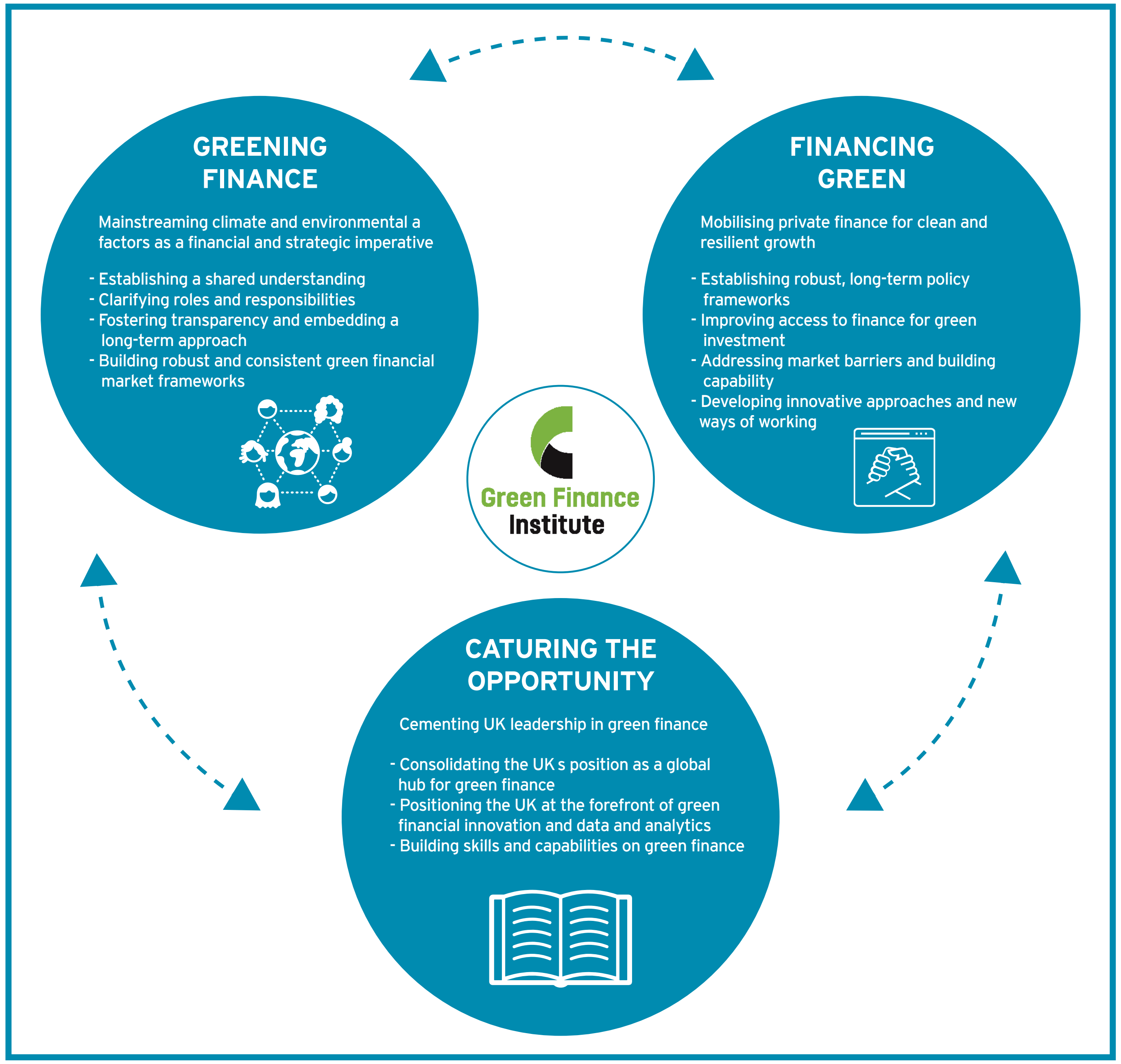
The first pillar, greening finance, aims to ensure that current and future climate financial risks and opportunities become entirely integrated into mainstream financial decision-making. The second pillar, financing green, is about accelerating finance to support the delivery of UK's Clean Growth Strategy and the 25 Year Environment Plan. Finally, the third pillar, capturing the opportunity, is about the ambition to maintain its global leadership position in the matters of green finance.

31 GOV.UK, Green Investment Bank, available at https://www.gov.uk/government/organisations/uk-green-investment-bank

32 Green Investment Group. Available at https://www.greeninvestmentgroup.com/who-we-are/our-mission.html

33 HM Government, July 2019. Transforming finance for a greener future. Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/820284/190716_BEIS_Green_Finance_Strategy_Accessible_Final.pdf

Figure 10: UK Green Finance strategy – Key pillars



Source: GOV.UK, Green Finance Strategy, 2019

The document also sets out an approach for further development of green finance products, focused on four elements:

- Creating effective regulatory and policy frameworks and encouraging common standards to correct market failures and promote consistency, clarity, and best practice;
- Promoting dialogue between government, regulators, academia, and the financial sector to understand and identify challenges and opportunities;
- Enhancing climate and environmental data and analytics to reduce information asymmetries and foster transparency;
- Developing policies to promote the adoption and mainstreaming of green finance products and services.

Source: Green Finance Strategy

Furthermore, in the end of this strategic document, the GFS appoints to next steps, focusing on the importance to deliver a just transition and on the need for capturing synergies with the impact investment agenda.

5.4 Green Finance Institute

To support the delivery of the Green Finance Strategy, the City of London Corporation[34] launched the Green Finance Institute (GFI)[35] in the same year (2019). This is a forum aiming to foster further collaboration between the public and private sector, to create new opportunities for investors and to strengthen UK's position as global leader in green finance. Moreover, it brings together finance practitioners, financial regulators, policymakers, business innovators, academics and non-profit professional to co-design sector-specific solutions that channel capital towards an inclusive, net-zero carbon and resilient economy. This can be done by, for example, identifying changes to policy, developing new technology or creating new innovative financial mechanisms and products.

5.5 UK COP Presidency

The UK will host of the 26th UN Climate Change Conference of the Parties (COP26), in Glasgow between 1-12 November 2021, assuming the Presidency of the COP 26, in partnership with Italy. As part of its role, the UK is committed to working with all countries and joining forces with civil society, companies and people on the frontline of climate change to inspire action ahead of COP26. Taking into account its global leadership position on Green Finance, it should come as no surprise that financing the climate transition comes as one of the five campaign areas chosen by the UK COP Presidency for its mandate[36]. According to the website of the UK COP Presidency:

Alok Sharma
COP26 President

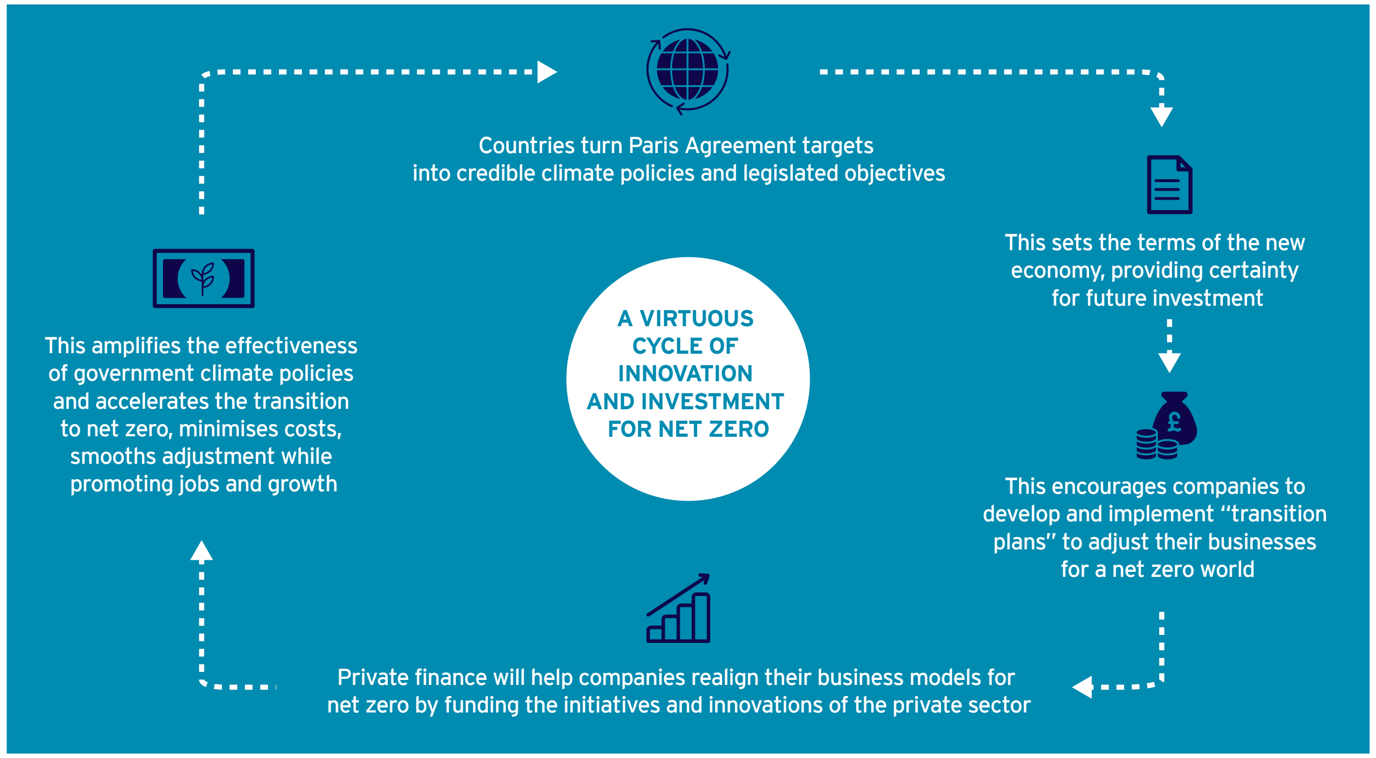
"Our COP26 priorities for public finance reflect the key challenges raised during extensive consultation with parties, and highlights the action required by all stakeholders to address concerns about the quantity, quality, responsiveness and impact of international climate finance.
[...]
Whilst private finance is not a substitute for increased public finance, it will be vital in increasing the scale and reach of climate action and enabling the transition.

So we are also focused on transforming investment environments in developing countries and emerging markets. Incentives are changing; in part driven by increased net-zero targets and the pathways to achieving them – the Net Zero Asset Owners Alliance represents $5 trillion in assets, part of the Race to Zero. Every financial decision must take climate change into account. This is the goal of Mark Carney's work, which involves: improving the quantity, quality and comparability of climate-related disclosures; ensuring the financial sector can measure and manage climate-related risks; helping investors identify the opportunities in the transition; and facilitating the mobilisation of private finance to developing countries."[37]

34 https://www.london.gov.uk/what-we-do/volunteering/search/city-of-london-corporation
35 https://www.greenfinanceinstitute.co.uk/
36 UK COP Presidency, Campaigns, available at https://ukcop26.org/uk-presidency/campaigns/
37 UK COP 26 Presidency, campaigns, available at https://ukcop26.org/uk-presidency/campaigns/

As part of their work ahead of the Conference, the Presidency launched a pre-COP 26 strategy report called "Building a private Finance System for Net Zero - Priorities for private finance for COP26"[38]. The document is set under the motto of a virtuous cycle of innovation and investment that can bring forward the climate transition, which comes illustrated in Figure 11.

Figure 11: Virtuous cycle of innovation for net zero



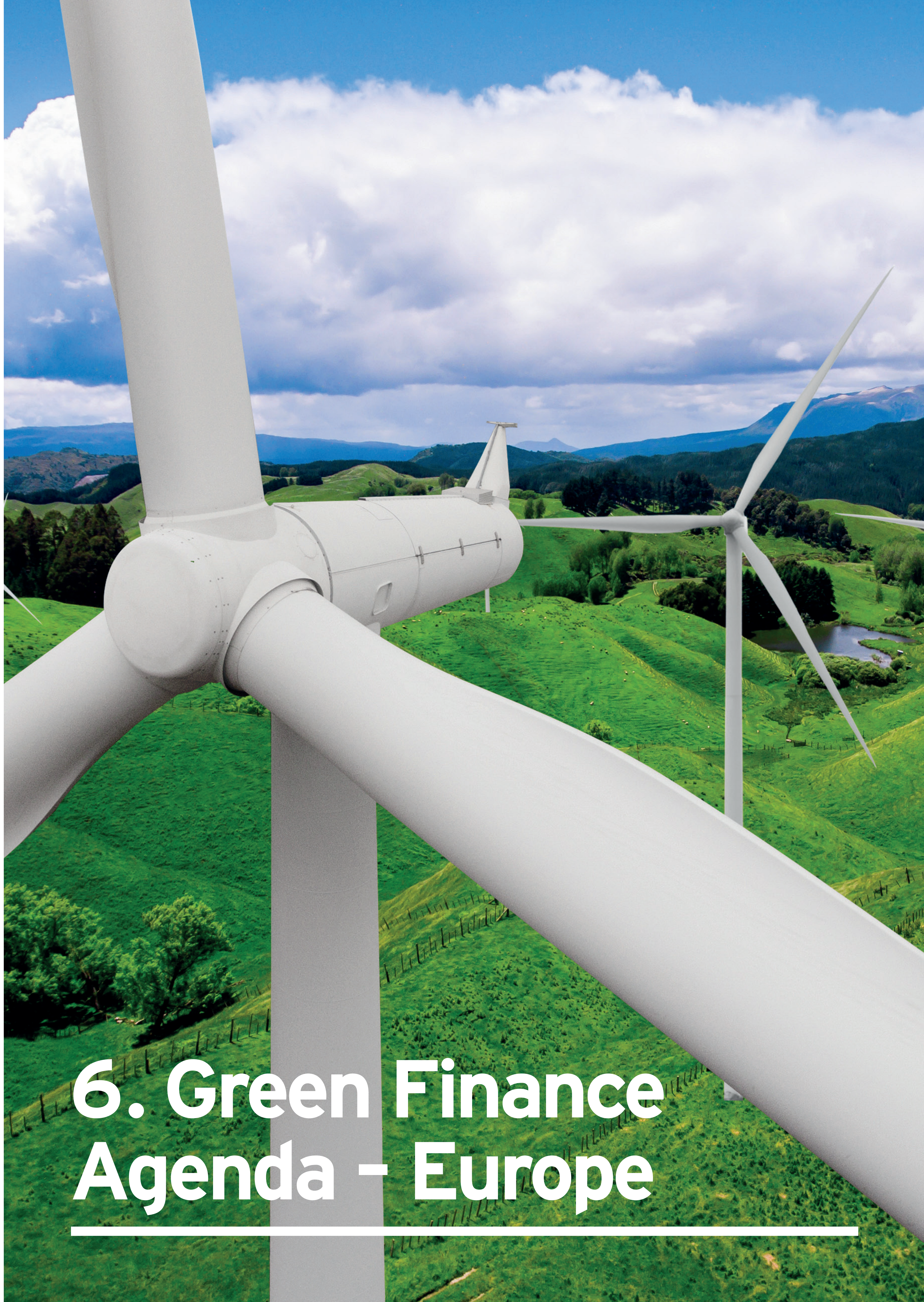
Source: UK COP 26 Presidency, Building a private financial system for net zero, 2021

