

**Public Sector Environmental, Social, and Governance (ESG)  
Reporting in Canada**

by

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M.A., University of Toronto, 2015  
B.A., York University, 2012

A Thesis Submitted in Partial Fulfillment of the  
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## Abstract

Reporting on environmental, social, and governance (ESG) factors began as a strategy for companies in the private sector to attract capital and meet investor demand for ESG data. In recent years, it has also been adopted by some governments as they interact with financial markets for their capital needs. Across Canada, several governments have gained awareness of leading ESG practices, frameworks, and standards from international organizations. This thesis explores why, how and the extent to which Canadian governments engage in ESG activities through a comparative content analysis of their ESG reporting. Informed by the literature on policy learning and transfer, the thesis discusses and analyzes the pathways through which ESG reporting guidance is issued, diffused among a wide policy network, and adopted by the public sector. As is shown, some governments are creating unique, jurisdictional frameworks for reporting on their own ESG performance (i.e., Toronto, Alberta, British Columbia). Other governments are integrating some aspect of ESG issues in their financial or investment reporting (i.e., Vancouver, Montreal, Mississauga, Ottawa, Edmonton, Calgary). A couple governments are applying ESG considerations to economic agreements and other instruments (i.e., Northwest Territories, Government of Canada). Overall, governments in Canada are monitoring the development of international ESG reporting standards, along with their stakeholders' expectations regarding these standards, as they work to provide more transparent and higher quality ESG data that is comparable with their peers.

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## Glossary

**Credit Rating:** an assessment of a country's creditworthiness and its capacity to honor payments to lenders on time.

**Double Materiality:** as defined by the European Sustainability Reporting Standards (ESRS), is a concept that provides insight that a company should report on issues that influence its value (financial materiality) and issues that affect the economy, environment, and people (impact materiality), (ESRS, 2023).

**Environmental, social and governance (ESG):** is an umbrella term that refers to a set of factors that investors incorporate in the investment process to understand the financial risks and opportunities related to their investment decisions.

**ESG Score:** an evaluation by a third party of an organization, fund, or security's performance with respect to ESG issues. It is usually based on a weighted average of scores assigned to each element under E, S, and G.

**Fiduciary Duty:** the relationship in which one party is responsible for looking after the best interests of another party.

**Framework:** provides guiding principles on how information is structured and collected and allows flexibility in setting direction without prescribing a specific methodology for reporting.

**Greenwashing:** when organizations engage in false reporting regarding their ethical and sustainability performance.

**Impact Materiality:** information on the reporting organization's impact on the economy, environment, and people for the benefit of multiple stakeholders.

**Financial Materiality:** information on economic value creation at the level of the reporting organization for the benefit of investors (e.g., shareholders).

**Responsible Investing (RI):** involves considering environmental, social and governance (ESG) issues when making investment decisions and influencing companies or assets (known as stewardship).

**Standard:** provides specific requirements and detailed structures, including precise metrics and criteria for reporting.

**Sustainable Finance:** as defined by the Sustainable Finance Action Council (SFAC), refers to the capital flows (as reflected in lending and investment), risk management activities (such as insurance and risk assessment), and financial processes (including disclosures, valuations, and

oversight) that assimilate environmental and social factors as a means of promoting sustainable economic growth and the long-term stability of the financial system, (SFAC, 2019).

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# Chapter 1: Introduction

**Environmental, social and governance (ESG)** is an umbrella term that refers to a set of factors that investors incorporate in the investment process to understand the financial risks and opportunities related to their investment decisions (Organization for Economic Cooperation and Development [OECD], 2021). Rooted in philosophies concerned with **responsible investing**, the concept of ESG changed over the years into a distinct form of investing that considers the long-term value of financial activities (Boffo & Patalano, 2020). Since the early 2000s, investors have been accounting for ESG issues in their corporate debt and equity portfolios, putting pressure on firms to report on a range of non-financial data to assess their ESG performance (Boffo & Patalano, 2020).

Following the mainstreaming of ESG investing in the private sector, some national and subnational governments have begun communicating to stakeholders the sustainability of their own financial activities (OECD, 2021). For example, with the impacts of climate change and the COVID-19 pandemic, there is now awareness in credit markets of how ESG factors can affect debt valuations (Moody's 2020). The result is an evolving ESG landscape with credit rating agencies flagging for investors the long-term financial health of national and subnational government debt securities (Moody's 2020).

Several governments in Canada are starting to incorporate ESG factors in policies, regulations, and investment strategies, and are communicating these actions through various means of reporting. This thesis provides a comprehensive analysis of why and how different levels of governments and public sector institutions in Canada are communicating their ESG performance. In doing so it fills the current gap in knowledge of how policy learning and transfer of ESG reporting is occurring in Canada's public sector. This chapter will provide a brief overview of the problem statement, my position as the author of this thesis, the research questions and objective of the thesis, and an outline of the structure of the thesis.

## 1.1 Problem Statement

This thesis was written in the context of the recent COVID-19 pandemic which negatively impacted economies around the world and offered a moment to reflect on the world's unsustainable course under the present economic system (Boitreaud et al., 2020). While development under the neoliberal capitalist model has provided relative stability to some of the world's population, many people have also suffered from unprecedented poverty and inequality (United Nations [UN], 2019). This imbalance has prompted discussions on how nations can address systemic inequality across the world (UN, 2019).

Climate change is also at the top of many government agendas (OECD, 2021). Countries that are dependent on fossil fuel and natural resources extraction for economic growth have negatively altered the climate, leading to the loss of diverse ecosystems (UN 2019). In Canada, the increasing frequency of heatwaves, droughts, storms, wildfires, and floods, have raised declarations of a "Climate Emergency" in over 644 municipalities (Hardcastle, 2022; Canadian

Interagency Forest Fire Centre, 2023). These types of climate extremes can impact a country's fiscal growth path and present risks to the economy. For example, the risks presented by a changing climate may affect the value of national debt (Bank of England, 2020). As such, an increasing number of investors are interested in developing more systematic approaches to make financial activities more sustainable (Puaschunder, 2019). In tandem, the pace of ESG reporting of financial activities as a form of **sustainable finance**, continues to accelerate (Gratcheva et al. 2021).

With the awareness that the focus of the economy should not only be on growth but also on the *quality* of economic growth, there is increasing pressure on the financial sector to move toward a more sustainable economic model (Puaschunder, 2019). Organizations such as the UN are producing guidance for the private and public sector to encourage the consideration of ESG factors in financial activities (Boffo & Patalan, 2020). Within this context, greater integration between a country's sustainability policies and its public funding strategies is becoming essential. While there is growing scholarly interest in this area, there is little understanding as to why and how governments are operationalising ESG reporting, including in Canada's public sector. This thesis thus fills a critical gap in the literature of an emerging phenomenon.

## 1.2 Positionality Statement

As a policy analyst at Environment and Climate Change Canada, I wrote a report comparing ESG principles, frameworks, and standards to those being applied to the Federal Sustainable Development Strategy (FSDS). The report sought to compare the operationalization of ESG and FSDS reporting, and to provide advice on how to strengthen FSDS reporting based on what was learned. Following this, I documented ESG-related financial activities carried out by Environment Canada to support a Memorandum to Cabinet with the aim of improving the financial transparency and reporting of the Government of Canada's public accounts. This work was initiated in light of a recommendation made in 2022 regarding ESG reporting:

That, by 31 January 2024, the Treasury Board of Canada Secretariat provide the House of Commons Standing Committee on Public Accounts with a report explaining the measures taken to improve accounting practices requiring federal organizations to present detailed reports about their environmental, social, and governance as well as sustainable development criteria. (House of Commons, 2022, p.3).

Subsequently, I decided to focus the topic of my thesis on how ESG reporting is being operationalised at all levels of government to help provide timely insight into this topic.

Thus, I am approaching this thesis from the perspective of a graduate student who is interested in sustainability issues and has worked in this subject area. As a woman and visible minority, I am aware that many of the sustainability issues we face this century, especially climate change, will disproportionately affect vulnerable populations including racial minorities and women – such as myself (McNeill, Binns and Singh 2018). Through my work I have come to realize that governments and corporations have pivotal roles to play in helping vulnerable populations deal with the catastrophic consequences of the climate crisis. I hope governing

institutions will be transparent about their role in the climate crisis and will remain accountable to the people they serve.

### 1.3 Project Objective and Research Questions

This thesis provides an understanding of why and how governments in Canada report on their own ESG activities, spanning Federal, Provincial/Territorial (PT), and Municipal jurisdictions. It also provides insight on how ESG policy learning and transfer occurs throughout Canada's public sector. It focuses on the following research questions:

- Why are governments in Canada reporting on their own financial activities using ESG frameworks and standards?
- How do governments in Canada operationalize ESG reporting?
- What are the parallels and differences between ESG reporting at different levels of government in Canada?
- What are some of the challenges and opportunities posed by operationalizing ESG reporting for governments in Canada?

### 1.4 Structure of Thesis

This thesis adopts the following structure in order to answer the research questions:

1. An introduction covering the scope of the thesis.
2. Background information on the conceptualization and development of ESG reporting, with a focus on the Canadian landscape.
3. A literature review on ESG reporting by governments at national and sub-national levels. This provides insight on why and how governments are operationalizing ESG reporting.
4. The methodology sets a foundation to explore the research questions further by incorporating a conceptual framework to reveal the ongoing processes and larger network of ESG policy learning and transfer in Canada's public sector.
5. The results from the content analysis are grouped by document type and briefly summarized.
6. A comparative content analysis and discussion tie together the research findings and the insights from the literature review to provide a comprehensive understanding of ESG policy learning and transfer as relates to governments in Canada.
7. A summary of thematic findings captures the main points elucidated in the comparative content analysis.

## Chapter 2 Background: The Rise of ESG Reporting

This section provides an overview of the rise of ESG reporting in both the private and public sector. Knowledge of the history and principles that gave rise to ESG reporting in the private sector are important in order to understand its adoption in the public sector. Also included is key background information on ESG concepts and processes. Lastly, there is an overview of the Canadian ESG reporting landscape. Key terms are highlighted and defined in the glossary.

### 2.1 The Rise of Responsible Investing

In the early 1900s, changing economic theories and notions of business ethics brought increasing attention to the effects of corporate social responsibility on financial performance (Zhang et al., 2008). Following the aftermath of World War II, the Cold War, and the Civil Rights Movement, the idea of **Responsible Investing (RI)** evolved into a philosophy promoting endeavors such as environmental stewardship and human rights concurrently with profit maximization (Puaschunder, 2019). This type of investing attracted the attention of investors and other stakeholders because it had the potential to produce financial returns, align with societal values, and contribute to sustainability objectives.

During the 1990s, significant events influenced the international perspective towards social responsibility and the approach to RI (Sandberg, 2011). Relevant events include: the creation of the European Environment Agency in 1990; the launch of the world's first socially responsible index in 1990; the UN summit on the Environment and Development held in Rio de Janeiro which led to the Rio Declaration on Environment and Development; the adoption of Agenda 21; the UN Framework Convention on Climate Change in 1992; and the adoption of the Kyoto Protocol in 1997 (Sandberg, 2011). The formation of these organizations and the adoption of these agreements signified international efforts to set better standards regarding climate-related issues and corporate behavior (Union of Concerned Scientists, 2017).

The term 'ESG' first appeared around 2004, when the UN's Secretary General invited a joint initiative of financial institutions to develop guidelines on how to integrate ESG issues in asset management and securities brokerage services (Boffo and Patalano, 2020). Shortly after, the UN Environmental Program Finance Initiative (UNEP-FI)'s Freshfields Report discussed the importance of incorporating ESG standards into regulatory conceptions of **fiduciary duty** (UNEP FI, 2005). A follow-up report was published termed Fiduciary II, which provided a legal roadmap and concrete steps for organizations to operationalize their commitment to RI (UNEP FI, 2009). This report was endorsed by a group of 20 financial institutions, including BNP Paribas, HSBC, Morgan Stanley, Allianz SE and Aviva PLC, and Henderson Global Investors (UNEP FI, 2009). A more recent version of this report was published in 2019 by the UNEP FI and the PRI which upholds that fiduciary duty requires considering ESG issues in investment and decision-making processes (UNEP FI, 2019).

Previous to this, the UN also backed the six Principles for Responsible Investment (PRI) which offer possible actions for considering ESG issues in investment practice (UN PRI, 2006). The PRI places an emphasis on investment analysis and corporate disclosure, therefore highlighting the need for better ESG data and metrics from corporate issuers of debt and equity

instruments that make up investors' portfolios. Additionally, to help encourage a culture of integrity in the corporate world, the Ten Principles of the UN Global Compact was published with a focus on four areas: human rights, labour, environment, and anti-corruption (UN Global Compact, 2020). The Ten Principles are clearly aligned with the UN's Sustainable Development Goals (SDGs), forming the basis for any company aiming to advance the SDGs (UN Global Compact, 2020). Though aspiring to the principles remains largely voluntary, some jurisdictions are starting to mandate ESG-related disclosures (Impact Investing Hub, 2023).

## 2.2 ESG Definitions, Frameworks and Standards

The E, S, and G in ESG identify the various factors that are **materially** relevant to an organization. In financial markets, it is now recognised that ESG-related impacts on a company can be financially material, in the sense that they can affect enterprise value and by extension investor returns, and thus require disclosure (London School of Economics, 2021; Täger, 2021). Examples of ESG factors for reporting in the private sector include: resource management and pollution prevention under the E factor; diversity and human rights under the S factor; and board accountability and shareholder rights under the G factor.

All ESG reporting practices are based on still-evolving **frameworks** and **standards** (International Monetary Fund [IMF], 2019). One of the most widely used standards for sustainability reporting, which is relevant to ESG reporting, was developed by the Global Reporting Initiative (GRI). The GRI standards enable any organization (public or private) to understand, measure, and report on their impacts on the economy, environment, and people in a comparable and credible way (Impact Investing Hub, 2023).

The sustainability reporting landscape has recently seen the emergence of high-quality standards with the adoption of the Corporate Sustainability Reporting Directive (CSRD) at the European level and, internationally, with the publication of the International Sustainability Standards Board (ISSB) exposure drafts (Impact Investing Hub, 2023). The ISSB standards build on previously existing investor-focused sustainability disclosure standards and frameworks, including those of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TFCD), the Climate Disclosure Standards Board (CDSB) – consolidated into the International Financial Reporting Standards Foundation (IFRS) in January 2022, the Sustainability Accounting Standards Board (SASB) and Integrated Reporting – which merged into the Value Reporting Foundation (VRF) that later consolidated with IFRS in August 2022; and the World Economic Forum's metrics.

The adoption of the CSRD strengthens the requirements of sustainability information disclosure. To help stakeholders implement the CSRD's requirements, the EU Commission mandated the European Financial Reporting Advisory Group (EFRAG), a private association, to develop a detailed and mandatory set of disclosure standards, also known as the European Sustainability Reporting Standards (ESRS), (Impact Investing Hub, 2023). Also relevant is guidance being issued to governments to report on ESG factors. The World Bank has issued guidance for investors and national governments through their work to provide ESG ratings for sovereigns. At the municipal level, guidance through the International Organization for Standardization (ISO) is being used as a key reference for sustainability reporting and data collection. As a whole,

guidance is helping organizations to produce more comparable and reliable sustainability information.

ESG frameworks and standards vary in their approach to **financial materiality**. Some frameworks and standards use a financial materiality lens (e.g., ISSB standards – which build on prior frameworks like SASB and TCFD), while others (e.g., GRI and ESRS standards) adopt a **double materiality** approach which includes both financial materiality and impact materiality (Impact Investing Hub, 2023). The concept of double materiality takes into account that the impacts of an organization on a broader set of stakeholders (not only investors) become financially material over time. Understanding these impacts provides a complete picture of the material impacts that affect an organization. These impacts should be reported, even if an organization or its investors do not consider them financially material.

Investors typically rely on information provided by independent agencies to assess issuers and the quality of their ESG performance. There are many independent agencies, including KLD, Sustainalytics, Moody's ESG (previously Vigeo-Eiris), S&P Global (previously RobecoSAM), Refinitiv (previously Asset4), and MSCI, and Fitch, that provide **ESG scores** for publicly listed organizations and some sovereign issuers. Each has its own aggregation methodology and covers different sets of ESG factors, which often results in inconsistent ESG ratings (Berg et al., 2022). Some agencies incorporate ESG issues into **credit ratings**, though this is a recent practice.

### 2.3 Why Stakeholders Are Increasingly Interested in ESG

The primary audience for ESG reporting information includes investors and other providers of financial capital who want to better understand the opportunities and risks of investing in a company. Other stakeholders include customers, employees, NGOs, non-profits, governments, and those in the general public who seek to understand the extent to which organizations are acting in ways that align with their values.

In the private sector, companies take various approaches to incorporating ESG factors in financial activities, as demonstrated in Table 1 below (Responsible Investment Association [RIA], 2020). Some of the ways organizations may communicate ESG information is through stand-alone ESG reports, annual reports, sustainability reports, and financial reports, available on their website (Schiehll and Kolahgar, 2021).

There has been a rapid rise in RI both in Canada and internationally (RIA, 2020). In November 2020, the CEOs of Canada's eight leading pension plan investment managers called on all companies to measure and disclose their performance on industry relevant ESG factors (Harvard Law School Forum on Corporate Governance, 2020). The Canadian RI Trends Report shows that assets in Canada being managed using one or more RI strategies remained steady at \$3 trillion in 2021 (Responsible Investment Association, 2022). This is adding pressure on firms to report on their ESG data to meet investor demand for this information.

Table 1 Private sector strategies to incorporate ESG factors into the selection and management of investments.

	RI Strategy	Description
Impact	Impact Investing	Impact investing refers to investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return.
	Shareholder Engagement	Engagement refers to the use of shareholder power to improve corporate ESG performance. For example, an investor may vote proxies, file shareholder resolutions, and engage in dialogue with companies to improve their greenhouse gas emissions or diversity in leadership.
Inclusionary	Thematic ESG Investing	Investments targeted at specific ESG themes such as clean technology, women in leadership, water solutions, etc. An ESG theme defines the investable universe.
	Positive Screening	Positive screening refers to the systematic inclusion of companies based on positive ESG performance relative to peers in various sectors. Also known as best in class.
	ESG Integration	ESG integration refers to the process of systematically embedding ESG factors into traditional financial analysis. The portfolio manager integrates ESG data with traditional financial metrics when assessing a company's value. This is the most prominent RI strategy in Canada.
Exclusionary	Negative Screening	Negative screening refers to the systematic exclusion of specific companies, industries or sectors from the investable universe based on personal values, ethical considerations, or negative ESG characteristics.
	Norms-Based Screening	Norms-based screening refers to exclusionary screening based on compliance with international norms and standards such as the UN Guiding Principles for Business and Human Rights or the OECD Guidelines for Multinational Enterprises.

Source: Responsible Investment Association, 2020. <https://www.riacanada.ca/content/uploads/2021/01/2020-RI-Trends-Report-FINAL-Jan-21-UPDATED.pdf>

## 2.4 The Canadian ESG Reporting Landscape

Over the last three decades, ESG reporting has evolved in Canada's private sector from the environmental disclosures by chemical and resource companies in the late 1980s to the reporting of ESG issues by many companies listed on the Toronto Stock Exchange (TSX), (Cho et al. 2020). Certain trade associations such as the Mining Association of Canada require the use of reporting standards and have introduced initiatives that promote standardized disclosure on environmental issues (Cho et al. 2020). Professional accountants and external auditors also contribute to effective practices of ESG reporting (Cho et al. 2020).

In its role as a regulator of ESG activities in both the public and private sectors, the Government of Canada (Canada), intends to implement mandatory reporting of climate-related financial risks more broadly across the Canadian economy (Department of Finance Canada, 2022). In 2023, the Office of the Superintendent of Financial Institutions (OSFI), updated their guidance for Domestic Systemically Important Banks and Internationally Active Insurance Groups headquartered in Canada to manage climate-related risks in 2024 (OSFI, 2023). For other Federally Regulated Financial Institutions that are in scope, the guidance will become effective in 2025 (OSFI, 2023). Alongside this, Canada is requiring disclosure of ESG considerations for federally regulated pension plans and Crown corporations which included requiring Canada's large Crown corporations to disclose climate-related financial risks in 2022, and smaller Crown corporations in 2024 (Department of Finance Canada, 2022).

Canada is also supporting work by IFRS to align standards and harmonize the sustainability reporting landscape in the private sector (Department of Finance Canada, 2022). To support IFRS, a second office for the ISSB is being established in Montreal (Department of Finance Canada, 2022). The ISSB developed its standards over the past two years and released

them in June 2023 as two sets: IFRS S1 (general sustainability disclosures) and IFRS S2 (climate-related disclosures). More than 130 countries are expected to adopt these standards. Canada has yet to adopt these standards. For adoption to take place, the Canadian Sustainability Standard Board (CSSB) would need to be involved, and following this, the federal government would determine whether to make this into law.

In May 2021, Canada launched the Sustainable Finance Action Council (SFAC) to help lead the country's financial sector towards integrating sustainable finance into standard industry practice. The council's focus is on enhancing climate-related financial disclosures mainly in Canada's private sector, with some use cases in the public sector, aligned with the recommendations of the TFCO (SFAC, 2021). The council also intends to prioritize gender and diversity reporting (SFAC, 2021).

## **2.12 The Difference Between ESG and Sustainability Reporting**

With Canada's adoption of UN Agenda 2030 for Sustainable Development, there has been confusion regarding the linkage between ESG reporting and the achievement of broader sustainability objectives (e.g., the SDGs). While both ESG and sustainability reporting share a vision for sustainable development, ESG reporting concentrates more heavily on financial value and sustainability disclosure by determining material topics (OECD, 2020).

As mentioned earlier, by implementing the PRI and Global Compact's Ten Principles, organizations can avoid undermining the achievement of the SDGs, and also support attaining them. This is different from the broad goals of sustainability that might use the SDGs as a foundation for radical, transformative change in society. However, some overlap remains because organizations are increasingly reporting on ESG issues due to requirements in federal policies intended to achieve sustainability outcomes. In addition, organizations may choose to integrate double materiality in their analysis, to link ESG reporting to their sustainability strategies and contribution to or alignment with the SDGs.

## Chapter 3: Literature Review

According to Snyder (2019) in *Literature Review as a Research Methodology: An overview and guidelines*, there are three approaches to literature reviews: systematic, semi-systematic and integrative. For the purposes of this thesis, a semi-systematic approach is the most appropriate type of methodology to use. This is because a semi-systematic literature review offers a comprehensive overview of a specific field of research over time (Wong et al, 2013, p. 13). As such, using the literature, this section identifies themes, issues, and opportunities and challenges regarding public sector ESG activities and reporting.

Regarding identification of documents, the timeframe for selecting data was 2003 until June 2023. The longer timeframe was needed to conduct a thorough scan of documents to be included as background context in chapter 2. The geographical scope for selecting data includes ESG financial activities and reporting by governments around the world, with particular attention paid to Canada. The wide geographical scope is necessary because governments have only recently started using ESG factors, and there is little academic literature on the topic.

This section uses the following databases: JSTOR, EBSCO, ProQuest, Canadian Public Policy Collection, United Nations Official Document System, Canada Commons, House of Commons Parliamentary Papers, SAGE, ResearchGate, LEGISinfo, OECD iLibrary, UN SDG – Global Database, World Bank Open Data, Academic Search Complete, Taylor & Francis Ebooks, Business Source Complete, Canadian Public Policy Collection, and EconLit.

Several types of literature are consulted including academic literature, grey literature, and global assessments and reports by international organizations and think-tanks. Search topics include “ESG” (written as an acronym and in full), inserted alongside the following: national/subnational, cities/municipal, provincial/territorial, credit ratings, bonds, national wealth funds, government, public sector, Canada, responsible investing, sustainable finance, and related criteria.

### 3.1 Key Concepts, Themes, and Identification of Leading Public Sector Practices

The literature review explores the research questions of *why* and *how* governments around the world are engaging in ESG financial activities. Several themes emerge on leading public sector ESG practices. Opportunities and challenges facing governments in this area are also explored. Focus is given to Canada’s public sector wherever sufficient information has been found. The literature review also identifies a research gap in existing scholarly and professional literature, that there is little information on how governments in Canada operationalize ESG reporting.

### 3.2 Why Governments are Engaging in ESG Reporting

Globally, both national and sub-national governments have started communicating their ESG performance. In 2019, the OECD surveyed 19 government debt offices, of which 11 indicated that they were taking into account ESG-related factors by communicating their sustainability strategies to investors (OECD, 2022). Even so, other than initiatives such as the World Bank ESG data portal for national issuers, structured ESG data is almost non-existent at the country level

(OECD, 2022). Furthermore, at subnational levels, despite progress by some, issuers do not disclose data consistently (OECD, 2022).

Though there is little information on why governments have started to issue ESG reports, some academics are starting to write on this topic. The Canada West Foundation (CWF) was the successful recipient of an open request for proposals (RFP) by the federal agency, Canada Energy Regulator (CER), to conduct research on the role of governments and other public sector entities in the ESG landscape. In 2022, the CWF published a report that illustrated how at national and subnational levels, governments are starting to engage in ESG activities for three reasons: (1) ESG risk factors intersect with government priorities, (2) ESG drives investment and economic growth, and (3) ESG can impact a jurisdiction's credit ratings (Canada West Foundation, 2022). As will be shown, governments are starting to communicate their performance using designated ESG reports, or integrating ESG analysis into annual reports, operational accounting activities, public accounts, and other means.

### 3.2.1 ESG Risk Factors Intersects with Government Priorities

One reason why governments may engage in ESG reporting is because it intersects with their commitments to ensure the protection of the environment, society and institutional structures. Governments use regulations, legislation, and policies, to fulfil obligations in areas ranging from water and air quality to human health and safety, many of which fall under the scope of ESG reporting. The World Bank maintains an ESG data portal for policy makers, financial market participants and academic researchers to explore how countries compare to each other regarding their ESG performance. The portal lists ESG factors applicable to country-level reporting, all of which intersect with government interests (see Table 1 below). When governments enact legislation or regulations that govern these areas, there are subsequent effects on other parts of the economy, for example, on business performance, and how companies operate (Broadstock et al., 2021).

An article by Gunwoo & Lee (2022) looks at how ESG has been promoted not only by the private sector but also by local governments in Korea, ever since the national Korean government declared the Green New Deal policy and carbon neutrality (Gunwoo & Lee, 2022). As part of this policy, green infrastructure (a system that helps solve environmental and urban challenges by building with natural and human-made elements), continues to be discussed as a sustainable development plan (Gunwoo & Lee, 2022). On the one hand, unless viewed through the lens of double materiality, the end goal of ESG reporting is not sustainable development itself. On the other hand, ESG reporting can provide transparency, soundness, and value realization through communication of sustainability plans or policies (Gunwoo & Lee, 2022).