The document strategy then presents a framework of four key pillars, which are needed to embed and mainstream sustainability in global and national financial systems:

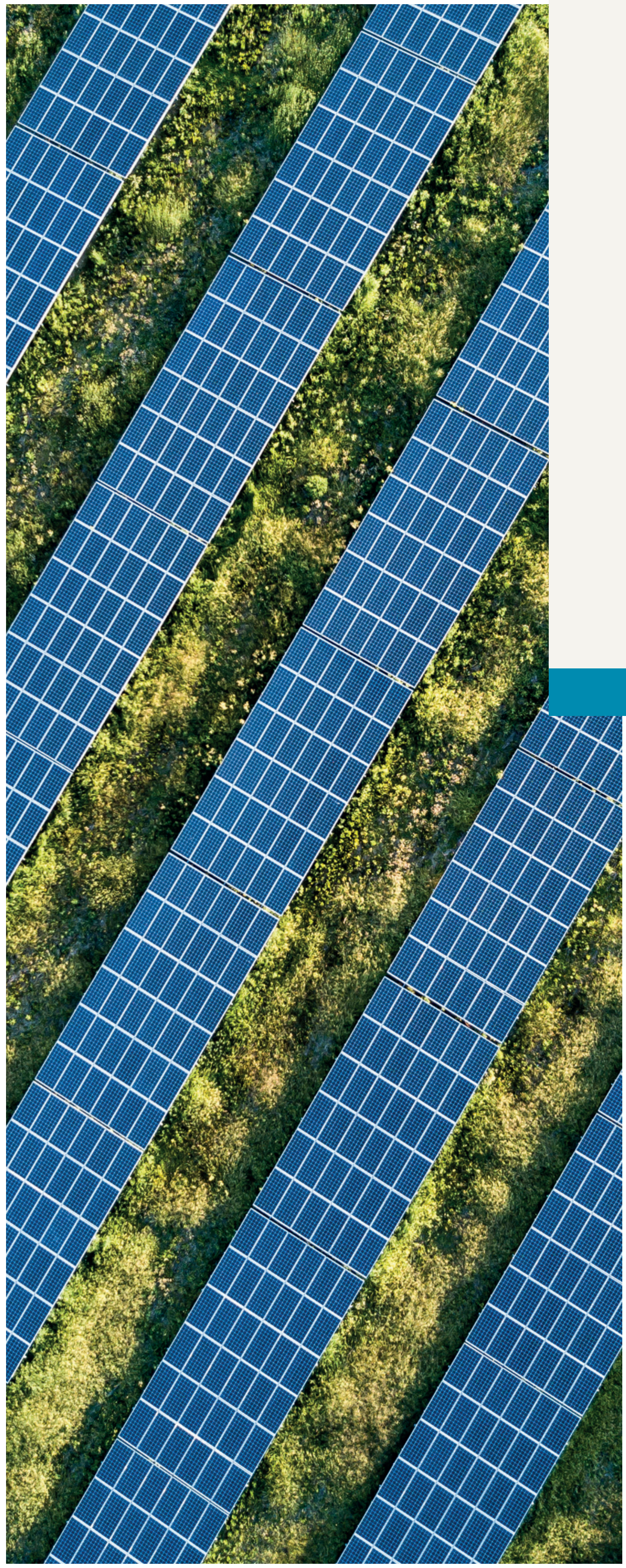
- Reporting of climate-related risks and opportunities by companies, in line with TCFD
- Risk Management of physical and transition risks from climate change
- Returns realised from the gigantic commercial opportunities in the transition to net zero
- Mobilization of private finance for investment in developing and emerging economies through new market structures and public-private partnerships.

Being the UK and London in particular a major financial centre in the world, and taking into account the need to align all financial flows with climate and environmental goals, it is fundamental that green finance agenda continues to flourish towards mainstreaming in the UK and around the globe.

38 UK COP 26 Presidency, Building a private financial system for net zero, 2021, available at https://ukcop26.org/wp-content/uploads/2020/11/COP26-Private-Finance-Hub-Strategy_Nov-2020v4.1.pdf



6. Green Finance Agenda - Europe



"To meet our Paris targets, Europe needs between €175 (£152) to €290 (£251) billion in additional yearly investment in the next decades. We want a quarter of the EU budget to contribute to climate action as of 2021. Yet, public money will not be enough. This is why the EU has proposed hard law to incentivize private capital to flow to green projects."

Valdis Dombrovskis, the Vice-President in charge of Financial Stability, Financial Services and Capital Markets Union[39]

European Commission,
Financing Sustainable Growth

The European Agenda for sustainability is embedded in different strategies and commitments related with energy, carbon, biodiversity, agriculture, production, consumption between others. The European Green Deal published in 2019[40], is the European plan to boost the efficient use of resources by moving to a clean, circular economy and to restore biodiversity and cut pollution. Quoting the Green Deal document "The European Green... is a new growth strategy that aims to transform the EU into a fair and prosperous society, with a modern, resource-efficient and competitive economy where there are no net emissions of greenhouse gases in 2050 and where economic growth is decoupled from resource use."[41]

The European Green Deal also aims to enhance natural capital, and protect the health and wellbeing of citizens from environment-related risks and impacts, guaranteeing at same time a just transition. In order to reach a green, circular and regenerative economy, large amounts of

39 European Commission, Financing Sustainable Growth, available at https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/200108-financing-sustainable-growth-factsheet_en.pdf

40 European Commission,2019. A Green Deal. Available at https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal_en

41 idem

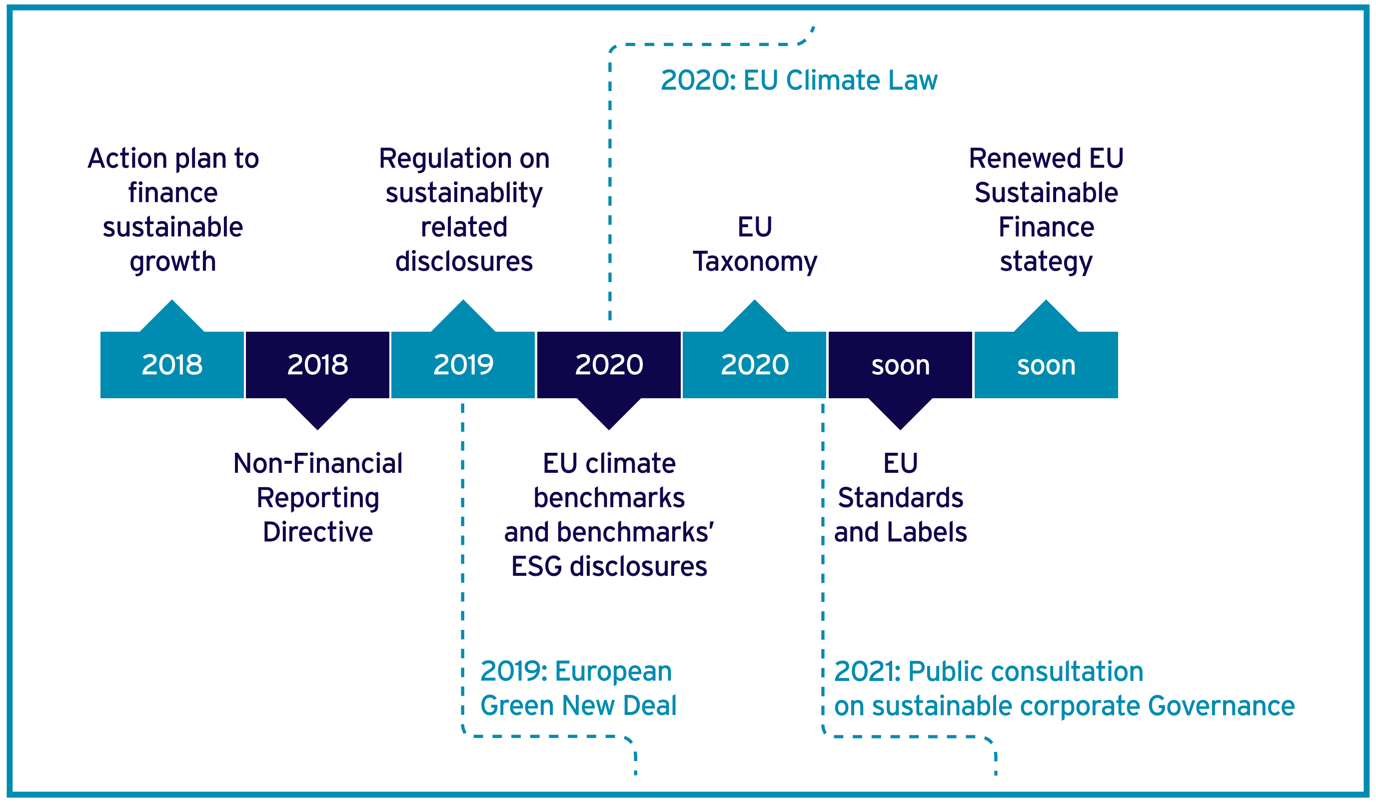
investment will be necessary. Just to reach 2030 climate and energy targets[42] additional investments of about €260 billion (£227 billion) a year will be needed[43].

As such, the European Commission has published in 2020 the European Green Deal Investment Plan for 2021-2027 as the investment pillar of the European Green Deal, which will mobilise at least €1 trillion (£0.9 trillion) of private and public sustainable investments over the upcoming decade, through the EU budget and other instruments. Thus, this investment plan is also responsible for creating a framework for private investors and the public sector to facilitate sustainable investments and for supporting public administrations and project promoters in in identifying, structuring and executing sustainable projects.

Despite the strong relevance of the public money and its capacity to leverage private finance, this public-private capital flows will not be enough, and there is the need to align all financial market capital flows with the Paris Agreement and with the Sustainable Development Goals.

Anticipating the need for sustainable and green investment, in 2018, the EU has published the Action Plan to finance sustainable growth. This plan sets the ground for the climate transition of the financial system, which calls for the creation of a new classification system of sustainable activities (EU Taxonomy); new demands for disclosure of information such as the Non-Financial Reporting Directive; new standards and labels such as the Green Bond Standard, new capital requirements, between many other activities. Some will be further explained in the next subsections.

Figure 12: Overview of the European Union Agenda of Green finance



42 The key targets for 2030 are: at least 40% cuts in greenhouse gas emissions (from 1990 levels), at least 32% share for renewable energy and at least 32.5% improvement in energy efficiency.

43 European Commission, 2020. European Green Deal Investment Plan. Available at https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52020DC0021&from=EN

To reinforce this European ambition to be carbon neutral by 2050 and to accelerate a just transition towards a renewable energy-based economy, it is expected that the European Climate Law will be approved during the first semester of 2021, during the Portuguese Presidency of the Council of the European Union. This law will ensure that the ambition for carbon neutrality in 2050 and the climate transition is irreversible, being also necessary that each member state approves its own climate law. This gives investors and other economic actors' confidence about the EU and member states trajectory towards carbon neutrality and environmental protection policies, providing some of the stability that is needed for the private sector be able and willing to invest in the green, circular and inclusive economic activities.

Another important document that reinforces the importance of that green finance is having at EU levels, is the "Europe's moment: Repair and Prepare for the Next Generation" published in May 2020, where one can read that: "The EU sustainable finance taxonomy will guide investment in Europe's recovery to ensure they are in line with our long-term ambitions. This will be supported with a Renewed Sustainable Finance Strategy later this year. To ensure environmental and social interests are fully embedded into business strategies, the Commission will put forward a new initiative in 2021 on sustainable corporate governance "[44]. This means that all activities funded with European finance, including Covid recovery packages, should be aligned with the EU taxonomy, i.e., should contribute towards at least one of the six European environmental goals and should do no significant harm in any of the others.

6.1 Action Plan to finance sustainable growth

As referred before, the European Commission in 2018 launched the Action Plan to finance sustainable growth. This plan had three specific objectives:

- To reorient capital flows towards a more sustainable economy, benefiting sustainable activities and businesses.
- To promote greater management of the environmental and social financial risks that are currently being ignored (e.g. lower profitability for companies most exposed to climate change)
- To promote transparency and a long-term vision for the sector, as a precondition for the proper assessment of the long-term value of an activity/company

For each of these objectives, the European Commission defined a set of actions to be implemented, of which we highlight:

- The definition of a Taxonomy that defines what are environmentally sustainable activities;
- The creation of standards, labels and low-carbon references so that financial products have environmental labels, so that the consumer can know whether the financial product is aligned with taxonomy or not;
- Inclusion of environmental risks in the banking and insurance prudential ratios, so that banks and insurance companies take care of environmental risk management;
- The application of measures that reinforce the non-financial disclosure of companies and the incorporation of sustainability in the provision of financial advice.

A Renewed Strategy for Sustainable Financing is expected to be published in 2021. Between other things, this strategy which should provide further information about the possibility of a legislative initiative for an EU Green Bond Standard, needed to "enhance the effectiveness, transparency, comparability and credibility of the green bond market and to encourage the market participants to issue and invest in EU green bonds"[45].

44 European Commission, 27.05.2020. Europe's moment: Repair and Prepare for the Next Generation. Available at https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52020DC0456&from=EN

45 European Commission, 09.03.2020. EU Green Bond Standard. Available at https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/eu-green-bond-standard_en

6.2 Regulation on Taxonomy

Defining environmentally sustainable economic activities is crucial to create a common language within the financial sector, in order to redirect investments towards sustainable projects and activities and achieve the climate goals of the EU. This way, in 2020, following the call of the Action Plan to Finance Sustainable Growth, the European Commission published in the Official Journal of the European Union the EU Taxonomy Regulation[46], a classification system that establishes the criteria for determining whether an economic activity qualifies as sustainable, from an environmental point of view.

According to this new Taxonomy, for an economic activity to be considered sustainable, it must:

1. Contribute substantially to one or more of these environmental objectives:

    a. Climate change mitigation

    b. Climate change adaptation

    c. The sustainable use and protection of water and marine resources

    d. The transition to a circular economy

    e. Pollution prevention and control

    f. The protection and restoration of biodiversity and ecosystems

2. It cannot cause significant damage to any of the other objectives;

3. It must meet minimum social criteria (for example, OECD Guidelines on Multinational Enterprises or the UN Guiding Principles on Business and Human Rights)

4. It must comply the technical criteria, defined by the taxonomy

Currently, there is only technical criteria for the mitigation and adaptation objectives. The remaining will be produced during 2021.

The requirement to align investments in activities that are environmentally sustainable does not apply only to the private sector. As stated in the document "Europe's moment: Repair and Prepare for the Next Generation"[47] about the extraordinary COVID-19 recovery instrument, the EU investments and subsidies that will be injected in Member States' economies will also have to be aligned with the taxonomy and the Non-Financial Reporting Directive, in order to ensure that they comply with EU long-term climate ambitions.

This alignment of EU stimulus instruments with the Taxonomy will be possible through its consolidation into the EU Climate Law, which will provide the basis for the creation of standards, labels, sustainability benchmarks and other enabling instruments of green finance.

This regulation will enter into force in January 1st 2022, regarding the first two environmental goals and in January 1st of 2023, regarding the remaining four goals.

46 Official Journal of the European Union, 22.6.2020. Regulation (EU) 2020/852

on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088. Available at https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32020R0852&from=EN

47 European Commission,2020. Europe's moment: Repair and prepare for the next generation. Available at https://ec.europa.eu/commission/presscorner/detail/en/IP_20_940

6.3 Non-Financial Reporting Directive

Since 2018, companies with more than 500 employees are obliged by the European Non-Financial Reporting Directive 2014/95/EU[48] to disclose information related with the way they operate and manage social and environmental challenges, namely on the topics of:

- Environmental protection
- Social responsibility and workers' rights and wellbeing
- Respect for human rights
- Anti-corruption and conflicts of interest
- Diversity

This directive applies to listed companies, banks, insurance companies and other public interest enterprises and it aims to help investors, consumers, policy makers and other stakeholders to assess the risks and measure companies' performance in these matters, encouraging them to be more environmentally and socially responsible.

Despite not being obliged, SMEs are also advised by this directive to identify and mitigate the greatest social and environmental risks of their business, in order to avoid financial losses resulting from reputational damage, physical impacts and loss of competitiveness.

This legislation is now being revised in order to strengthen the sustainable financing strategy of the EU and to incorporate the recommendations of the Task Force on Climate-related Disclosures (TCFD), regarding the assessment of the company's climate risks and the climate risks present in their supply chains. Moreover, it is already known that the revised directive will require large companies to disclose the percentage of their Turnover, CAPEX and OPEX that is aligned with the EU Taxonomy.

6.4 Regulation on sustainability-related disclosures

The Regulation 2019/2088 on sustainability€related disclosures in the financial services sector[49] was published in December 2019. It aims to: define harmonized rules for financial market participants and financial advisers; to disclose with transparency how they are (or are not) integrating the sustainability risks and the consideration of adverse sustainability impacts in their processes; and the provision of sustainability€related information with respect to financial products.

This Regulation requires that, from March 10th 2021 onwards, the financial market players under this regulation must disclose on their websites and prospectus information about how the company is including ESG and sustainability issues in its strategy, policies and processes, and about how each financial product incorporates the ESG issues. From June 2021, financial market players should publish their statements with their due diligence policies with respect to the principle adverse impact of investment decisions on sustainability factors. Finally, from until December 2022 financial market players will be requires to disclose how the adverse sustainability impacts are taken into account in their financial products and in their investments.

In order to help the implementation of this regulation, the EU will have to publish the respective delegated act with the Regulatory Technical Standards, that will explain the concrete information and indicators that must be disclosed by the financial market players, in particular, the indicators associated the principal adverse impact (PAI), which need to be disclosed by December 2022. This delegated act is expected to be approved by January 2022.

48 Official Journal of the European Union, Directive 2014/95/EU on disclosure of non-financial and diversity information by certain large undertakings and groups. Available at https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32014L0095

49 Official Journal of the European Union, 2019. Regulation (EU) 2019/2088 on sustainability€related disclosures in the financial services sector. Available at https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32019R2088&from=EN

6.5 Capital Requirements Regulation and ESG

The European Union's Capital Requirements Regulation 575/2013 (CRR)[50] includes under Article 449a the requirement to disclose prudential information on ESG risks, including transition and physical risks–a requirement addressed to large institutions with securities traded on a regulated market of any member state. These disclosure requirements are applicable from June 2022 on an annual basis during the first year and biannually thereafter.

On March 1, 2021, the European Banking Authority (EBA) released its consultation regarding draft technical standards for Pillar 3 disclosures of environmental, social and governance (ESG) risks, including reporting templates and instructions.

In the consultation, the EBA puts forward proposals on tables and templates that specify the disclosures required in Article 449a, starting with quantitative information on climate change-related risks, including transition and physical risks; on the implementation of a Green Asset Ratio (GAR) on EU taxonomy-aligned activities, which translate the Paris agreement into action, and on other mitigating actions, and qualitative disclosures for ESG risks.

Responses to the consultation are required until June 1st 2021.

6.6 Platform on Sustainable Finance

The Platform on Sustainable Finance[51] is an advisory body established by the European Commission in October 2020, under Article 20 of the Taxonomy Regulation, having been created to foster cooperation among experts in sustainability, public sector, industry, academia, civil society and the financial industry for the creation of sustainable finance policies and to further develop the EU taxonomy.

More specifically, at the time of this report, the focal work areas of the Platform were:

- To advise EU Commission on the technical screening criteria for the EU taxonomy, on the review of the Taxonomy Regulation, and on covering other sustainability objectives (e. g. social objectives and activities that significantly harm the environment)
- To monitor and report on capital flows towards sustainable investments
- Advise the Commission on sustainable finance policy more broadly

This Platform brings together sustainability experts from private stakeholders, financial, non-financial and business sectors, NGOs and civil society, academia and think tanks, experts in personal capacity, as well as public and international institutions. 57 members and 10 observers compose it.

Now, this Platform had six subgroups on the following issues:

- Subgroup 1: Technical Working Group
- Subgroup 2: Subgroup on regulation review
- Subgroup 3: Subgroup on negative and low impact activities
- Subgroup 4: Subgroup on social taxonomy
- Subgroup 5: Subgroup on data and usability
- Subgroup 6: Subgroup on monitoring capital flows

50 Official Journal of the European Union, 2013. Regulation (EU) 2019/2088 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012. Available at

https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32013R0575&from=en

51 European Commission, Platform on sustainable finance, available at https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/overview-sustainable-finance/platform-sustainable-finance_en#who

It is expected that much of the future EU regulation will be initially worked in the subgroups.

6.7 Other EU Activities

Moreover, other EU initiatives with an impact on sustainable finance have been created and are others are expected to be launched soon. Table 1 provides an overview on these, giving a more detailed perspective of the present and of the future of Green Finance in the EU.

Table 1: Summary of the EU activities on Sustainable Finance

EU climate benchmarks and benchmarks' ESG disclosures[52]	Works to enhance the ESG transparency of benchmark methodologies and to put forward standards for the methodology of low-carbon benchmarks in the Union
Preferences on sustainability[53]	EU will be requiring financial institutions to take into account their clients' preferences on sustainability when giving investment advice or managing their assets
EU Standards and Labels[54]	EU aims to create different standards and labels for green financial products, namely an EU Green Bond Standard and an EU Ecolabel criterion for financial products.
Public consultation on sustainable corporate Governance[55]	This initiative aimed at improving the EU regulatory framework on company law and corporate governance, in order to leverage companies to focus on log-term value creation. Topics covered in this public consultation included: Directors' remuneration, administrators' duties of diligence and board of directors' sustainability knowledge. At the time of this report, the European Commission was conducting a review on the feedback received from the public consultation.
Possible introduction of a Green Supporting Factor (GSF) or Brown Penalty (BP)[56]	In order to support capital allocation that is consistent with EU climate and sustainability objectives, The European Banking Authority (EBA) and the European Commission are considering the creation of a Green Supporting Factor or a Brown Penalty (GP).

52 European Commission, EU climate benchmarks and benchmarks' ESG disclosures, available at https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/eu-climate-benchmarks-and-benchmarks-esg-disclosures_en

53 European Commission, Financing Sustainability Growth, available at https://ec.europa.eu/info/sites/info/files/business_economy_euro/accounting_and_taxes/documents/190618-sustainable-finance-factsheet_en.pdf

54 European Commission, EU labels, available at https://ec.europa.eu/info/business-economy-euro/product-safety-and-requirements/eu-labels_en

55 European Commission, Sustainable corporate governance, 10.02.2021, available at https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12548-Sustainable-corporate-governance

56 European Commission, Keynote speech of Vice-President Valdis Dombrovskis on challenges and impacts of implementing Basel III, 12.11.2019, Available at https://ec.europa.eu/commission/presscorner/detail/it/SPEECH_19_6269

7. Portugal Agenda

7.1 The need for green investment

Portugal commitments have been aligned throughout the years with the EU Agenda. In 2015, together with the other European states, Portugal signed the Paris Agreement and adopted the Sustainable Development Goals and, in 2016, at COP22 in Marrakesh, the Portuguese Government announced its commitment to carbon neutrality by 2050, making it the first country in the world to do so.

In 2019, following the Paris Agreement advice to formulate and communicate long-term low greenhouse gasses emission development strategies, Portugal submitted to the United Nations its carbon neutrality strategy, the Roteiro Para a Neutralidade Carbónica / Roadmap for Carbon Neutrality in 2050 (RNC50)[57]. This document establishes the Portuguese trajectory to carbon neutrality by 2050, defining the main ambitions, identifying the cost-effective options to achieve that goal and considering different socio-economic development scenarios.

Aligned with the RNC50, the Portuguese government approved, in 2019, the document that establishes the objectives of the national climate and energy policy for 2030 (Plano Nacional Energia e Clima 2030/National Climate and Energy Plan for 2030[58]), which settled new national targets for reducing greenhouse gas emissions.

Achieving these ambitious goals requires significant amounts of capital. According to estimates from the RNC50, an additional €85 billion (£74 billion) are needed to achieve the carbon neutrality goal in the expected time horizon, which corresponds to additional annual investments of €2.1-2.5 billion (£1.8-1.8 billion), approximately 1.2% of the Portuguese GDP.

Besides climate-specific public investments, the RNC50 identifies other financial instruments needed to achieve the goal. Namely, it states the need to:

- Align financial cycles and national public funds with the main decarbonisation drivers,
- Leverage and reorient national and foreign direct investment towards the economy of the future,
- Make taxation a key instrument to carbon neutrality,
- Align the financial system with the decarbonisation goal.

Apart from the investments that have already been made in the last years, the Portuguese government is now looking to increase its investments in climate-related issues, with the support of the European Union EU long-term budget for 2021-2027 and the NextGenerationEU[59]. This is reflected in the preliminary Portuguese recovery and resilience plan (PRR)[60], created in response to the health, economic and social crisis of the COVID-19 pandemic, which identifies the climate transition as one of its three main strategic areas of investment, allocating a total of €2.9 billion[61] (£2.5 billion) to sustainable mobility decarbonisation and bioeconomy; and energy efficiency and renewable.