Other governments are following suit by integrating ESG principles in decision making processes and investment practices. For example, in recent years, many countries have been facing investment gaps in their need to realize the SDGs. According to some estimates, the current SDG financing gap is \$3.7 trillion (OECD, 2021). Government-owned investments, including public pension funds or sovereign wealth funds (SWFs), play an important role in this area. Although these funds have a primary fiduciary duty to maximize returns, analysis has expanded to include ESG considerations (Wurster and Schlosser, 2021). With a large amount of

Table 2: Examples of ESG factors applicable to national or sub-national governments

ESG category	Risk factors
<b>Environmental</b>	<ul style="list-style-type: none"> <li>• Climate mitigation/adaptation strategy               <ul style="list-style-type: none"> <li>» Exposure to and preparedness for natural disasters (physical risk)</li> <li>» Climate transition (dependence on fossil fuels)</li> </ul> </li> <li>• Energy efficiency and security</li> <li>• Air pollution</li> <li>• Carbon footprint</li> <li>• Water pollution and management</li> <li>• Food security</li> <li>• Protection of natural resources (biodiversity, deforestation)</li> <li>• Waste generation and recycling</li> </ul>
<b>Social</b>	<ul style="list-style-type: none"> <li>• Demographics (e.g., working-age population)</li> <li>• Social and income inequality</li> <li>• Human rights</li> <li>• Freedom of speech and opinion</li> <li>• Health care</li> <li>• Education and outcomes (e.g., access to schooling)</li> <li>• Human capital development and the labor market</li> <li>• Gender equality</li> <li>• Discrimination</li> </ul>
<b>Governance</b>	<ul style="list-style-type: none"> <li>• Government effectiveness and transparency</li> <li>• Rule of law and corruption</li> <li>• Regulatory quality</li> <li>• Macroeconomic policy stability</li> <li>• Ease of doing business</li> <li>• Trade openness</li> <li>• Enforcement of legal rights</li> <li>• Peace and stability</li> <li>• Judicial independence and effectiveness</li> <li>• Regulatory framework</li> <li>• Contract enforcement process</li> </ul>

Source: Cabral R., Hussain, F., Jordan M., & Lee A.G. (2020). *Engaging with Investors on Environmental, Social, and Governance (ESG) Issues: A World Bank Guide for Sovereign Debt Managers*. The World Bank Treasury. <https://thedocs.worldbank.org/en/doc/375981604591250621-0340022020/original/WorldBankESGGuide2020FINAL.11.5.2020.pdf>

capital and a long investment horizon, SWFs can be used to achieve government objectives (Wurster and Schlosser, 2021).

### 3.2.2 ESG Drives Investment and Economic Growth

Governments may use ESG reporting and its ties to sustainability to attract investment in their jurisdiction. There are numerous studies which highlight how country-level sustainable performance, especially in regard to governance factors, influences business and economic growth (El Ghouli et al., 2017). Liu et al., (2022), illustrate how a country's sustainability drives can boost its attractiveness to foreign investors. Compared to local investments, foreign investments face higher costs because there is a lack of information on them in financial markets, making these investments more vulnerable to weak governance factors (Liu et al., 2022). Accounting for ESG risk factors helps determine economic stability and security of foreign investments and returns on such investments (Liu et al., 2022).

Similarly, Wang et al., (2020), document a significant impact of ESG improvement at the country level. Their analysis shows that the positive influence of country ESG performance on economic growth is most pronounced in high-income countries that have improved energy efficiency (stimulating capital accumulation and investment), and weaker in countries with economies that are reliant on natural resources (Wang et al., 2020). These findings provide

policy implications for promoting sustainable economic growth (Wang et al., 2022), especially for resource-based economies like Canada's that depend on oil and gas (PRI, 2023).

Additionally, a study by Lau et al. (2022), examines the relationship between national ESG and corporate investment in the UK, from a sustainability perspective. The study unveils that national ESG performance provides a picture of a country's economic stability and prospects, which benefits financial markets and promotes investment in business. In another article, Coqueret et al (2022) look at international market exposure to national ESG and document a strong association between GDP growth and ESG scores at the country level. Evidently, strong ESG performance at the country level may be good for the economy.

### 3.2.3 ESG Affects Credit Ratings

A third reason governments have started reporting on ESG issues is because it impacts a jurisdiction's creditworthiness (Boitreaud, 2020). A national credit rating is valuable in predicting economic risks and determining countries' access to international financial markets (Edouard et al., 2022). Recently, ESG factors have been considered as new drivers for creditworthiness assessment (Gratcheva et al., 2021). For example, Moody's, S&P, Fitch and MCSI have begun to apply ESG factors in their borrowing risk assessments of governments (Canada West Foundation, 2022). As such, ESG assessments may influence government borrowing costs and ability to secure financing. These assessments are based on a jurisdiction's exposure to and management of debt risks, which can impact long-term economic performance.

There are many ways ESG risk factors can impact national credit risk. Anand et al (2023) detail how environmental risk is increasingly posing financial risk through three pathways: "(1) transition risk which refers to the necessary actions required to meet a country's climate commitments, (2) physical risk that materializes through physical damage due to climate-related events, and (3) resilience, or the country's preparedness to cope with climate issues," (p.1). The recent rise of climate-related events and their risks present a serious challenge. In this context, Anand et al., argue that engaging in ESG national credit risk is therefore increasingly important (2023).

National and sub-national credit are also relevant in light of how some jurisdictions have begun to issue thematic bonds such as sustainability bonds or green bonds used to fund projects with positive ESG impacts (Capelle-Blancard et al., 2019; PRI, 2023). As of 2021, 22 countries have issued sustainability bonds, with an additional 13 intending to follow (Canada West Foundation, 2022). These bonds have lower rates because they are intended to better the environment with the caveat that the jurisdiction has credibility that these goals will be realized. In alignment with International Capital Market Association (ICMA) principles, typically, governments have to publish a sustainable bond framework referring to the Bonds Principles which specify 1) the use of proceeds, 2) process for project evaluation and selection; 3) management of proceeds; 4) reporting (ICMA, 2022).

Several studies have examined how jurisdictions are able to leverage strong ESG performance to raise funds through financial instruments (such as bonds) for sustainability related initiatives. Paula and Pouget (2018) show that a country with good social and governance performance signals capacity to pay back its debt obligations. Ciocchini et al. (2003) concentrate on governance issues and find that countries with less corruption pay a smaller risk premium in

bond issuance. Emery et al., (2021) report that countries' credit ratings are important because they set a benchmark for debt instruments (i.e., bonds), which also serve as a benchmark for subnational governments, and facilitates capital allocations in these jurisdictions. In short, this is all part of the trend of ESG factors influencing jurisdictions' credit ratings, borrowing costs and ability to secure financing.

### 3.3 How Governments are Reporting on ESG: Roles and Responsibilities

ESG reporting by governments is being operationalized by those with some level of ESG expertise, who have political support to carry out reporting activities. For the most part, it is those working in the area of national or subnational debt and finance who play a key role in engaging with investors and reporting on ESG credentials (Boitreaud et al. 2020). In Canada, this may be the Department of Finance at the national level, or the equivalent at PT and municipal levels. The academic literature more generally refers to this office as the Debt Management Office (DMO). The DMO's primary role is to ensure that the government's financing needs are met at the lowest possible cost and risk (Boitreaud et al. 2020; Cabral et al., 2020). Those in the DMO generally have the financial expertise to communicate ESG information to investors; increase the visibility of government initiatives; and implement ESG policies that are linked to the capital markets (See Table 2 below for examples of investor approaches and corresponding government issuer engagement strategies).

*Table 3 Examples of Investor approaches and corresponding government issuer engagement strategies*

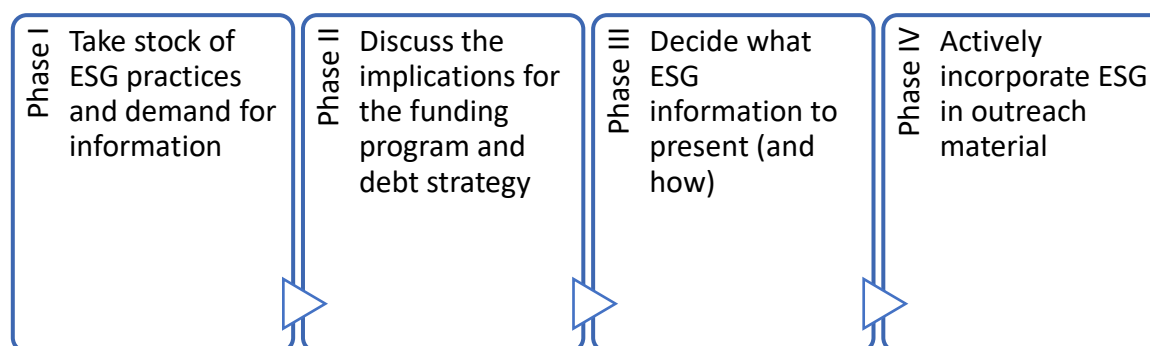
Investor approach	Objective	Implication	Government issuer engagement strategy
Negative Screening	Complying with national legislation or international sanctions recognized by investor's government	Exclusion lists (typically at the asset or sector level)	Ensure that investors have the right data and information. Develop capacity to disclose and report on internationally agreed commitments and relevant national laws and strategies, targets, track record, and actual performance in meeting targets
Positive screening (best in class)	Tilt portfolio toward a set of desirable asset characteristics	Enhanced portfolio exposure to desired ESG characteristics	Develop capacity to disclose and report on progress of key sustainability policies that are the basis for "best-in-class" categorization.
Sustainable Thematic Investing	Construct theme-based portfolio focused on sectors deemed to offer superior long-term growth while contributing to sustainable development	Greater exposure to identified sectors deemed more attractive and with sustainability relevance due to their long-term perspective	Enhance and expand capacity to report on and explain linkages between funding strategies and sustainable development policy performance. Develop capacity to issue labelled thematic bonds (green, social, sustainable, etc.). Build capacity to clearly articulate the use of proceeds for projects or initiatives financed annually, be able and willing to report on key performance indicators for the specific social and environmental impact achieved. Ensure continuous and greater integration between the country's sustainable development policies/ framework and debt management strategies.
Impact Investing	Invest with the intention of generating social and/or environmental impact alongside financial return	Impact through portfolio construction and management, with measurement, reporting, and verification key activities	

ESG Integration	Systematically and explicitly consider material ESG issues in the investment analysis process; remain neutral concerning ESG impact objectives	Risk-adjusted return of assets, with portfolios incorporating relevant ESG risks and opportunities	Seek greater visibility and transparency on the issuer's sustainable development metrics and policy framework. Understand leading ESG practices and investor expectations. Be ready to engage on key ESG issues that investors find material and develop a strategy for mitigating perceived ESG risks.
Responsible Ownership	In the context of sovereign bond investments, engage with issuers as part of their stewardship policies	More open investor communication with portfolio companies or issuers, as applicable, around ESG/sustainable objectives	Develop a formal and structured sustainable investor engagement strategy to enhance overall investor outreach efforts. Install capacity within the DMO to engage with investors on the country's sustainable development policies and framework

Source: Cabral R., Hussain, F., Jordan M., & Lee A.G. (2020). Engaging with Investors on Environmental, Social, and Governance (ESG) Issues: A World Bank Guide for Sovereign Debt Managers. The World Bank Treasury. <https://thedocs.worldbank.org/en/doc/375981604591250621-0340022020/original/WorldBankESGGuide2020FINAL.11.5.2020.pdf>

The DMO can act as a contact for rating agencies, and domestic and international investors in government issued debt securities, sending questions and data to relevant government departments. The DMO would also communicate ESG information by incorporating it in investor presentations and critical outreach materials such as websites, annual debt reports, and newsletters. Figure 1 provides an example of the four phases that government issuers go through in the ESG reporting process, as demonstrated by the World Bank in its Toolkit for the Sovereign Debt Manager (Cabral R. et al., 2020).

Figure 1 The four phases that government issuers go through in the ESG reporting process



Source: Source: Cabral R., Hussain, F., Jordan M., & Lee A.G. (2020). Engaging with Investors on Environmental, Social, and Governance (ESG) Issues: A World Bank Guide for Sovereign Debt Managers. The World Bank Treasury. <https://thedocs.worldbank.org/en/doc/375981604591250621-0340022020/original/WorldBankESGGuide2020FINAL.11.5.2020.pdf>

As is being explained, there are many ways for governments to communicate ESG performance. One case can be drawn from Uruguay's DMO which has been proactive on ESG issues with investors (Knight and Northfield 2020). Their work includes collecting data and information on ESG indicators that provide the investor community with information on sustainability issues and impact investing (Knight and Northfield 2020). Given ESG investor interest in Uruguay's debt, there are material benefits for the country to undertake this work.

Another example comes from Finland, a leader in sustainability and number three on the Environmental Performance Index (Finland State Treasury, 2022). Finland's State Treasury publishes an annual review of its ESG performance on its official government website, titled *Finland and ESG*, to serve investors by providing information on the country's sustainability targets and outcomes. Finland's reporting focuses on its ESG-related activities and its funding strategy which is on the liquidity of the benchmark bond curve (Finland State Treasury, 2022). By transparently providing information to investors, Finland's State Treasury can holistically show the reforms it is committed to and address ESG risks in areas such as employment, public services and in research and development funding.

As mentioned earlier, failure to communicate ESG performance could lead to investment losses and damage to a jurisdiction's reputation. Thus, it is best practice that the DMO, jointly with other departments with a stake in sustainability issues, highlights its commitment to a more sustainable future by communicating ESG performance, as does Finland. Another way to communicate ESG performance would be through a government's public accounts, by transparently reporting on budget expenditures and outcomes, for stakeholders to assess the impact of their investments (Boitreaud et al. 2020). In general, it is evident that governments can communicate ESG performance through annual reports, in their public accounts, and through other means.