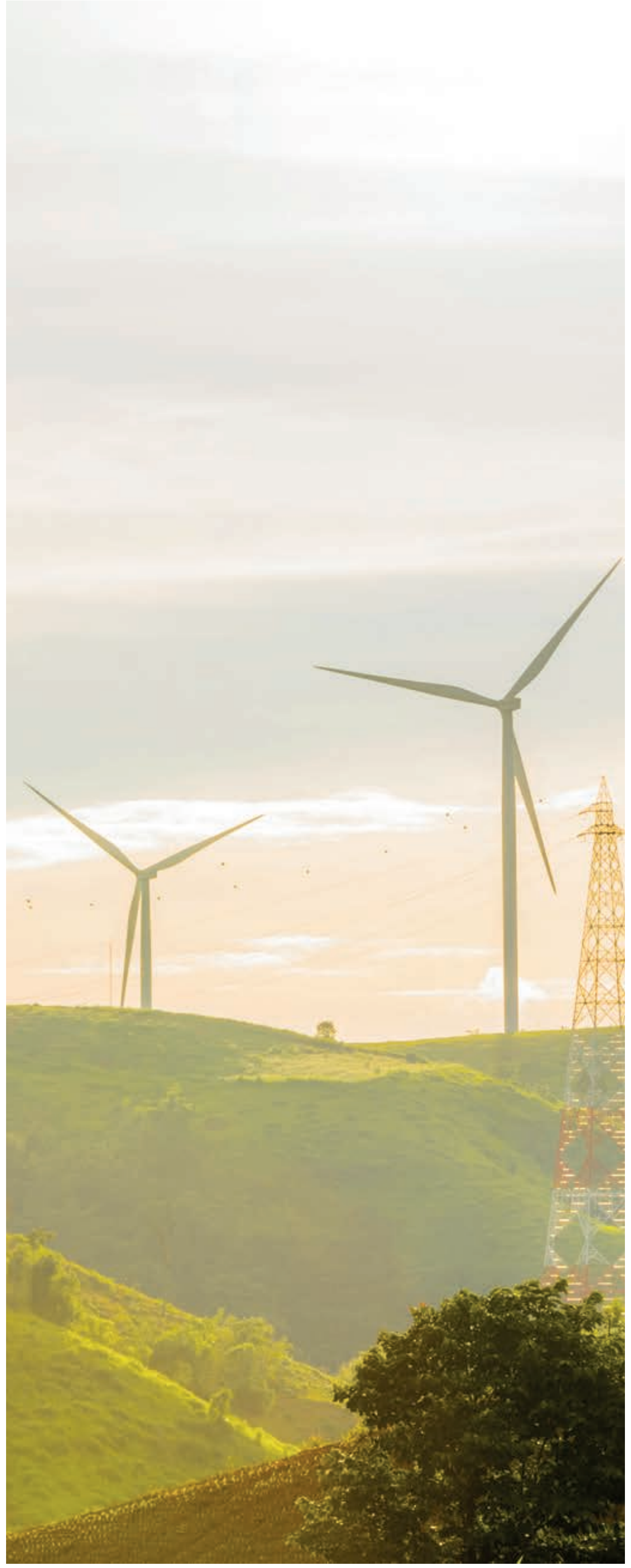
57 Republica Portuguesa, RNC50, 24.09.2019, available at https://www.portugal.gov.pt/pt/gc21/comunicacao/documento?i=roteiro-para-a-neutralidade-carbonica-2050-

58 Portugal Energia, Plano Nacional de Energia e Clima 2030, available at https://www.portugalenergia.pt/setor-energetico/bloco-3/

59 European Commission, 2021-2027 long-term EU Budget, 2021, available at https://ec.europa.eu/info/strategy/eu-budget/long-term-eu-budget/2021-2027_en

60 République Portuguesa, Plano de Recuperação e Resiliência, 2021, available at https://www.portugal.gov.pt/pt/gc22/comunicacao/noticia?i=plano-de-recuperacao-e-resiliencia-recuperar-portugal-construindo-o-futuro

61 Republica Portuguesa, Plano de Recuperação e Resiliência, 15.10.2020. Available at https://www.portugal.gov.pt/pt/gc22/comunicacao/documento?i=plano-de-recuperacao-e-resiliencia-recuperar-portugal-2021-2026-plano-preliminar-



7.2 The Think Tank for Sustainable Finance in Portugal

A large part of the additional investment needed will come from the private sector and from the capacity that households will have in purchasing environmentally friendly products, thus it is necessary to involve the Portuguese financial players in this process.

As such, and in order to encourage the alignment of the financial system with the climate and overall sustainability goals, the Portuguese Ministry of the Environment and Energy Transition, in partnership with the Ministry of Economy, the Ministry of Finance, and the main actors of the Portuguese financial sector, created a think tank for Sustainable Finance in 2019. The goal is to promote a more sustainable financial system, in order to enable the country to achieve carbon neutrality commitment. The first outcomes of this Think Tank were the Letter of Commitment to Sustainable Financing in Portugal and the document Guidelines to Accelerate Sustainable Financing in Portugal, described in the next sections.

7.2.1 Guidelines to Accelerate Sustainable Financing in Portugal

The document Guidelines to Accelerate Green finance in Portugal[62] is a baseline for the work of the think tank for green finance coordinated by the Ministries of Environment and Energy Transition. It was developed taking into account the international and European green finance agenda, as well as specific relevant experiences from other countries, in order to identify obstacles and opportunities to the implementation and development of green finance in Portugal. From that study, a set of recommendations was developed:

- Green finance should be a priority in the development agenda of Portugal;

- It is important to create a favourable environment for financial and technological innovation oriented towards sustainability;

- Developing a fiscal policy favourable to sustainability is crucial;

- Sustainable financial products should be promoted;

- Managers should take into account environmental, social and governance issues in their strategic and management

62 Fundo Ambiental, Guidelines to Accelerate Green finance in Portugal, 2019, available at https://www.fundoambiental.pt/ficheiros/linhas-de-orientacao-pdf.aspx

decisions and while performing their fiduciary duty;

- The monetarisation of financial stability and the different aspects of supervision should take into account ESG risks

Most likely, these guidelines will evolve towards a sustainable finance strategy in Portugal that is still lacking.

7.2.2 Letter of Commitment to Sustainable Financing in Portugal

This letter[63] constitutes the formal commitment of the different members of the referred think, and it is based on the recommendations of the document Guidelines to Accelerate Sustainable Financing in Portugal.

The summarised commitments of the different signatories are:

- Ministry of the Environment and Energy Transition: Becomes the main responsible for the Think Tank coordination and capacity building on sustainability issues.

- Ministry of Economy and the Ministry of Finance: Stays responsible for the promotion of sustainable business, sustainable business financing and green financial products. Moreover, the Ministry of Finance gets the additional responsibility to create a fiscal policy that favours sustainability.

- Bank of Portugal, The Securities Market Commission (CMVM) and The Insurance and Pension Funds Supervisory Authority (ASF): Commits to contribute to the analysis of the role of the financial system in identifying and managing environmental risks.

- Signatory Financial Institutions and Euronext Lisbon: Promise to engage Boards of Directors of financial institutions in the debate about ESG risks and opportunities, sustainable business strategies, capacity building on sustainability-related issues and introduction of ESG criteria into financing and investment analysis. They were: BPI, Montepio, Barclays, Caixa Geral de Depósitos, Crédito Agrícola, Millennium BCP, Santander and Novo Banco.

- Banks, investment funds, insurance and other relevant associations: Commit to promote the ESG debate and capacity building of sustainability in the board members and in the board members of their associates.

Despite the fact that, so far, there is no obligation for the signatories to report on how they are complying with such commitments, this commitment letter has reinforced the need for more knowledge and information, and financial players have been making the effort to increase sustainable finance literacy. Further developments on the reporting of this commitment could take place in a near future.

7.3 Banco Português do Fomento

Banco Português do Fomento[64] is the new development bank of Portugal, launched in November 2020[65], a public financial institution to support the development of Portugal through the creation of solutions that can respond to the financial needs and challenges of competitive, innovative and sustainable businesses. It is born from the merger of the Financial Development Institution (IFD) with the managing entity of the Portuguese mutual guarantee system (SPGM) and with PME Investimentos, a financial company from the state business sector. The need for its creation was included as one of the main proposed reforms of the Portuguese recovery and resilience plan (PRR).

According with the Portuguese Prime Minister, António Costa, this bank will not compete with commercial banking, but it will eliminate the intermediation banking costs of credit and financing lines of the EIB Group and other promotional lines, like the ones that are supporting decarbonisation and circular economy[66].

Banco Português de Fomento could have a catalysing role in accelerating green investments and accelerating the incorporation of environmental criteria aligned with the Taxonomy in all finance done in Portugal, but further development on this regard must be seen.

7.4 Other Initiatives

Despite the fact that sustainable finance issue still needs to be further implemented in Portugal, today there are several initiatives form different stakeholders, aiming at better understanding the issue and to put it into practice. Below are some of the initiatives that are actively working of the theme.

Portuguese Association for Business Ethics	Portuguese Banking Association (PBA)
Technical Committee 322: Sustainable Finance The Portuguese "Technical Committee 217 - Sustainable Finance of the Portuguese Association of Business Ethics" is responsible for accompanying, on behalf of Portugal, the International Organization for Standardization (ISO) Technical Committee 322: Sustainable Finance. This Technical Committee, which operates from the United Kingdom and has the participation of 24 countries - including China, USA, France and Germany - is responsible for the development of standards in the scope of Sustainable Finance, with a view to integrating environmental, social and governance considerations (ESG) in institutional investment decision-making and in financial management, seeking to align the financial system with the Sustainable Development Goals.	PBA has a Working Group on sustainable finance and a specific taskforce on the Taxonomy, aiming to help banks to better prepare for the incorporation of the European regulations

63 Fundo Ambiental, Letter of Commitment to Sustainable Financing in Portugal, 2019, available at https://www.fundoambiental.pt/ficheiros/commitment-letter-v2-pdf.aspx

64 Banco Português do Fomento, available at http://bpfomento.pt/

65 24.sapo.pt, Banco Português de Fomento: o que é e para que serve?, 27.11.2021 https://24.sapo.pt/economia/artigos/banco-portugues-de-fomento-o-que-e-e-para-que-serve

66 ECO, Banco de Fomento vai nascer hoje. Para que servirá?, 18.06.2020 available at https://eco.sapo.pt/2020/06/18/banco-de-fomento-vai-nascer-hoje-para-que-servira/

8. Green finance products

Although there is no clear definition of what is a green financial product, the consensus is that a green finance has its focus on protecting or improving natural systems, as well as on managing climate change (physical, transition and liability) risks.[67] For the most part, these products are based on existing financing tools, which are adapted to sustainability projects and companies. Usually, the 'green' aspect of the product is related to the asset – an investment in clean energy projects, which contributes directly to the green transition or, in the other hand, related to the feature of the product, which is designed to encourage or reward an environmental activity (e.g mortgages with an interest discount for energy efficient house, or investments which links the sustainable management of resources with funding limits or collateral requirements).

Some Green Financial products include:

- **Green lending –** local banks providing loans for energy efficiency and renewable energy projects. Lending that is dependent on environmental criteria for the planned use of funds[68];
- **Green Loans –** Any type of loan instrument made available exclusively to finance or re-finance, in whole or in part, new and/or existing eligible Green Projects as indicated in the Green Loans Principle. Green loans should not be considered interchangeable with loans that are not aligned with the four core components of the Green Loans Principle by

67 DOCPLAYER, What is green finance, available at https://docplayer.net/133897910-Chapter-1-what-is-green-finance.html

68 https://www.gcpf.lu/files/assets/images/reporting_news/insights/2017/2017-12-Green-Lending/Topic_Case_Green_Lending.pdf

the Loan Market Association[69];

- **Green Bonds –** Any type of bond instrument where the proceeds will be exclusively applied to finance or re-finance, in part or in full, new and/or existing eligible Green Projects as defined in the Green Bond Principles by ICMA. It is important to note that Green Bonds should not be considered fungible with bonds that are not aligned with the four core components of the GBP[70]. At the European Commission level, this definition is still being created, but recommendations are that a "EU Green Bond could be any type of listed or unlisted bond or capital market debt instrument issued by a European or international issuer that is aligned with the EU Green Bond Standard." The EU Green Bond Standard, which are not yet approved, could imply alignment with EU-taxonomy, the publication of a green bond framework, mandatory reporting, and mandatory verification[71];

69 https://www.lma.eu.com/application/files/9115/4452/5458/741_LM_Green_Loan_Principles_Booklet_V8.pdf

70 https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/Green-Bonds-Principles-June-2018-270520.pdf

71 https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/190618-sustainable-finance-teg-report-overview-green-bond-standard_en.pdf

- **Green Funds -** investment vehicle that invests in companies that have some kind of concerns in promoting the decrease of environmental impacts or that promote an improvement in environmental issues;
- **Green equities –** shares in the ownership of a green company or project;
- **Green Retail Finance -** financial products (usually loans) designed for individuals, households and SMEs, rather than large corporate or institutional clients, where the funds are used to purchase goods or services with an environmental concern, such as green mortgages and car loans for electric vehicles just as some examples;
- **Green Insurance –** insurance products that can cover environmental risks, or that can promote best practices related with energy efficiency, renewable energy, efficient use of water, between others.

As the market grows and financial institutions become more aware of the risks and opportunities of climate change, new financial products are expected to arise, in both developed and developing countries.

Highlights:

- **2019 was a record year for sustainable finance, with $465 billion of sustainable debt issued globally, up 78% to 2018 figures[72]**
- **$1Trillion Mark Reached in Global Cumulative Green Issuance, with other green debt together worth around $1.5 trillion[73] (£1.1 trillion)**
- **6% of the market cap of listed companies globally is connected with green economy businesses, approximately $4 trillion (£2.9 trillion)[74]**
- **However, under the 2 degrees scenario, there is a need for $1 trillion per annum of green issuance by 2030[75]**
- **Green Bonds only represent about 3.5% of total global debt markets[76]**

72 https://blogs.orrick.com/financial/2020/02/20/the-continued-rise-of-sustainable-finance-in-the-uk-and-eu/

73 Climate Bonds, $1Trillion Mark Reached in Global Cumulative Green Issuance, 15.12.2020, available at https://www.climatebonds.net/2020/12/1trillion-mark-reached-global-cumulative-green-issuance-climate-bonds-data-intelligence

74 Strix, Key Features of the Green Economy, available at http://strix.pt/index.php/pt/media-news/key-features-green-economy

75 Climate Bonds, Scaling up Green Bond Markets for Sustainable Development, available at https://www.climatebonds.net/files/files/GB-Public_Sector_Guide-Final-1A.pdf

76 https://jornaleconomico.sapo.pt/en/news/green-bonds-and-the-portuguese-case-644810

9. Overview of the Green Financial Market in the UK

As previously stated in section 3.1, Green Finance refers to "the process of taking due account of environmental, social and governance (ESG) considerations when making investment decisions in the financial sector, leading to increased longer-term investments into sustainable economic activities and projects". This can have different meanings in financial institutions. It can refer to specific environmental risk management practices, organisational strategies, investment sectors, policy instruments and/or green products and services[77]. For the purpose of this study, the main focal point of this section will be the rising market of green financial products, with a special focus on banking and investment products and providers.