### 3.3.1 Operationalizing ESG Reporting: Challenges

While there is plenty of guidance for companies in the private sector on how to operationalize ESG reporting, there is a little information available for public sector entities. The main reason is that reporting on ESG factors is a relatively new activity for governments. The literature points to some of the main challenges within the ESG reporting landscape for governments, four of which will be discussed here.

First, governments might report on a broad range of ESG factors from human rights to labour to education, which are tasked to different ministries. Coordination between various ministries could be challenging and if not carried out well, could lead to poor and fragmented reporting. Second, ESG reporting requires political support. Parliamentary conflicts or party politics might derail the development of ESG initiatives. For example, in some US states, politicians and state officials have pushed back against aspects of ESG incorporation in finance by opposing requirements for ESG disclosures by issuers and forcing state entities to divest from investment firms that are perceived to be boycotting the fossil fuel industry (Utah State Treasurer, 2022; PRI, 2023). Without full political backing, it is unlikely that ESG reporting can advance in the public sector. Third, some jurisdictions may not have access to the resources necessary to facilitate reporting on ESG factors effectively. For example, smaller issuers such as municipal governments may find it harder to devote resources towards adequate disclosure (PRI, 2023). Thus, guidance documents and resources need to be available to issuers of all sizes and at all levels of government.

Fourth, and a major challenge at present, is that there are issues with ESG reporting itself. Similar to the private sector, there is a lack of standardized ESG reporting guidance. It is difficult to create usable and relevant standards because material factors differ across sectors and jurisdictions (Anand et al, 2023). In addition, investors rely on opinions from second or third

parties (i.e., rating agencies), but there is no common regulatory framework that guides these parties when making assessments (Anand et al, 2023; Berg et al., 2022). Rating agencies are operating unregulated, resulting in methodologies that lack transparency (Lupo-Pasini, 2022). For example, rating agencies weigh certain ESG factors differently, which leads to different ESG outcomes and inequalities in their distribution (Boffo & Patalano, 2020). This divergence creates uncertainty in any conclusions that can be drawn from ESG ratings and thus presents a challenge for issuers and their stakeholders (Berg et al., 2022). The lack of regulation in this area has resulted in ESG information that is diverse, granular, incomplete, and hence not comparable (Federico Lupo-Pasini, 2022). If ESG reporting does not communicate accurate and easily verifiable data, it can result in surface-level marketing (Lupo-Pasini, 2022). As is the case in the private sector, the lack of accounting standards for sustainability reporting in the public sector could give rise to greenwashing (Lupo-Pasini, 2022). The current scenario calls for better reporting guidance and better regulations for how ESG data is evaluated by issuers, their stakeholders, and credit agencies.

### 3.3.2 ESG Reporting: Opportunities

As is evident from the literature, there are many challenges with ESG reporting at present, but there are also opportunities for successful implementation as the landscape evolves. The coverage and the offering of new products by ESG data and service providers is broadening. Organizations such as the World Bank and the International Organization for Standardization (ISO) are creating relevant guidance documents for governments to report on ESG issues. The ISO for example, has published an ESG indicator framework that supports city leaders to address risk and enhance their ESG profile once equipped with high quality data that is generated with globally standardized key performance indicators (ISO, 2023).

The literature emphasises that ESG reporting requires strong and consistent standards to be materially relevant. Through available guidance, several actions and priority areas have been identified that can strengthen ESG reporting initiatives by governments. Several key actions that governments can undertake to support strong and consistent ESG reporting include: (a) align performance data with ESG reporting frameworks, (b) benchmark and improve the jurisdiction's own ESG performance, (c) build a foundation of ESG policy and regulations, (d) better organize data for ESG-interested audiences, and (e) broadcast ESG data and performance. The content analysis and discussion consider whether governments in Canada apply these practices when reporting on their ESG activities.

### 3.4 Conclusion

The literature review has provided insight into *why* and *how* governments around the world are engaging in ESG financial activities. A significant gap in the review is that there is little information on ESG reporting on Canada's public sector, specifically concerning governments. The thesis will seek to provide greater insight into this research gap by analyzing why and how governments in Canada operationalize ESG reporting, and some of the pathways of policy learning and transfer that enable this evolving landscape.

## Chapter 4: Methodology

This thesis examines the ESG reporting landscape in Canada to elucidate why and how governments report on ESG factors in their financial activities, as well as the pathways of policy learning and transfer from which they result. It does so through a comparative content analysis of documents published by governments and other public sector and non-profit entities that communicate ESG issues. As will be discussed, several themes identified in the literature review inform the structure of the content analysis.

### 4.1 Method: Comparative Content Analysis

As a methodological approach, a content analysis entails the review of pre-existing data or documents. In this case, the documents selected focused on government reporting of ESG issues. Documents in the comparative sample were identified through key word searches on official government websites using the term: “ESG” (as an acronym and written out in full), and by searching for ESG-related terms such as “sustainable finance,” “responsible investing,” “green procurement,” “social/green bonds,” and “wealth funds.” To narrow the focus, only documents that make direct reference to ESG issues were included in the content analysis. No restrictions were placed on the sampling date range because government reporting on ESG issues is a new practice and there is little documentation available. Governments at all levels were included in the analysis: federal, PT, and municipal. For municipal governments, only the 10 most populated cities in Canada were included in the search for content because there were no immediate findings of smaller cities participating in detailed reporting on some aspect of ESG issues. Taking into consideration the timeline for data collection, the content analysis only includes what has been published up until June 2023.

As mentioned in the literature review, there is evidence of some governments and other public sector entities already communicating their own ESG performance through several document types, for example, dedicated ESG reports, investment reports, financial reports, and other means (CWF, 2022). For this reason, the content analysis includes a variety of document types that were later organized into categories to ensure comparability. Based on this search, five categories of documents were identified:

1. government documents dedicated to reporting on ESG performance,
2. government financial documents that report on some aspect of ESG issues (i.e., climate-related financial disclosures),
3. government investment documents that report on some aspect of ESG issues
4. other government documents that include consideration of ESG issues, (i.e., agreements, directives, green bonds),
5. supplementary documents published by public sector and non-profit entities that illustrate the network of ESG policy learning and transfer as it relates to governments in Canada.

The documents that form the basis of the content analysis have been organized according to these categories into five tables (see tables 3-7 below).

Table 4 Government documents dedicated to reporting on ESG performance

Government	Document Title	Page Length	Section for Analysis	Year Published
<b>Municipal Government</b>				
<b>City of Toronto</b>	City of Toronto Environmental, Social & Governance (ESG) Performance Report	89	Entire document	2023
<b>Provincial/Territorial Government</b>				
<b>Government of British Columbia</b>	BC Environmental, Social and Governance (ESG) Summary Report	35	Entire document	2022
<b>Government of Alberta</b>	Environmental Social Governance Secretariat Overview	N/A (web-based)	Multiple webpages	2023

Table 5 Government financial documents that report on some aspect of ESG issues

Government	Document Title	Page Length	Section for Analysis	Year Published
<b>Municipal Government</b>				
<b>City of Calgary</b>	2022 City of Calgary Annual Financial Report	118	Climate-related financial disclosure, p. 85-101	2023
<b>City of Edmonton</b>	2022 Annual Financial Report	128	Task Force for Climate-related Financial Disclosures, p. 98-117	2023
<b>City of Ottawa</b>	2022 Annual Financial Report	122	Task Force for Climate-related Financial Disclosures (Unaudited), p. 96-112	2023
<b>City of Mississauga</b>	Financial and Sustainability Report	168	Sustainability Section p. 138-156	2022
<b>City of Montreal</b>	Annual Financial Report: Fiscal Year Ended December 31, 2022	134	Unaudited climate-related financial disclosure, p. 85-108	2023
	Annual Financial Report: Fiscal Year Ended December 31, 2021	132	Unaudited Financial Information, Climate Changes, and Risks and Opportunities, p. 79-104 (Contains information on the inclusion of ESG information)	2022
<b>City of Toronto<sup>1</sup></b>	2021 Annual Financial Report	63	Climate-related financial disclosures, p.100-108	2022
<b>City of Vancouver</b>	Statement of Financial Information	140	Task force for Climate-related Financial Disclosures p. 50-63	2023
	City of Vancouver 2022 Budget and Five-Year Financial Plan	502	Major priority plans for 2022 and 2023-2026, p. 190-193	2021

<sup>1</sup> The information in Toronto's Annual Report is captured in its dedicated ESG Report.

			(Contains information on the inclusion of ESG information)	
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Table 6 Government investment documents that report on some aspect of ESG issues

Government	Document Title	Page Length	Section for Analysis	Year Published
<b>Municipal Government</b>				
City of Calgary	2022 Annual Investment Report	35	Environmental, Social, and Governance (ESG) Considerations, p. 26-28	2023
City of Edmonton	2022 Investment Committee Report	16	Environmental, Social and Governance (ESG), p. 12	2023
City of Toronto <sup>2</sup>	City of Toronto Investment Report for the Year 2022	15	Reporting on Environmental, Social, and Governance (ESG) Performance, p. 15	2023

Table 7 Other government documents that include consideration of ESG issues

Government	Document Title	Page Length	Section for Analysis	Year Published
<b>Provincial/Territorial Government</b>				
Government of the Northwest Territories	2022 Socio-Economic Agreement Report: For Mines Operating in the Northwest Territories	64	Entire report, but specific mention to ESG is on p.5	2023
<b>Federal Government</b>				
Government of Canada	Technical Backgrounder: Canada Growth Fund	12	Entire report, but specific mention to ESG is on pages 10-12	2022
Government of Canada	Critical minerals in Canada: International partnerships	N/A (web-based)	Section on International Partnerships	2023
Government of Canada	Directive on the Management of Procurement	n/a (web based)	subsections 4.1.2.14, 4.2.3.3, 4.2.7.4, 4.3.9, 4.17.1 and 4.17.4 Annex D.6	2023
Government of Canada	Government of Canada Green Bond Allocation Report 2021-22	30	Entire report used as example of how green bonds/green bond frameworks take into account ESG issues	2021-22
	Government of Canada - Green Bond Framework	N/A (web-based)	Reference to ESG found on webpage	2022

Table 8 Supplementary documents published by public sector and non-profit entities that illustrate the network of ESG policy learning and transfer as it relates to governments in Canada

Public Sector/Non-Profit Organization	Document Title	Page Length	Year Published
<b>Indigenous Jurisdiction</b>			
First Nations Major Project Coalition	ESG-Indigenous Case Study: Cascade Power Plant Project Alberta, Canada	15	2021

<sup>2</sup>The information in Toronto's Investment Report is captured in its dedicated ESG Report.

Municipal Jurisdiction			
Municipal Finance Authority of British Columbia	2022 Annual Report	51	2023
Vancouver Economic Commission	Vancouver's Global Competitiveness for ESG Investment	N/A (web-based)	2023
Provincial/Territorial Jurisdiction			
Investment Management Corporation of Ontario	2021 ESG Report: Adapting to a Changing World	52	2022
Federal Jurisdiction			
Sustainable Finance Action Council	Taxonomy Roadmap Report: Mobilizing Finance for Sustainable Growth by Defining Green and Transition Investments	79	2022
The Canada Energy Regulator	ESG Executive Summary	N/A (Web-based)	2023
Statistics Canada	Environmental, Social and Governance Project and Indigenous Peoples Engagement Report	19	2022
Standards Council of Canada (Crown Corporation)	Beyond Disclosure: Driving Performance & Trust in ESG; Development of a National Standards Strategy	44	2023

#### 4.1.1 Criteria for Documents in Tables 3-5

In order to ensure validity, Scott (1990) recommends that documents be assessed against four criteria: (1) *authenticity* – the extent to which a document is genuine; (2) *credibility* – the extent to which a document is free from errors; (3) *representativeness* – how typical a document is; and (4) *meaning* – the significance of a document's content (see John Scott, A Matter of Record, 1990). To meet the first criteria (authenticity), Kridel (2015) says the content analysis should provide information on the authors, publication dates, and the location of the documents that were reviewed. All of these documents were published by governments by June 2023, and are available to the public and are accessible online (see the bibliography for full citations).

To meet the second criteria (credibility), the content analysis investigates whether governments are using reliable frameworks and standards to credibly report on ESG issues. To do this, Chapter 5 includes information on the frameworks and standards that governments use in reporting, and Chapter 6 analyzes whether these are credible and follow international guidance and leading practices for ESG reporting. For example, the City of Toronto uses well-known international frameworks to report on its ESG performance while the provinces of Alberta and BC have created their own frameworks through less transparent processes. A caveat to add here is that, as mentioned in the literature review, the present challenges of ESG reporting (e.g., the lack of standardized guidance resulting in poor data quality), makes it difficult to determine if these government documents are free from errors. Even though credibility is difficult to

determine, examining the frameworks and standards used provides valuable insight on the strengths and weaknesses of these governments' methodologies and approaches to reporting.

To address the third criteria (representativeness), chapter 6 offers a detailed comparison and analysis of the reports published by governments across multiple jurisdictions. To assess the fourth criteria (meaning), supplementary information on public sector and non-profit reporting, as well as government engagement mechanisms with stakeholders, is included in order to capture the diverse ways in which ESG reporting practices are being learned and transferred.

#### **4.1.2 Criteria for Documents in Tables 6**

Through the search for government documents, additional documents of relevance were identified and placed in Table 6. These documents are not comparable to those in Tables 3-5, but they do illustrate additional ESG-related activities being undertaken by governments in Canada. For example, governments in Canada are starting to consider ESG issues in areas such as procurement, economic agreements relating to trade or mining, and in the reporting of proceeds from green bonds. These documents provide a snapshot of emerging ESG-related activities in Canada's public sector.