As one of the global leaders in Green Finance, the UK is home to one of the largest markets of green financial products in the world, a work that has been recognised globally. In the first edition of the Global Green Finance Index, London was ranked the world's top financial centre for the quality of its green finance offering. Still, in the second edition, it fell for the third place, getting behind Copenhagen and Amsterdam[78]. "

As the market of Green Finance grows, so does the competition and that explains why the Green Finance Strategy of the UK has set one of its big goals to strengthen the competitiveness of the UK financial services sector. Moreover, the strategy states that it is "the government's ambition….to remain a leader in developing innovative green finance products and services and climate-related data and analytics".

At the heart of this work is the Green Finance Institute, focusing on the 'financing green' approach and the UK Sustainable Investment and Finance Association (UKSIF), focusing on the 'greening finance approach' (see section 5.3).

9.1 Banking sector

The EY Sustainable Finance Index of December 2020[79], a global benchmark that compares over 1,100 financial services firms worldwide on ESG metrics and disclosure rates, sets the UK within the top ten countries globally on reporting ESG activity. Nevertheless, it affirms that the sector lags on environmental and social factors when compared with other countries, even if it ranked second for progressive environmental controls, when compared against US and EU peers.

According with the article, "just eight of the 19 UK banks report to having green or environmentally friendly products and claim to evaluate projects on the basis of environmental or biodiversity risks. However, on a relative scale, the UK is performing in line or better than many of its peers […] the overall environmental score UK banks achieved by the Index was aided by an impressive 90% of firms reporting their CO2 equivalents emissions".

It is also worth mentioning that 100% of major UK banks offer green loan programmes, according with The Global City[80].

77 Chartered Bank, What is Green Finance, available at https://www.charteredbanker.com/asset/A6AAC7C8-3E24-4CE2-B890399FA8D7811D/

78 Zyen, The Global Green Finance Index 2, https://www.zyen.com/publications/public-reports/global-green-finance-index-2/

79 https://www.ey.com/en_uk/news/2020/12/ey-sustainable-finance-index-uk-banking-market-leads-global-competitors-on-governance-structures-but-lags-on-environmental-and-social-factors

80 The Global City, Sustainable and green finance, 04.03.2021, available at https://www.theglobalcity.uk/resources/green-finance

9.2 Green Bonds market

In 2009, the World Bank issued the first green bond of the London Stock Exchange (LSE). Later on, with the increased focus of LSE in the development of Green Finance, it created a dedicated Green Bond Segment -the Sustainable Bond Market - becoming the first exchange to do so. Since then, the Sustainable Bond Market has admitted +239 debt securities, raising over £35 billion[81]. Moreover, it has also been home to the first certified green bonds out of China, India and the Middle East.

In 2015, Transport for London issued a green bond, having become the first public entity to do so in the UK[82]. The UK Government is now looking to launch a sovereign green bond, according to a publication from the Green Finance Institute[83].

Moreover, according to the Climate Bonds Standard and Certification Scheme, as of February 10th 2021, there were 10 green bonds issued by British companies[84]. Climate Bonds Standard and Certification Scheme is a globally used labelling scheme for green bonds, loans and other debt instruments, which ensure rigorous scientific criteria, consistent with the goals of the Paris Climate Agreement to limit warming to under 2 degrees.

9.3 Insurance sector

Research on aggregated data of green insurance products couldn't be found, but according to the Association of British Insurers (ABI), which represents more than 250 insurance firms in the UK, just 1.2%, of the £1.8 trillion assets hold by UK insurers, flows into the Environmental, Social and Governance (ESG) class of assets, meaning that an even lower percentage flows to green projects[85]. Although green investing is only a part of the green finance approach and although it does not reflect the market of green insurances in the UK, the present message may indicate that the British insurance sector is not yet aligned with UK's Green Finance Strategy.

Nevertheless, in 2019 the Bank of England became the first regulator to integrate climate scenarios into the insurance stress testing cycle[86], which signals that change is happening and that current available data may not reflect the current development of green insurance and green insurance products in the UK.

81 London Stock Exchange, Sustainable Bond Market, 09.03.2021, available at https://www.londonstockexchange.com/raise-finance/debt/our-products/sustainable-bond-market

82 Climate Bonds, Case Study: Transport for London (TfL) Green Bond, https://www.climatebonds.net/files/files/Case%20study%20-%20TfL%20final%281%29.pdf

83 Green Finance Institute, UK Government announces a sovereign green bond, 9.11.2020, available at https://www.greenfinanceinstitute.co.uk/uk-government-announces-a-sovereign-green-bond/

84 Climate Bonds, Certified Bonds, 10.03.2021, available at https://www.climatebonds.net/certification/certified-bonds?field_certgb_sector_criteria_value_op=contains&field_certgb_sector_criteria_value=&field_certgb_country_value_op=%3D&field_certgb_country_value=united+Kingdom&field_certgb_issuer_value_op=contains&field_certgb_issuer_value=&field_certgb_verifier_approved_value_op=contains&field_certgb_verifier_approved_value=

85 https://zestecgroup.co.uk/insurance-industry-ripe-for-billions-of-pounds-of-green-investment/

86 Bank of England, Paving the way forward: managing climate risk in the insurance sector, 09.09.2020, available at https://www.bankofengland.co.uk/speech/2020/anna-sweeney-moodys-the-resilience-of-insurers-in-a-changing-climate

Moreover, it is worth mentioning the work of the Flood Re in the significant increase of availability and affordability of flood insurance in the UK. Flood Re is the world-first' flood re-insurance scheme (government sponsored), a joint initiative between the UK Government and insurers, created in April 2016 in order to offer affordable premiums and lower excesses to homes at risk of flooding across the UK, a problem that should become more recurrent and severe as world average temperature rises. At the time of this report, every insurer that offered home insurance in the UK had to pay into the scheme. Just in the first 18 months, more than 142,000 policies were ceded. Flood Re is planned to cease by 2039 and enable a transition by then to an affordable risk reflective market for household flood insurance[87].

9.4 Government-backed lending

The Carbon Trust Energy Efficiency Loan Fund was a scheme created by the UK Government to accelerate the shift to lower-carbon and more sustainable businesses, with a focus on small and medium enterprises (SMEs). Between 2003 and 2021 (the year of its closure), the loans fund provided over 700 interest-free loans for energy efficiency and renewable energy projects.

Moreover, the UK Government, through the Green Investment Bank (GIB), mobilised over £10 billion to support over 80 low-carbon projects across the UK, up until 2017, with almost 75% of investment from non-GIB sources[88]. The success of these loans with mutual guarantees was particularly relevant for the spread of offshore wind power generation platforms across the UK.

9.5 Green Funds

In 2011, the UK Government launched the £3.87 billion International Climate fund, as a way to support developing countries in catalysing green private investment in order to respond to the challenges and opportunities of climate change. As of 2016, the fund had created over 39,000 jobs and avoided more than 2.3 million tonnes of greenhouse gas emissions worldwide. Meanwhile, the fund's assets have been raised to £5.8 billion for the period April 2016 to March 2021[89].

Taken the difficulty in finding aggerated information about green funds provided by UK's private sector, this study is not able to provide up-to-date global data on that subject. Still, information specifically related with private unlisted green funds in the UK was found. According to Novethic, in 2019 there were 82 unlisted green funds in the UK, which settled the country in the top of the European countries list. The majority of these funds were related with renewable energy infrastructure[90].

87 Flood Re, How it works, 10.03.21, available at https://www.floodre.co.uk/how-flood-re-works/

88 https://www.cbd.int/financial/gcf/uk-hubgreenfinance.pdf

89 Green Finance Initiative, GLOBALISING GREEN FINANCE, 2016. Available at https://www.cbd.int/financial/gcf/uk-hubgreenfinance.pdf

90 Novethic, Promising Trends In Unlisted Green Funds, 2019. Available at https://www.novethic.com/fileadmin/user_upload/tx_ausynovethicetudes/pdf_complets/Novethic-Europe_Promising_Trends_in_Unlisted_Green_Funds_2019.pdf

10. Overview of the Green Financial Market in Portugal

In order to understand the existing situation in Portugal regarding green finance products better, and, as described in the method, an initial desk research was developed and sent to each individual organisation for confirmation and updates. Based on these contacts, a dialogue between the research team and the financial institutions started, and it was possible to collect information not only about the products, but also about their sustainability and ESG evolution, which allowed us to do a sustainability characterisation of the players analysed.

10.1 Sustainability Characterisation of Financial Institutions

From the information collected and validated by all the institutions, and expressed in table 2, more than half of the institutions analysed, six out of the nine, already have a sustainability or social responsibility strategy, but only two have a sustainable investment policy. A Little less than half, four out of nine, has identified their priority SDGs but only three has set quantified sustainable goals. A sustainability report was published in 2019 by five of the organisations, but only one institution – Santander Totta – has set a carbon neutrality commitment for loans and investments. Regarding the disclosure of greenhouse gasses' emissions scope 1 and scope 2, 7 already disclose this information but none discloses Scope 3 data yet. Likewise, none of the institutions incorporates climate financial risks (physical and transition) in their risk analysis. Still, as the table shows, financial institutions have work in progress in all sustainability areas.

Table 2: Sustainability and ESG incorporation within the main Portuguese Financial Institutions

Financial entity	The financial entity...										
	...has a general sustainability/social responsibility policy?	...has identified the priority SDGs	...has a defined sustainability strategy	...has a sustainable investment policy?	...has set quantified sustainable commitments or goals	...published a sustainability report in 2019	...has set a carbon neutrality commitment for their operations	...has set a carbon neutrality commitment for loans and investments	...calculates scope 1,2 of GHG emissions	... calculates scope 3 emissions for loans and investments	...incorporates climate financial risk (physical and transition) in their risk analysis
Millennium BCP	(2)Yes	Yes	Yes	2021	2021	Yes	Yes	2021-2023	Yes	No	2021-2023
Santander Totta	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	2021-2023	2021*
Montepio	2021	No	2021	2021	No	2021	No	No	Yes	No	No
Novo Banco	No	No	2021-2023	No	No	Yes	Yes	No	Yes	No	No
Crýdito Agršcola	Yes	Yes	Yes	2021-2023	Yes	Yes	2021-2023	2021-2023	Yes	2021-2023	2021-2023
BPI	Yes	(1) No	(1) No	No	(1) No	No	(1) No	(1) No	No	No	No
Caixa Geral de Dep√sitos	Yes	Yes	Yes	Yes	Yes	Yes	No	No	Yes	(1) No	2021
IM Gest+o de Ativos	(1)No	No	No	No	No	No	yes	No	Yes	No	No
Grosvenor	Yes	No	No	2022	No	No	No	No	No	No	No

(1) Ongoing process
(2) Currently being revised

10.2 Green funds

At the time of this report, according with CMVM and the financial institutions that participated in the study, it was possible to identify eight funds commercialized in Portugal with ESG characteristics:

- IMGA Iberia Equities ESG;
- IMGA Iberia Fixed Income ESG;
- Sustainable Innovation Fund;
- Caixa Ações Europa Socialmente Responsável;
- Caixa Investimento Socialmente Responsável;
- Caixagest Energias Renováveis;
- Fundo Santander Sustentável;
- Fundo NB Momentum Sustentável.

The characterisation of the funds is summarised below in table 3, according to information collected online and confirmed by the institutions, allowing for comparisons between each of the funds, taking into consideration different analysis criteria, namely, asset constitution, financial risk, sustainable investment strategies and environmental themes connected to the fund.

Brief conclusions:

- **5 out of 8 funds used as ESG investment strategy the "Best in Class" and 4 have negative screening as strategy to choose the assets of the portfolio**
- **7 out of the 8 identified funds are related with investments in the renewable energy sector, 4 on energy efficiency and 2 on circular economy**
- **0 the funds are related with sustainable forests and only one fund invests in companies related with ecosystems and with water issues**

Table 3: Funds with ESG characteristics commercialized in Portugal, at the time of this report

Managing entity	Product's name	Risk (ISRR)	Known investing sectors	Morningstar Sustainability Rating or MSCI rating	ESG index and ratings	Type of fund				ESG investment approach								Environmental themes connected with the fund										
						Listed shares	Bonds	Mix of listed shares and bonds	Unlisted shares	Negative screening	ESG integration	Sustainability themed	Norms-based	Best in Class	Ethical	Stewardship	Impact Investing	Renewable energy	Low carbon buildings	Energy efficiency	Transports	Waste Management	Circular Economy	Sustainable Agriculture	Sustainable Fisheries	Sustainable Forest	Ecosystems or Biodiversity	Water
IMGA	IMGA Iberia Equities ESG	6/7	Yes	4 globes	-	x				x				x				x										
IMGA	IMGA Iberia Fixed Income ESG	3/7	Yes	-	-		x			x				x				x										
Grosvenor	Sustainable Innovation Fund	2/7	Yes	-	-				x		x	x				x	x	x		x			x	x	x		x	x
CGD	Caixa Aûqes Europa Socialmente Responsõvel	6/7	Yes	5 globes	STOXXÐ Europe Sustainability	x				x				x				x		x								
CGD	Caixa Investimento Socialmente Responsõvel	4/7	Yes	4 globes	Barclays MSCI Euro Corporate SRI+ESG Index STOXXÐ Europe Sustainability			x		x				x				x		x								
Santander Totta	Fundo Santander Sustentõvel	3/7	Yes	A	-			x			x	x		x														
Grupo NB	Fundo NB momentum Sustentõvel	6/7	Yes	3 globes	Eikon classification	x					x							x		x	x		x					
CGD	Caixagest Energias Renovõveis	4/7	Yes	-	-			x				x						x										

CGD has a set of investment funds that already obey to the CGD Sustainable Investment Policy They can be seen in Annex 1. Other banks with a sustainable investment policy might have other funds that are not identified in the table above, and are not disclosed in this report.

10.2.1 About the variables analysed for each fund

Risk and Reward Indicator
The financial risk is given by the Risk and Reward Indicator (SRRI)[91] presented in the Key Investor Information Document. Its calculation is based on the guidelines established by the Committee of European Securities Regulators (CESR), which is represented by a number between one and seven, where one represents the lowest level of risk and seven represents the highest. Funds shown it table 2 show a broad range of risk among themselves, ranging between two and six.

ESG Investment Approach
As for the ESG investment approach, the funds were analysed according with information available online and inputs from bank representatives, taking into account UKSIF definitions of the different sustainable investment strategies[92]:

- Negative/Exclusionary Screening: referring to the process of excluding certain sectors, companies or practices based on specific ESG criteria;
- Positive/Best-In-Class Screening: strategy that consists of fiving preference to companies that outstand their industry peers, in terms of ESG performance;
- Norms-Based Screening: screening of investments based on international norms which define minimum standards of business practice (e.g OECD, ILO, UN and UNICEF);
- ESG Integration/Responsible Investment: referring to the inclusion of ESG factors into financial analysis, in order to assess and reduce financial risk;
- Sustainability Themed Investing: concerning the investment in themes or assets that specifically support specific ESG Goals (e. g. sustainable mobility, energy efficiency, circular Economy)
- Impact: strategy based on the intention to generate positive and measurable social and environmental value alongside financial returns.
- Ethical: investment strategy that is based in values. In this case, investors may accept lower returns to ensure their money is aligned with their values.
- Stewardship: concerning the active use of shareholder power to influence corporate behaviour, including through direct corporate engagement (i.e. communicating with senior management and/or boards of companies), filing or co-filing shareholder proposals, and proxy voting guided by comprehensive ESG guidelines.

The ESG investment approach of a fund can combine more than one of these strategies in order to maximize the positive impact of the fund.

ESG indexes and ESG ratings
Funds can be ranked by ESG indexes and ESG ratings. Indexing the investing portfolio to an ESG index or an ESG rating is a recognized method for assessing, in a standardized way, the effectiveness of company's practices and activities in the field of sustainable development, corporate responsibility and transparency. Two of the funds identified in the table are indexed to ESG indexes: Caixa Ações Europa Socialmente Responsvel, indexed to STOXX® Europe Sustainability[93], and Caixa Investimento Socialmente Responsável, which stocks and bonds are indexed to, respectively, STOXX® Europe Sustainability Index and Barclays MSCI Euro Corporate SRI+ESG Index[94]. Fundo NB momentum Sustentvel in the other

91 ESMA, CESR's guidelines on the methodology for the calculation of the synthetic risk and reward indicator in the Key Investor Information Document, 01/07/2020, available at https://www.esma.europa.eu/sites/default/files/library/2015/11/10_673.pdf

92 UKSIF, Sustainable Investment Strategies, available at https://uksif.org/wp-content/uploads/2020/03/Sustainable-investment-strategies-1.pdf

93 STOXX, STOXX® Europe Sustainability Index, available at https://www.stoxx.com/document/Bookmarks/CurrentFactsheets/SUTR.pdf

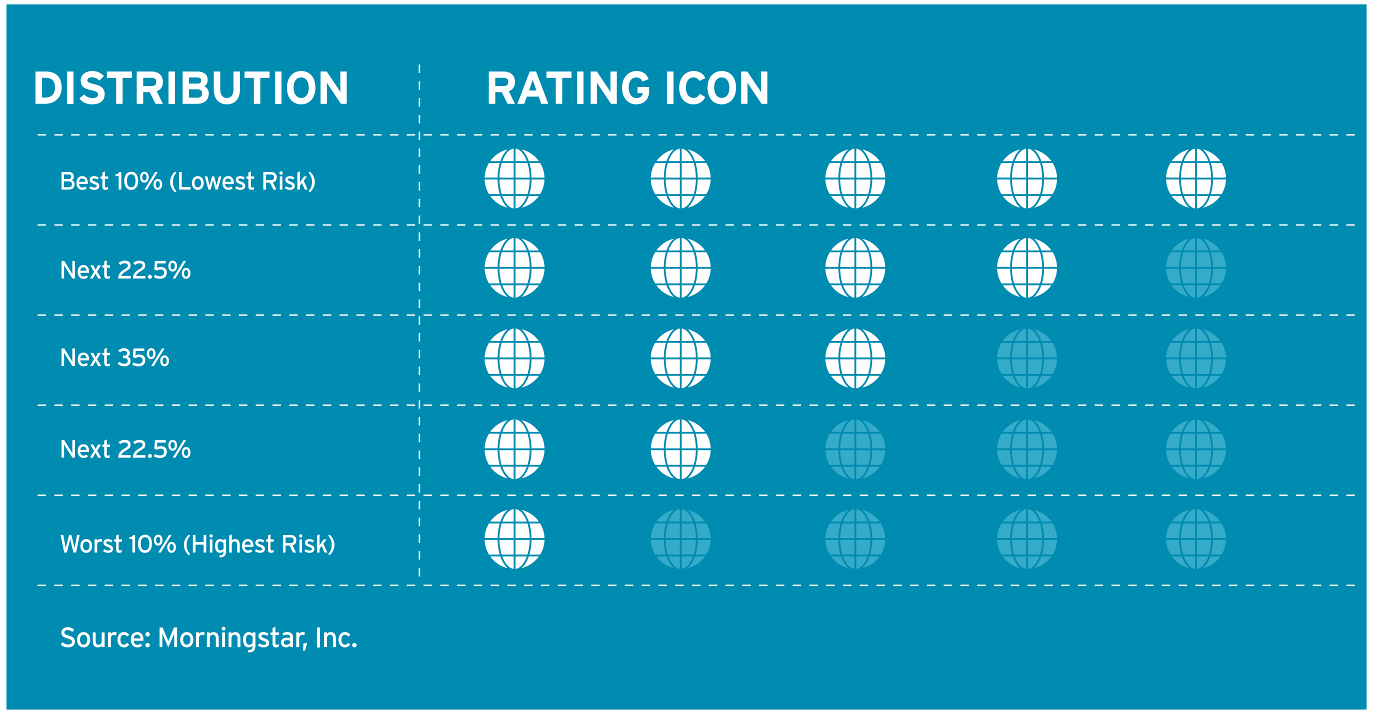
94 MSCI, Bloomberg Barclays MSCI ESG Fixed Income Indexes, available at https://www.msci.com/bloomberg-barclays-msci-esg-fixed-income-indexes

hand, has determined a minimum score against the ESG rating of Eikon[95] as an investment criterion, in order to assure a minimum sustainability level of the assets. By contrast, the other identified funds have decided not to link their portfolio to an index or rating.

ESG Fund Ratings: Morningstar Sustainability Rating and MCSI ESG Rating
Furthermore, whether available, table 13 also includes the Morningstar Sustainability Rating or the MCSI rating of the funds, recognized ESG fund ratings that help investors to measure the ESG portfolio-level risk against industry peers.

Regarding the Morningstar Sustainability Rating[96], for the purpose of this study, we have substituted the rating icons by the written form of "x globes", where x represents the number of globes scored by the fund. At the time of the report, only 4 of the 7 funds were classified by Morningstar Sustainability Rating, which score ranged between 3 and 5 globes.

Figure 13: Rating distribution of Morningstar Sustainability Rating



Source: UNEP-FI, Principles for Sustainable Insurance, 20.09.2017

The MCSI ESG Rating[97], in the other hand, is calculated taking into account the following:

- **LAGGARD** A company lagging its industry based on its high exposure and failure to manage significant ESG risks (classification CCC and B)
- **AVERAGE:** A company with a mixed or unexceptional track record of managing the most significant ESG risks and opportunities relative to industry peers (classification BB and A)
- **LEADER:** A company leading its industry in managing the most significant ESG risks and opportunities (classification AA and AAA)

95 Refinitiv, ESG Data on Eikon Quick Start Guide, available at https://video.training.refinitiv.com/elearning_video/Documents/Eikon_QRC/Quick%20Start%20Guide_%20ESG%20Data%20on%20Eikon.pdf

96 Morningstar, The Morningstar Sustainability Rating, available at https://www.morningstar.com/articles/957266/the-morningstar-sustainability-rating-explained

97 MCSI, How do MSCI ESG Ratings work?, available at https://www.msci.com/our-solutions/esg-investing/esg-ratings

Table 2 only shows MCSI ESG Rating for the Fundo Sustentável Santander, giving it an above average score of A, falling this way in the upper level of the 'Average' categorization.

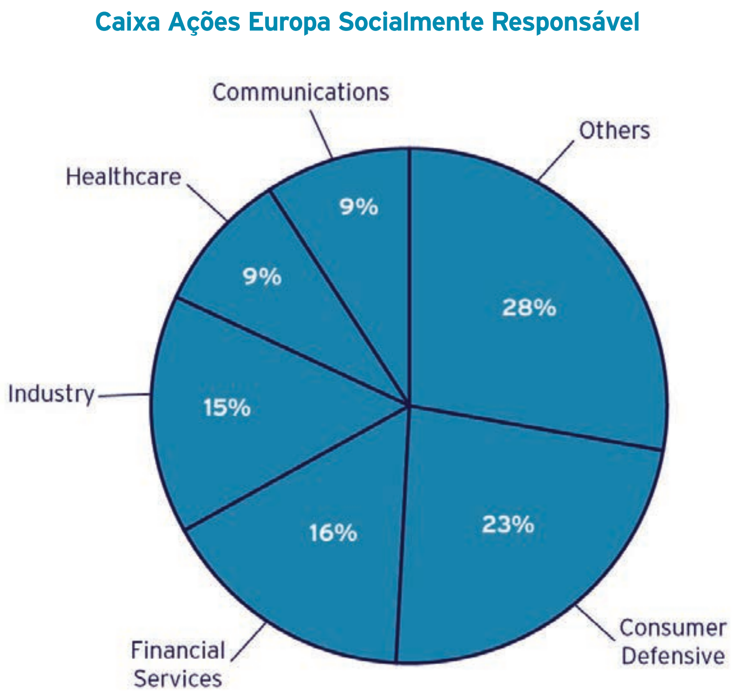
Environmental themes connected with the fund
To understand whether or not and how the funds were connected with environmental themes, a set of environmental themes were identified and the managing entities and banks were inquired about such classification done by the research team. This selection of themes took into consideration the environmental objectives of the new EU Taxonomy, since it is known that European financial institutions will have to align its green products with the Taxonomy classification system. As such, table 4 explains the connection between the selected environmental themes of table 2 and the 6 objectives of the new EU Taxonomy.

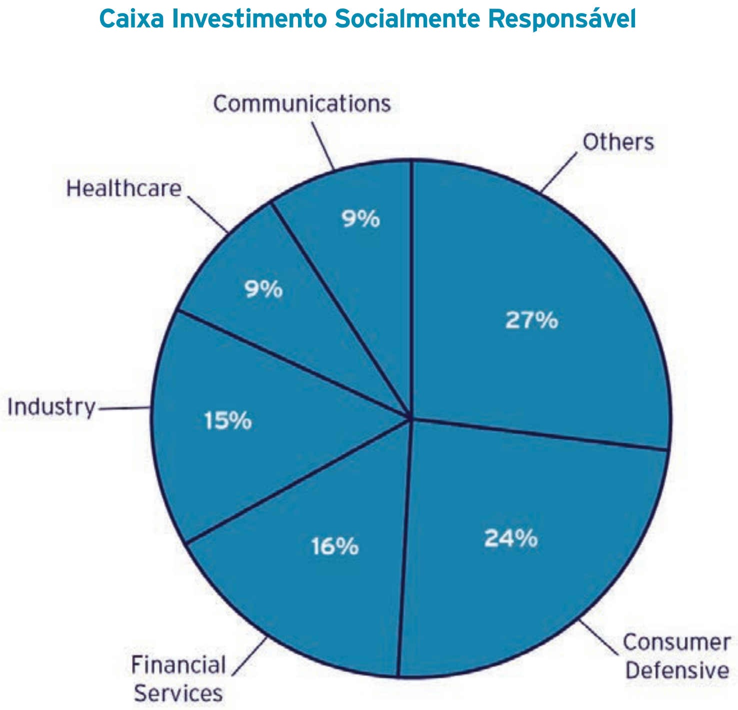
Table 4: Selected themes and the 6 objectives of the new EU Taxonomy

Selected environmental themes	EU Taxonomy objectives
Renewable energy	Climate change mitigation
Low carbon buildings	
Energy efficiency	
Transports	
Transports	Pollution prevention and control
Waste management	The transition to a circular economy
Circular Agriculture	
Sustainable Agriculture	The protection and restoration of biodiversity and ecosystems
Sustainable Forest	
Ecosystems or Biodiversity	
Water	The sustaunable use and protection of water and marine resources
Sustainable Fisheries	

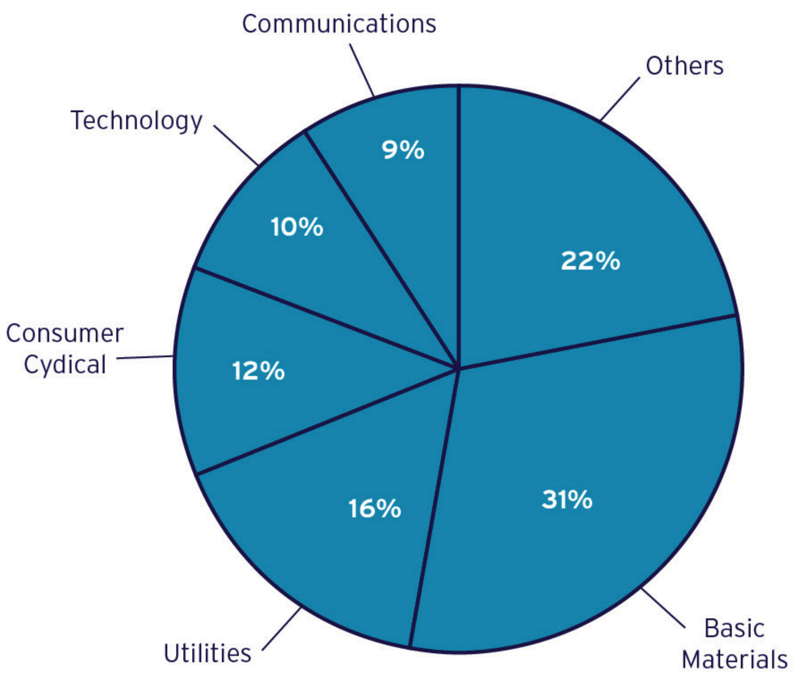
Fund's Portfolio
Regarding the composition of the portfolios, Figure 14 gives an overview of the economic sectors in which each of the funds invest. From there, one can see that the sectors with the biggest presence in the portfolio are healthcare, industry, consumer cyclical and financial services, respectively.