#### **4.1.3 Criteria for Documents in Tables 7**

Supplementary documents of relevance were identified in Table 7. While these documents do not meet the criteria for comparability listed above, they are relevant and inform the discussion on policy learning and transfer in the public sector. The documents in Table 7 include work being done by public sector and non-profit entities to further ESG reporting initiatives, as well as contextual and background pieces relevant to ESG guidance being issued by and for the public sector, as well as the private sector.

Also of relevance in Table 7 are non-profits that represent the interests of governments. For example, the Municipal Finance Authority of BC which engages in financing and investment activities for local governments. In addition, some non-profits represent those who may be underrepresented by governments in Canada. For example, Indigenous People have historically been underrepresented by formal governing processes. Through the efforts of organizations such as the First Nations Major Project Coalition (FNMPC), Indigenous People too have entered the ESG reporting landscape and are promoting the adoption of ESGI (I for Indigenous) frameworks. For this reason, supplementary information is included in the content analysis to capture other efforts that influence policy learning and transfer in the public sector space.

#### **4.1.4 Data Collection: Content Analysis**

The themes identified in the literature review set some of the parameters for conducting research and extracting key information from the documents. Additional themes were added after a deep reading of the documents. These themes were revised through what was an iterative process. Starting out, the key themes included: the purpose of the report, the financial scope, select ESG factors, the use of international and domestic frameworks/standards, data collection methods, performance evaluation (using indicators and targets), and benchmarking. It was later understood that ESG reporting may/may not disclose data collection methods, thresholds, benchmarking, or performance measures, and thus these categories were in some cases revised or discarded.

Thematic analysis is a versatile approach and an ideal method for conducting research because “it is not a theoretically driven approach, and it does not prescribe epistemological or ontological frameworks” (Morgan, 2022, p. 73). In addition, thematic analysis gives researchers the flexibility to select a research design that suits their interests and areas of expertise (Braun & Clarke, 2006). The result is a content analysis that offers a comprehensive comparison of the similarities and differences of ESG reporting by entities at different levels of government in Canada. By using the conceptual framework of policy learning and transfer, a picture is provided of the financial instruments being used, the policy tools and regulations in place, as well as reporting mechanisms where they exist.

## 4.2 Conceptual framework: Policy Learning and Transfer

Chapters 6-7 apply a conceptual framework highlighting policy learning and transfer to draw lessons and create a picture of the evolving ESG reporting landscape. Policy learning and transfer analysis is a theory that seeks to make sense of the process(es) in which knowledge about institutions, policies, or services at one sector or level of governance is used in the development of institutions, policies or delivery systems at another sector or level of governance (Evans, 2017). As a descriptive theory of policy development, it helps provide an understanding of how decision-makers gain knowledge, as well as insight into the whole process of policymaking from awareness to impact.

There are different forms of policy transfer, such as diffusion which focuses on the process of spread or adoption of a policy (Majone, 1991); emulation and harmonization where knowledge of policy innovation is accepted and borrowed from other entities (Bennett, 1991); band-wagoning, when governments introduce institutional or policy changes due to a fear of falling behind their peers (Ikenberry, 1990); and lesson-drawing, which involves looking at the circumstances surrounding the learning of lessons from other sources, the extent to which they are adopted, and the impact they have on the policy environment (Rose, 1993). This thesis uses a policy learning and transfer framework to understand how ESG guidance is dispersed by international organizations and adapted first by the private sector and then governments, and the lessons that can be drawn from these impacts.

Policy transfer can be carried out through different processes. For example, voluntary uptake of activities or lesson-drawing is an action-oriented approach to dealing with a public policy problem (e.g., how ESG activities may push governments to invest in more sustainable ways). To facilitate policy change, governments might engage in:

1. copying by adopting a policy, program, or institution without modification,

2. emulating by accepting that a policy, program, or institution in another country or region provides the best standard for designing a policy, program, or institution domestically,
3. hybridization by combining elements of programs found in several settings to develop a policy that is beneficial to the needs of the recipient,
4. inspiration, where an idea inspires new thinking about a policy problem and helps to facilitate policy change (Morgan, 2022).

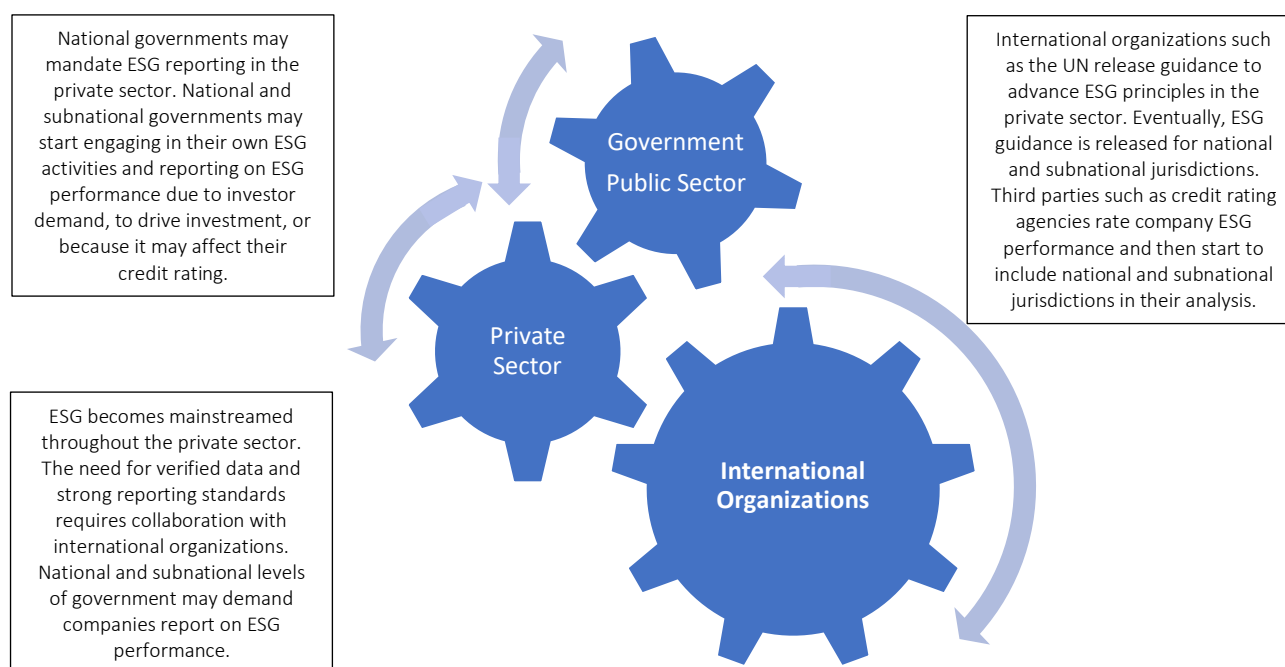
If policy transfer is found to have occurred, one might then determine the “degree of transfer - copying, emulation, hybridization, or inspiration” (Evans, 2017, p. 41). Researchers using this framework are therefore interested in decision-making processes, the key actors involved in policymaking; how policy is implemented, and the causes of policy failure (Evans, 2017). Insights from this type of research can help improve the capacity of public administrators to develop and implement policy.

Many past studies have emphasized the role of policy transfer networks as key instruments of policy learning (Mokhtar, 2001; Ladi, 2002; Peters & Zittoun, 2016; Evans, 2017). Information on a complex policy transfer network and its key actors can provide a framework for understanding how different government and non-government actors interact and engineer policy change (Evans, 2017). For example, it is already evident from chapters 2-3, that the ESG policy transfer network involves:

1. international, non-state actors such as the UN that publishes principles for responsible investing,
2. international non-state actors working to align ESG frameworks and standards to harmonize the sustainability reporting landscape (i.e., IRFS, ISSB, TCFD, SASB),
3. international third parties such as agencies that provide issuers with credit ratings and verifiers that provide risk evaluation, data verification, and report assurance,
4. companies in the private sector that are issuing ESG reports,
5. national and subnational governments that may have an interest in regulating ESG reporting in the private sector or seek to report on their own ESG activities (see Figure 2 below for an example of how this policy network might look).

Policy transfer networks are important because they shape the nature of policy outcomes (Evans, 2017). In the policy network illustrated above, international organizations play a key role in facilitating policy learning by imparting ESG guidance, because this is an area where state actors lack expertise. Depending on contextual factors such as political backing, government regulations or mandates, and investor demand, private sector entities may engage in ESG reporting, and those in the public sector might follow. This conceptual framework can enhance insight into how international and domestic engagement and collaboration are influencing decision making and institutionalized practices at different levels of government. Furthermore, documents from the content analysis provide evidence of the methods through which policies and ideas are being circulated within and between different levels of government. For example, many governments are sharing ESG knowledge through stakeholder consultations, roundtable

Figure 2 Example of ESG Policy Transfer Network



Documentation of these activities through official communication channels provide evidence of policy learning and transfer among governments.

### 4.3 Strengths and Limitations to this Approach

There are strengths and limitations to how a content analysis can be used to understand policy transfer. A content analysis as relates to policy transfer will only illuminate the formal mechanisms of learning through reports, guidance, and other documented processes. One limitation of working with government documents is that the content analysis lacks primary sources that can be used for data triangulation. The content analysis uses formal government documents published for stakeholders such as investors or the public. These documents are intended to impart on the audience a positive narrative and impression of a respective government's work. For example, in order to reduce the likelihood of reputational risk, a government might highlight to investors its progress on certain milestones that have been achieved, while omitting information on those which have failed. The government might also only publish content aligning with party values, policies, services, or mandates. As such, to present a better account of ESG performance, government documents could fail to consider certain biases (Flick, 2018). Conducting research with government documents as the sole source of data therefore raises questions about biased selectivity (Bowen, 2009). These documents could be biased and as raised in the literature review, authors may misconstrue or misinterpret data (Lupo-Pasini, 2022).

However, one way to pinpoint issues and address misinformation in government documents, is to confirm whether governments are following leading practices for ESG reporting, as identified in the literature review (Kridel, 2015). For example, as mentioned earlier, governments should be using ESG frameworks and standards that hold them and the data they release to a certain level of validity, accuracy, and reliability. Governments with data that cannot be verified are identified and analysed through chapters 5-7. In addition, documents are assessed for completeness, to make clear if governments are being selective with the ESG information they provide. For example, if a government document makes a claim that it is acting ethically by highlighting the opportunities of an investment and not the risks (for example investments in the oil or gas sector), then the contradictions are noted. This is important because some governments may only provide access to selective information that fails to paint a complete picture of their ESG disclosures.

Moreover, the limitations associated with conducting research solely using government documents does not mean that this method is a less worthy approach to research. If the purpose of ESG reporting carried out by governments is to provide stakeholders with reliable information on their financial activities, then a careful reading should lead to conclusive remarks on whether these reports meet this objective. Furthermore, stakeholders interested in a government's ESG performance are not going to have the time or resources to seek out interviews and first-hand accounts from government officials who are reporting on ESG factors. For example, oftentimes credit rating agencies assign jurisdictions at the national and subnational level a credit rating on an unsolicited basis (Morgan Stanley Capital International [MSCI], 2020). It can thus be assumed that stakeholders may read ESG reports that are issued by governments, to make informed opinions and decisions relating to these jurisdictions, on an unsolicited basis. This is similar to ESG reporting in the private sector where until recently, investors tended to rely on self-reported ESG information by companies (even in the absence of common standards).

Using government documents as a form of data also raises fewer ethical concerns than using other qualitative methods (Merriam & Tisdell, 2016). Public records are available for anyone to examine and are often anonymous. Authors of government documents are aware that anyone may read their content. This awareness usually reduces the ethical concerns associated with using public documents. In addition to the advantages previously mentioned, conducting a content analysis allows researchers to have access to data that would otherwise take enormous effort and time to collect (Merriam & Tisdell, 2016).

While a content analysis can be used to understand one aspect of policy learning and transfer, other studies with alternate methods could be used to complement the findings in this thesis. A deeper understanding of policy learning and transfer may involve understanding more quasi formal and informal networks of learning that can only be demonstrated through observation, for example, by observing the interactions of decision makers and stakeholders in an organization, or by interviewing government staff working in a DMO. Interviews may shed light on how policy development is shaped by informal interactions and social, political, or organizational processes and pressures. For example, an interview with a government analyst tasked with preparing an ESG report could provide evidence of whether this work is being advanced due to investor demand, or to align with other government commitments and priorities. At the same time, interviews might be difficult to schedule with government staff because many internal government processes are confidential and discussing them informally

would require certain permissions or else could lead to organizational risks. Another way to understand policy transfer would be to document how a policy changes over time. However, communicating ESG performance is a new occurrence in the public sector, and as of yet, there are no long-term studies of these developments.

## Chapter 5: Findings

This chapter presents the findings from the content analysis of government documents, as well as supplementary documents of relevance to the emerging ESG reporting landscape in Canada’s public sector. The supplementary documents help provide a more fulsome understanding of the policy learning and transfer pathways discussed in chapters 6 and 7. Findings are listed by category, in the following order:

1. government documents dedicated to reporting on ESG performance,
2. government financial documents that report on some aspect of ESG issues (i.e., climate-related financial disclosures),
3. government investment documents that report on some aspect of ESG issues
4. other government documents that include consideration of ESG issues, (i.e., agreements, directives, green bonds),
5. supplementary documents published by public sector and non-profit entities that illustrate the network of ESG policy learning and transfer as it relates to governments in Canada.

For categories 1-3, summary tables are included to highlight important themes taken from the documents, such as: document type, target stakeholders or audience, financial scope, select ESG factors discussed in the report, and ESG frameworks and standards referred to in the document.