Figure 14: Portfolio of the identified green funds

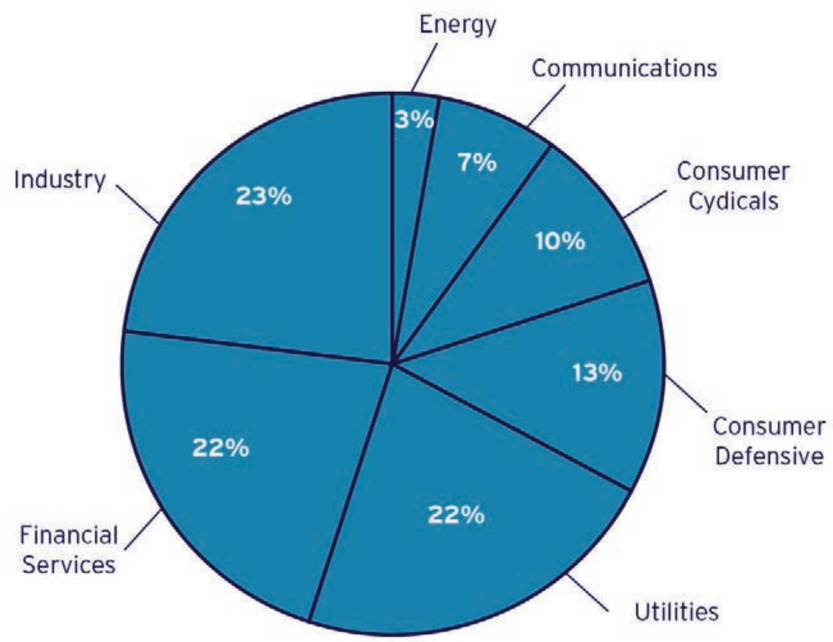




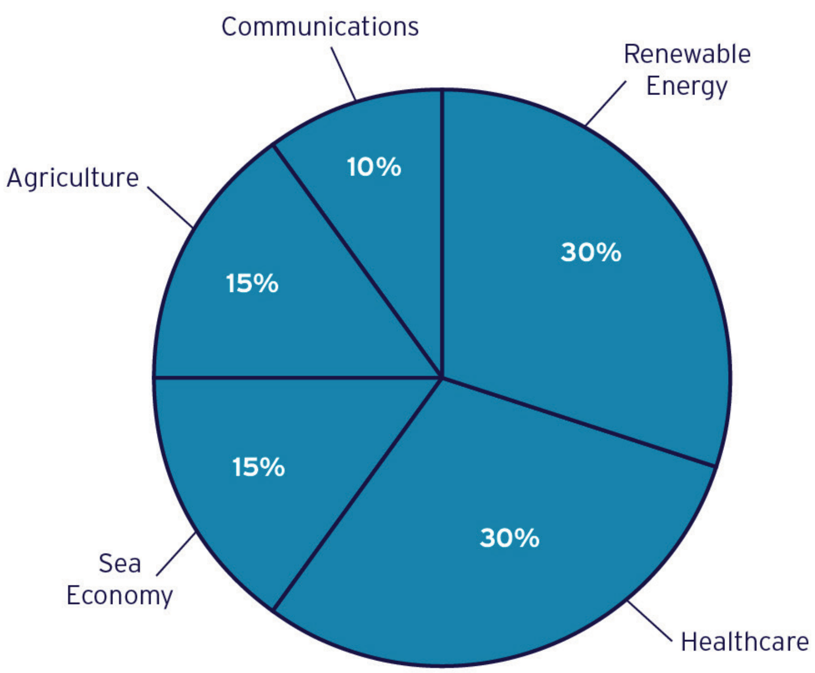
Fundo Santander Sustentável



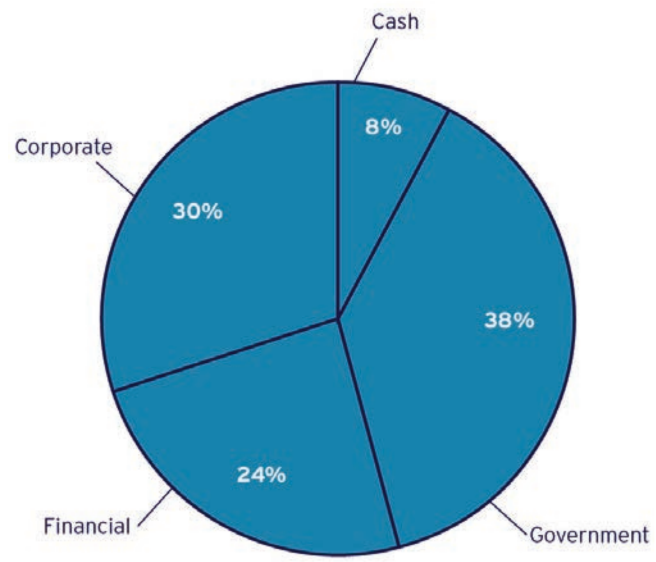
IMGA Iberia Equities ESG



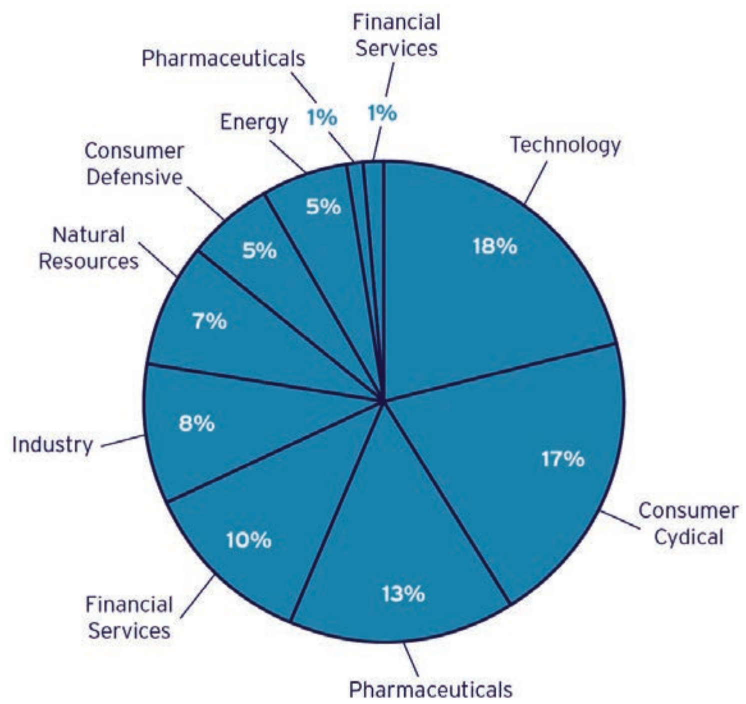
Sustainable Innovation Fund



IMGA Iberia Fixed Income ESG



Fundo NB Momentum ustentável



10.3 Green lending

Table 4 shows a general portrait of the state of green lending in Portugal, providing an overview of the green products available as of February 2021.

Since there is not a specific definition of green lending, the study has considered as green lending products those which:

- provide an interest subsidy, that is generally used when a subsidy would pay the spread between the issuer interest rate and borrower coupon; and
- Have an interest rate reduction, since there is a reduction to what the borrower would have to pay

It was possible to identify 21 different products that have been divided in 5 different categories: Government-backed credit lines, Other Credit Lines, Personal Credit, Mortgages and Auto Loans and Leasing.

The main environmental characteristics of all the green lending are related with lending towards renewable energy and energy efficiency, which is very much linked with the climate mitigation objective from the EU taxonomy.

Table 4: Types of Green Lending existing in Portugal

Managing entity	Product's description	Provider	Environmental characterisation	Environmental themes connected with the product, according to the provider										
				Renewable energy	Low carbon buildings	Listed shares	Transports	Waste Management	Circular Economy	Sustainable Agriculture	Sustainable Fisheries	Sustainable Forest	Ecosystems or Biodiversity	Water
Government-backed credit lines														
Linha de Crýdito para a Descarbonizaû+o e Economia Circular	Credit line for sustainable innovation of businesses	Millennium BCP; Novo Banco; Crýdito Agršcola; Montepio; CGD; Santander Totta; BPI	Climate change mitigation	x		x		x	x					
Programa Casa Eficiente 2020	Credit line for greater energy efficiency of private households	Millennium BCP; Novo Banco; CGD	Climate change mitigation +	x		x		x						x
Linha de Crýdito de Apoio ao Setor da Pesca 2020	Credit Line for greater competitiveness and sustainability of the fishery and aquaculture	Millennium BCP; Montepio; Santander Totta; BPI	Protection of marine resources								x			
Linha de Apoio ô Qualificaû+o da Oferta	Credit line for support and promotion of sustainable innovation in the tourism sector	Millennium BCP; Santander Totta; Novo Banco; BPI; Crýdito Agršcola; Montepio;	Climate change mitigation			x								
Linha de crýdito IFFRU 2020	Person and business credit line for urban rehabilitation	Santander Totta; BPI; Millennium BCP	Climate change mitigation	x		x								
Linha BPI/BEI Eficičncia Energýtica	Business credit line for greater energy efficiency	BPI	Climate change mitigation			x								
Other Credit Lines														
Linha de Crýdito Energias Renovõveis	Business credit for acquisition and installation of renewables and equipment for greater energy efficiency	Crýdito Agršcola	Climate change mitigation	x		x								
Crýdito Pessoal Eficičncia Energýtica	Credit line for greater energy efficiency of private households, including support to the purchase of appliances superior to A+ and others	Millennium BCP	Climate change mitigation			x								

Managing entity	Product's description	Provider	Environmental characterisation	Environmental themes connected with the product, according to the provider										
				Renewable energy	Low carbon buildings	Listed shares	Transports	Waste Management	Circular Economy	Sustainable Agriculture	Sustainable Fisheries	Sustainable Forest	Ecosystems or Biodiversity	Water
Personal Credit														
Crýdito Pessoal para energias renovõveis	Personal credit for acquisition and installation of renewables	BPI	Climate change mitigation	x										
Ecocrýdito	Personal credit for acquisition and installation of renewables	Crýdito Agrŝcola	Climate change mitigation	x		x								
Crýdito Pessoal Casa Eficiente – Energias Renovõveis	Personal credit for acquisition and installation of renewables with mutual guarantee	Millennium BCP	Climate change mitigation	x										
Crýdito Pessoal Energias Renovõveis	Personal credit for acquisition and installation of renewables	Millennium BCP	Climate change mitigation	x										
Crýdito Energias Renovõveis	Personal credit for acquisition and installation of equipment that uses renewable and alternative energies**	Montepio	Climate change mitigation	x										
Crýdito Pessoal para energias renovõveis	Personal credit for acquisition and installation of renewables	Santander Totta	Climate change mitigation	x		x								
Mortgages														
Novo Banco ECO	Mortgage with green bonus	Novo Banco	Climate change mitigation	x		x								
Crýdito Habitaû+o: Crýdito e Casa Sustentõveis	Mortgage with green bonus equivalent***	Montepio	Climate change mitigation	x		x								
Campanha Habitaû+o Green	Mortgage with green bonus***	Santander Totta	Climate change mitigation	x		x								
Auto Loans and Leasing														
CA Leasing Autom√vel	Auto loan for new electric vehicles, with interest rate reduction for vehicles that emit up to 120 g / km CO2	Crýdito Agrŝcola	Climate change mitigation + Pollution and Control	x										
Montepio Mobilidade - Elýtrica Auto	Auto loan for new electric vehicles***	Montepio	Climate change mitigation + Pollution and Control											
Crýdito Auto Ambiente	Auto loan for new electric and hybrid vehicles	CGD	Climate change mitigation + Pollution and Control											
Carro do Mĉs	Leasing with green bonus for electric vehicles**	Millennium BCP	Climate change mitigation + Pollution and Control	x										

**Limited specific car models from BMW
*** time limited campaign

10.4 Deposits

Deposits with ESG characteristics are only supplied to the market by Novo Banco, and these can be seen in Annex 2.

10.5 Insurance

To better understand the state of play of green insurance in Portugal, the team of researchers interviewed a member of the Economic and Financial Advisory Department of the Portuguese insurance association, Associação Portuguesa de Seguradores (APS).

According to this expert in the insurance industry, the sector is giving its first steps in sustainability. Some insurance companies already have general sustainability policies, but few seem to have started to align their investment policies with ESG factors. The same way, there is no evidence that current stress testing cycles are taking into account climate scenarios.

In relation to green insurance products, the expert alerts to the fact that, because there is no clear definition about what a green insurance is, it is difficult to understand what is the current market in Portugal for green insurances. Environmental Responsibility Products exist for many years, but they were created and commercialized with the solely intent to provide protection against environmental damage and imminent threats of damage resulting from the exercise of specific polluting businesses with higher environmental spill over risk, under the Portuguese legislation Diploma of Environmental Responsibility. Moreover, there is a growing offer of insurances for electric and hybrid cars, but without a clear commercial advantage for the client, classifying them, as green insurance seems to be an overstatement. Considering this, it seems safe to say that the penetration of green insurance products in Portugal seems to be low or non-existent.

Nevertheless, according to the expert, Portuguese insurance companies are increasingly aware about the risks and opportunities of climate change for the sector and have a growing will to contribute to the transition to a low carbon and more resilient economy.

Finally, it is worth noting that APS will be soon releasing a report on the state of play of sustainability in the Portuguese insurance sector. According to the expert, although conclusions are preliminary, it seems that insurance companies are already including ESG concerns in their investment policies, especially in themes related with governance and regarding a negative screening ESG investment approach. Moreover, preliminary data shows that the majority of companies expect to release products with ESG characteristics with a period of 12 months or more.

11. General analysis of data collected

The information collected allowed us to conclude that the green finance market in Portugal is still at an early stage, with financial institutions starting to define their ESG/Sustainability investment strategies and to supply the market with some green financial products.

Environmental Risk and Carbon Exposure
From the nine financial institutions analysed (of which the seven banks represent a market share of 95%, calculated considering the banks operating revenue of 2019), 67% have a sustainability or social responsibility policy, but zero organisations incorporates climate financial risk (physical and transition) in their risk analysis. Only two organisations have a sustainable investment policy and zero calculates the scope 3 GHG emissions of their loans. Some of these activities are expected to take place between 2021 and 2023. However, it is possible to infer that the incorporation of "green" element in the risk assessment of investment and loans is still lacking amongst the Portuguese based financial institutions, and that the information about clients' greenhouse gases are still unknown for the banks and investment fund managers.

Evidence indicates that the Portuguese banking system is not prepared for potential carbon stress tests, and that it does not have information about the carbon footprint of their clients. This will be needed in order to respond to the capital requirements regulation (EU) No. 575/2013 (CRR) that includes under article 449a the requirement

to disclose prudential information on environmental, social and governance risks, including transition and physical risk, addressed to large institutions with securities traded on a regulated market of any Member State.

Green lending
Most of the green financial products are related with climate change mitigation, associated with the promotion of renewable energies or energy efficiency. In fact, all the non-governmental-backed loans are aligned with the EU Taxonomy objective of the climate mitigation.

Only the government-backed credit lines go beyond climate mitigation, being aligned with circular economy, protection of marine recourses and sustainable use of water.

This might reflect the need for the public sector to be an active player in sharing the risk with the private banking sector, in order to promote the creation of different environmentally focused credit lines, being properly communicated with the public and companies.

Investment Funds
Again, seven of the nine funds invest in renewable energy companies and four in energy efficiency, which means an alignment with climate mitigation objective of the EU Taxonomy. Only two funds were related with the circular economy objective.

This might reflect a small investment fund market, where funds are looking for technologies with some maturity. Again, this might reflect the need for the public sector to develop blended finance funds, allowing the banking sector to enter other areas of investment with the risk minimized by state guarantees.

12. Green Finance Potential for Portugal

Looking at the potential for green finance in Portugal and taking into account the environmental ambitions for carbon neutrality in 2050, and the implications of that in the business processes and production methods, one could say that withing 10 years all finance in Portugal should be green.

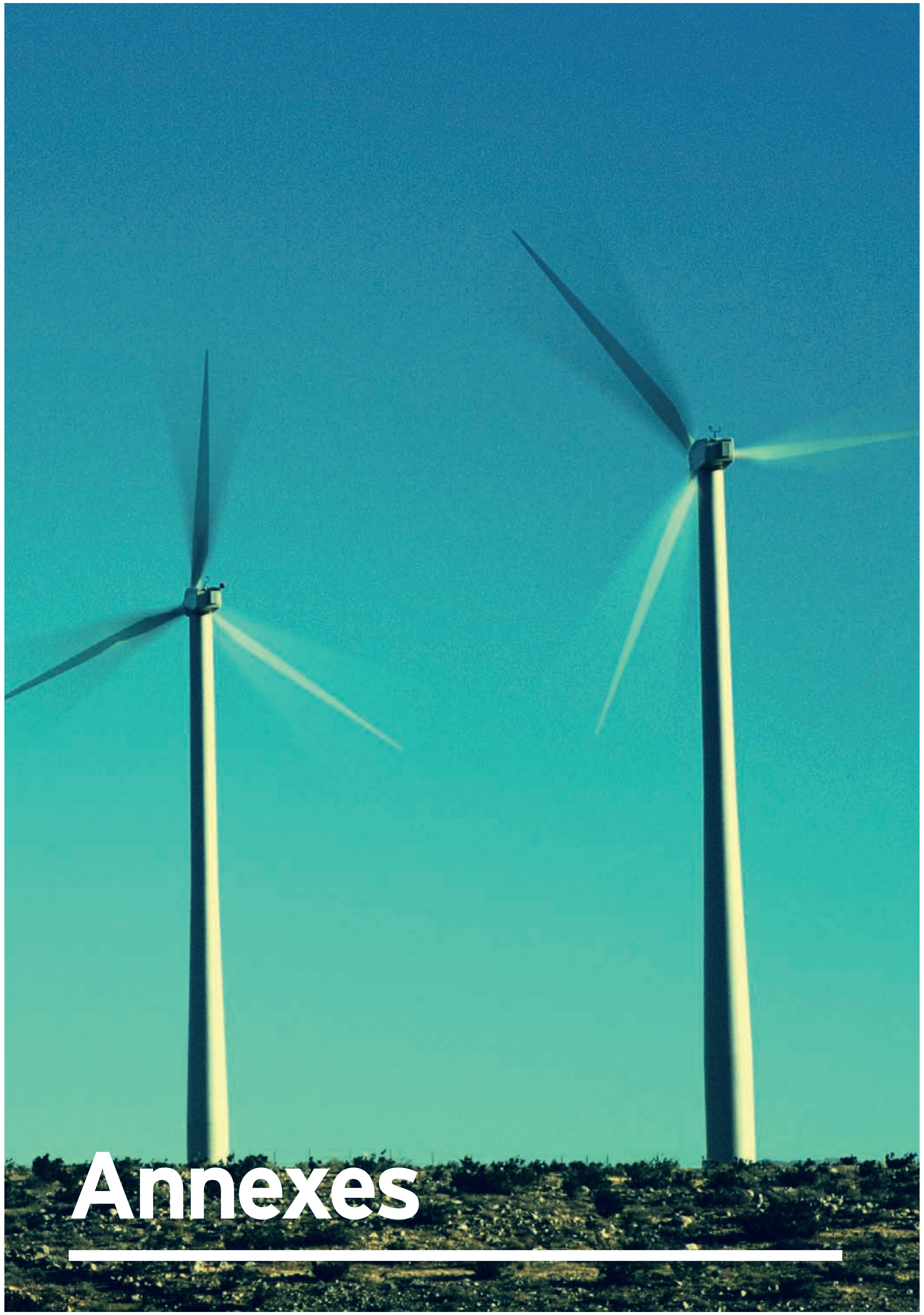
Being Portugal a Member State of the EU, it must follow the regulations and directives that are produced. Since 2018, the European Commission has started an active role in creating the framework and regulatory context to accelerate the inclusion of ESG issues in the financial sector.

The year of 2021 will become a major milestone of this progress. The Renewed Sustainable Finance Strategy for the EU is expected to be published soon, some of the TCFD recommendations are expected to become mandatory under the new version of the EU Directive on Non-Financial Information and several delegated acts will inform the financial market about what is the non-financial information that banks and investment funds must disclose, and how the capital requirements will be associated with the climate and environmental risks.

This will bring great challenges for the Portuguese financial system, but also big opportunities to lend for green activities.

The Banco Português de Fomento could have a major role. Not only in leveraging capital from European funds and distributing them via the national banks to promote a green recovery, but also performing a leading role in creating the knowledge and the tools that are needed in the financial system to accelerate the concrete implementation of ESG issues in lending, fund management, insurance, bond issuance, venture capital an so one.

Portugal is a small country with a small number of financial players, and is one of the countries with better environmental examples related with renewable energy production, electric mobility and ecosystem services and biodiversity. Thus, it would make sense to create a common and practical oriented dialogue between the private and public sector players, in order to eliminate the set of market barriers that are still present in the sustainable and green finance arena in Portugal. This dialogue could also take place with financial institutions from other countries that have worked on this field for more years, so that Portugal could accelerate is green finance market and become a case study for a green, innovative and inclusive economy.



Annexes

Annex 1: Set of CGD investment funds that already obey to the CGD Sustainable Investment Policy

Managing entity	Risco (ISRR)	Known investing sectors	Morningstar Sustainability Rating	ESG index and ratings	Type of fund			ESG investment approach							
					Listed shared	Listed shares	Mixed	Negative	ESG integration	Sustainability themed	Norms-based	Best in Class	Ethical	Stewardship	Impact Investing
Caixa Aûges Lšderes Globais	?	No	-	-	x			x				x		x	
Caixa Aûges EUA	6/7	Yes	-	-	x			x				x		x	
Caixa Aûges Portugal Espanha	6/7	Yes	4 globes	-	x			x				x		x	
Caixa Aûges Oriente	6/7	Yes	4 globes	-	x			x				x		x	
Caixagest Obrigaûges	2/7	No	2 globes	-		x		x				x		x	
Caixagest Obrigaûges Mais	3/7	No	2 globes	-		x		x				x		x	
Caixagest Obrigaûges Longo Prazo	?	Yes	-	-		x		x				x		x	
Multiativo Seleû‡o	Various	Yes	Various	-			x	x				x		x	
Multiativo Wealth	Various	Yes	-	-			x	x				x		x	
Multiativo PPR/OICVM	Various	Yes	Various	-			x	x				x		x	

Annex 2: Structured deposits with ESG characteristics from Novo Banco

Managing entity	Product's name	Time Period (years)	Risk (ISRR)	Maturity Date	Known investing sectors	ESG index	Other Environmental Initiatives	ESG investment approach							
								Negative screening	ESG integration	Sustainability	Norms-based	Best in Class	Ethical	Stewardship	Impact Investing
Novo Banco	NB Sustentabilidade Ôgua 2021	2	1/7	8/01/2021	Yes	-		x		x					
Novo Banco	NB Melhor Satde	2	Climate change mitigation + Circular Economy	29/03/2022	Yes	STOXXÐ Global ESG Impact		x		x		x			
Novo Banco	NB ESG Inovaû‡o Biofarmacčutica	2	1/7	01/06/2022	Yes	STOXXÐ Global ESG Impact		x		x		x			x
Novo Banco	NB Mais Satde	2	1/7	25/07/2022	Yes	STOXXÐ Global ESG Impact		x		x		x			x
Novo Banco	NB ESG Mais Nutriû‡o	2	1/7	02/09/2022	Yes	MSCI World ESG Leaders		x		x		x			x
Novo Banco	NB ESG Dividendo Europeu	1,5	1/7	21/06/2021	Yes	STOXX Global ESG Leaders		x				x			
Novo Banco	NB ESG Dividendo Europeu II	1.5	1/7	29/07/2021	Yes	STOXX Global ESG Leaders		x				x			
Novo Banco	NB ESG Dividendo Americano	2	1/7	02/03/2022	Yes	STOXXÐ USA 500 ESG-X		x				x			
Novo Banco	NB ECO Zero Carbono	1.5	Climate change mitigation	31/08/2021	Yes	STOXXÐ Global ESG Impact	Climate Action 100 +	x		x		x			x
Novo Banco	NB ECO Economia Circular	2	1/7	07/07/2021	Yes	MSCI World ESG Leaders		x		x		x			
Novo Banco	NB ESG Seguranûa Digital	2	1/7	09/08/2021	Yes	STOXXÐ Global ESG Impact		x				x			
Novo Banco	NB ESG Impress‡o Digital	2	1/7	31/03/2021	Yes	MSCI World ESG Leaders		x				x			
Novo Banco	NB Sustentabilidade: Energias Limpas 2021	2	1/7	05/02/2021	Yes	-				x					x
Novo Banco	NB ESG Aûges Europeias	2	1/7	09/04/2021	Yes	STOXX Global ESG Leaders		x				x			
Novo Banco	NB ECO Menos Plõstico	2	1/7	07/05/2021	Yes	-	New Plastics Economy Global Commitment			x					x
Novo Banco	ESG Acûges Americanas	2	1/7	04/06/2021	Yes	STOXX Global ESG Leaders		x				x			
Novo Banco	NB ECO Melhor Ambiente	2	1/7	02/11/2021	Yes	STOXXÐ Global ESG Impact		x		x		x			
Novo Banco	NB ESG Mais Nutriû‡o II	2	1/7	28/09/2022	Yes	MSCI World ESG Leaders		x		x		x			
Novo Banco	NB ESG Infraestruturas	2	1/7	03/02/2023	Yes	STOXXÐ Global ESG Impact		x				x			
Novo Banco	NB Sustentabildade Ôgua 2022	1,5	1/7	31/08/2022	Yes	STOXXÐ Global ESG Impact		x		x		x			x
Novo Banco	NB Sustentabilidade Ôgua 2023	2	1/7	01/02/2023	Yes	MSCI World ESG Leaders		x		x		x			x

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