The tables are intended to provide greater clarity for readers, for example, under “document type” it is made apparent that some governments publish dedicated ESG reports, while others communicate ESG activities in their financial reports. Another distinction the summary tables make is whether a document incorporates frameworks and standards that are used to report on some aspect of the three pillars of ESG – environment, social, and governance. If the documents did not communicate information on the relevant themes in the summary table, then correspondingly that data is listed as N/A (not applicable). To provide an unbiased review of these documents, the findings are presented in an objective manner, with all analysis and discussion of policy learning and transfer reserved for chapters 6 and 7.

### 5.1 Government Documents Dedicated to Reporting on ESG Performance

#### 5.1.1 City of Toronto<sup>3</sup>: An Integrated Approach to ESG Reporting

The City of Toronto (Toronto) published its *Environmental, Social & Governance (ESG) Performance Report* in 2023 for the 2021 reporting year. Toronto’s ESG reporting strategy is part of the mandate of City Council. Toronto has published three ESG reports annually since 2021. Toronto takes an integrated reporting approach, which means practices such as RI are incorporated across the government. The structure of Toronto’s report was developed with several regulations, standards, methodologies, and frameworks serving as a reference based on

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<sup>3</sup> Toronto’s Annual Report and Investment Report also contain relevant ESG information, which is captured in its dedicated ESG Report. Relevant information from the annual report and investment report are thus included here.

their relevance and applicability (see Table 9 below). Though a new initiative, TCFD climate-related disclosures are included in a section of Toronto's *Annual Report*.

Table 9 highlights the financial scope of Toronto's investment portfolio. Toronto has investments in both equities and fixed income. Proxy voting is used as a tool for equity investment managers to communicate messages to the boards and management. Toronto's fixed income investment managers use engagement before choosing other strategies such as divestment. Given resource limitations, Toronto's report groups ESG factors with certain themes prioritized based on their relative materiality. Toronto is working with stakeholders to include a materiality map in future ESG reports. In addition, Toronto is completing work to implement a reporting process that involves an ESG data service provider to track and monitor the ESG performance of its long-term investment portfolio using a select number of indicators.

Toronto is dedicated to annual data reporting through the Toronto-based World Council on City Data (WCCD), and the ISO 37120 international standard for KPIs on city services and quality of life and associated outcomes. Toronto's ESG performance is reviewed by the global credit rating agency Moody's, which assesses the City's ESG Credit Impact Score as neutral-to-low (CIS-2). This score reflects Toronto's neutral-to-low exposure to the "E" and "S" risks of ESG, along with strong performance relating to the "G" factor. For instance, Moody's indicated that even though Toronto owns significant physical property and land, there are no material risks to its infrastructure or economy from "E" concerns. However, because of high housing costs, the city is having to allocate costs toward increasing the supply of affordable housing. Moody's also indicated that provincial and federal support during the COVID-19 pandemic helped Toronto address the "S" risk (public health). Moody's comments allow Toronto to forecast financial trends, potential risks, and any credit implications.

Table 9 City of Toronto: Environmental, Social & Governance (ESG) Performance Report<sup>4</sup>

Government Publisher	Document Type	Target Stakeholders/Audience	Financial Scope	Select ESG Factors	Frameworks and Standards used to Report on ESG Issues	Credit Rating & ESG Score
City of Toronto, Office of the Chief Financial Officer & Treasurer	ESG Performance Report	Residents, investors, employees, suppliers, other levels of governments, peer municipalities, regulators, community organizations	Investment portfolio, investment management, debt issuance, green bonds, social bonds, infrastructure investment, financial planning, procurement, internal operations	Climate change, resilience, human rights, public health and essential services, social inclusion, economic inclusion, responsible governance practices, financial governance, risk management, diversity, health and well-being, responsible procurement, supplier diversity, etc.	Sustainability Accounting Standards Board standards (SASB), MSCI ESG Government Ratings Methodology, Moody's ESG Scoring Framework, Global Reporting Initiative (GRI), International Integrated Reporting Council (IIRC) Integrated Reporting Framework, Carbon Disclosure Project (CDP), United Nations Sustainable Development Goals (SDGs), The Task Force on Climate-Related Financial Disclosures (TCFD)'s reporting framework	Moody's Credit Impact Score: CIS-2 (neutral to low impact). Moody's ESG Issuer Profile Scores: E-2, S-2, G-2 (Neutral to low)

<sup>4</sup> Own elaboration based on documents. Compiled from: City of Toronto. (2023). Environmental, Social & Governance Performance Report. <https://www.toronto.ca/wp-content/uploads/2023/02/8e33-2023ESGReportFINALODA.pdf>

### 5.1.2 Province of Alberta: A Strategic Jurisdictional ESG Framework

The Government of Alberta (Alberta) established an ESG Secretariat in May 2021 to serve as a coordinating body to communicate the performance of government investments in the energy sector. Alberta publishes its annual ESG report as a series of “fact sheets.” The following documents published in 2023 were reviewed: *Jurisdictional ESG Framework*; *Alberta’s ESG Approach*; *Affordable housing*; *Carbon capture, Utilization and storage*; *Critical minerals*; *Diversified electricity generation*; *Hydrogen*; *Indigenous partnerships and prosperity*; *Natural gas and Liquefied Natural Gas (LNG)*.

Alberta’s ESG performance information is meant to inform policy across ministries, industries, and businesses, and help the province maintain profitable production and steady employment in this sector. In addition, the information is intended to enable investors and financial institutions to make informed decisions about where they direct their resources. Table 10 below illustrates some of the select ESG factors that the fact sheets report on.

The province uses its own jurisdictional ESG framework to facilitate comparable assessment of jurisdictions across several ESG factors. The framework was developed by the ESG Secretariat and PricewaterhouseCoopers LLP (with input from stakeholders). The development process included an extensive review of international frameworks and a jurisdictional scan referenced in Table 10. The fact sheets provide a few indicators, targets, and outcomes for some of Alberta’s policies, strategies, and services regarding investment and employment in the energy sector.

Table 10 Alberta: Environmental Social Governance Secretariat<sup>5</sup>

Government Publisher	Document Type	Target Stakeholders/ Audience	Financial Scope	Select ESG Factors	Frameworks and Standards	Credit Rating & ESG Score
ESG Secretariat	ESG fact sheets	Government energy production partners, other governments, financial institutions, businesses, the public	Investments in the energy sector	Emissions, air quality, climate risk, demographics, diversity, inclusion and community, and institutional governance, laws and regulations, compliance, transparency	Jurisdictional ESG Framework, informed by the UN SDGs; ESG approach informed by SASB and GRI	ESG approach informed by MSCI and S&P Global ESG ratings but credit ratings and score not shared

### 5.1.3 Province of British Columbia (BC): An ESG Lens for Investments

In preparation for Budget 2022, British Columbia’s (BC) Minister of Finance consulted with a new ESG Advisory Council and the Economic Forecast Council. After this, BC’s Ministry of Finance published its first *Environmental, Social and Governance (ESG) Summary* report in 2022. The purpose of the report is to use an ESG lens to attract investment and measure how economic growth translates to improvements in quality of life. The report provides an overview of BC’s

<sup>5</sup> Compiled from: Environmental Social Governance Secretariat (ESG). (2022).

<https://open.alberta.ca/publications/jurisdictional-esg-framework>; <https://open.alberta.ca/publications/esg-affordable-housing>; <https://open.alberta.ca/publications/albertas-esg-approach>; <https://open.alberta.ca/publications/esg-carbon-capture-utilization-and-storage>; <https://open.alberta.ca/publications/esg-critical-minerals>; <https://open.alberta.ca/publications/esg-diversified-electricity-generation>; <https://open.alberta.ca/publications/esg-hydrogen>; <https://open.alberta.ca/publications/esg-indigenous-partnerships-and-prosperity>; <https://open.alberta.ca/publications/esg-natural-gas-and-liquefied-natural-gas>

long-term strategies to share ESG credentials with investors, as well its commitments to the public. The key financial instruments reported on include BC’s capital investments in public sector projects.

The report incorporates the ESG rating and ESG scores issued for BC by three independent third parties, Fitch, DBRS Morningstar, and Moody’s, each of which has their own rating methodology. These three international rating agencies assigned to BC a credit rating of AAA/AA+ (equivalent). On an unsolicited basis, MSCI, a global financial organization, assigned an ESG rating to BC of AA (neutral), the same as Canada. The report also states that investors may use independent firms to help assess bond issuers and the quality of their ESG information. The report explains that ESG scores reflect the impact ESG factors have on credit rating assessments. The four credit agencies provided analysis of the risks facing the province, such as rising debt from deficits incurred during the COVID-19 pandemic, which was further exacerbated by a summer of wildfires and heatwaves, followed by flooding in November 2021.

Provincial legislation establishes the UN Declaration on the Rights of Indigenous Peoples (UN Declaration) as BC’s framework for reconciliation and references it as being integrated in BC’s ESG framework. The province is still building a comprehensive ESG evaluation framework, and in the meantime, they are using their own ESG “lens” by referencing existing government strategic plans such as *CleanBC Roadmap 2030* (for E-related factors), the *Gender Based Analysis Plus* tool (for S related factors), and legislative acts such DRIPA for ensuring the rights of Indigenous people (for G related factors). The report contains a selection of policies, services, and initiatives that are presented in the context of the five core priorities outlined in all BC government ministers’ mandate letters. Examples of material ESG factors included in the report can be found in Table 11 below. The report includes performance measures and select indicators to assess ESG-related outcomes.

Table 11 British Columbia: Environmental, Social and Governance (ESG) Summary Report<sup>6</sup>

Government Publisher	Document Type	Target Stakeholders/Audience	Financial Scope	Select Material Factors	Frameworks and Standards	Credit Rating & ESG Score
Ministry of Finance	Summary Report	Investors, the public	Capital plan investment supports	Infrastructure, procurement, childcare, mass timber construction, climate change, cost-effective electricity, affordable housing, immigration, mining, the rights of Indigenous Peoples, etc.	No mention of specific international ESG standards but an ESG lens is applied referring to provincial legislations and strategic plans such as DRIPA, CleanBC Roadmap, Gender Based Analysis Plus, or the Capital Asset Management Framework. Work under progress to develop more comprehensive ESG framework.	Moody’s credit impact score: CIS-2 (neutral-to-low impact); Fitch credit-relevant ESG Score: 3; MSCI ESG Rating: AA; DBRS Morningstar: No ESG factors cited as credit relevant

<sup>6</sup> Compiled from: British Columbia Ministry of Finance. (2022). Environmental, Social and Governance (ESG) Summary. <https://www2.gov.bc.ca/assets/gov/british-columbians-our-governments/government-finances/debt-management/bc-esg-report.pdf>

## 5.2 Government Financial Documents that Report on Some Aspect of ESG Issues

### 5.2.1 City of Montreal: Introducing Natural Assets and Equity, Diversity and Inclusion

The City of Montreal's (Montreal) *Annual Financial Report*, published for the reporting year 2022, communicated TCFD disclosures in its budget to streamline climate efforts and to communicate to stakeholders (i.e., financial partners and different levels of government), the city's climate and sustainability efforts. Montréal's Accounting Department adopted the TCFD in 2019. After that, the city has been working with internal business units such as the BTER, the Centre de sécurité civile, the Direction du financement, des placements et de la trésorerie, the Direction du budget et de la planification financière et fiscale, the SGPI, and externally, with organizations such as the Chartered Professional Accountants of Canada (CPA Canada), the Public Sector Accounting Board (PSAB), the Municipal Natural Assets Initiative (MNAI)<sup>7</sup>, the Consortium Ouranos, and the Canadian Municipal Network for the TCFD.

The report presented an unaudited section on climate risks and opportunities based on TCFD recommendations regrouped under the four pillars: Governance, Strategy, Risk Management, and Metrics and Targets. The disclosure more broadly also includes other areas of sustainability, such as "S" related factors. Several of the city's strategies are reported on in this section including: the Montreal 2030 Strategic Plan that has 20 priorities linked to the SDGs, and a new Climate Budget governance system that the city is working to integrate into its 2024 financial budget.

Montreal's *Annual Financial Report* for 2021 offers more context on its commitment to incorporating "ESG concerns" (p. 81) in its reporting, through the inclusion of two sections, Natural Assets and Equity, Diversity and Inclusion. Montreal's rationale for adding these sections is that ESG concerns are now part of the city's strategy to build organizational resilience and to ensure economic stability. Also in June 2021, Montréal, along with other Canadian cities, supported the Intact Centre on Climate Adaptation in its response to the two Exposure Drafts issued by PSAB, (i.e., the *Conceptual Framework for Financial Reporting in the Public Sector* and the *Financial Statement Presentation*), recognizing natural capital as an asset in Canadian public sector accounting. The Intact Centre on Climate Adaptation has proposed the development of guidance for accounting for natural resources valuation, as spearheaded by the International Public Sector Accounting Standards Board (IPSASB).

Table 12 Montreal: Annual Financial Report<sup>8</sup>

Government Publisher	Document Type	Target Stakeholders/Audience	Financial Scope	Select Material Factors	Frameworks and Standards	Credit Rating & ESG Score
Accounting Department/ Treasury	Financial report	Stakeholders interested in sustainability and climate-	Sustainability/climate-related information on strategic, capital, and financial planning	Sustainability and climate-related factors (e.g., Public security, transportation,	Currently based on TCFD, but discussed work underway by ISSB	N/A

<sup>7</sup> Recently rebranded as Natural Assets Initiative (NAI).

<sup>8</sup> Compiled from: Montréal. (2023). Montréal's 2022 Financial Report. [https://portail-m4s.s3.montreal.ca/pdf/annual\\_financial\\_report\\_2022\\_web.pdf](https://portail-m4s.s3.montreal.ca/pdf/annual_financial_report_2022_web.pdf); For context: Montréal. (2022). Montréal's 2021 Financial Report [https://portail-m4s.s3.montreal.ca/pdf/rapport\\_annuel\\_financier\\_2021\\_ang\\_vf.pdf](https://portail-m4s.s3.montreal.ca/pdf/rapport_annuel_financier_2021_ang_vf.pdf)

		related disclosures	processes, assets, and operations	environmental hygiene, health and welfare, urban planning and development, recreation and culture, GHG emissions)	and International Public Sector Accounting Standards (IPSASB).	
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### 5.2.2 City of Mississauga: An Integrated Reporting Framework for Capital

Commitment to sustainability reporting at the City of Mississauga (Mississauga), began with the *2020 Annual Financial and Sustainability Report*. For the 2022 annual report, information is included about the city's current sustainability-related initiatives. These are organized using an integrated reporting framework for capital (human, financial, manufactured, intellectual, social and relationship, and natural) with connections to the United Nations' Sustainable Development Goals. Mississauga adopted the TCFD framework in 2020 to communicate climate-related financial disclosures on an annual basis. Following the TCFD recommendations, Mississauga reports on four pillars: Governance, Strategy, Risk Management, and Metrics and Targets. Based on these recommendations, Mississauga will complete a GHG inventory for both the city and the community annually.

The report details the Mississauga's plans, strategies, processes, and frameworks, relating to sustainability and climate, including: The Living Green Master Plan, The Sustainable Procurement Policy, and The Climate Change Action Plan, and others. Mississauga is continuing its work to integrate social capital and natural asset management into corporation-wide asset management practices. The city will also standardize systems and approaches to asset investment planning across its services and policies.

Table 13 Mississauga: Financial and Sustainability Report<sup>9</sup>

Government Publisher	Document Type	Target Stakeholders/ Audience	Financial Scope	Select Material Factors	Frameworks and Standards	Credit Rating & ESG Score
Finance Division, City Manager's Office of the City of Mississauga in co-operation with all civic departments, offices and agencies	Financial report	Stakeholders interested in sustainability and climate-related disclosures	Sustainability/climate-related information on strategic, capital, and financial planning processes, assets, and operations	Sustainability and climate-related factors (e.g., procurement, housing, infrastructure, green space, equity, diversity, inclusion, reconciliation with Indigenous Peoples, GHG emissions).	TCFD, CDP, Integrated Reporting framework capitals, UN SDGs	(AAA) from Standard & Poor's Global Ratings agency

### 5.2.3 City of Ottawa: First Steps to using the TCFD Framework

The City of Ottawa's (Ottawa), *2022 Annual Report*, is its first financial report that uses the TCFD framework. The section on TCFD disclosures covers information on the four pillars of governance, strategy, risk management, and metrics and targets. The disclosures summarize

<sup>9</sup> Compiled from Mississauga, (2022). *Financial and Sustainability Report*. <https://www.mississauga.ca/wp-content/uploads/2023/09/2022-Financial-and-Sustainability-Report.pdf>

Ottawa’s climate-related actions, strategies and financial impacts to help stakeholders and decision-makers understand how the city responds to climate-related risks and opportunities. Ottawa will adopt TCFD recommendations with a phased approach acknowledging that it will take several years for the city to reach maturity because the field of sustainability reporting is still in its early evolution. Ottawa uses climate risk assessments to report on climate impacts to health, community well-being, infrastructure, natural environment, and the economy, to determine how vulnerable the city is as climate conditions change. Ottawa also offers metrics on its GHG emissions, and its energy and climate resilience strategies.

Table 14 Ottawa: Annual Report<sup>10</sup>

Government Publisher	Document Type	Target Stakeholders/Audience	Financial Scope	Select Material Factors	Frameworks and Standards	Credit Rating & ESG Score
Finance and Corporate Services Department	Financial report	Stakeholders interested in sustainability and climate-related disclosures	Climate-related information on strategic, capital, and financial planning processes, assets, and operations	Climate-related factors	TCFD, CDP	Moody’s Aaa, Standard & Poor’s AA+

#### 5.2.4 City of Edmonton: Introducing a carbon budget

In the City of Edmonton’s (Edmonton) *2022 Annual Financial Report*, there is a section on TCFD recommendations and climate-related disclosures. Edmonton has taken a phased approach to implement the TCFD’s recommendations as it monitors the evolution of TCFD reporting. Edmonton highlights its work with the Canadian Municipal Network for TCFD that focuses on enhancing climate-related financial disclosures within the annual financial reports of cities in the Canadian context.

Edmonton’s City Council signed onto the Global Covenant of Mayors for Climate and Energy in 2015, committed the city to take action on climate change and disclose environmental activities through the Carbon Disclosure Project (CDP). Edmonton’s report discloses data and information related to climate change mitigation and adaptation (including climate risks) through this open data platform. Annually, Edmonton reports to the CDP on the greenhouse gas (GHG) emissions inventory, climate risk and vulnerability assessments, energy transition target, and information on climate adaptation and mitigation. Edmonton’s City Council sets climate and environmental policy to manage climate risks and opportunities. Annual progress updates are made to City Council regarding select ESG factors, examples of which can be found in Table 15.

Edmonton discloses progress to date on climate-related disclosures using guidelines from CPA Canada’s, *Enhancing Climate-related disclosure by Cities: A Guide to Adopting the Recommendations of the TCFD*. This framework helps cities to assess their progress on governance, strategy, risk management, and metrics and targets. The report states that in 2022, advancement in areas such as governance, strategy and risk management process, was primarily due to the city administration incorporating a Carbon Accounting Framework and carbon budget into the financial budget process for the 2023-2026 budget cycle.

<sup>10</sup> Compiled from: City of Ottawa, (2022). 2022 Annual Report. [https://documents.ottawa.ca/sites/documents/files/OTTAWA\\_23-056\\_AR\\_e\\_v7%281%29.pdf](https://documents.ottawa.ca/sites/documents/files/OTTAWA_23-056_AR_e_v7%281%29.pdf)

Table 15 Edmonton Annual Financial Report<sup>11</sup>

Government Publisher	Document Type	Target Stakeholders/ Audience	Financial Scope	Select Material Factors	Frameworks and Standards	Credit Rating & ESG Score
Financial and Corporate Services, with support from Communications and Engagement and other civic departments, offices and agencies.	Annual financial report	Stakeholders interested in sustainability and climate-related disclosures	Financial conditions, assets, and operations	Environment/climate (e.g., GHG emissions, operations in areas such as sustainable buildings, zero emissions fleet and vehicles, district energy developments)	TCFD, CDP	Standard & Poor's AA

### 5.2.5 City of Calgary: Committed to climate-related financial disclosures

For the second year, the City of Calgary (Calgary), in its *Annual Financial Report for 2022*, includes a climate-related financial disclosure (CRFD) section within the unaudited section of its financial report. The report state that this in alignment with other Canadian municipalities that commit to climate-related planning, preparation, and reporting (i.e., Toronto, Edmonton, Montreal, and Vancouver). The structure of this report follows the TCFD recommended framework, including disclosures related to governance, strategy, risk management, and metrics and targets. The report states that Calgary is addressing climate change as a strategic priority because the city will experience more chronic, gradual changes, as well as an increase in acute, abrupt disruptive impacts due to climate change. Strategies and plans are mentioned, such as the city's work to implement a carbon budget framework for reporting purposes.

Calgary uses the Chartered Professional Accountants of Canada's (CPA) overview titled *Enhancing Climate-related Disclosure by Cities*, as a guide of how cities can assess their progress on the disclosures for TCFD reporting, as well as the CPA's Maturity Assessment Framework to self-assess progress towards integration of CRFD processes. Calgary demonstrates characteristics of a Phase 1 reporting city, whereby a city has begun a TCFD reporting process. Through work outlined in the updated Climate Strategy – Pathways to 2050 and the 2023-2026 Climate Implementation Plan, Calgary intends to progress towards Phase 2, where climate change is embedded into the organization's strategic planning and decision-making processes. Over time, Calgary aims to reach Phase 3, whereby it routinely integrates climate change into decision-making processes and has collaboration across department.

Table 16 Calgary: Annual Financial Report<sup>12</sup>

Government Publisher	Document Type	Target Stakeholders/ Audience	Financial Scope	Select Material Factors	Frameworks and Standards	Credit Rating & ESG Score
Corporate Planning and Financial Services Department of The City of Calgary, in cooperation with all	Annual financial report	Not specified. Specifically, for TCFD reporting, – investors and other stakeholders	Financial conditions, assets, and operations	Public security, transportation, environmental hygiene, health and welfare, urban planning and	TCFD, CDP	"AA (high)" according to DBRS and "AA+" according to

<sup>11</sup> Compiled from: City of Edmonton. 2022 Annual Financial Report. <https://www.edmonton.ca/sites/default/files/public-files/2022FinancialAnnualReport.pdf>

<sup>12</sup> Compiled from: City of Calgary, (2022). City of Calgary Annual Financial Report. <https://www.calgary.ca/our-finances/annual-reports.html#:~:text=2022%20Annual%20Financial%20Report&text=Strong%20fiscal%20management%20is%20confirmed,Dominion%20Bond%20Rating%20Service%20respectively>

civic departments, offices and agencies.		interested in sustainability and climate disclosures		development, recreation and culture		Standard & Poor's Global Ratings
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## 5.2.6 The City of Vancouver: Laying the groundwork for future ESG reporting

The City of Vancouver (Vancouver) does not have any formal ESG reporting mechanisms, however, it advances the TCFD reporting framework and is working to introduce other ESG financial reporting initiatives in the near future. This is evident from a close reading of Vancouver's report, *Statement of Financial Information 2022*, published by Financial Services in 2023, as well as another report that encompasses whole-of government strategies, *City of Vancouver 2022 Budget and Five-Year Financial Plan* published in 2023.

The report: *Statement of Financial Information 2022*, identifies financial and debt capacity for capital planning in a manner that considers Vancouver's long-term financial health, credit ratings and future impacts on taxpayers. The TCFD disclosures can be found immediately following the audited financial statements. This section outlines the city's governance, strategy, risk management, metrics and targets related to climate change risks and opportunities. Credit rating agencies such as S&P Global Ratings and Moody's reaffirmed Vancouver's credit rating of AAA and Aaa with stable outlooks that reflects the agencies' assessments of the city's governance and financial management team, fiscal outcomes, levels of liquidity, economy and budgetary performance, and debt affordability. Reporting outcomes include sustainability and resilience benefits as considerations guide capital investments and assist with prioritization. The report, *City of Vancouver 2022 Budget and Five-Year Financial Plan*, highlights how work is underway within Vancouver's Finance and Sustainability departments to "support other ESG (environmental, social, and corporate governance) financial reporting initiatives" (p. C-205), along with advancing TCFD reporting maturity.

Table 17 Vancouver: *Statement of Financial Information 2022*<sup>13</sup>

Government Publisher	Document Type	Target Stakeholders/ Audience	Financial Scope	Select Material Factors	Frameworks and Standards	Credit Rating & ESG Score
Financial Services	Annual statement of financial information	Council, taxpayers, citizens, lenders, insurance underwriters and other stakeholders	Financial and debt capacity	Affordable housing, transportation, climate mitigation and adaptation, and healthy communities	TCFD	S&P Global Ratings and Moody's Investors Service reaffirmed the City's credit rating of AAA and Aaa with stable outlooks

<sup>13</sup> Compiled from: City of Vancouver Financial Services. (2023). *Statement of Financial Information 2022*. <https://council.vancouver.ca/20230329/documents/pspc4.pdf>; City of Vancouver 2022 Budget and Five-Year Financial Plan; and Vancouver Economic Commission (2023). <https://vancouver.ca/files/cov/budget-document-consolidated.pdf>

## 5.3 Investment Reports Published by Governments that Report on Some Aspect of ESG Issues

### 5.3.1 The City of Calgary: Integrating a responsible investing framework

The City of Calgary (Calgary) published its *2022 Annual Investment Report* in 2023. Calgary's Investment Team plans to integrate a Responsible Investing (RI) framework into its investment process in the near future. This initiative may include the integration of RI in asset allocation and manager selection processes, developing a manager ESG scorecard, and developing an RI section to be added to existing investment policies. The report states that the city is incorporating governance and sustainable business practices into the investment process because it is becoming common practice in the institutional investment industry.

Some of the material ESG factors Calgary reports on include local environmental regulations, and labour and safety standards. Currently, when Calgary is selecting or reviewing an external investment manager to partner with, the city monitors how ESG is implemented not only in the execution of investment management decisions but also how the investment manager implements ESG in its own operations. This is done to ensure the city's values are reflected in its investment holdings. Calgary uses investment benchmarks for comparison purposes to assess the actual performance of the city's investment managers versus their 36 respective performance benchmarks, for example, MSCI and S&P are used for the city's equity portfolio.

Table 18 Calgary: 2022 Annual Investment Report<sup>14</sup>

Government	Document Type	Target Stakeholders/ Audience	Financial Scope	Frameworks
Corporate Planning & Financial Services	Annual investment report	Investors, citizens, employees, city councillors, etc.	Investments portfolio/Assets under management, operations, equities	Calgary plans to integrate a Responsible Investing framework in the future.

### 5.3.2 The City of Edmonton: Incorporating ESG into investment decisions

The City of Edmonton's (Edmonton) *Annual Investment Report* for 2022, states that its investment portfolio is administered through either direct internal fund management or oversight of external fund managers. Edmonton follows corporate Investment Policy and procedures which outline the asset allocation policies, investment principles and guidelines, and risk management controls. Edmonton's Investment Policy contains a commitment for the city to support social and ethical business practices through proxy voting through a shareholder resolution process. Edmonton retains a proxy voting agent to vote the city's ballots for the companies in which it owns shares. The voting service follows city guidelines by analyzing each voting issue. The portfolio includes investment funds, endowment funds, and reserves and working capital funds.

<sup>14</sup> Compiled from: The City of Calgary. (2023). 2022 Annual Investment Report. <https://pub-calgary.escribemeetings.com/filestream.ashx?DocumentId=242056>

The report states that in 2022, Edmonton exercised its shareholder rights and voted its proxies in accordance with the Investment Policy. In addition, Edmonton’s investment managers incorporate ESG factors into their investment decision-making. Furthermore, all of the managers are signatories of the UN Principles of Responsible Investment. The principles provide an industry-wide standard against which the manager assess due diligence, investment monitoring and investor reporting.

Table 19 Edmonton: 2022, Investment Committee Annual Report<sup>15</sup>

Government Publisher	Document Type	Target Stakeholders/ Audience	Financial Scope	Frameworks and Standards
Financial Services Branch	Investment report	Investors, citizens, employees, city councillors, etc.	investment portfolio of the City's six investment funds/investment assets	Select managers who are signatories of UN Principles of Responsible Investment (PRI);

## 5.4 Other Documents Published by Governments that Consider ESG Issues

### 5.4.1 The Government of the Northwest Territories: ESG + Indigenous

In 2023, the Government of the Northwest Territories (NWT) published a report titled *2022 Socio-Economic Agreement Report: For Mines Operating in the Northwest Territories*.<sup>16</sup> This report focuses on the cumulative economic benefits of the NWT’s existing mines, highlighting northern and NWT Indigenous employment, procurement spending, and training for 2022. This report also includes a summary of the NWT regulatory regime and its impacts on a project proponent’s ESG criteria for use by investors, to drive new investment to the NWT. Resource revenues after land claim entitlements are shared with the federal government and Indigenous governments.

The report provides insight into how resource-based projects are being assessed using Socio-Economic Agreements (SEAs). As a project goes through the regulatory process, the NWT requires partners or companies to report on the impacts their project will have and to commit to a follow-up program in the form of a SEAs. SEAs are broad, public agreements signed by the NWT that reflect the interests of local communities and all NWT residents. The SEA approach is one of the ways that ESG goals are being met by providing a measure of overall mining and resource development generally (p.5). The Departments of Industry, Tourism and Investment (ITI); Health and Social Services (HSS); Education, Culture and Employment (ECE); along with others, implement and monitor SEAs.

The report states that the SEA approach has allowed for incorporation of ESG factors and Indigenous rights under “ESG-I practices” (p. 5). SEAs are negotiated on a case-by-case basis, without an established policy to standardize reporting. As a result, some previous commitments vary among agreements. Reporting disclosure commitments have since become requirements of all SEAs.

<sup>15</sup> Compiled from: City of Edmonton, (2022). 2022 Investment Committee Report. <https://www.edmonton.ca/sites/default/files/public-files/2022InvestmentCommitteeAnnualReport.pdf?cb=1683032801>

<sup>16</sup> Compiled from: Government of Northwest Territories. (2023). *2022 Socio-Economic Agreement Report*. <https://www.iti.gov.nt.ca/sites/iti/files/1377-SEA-Report-2022-WEB.pdf>

#### 5.4.2 Canada Growth Fund: Funneling private investment into low carbon projects

In 2022, the Government of Canada's (Canada) Department of Finance published a *Technical Backgrounder: Canada Growth Fund* on the creation of the \$15 billion Canada Growth Fund (CGF), which is a subsidiary of the Canada Development Investment Corporation (CDEV).<sup>17</sup> The purpose of the CGF is to transition Canada's economy to net-zero by using investment instruments that absorb certain risks in order to put private investment in low carbon projects, technologies, businesses, and supply chains. The CGF's framework is intended to be consistent with ESG principles. For example, the *Technical Backgrounder* states that investments will fit within a portfolio that will enable CGF to meet internationally recognized standards of ESG measurement, disclosure, and performance. The Public Sector Pension Investment Board will implement the CGF's mandate and act as its independent investment manager. The CGF will have flexibility to invest (e.g., across capital into equity, debt, and derivative contracts), to funnel private investments to projects and companies.

#### 5.4.3 Directive on the Management of Procurement: Integrating ESG principles into the supply chain

The Government of Canada's Directive on the Management of Procurement (Directive) ensures that procurement of goods, services and construction obtains the necessary assets and services that support the delivery of programs and services to Canadians, while promising best value to the Crown.<sup>18</sup> Effective April 1, 2023, the Directive includes requirements to integrate human rights, the environment, social and corporate governance, supply chain transparency principles, and Public Services and Procurement Canada's Code of Conduct for Procurement into all government procurements.

#### 5.4.4 International Partnerships: Raising the ESG standards for trade

The Government of Canada is seeking to build more resilient critical mineral global supply chains by working with international partners to align policies; raise ESG standards; advance joint research and development; and encourage new investment opportunities, among other priorities.<sup>19</sup> Some of the partnerships listed that are considering ESG issues are: the Canada-U.S. Joint Action Plan on Critical Minerals, the Canada-EU Strategic Partnership on Raw Materials, and the Canada-Japan Sectoral Working Group on Critical Minerals. In addition, through other multilateral organizations and initiatives, Canada is supporting the global transition to green energy and more resilient supply chains. Organizations include the G7/G20; the International Energy Agency (IEA); the World Bank; the International Renewable Energy Agency (IRENA); the Intergovernmental Forum on Mining, Minerals, Metals and Sustainable Development (IGF); and the Energy Resource and Governance Initiative (ERGI).

<sup>17</sup> Compiled from: Canada Growth Fund, (2022). Department of Finance Canada. <https://www.budget.canada.ca/fes-eea/2022/doc/gf-fc-en.pdf>

<sup>18</sup> Compiled from: Government of Canada, (2023). Directive of the Management of Procurement. <https://www.tbs-sct.canada.ca/pol/doc-eng.aspx?id=32692>

<sup>19</sup> Compiled from: Government of Canada, (2023). *Critical minerals in Canada: International partnerships*. <https://www.canada.ca/en/campaign/critical-minerals-in-canada/our-critical-minerals-strategic-partnerships.html>

#### 5.4.5 Green Bond Allocation Report: Growing the sustainable finance market

In 2023, the Government of Canada's (Canada) Department of Finance published the *Green Bond Allocation Report 2021-22*. Canada launched its green bond debt program to grow its sustainable finance market.<sup>20</sup> Canada also published its *Green Bond Framework* in March 2022, followed by the issuance of a \$5 billion green bond. The framework states that Canada intends to mobilize capital in support of its climate and environmental objectives, and to develop the Canadian sustainable finance market by adding liquidity and ESG assets to create a more diverse market for investors (Government of Canada, p. 5).

The report covers material topics such as eligible green expenditures and maps out the relevant ICMA Green Bond Principles project categories as well as the relevant UN SDGs. Examples of project categories include energy efficiency, terrestrial and aquatic biodiversity, renewable energy, sustainable water and wastewater management, circular economy-adapted products, and technologies and processes. The green bond excludes investments in areas such as exploration and production of fossil fuels and arms manufacturing.

Eligible Green Expenditures can include any government expenditures (e.g., grants, contributions, etc.), loans, subsidies, fiscal measures (e.g., tax credits and tax expenditures), and capital and operational expenditures (e.g., salaries and operating expenses). Eligible green expenditures are limited to federal government expenditures, and those of federal agencies and select Crown corporations. The *Green Bond Framework* has been independently reviewed by Morningstar Sustainalytics.

### 5.5 Supplementary Documents that Illustrate the Network of Policy Learning and Transfer

#### 5.5.1 The First Nations Major Project Coalition: Indigenous equity investment

The First Nations Major Project Coalition (FNMPC) is a national 130+ Indigenous nation, registered non-profit, working toward building an economy that considers the diverse cultures and traditional laws of Indigenous Peoples. Currently, FNMPC provides business capacity support to its members for 8 projects, each with an Indigenous equity investment component, and has a portfolio exceeding a combined total capital cost of over \$20 billion. The organization has recently started reporting on ESG factors, as exemplified by their first case study report: *ESG-Indigenous Case Study: Cascade Power Plant Project Alberta, Canada* (FNMPC, 2021), with

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<sup>20</sup>Many governments are issuing and reporting on green bonds. For example, the City of Toronto issued its first green bond in 2018 and has been publishing newsletters on its impacts since. The Government of Canada's green bond report was selected for illustration purposes. Compiled from: Department of Finance Canada, (2022). *Government of Canada Green Bond Allocation Report 2021-22*. [Government of Canada Green Bond Allocation Report 2021-22 - Canada.ca](#) Department of Finance, (2022). *Government of Canada - Green Bond Framework*. [Government of Canada - Green Bond Framework - Canada.ca](#)

context provided by the following supporting document: *Member-Developed Principles, Criteria, and Expectations to Guide Major Project Environmental Assessments* (FNMPC, 2019).<sup>21</sup>

In their report *ESG-Indigenous Case Study: Cascade Power Plant Project Alberta, Canada*, the FNMPC includes a section on Indigenizing ESG. This is done by prioritizing Indigenous values and input in ESG frameworks and standards, resulting in what is called ESGI. By using ESGI, Indigenous People determine whether a project meets their own environmental standards and values, whether its members are supportive of the project, and then the respective Indigenous group or government can choose to consent and invest, or not.

The report *Member-Developed Principles, Criteria, and Expectations to Guide Major Project Environmental Assessments*, provides information on the Major Project Assessment Standard (MPAS) which was developed by FNMPC member nations specifically to evaluate project proposals put forth by project development proponents. This is the only auditable standard for major project assessment adequacy developed in Canada with an explicitly Indigenous perspective (FNMPC, 2019). The report details the Environmental Stewardship Framework and broad Stewardship Vision developed by member Nations to support member Nations access the tools they may need to engage in equity investing.

### 5.5.2 Municipal Finance Authority: Representing the investment interests of local governments

The Municipal Finance Authority's (MFA) *2022 Annual Report* was included in the content analysis because it represents the interests of municipal BC governments.<sup>22</sup> The MFA is a non-profit with a mandate embedded in legislation through the Municipal Finance Authority Act, the Local Government Act, and the Community Charter. The MFA issues \$1.35 billion in bonds (including "Green" or "Social" or "Sustainability") annually and uses the proceeds to provide loans to BC municipal governments mostly for long-term infrastructure projects and other financing needs. As of 2022, its outstanding loan portfolio is approximately \$5.5 billion in long term loans and \$168 million in short term and equipment financing loans for completing essential infrastructure projects across most of BC's communities and regions. MFA also manages the reserve money of municipalities.

Prior to each of their bond issues, the MFA maps a complete account of their Use of Proceeds to the 17 UN SDGs as well as Green Bond Principles and/or Social Bond Principles. To facilitate ESG reporting related to bond issuance, the MFA developed a methodology and mapping tool for ESG Use of Proceeds data collection and reporting that is consistent with International Capital Market Association (ICMA) principles. Credit ratings such as S&P, Moody's, and Fitch, provide assessments of long term and short-term risks. Performance measures are still being developed, with an intent for future reporting which will initially take the form of case studies of selected projects funded through their bond issuance.

### 5.5.3 Vancouver Economic Commission: Communicating advantages to investors

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<sup>21</sup> Compiled from: The First Nations Major Projects Coalition. (2021). *ESG-Indigenous Case Study: Cascade Power Plant Project*. [https://fnmpc.ca/wp-content/uploads/FNMPC\\_ESG\\_Case.pdf](https://fnmpc.ca/wp-content/uploads/FNMPC_ESG_Case.pdf); The First Nations Major Projects Coalition. (2019). *Member-Developed Principles, Criteria, and Expectations to Guide Major Project Environmental Assessments*. <https://fnmpc.ca/wp-content/uploads/FNMPCMPASFINAL.pdf>

<sup>22</sup> Compiled from: Municipal Finance Authority. (2022). *2022 Annual Report*. [https://mfa.bc.ca/sites/default/files/Investors/Annual%20Report/mfa\\_2022\\_annual\\_report.pdf](https://mfa.bc.ca/sites/default/files/Investors/Annual%20Report/mfa_2022_annual_report.pdf)

At present, an external agency of the City of Vancouver governed by the Societies Act, the Vancouver Economic Commission (VEC), uses an ESG approach to identify metrics and communicate to investors the city's competitive advantages in relation to both capital and operational investment attraction.<sup>23</sup> The VEC uses an ESG approach to measure the competitiveness of local economies in the context of attracting FDI. This approach identifies metrics that can be used to understand a city's competitive advantages, in relation to both capital and operational investment attraction.

Through peer comparisons, VER reports in *Vancouver's Global Competitiveness for ESG Investing* that the City of Vancouver has been making progress towards climate and environmental targets for many years, particularly over the last decade. The report examines 10 "peer group" cities were chosen based on their leadership in climate, sustainability, and green economic development: Copenhagen, Dublin, Edmonton, Montreal, Seattle, Singapore, Stockholm, Sydney, Tel Aviv and Toronto. Other global leaders outside of the peer group are highlighted in specific metrics where applicable. Data was pulled from the Arcadis Sustainable Cities Index, Corporate Knights Sustainable Cities Index and other leading global city indexes, as well as leaders in sustainable city research such as C40 and CDP.

#### 5.5.4 Investment Management Corporation of Ontario: Investing for Ontario's public service

The Investment Management Corporation of Ontario (IMCO) is an independent organization operating at arm's length from the Ontario Government, that serves as a long-term investor for Ontario's public-sector institutions.<sup>24</sup> A clearly defined legislative, regulatory and contractual framework lays out IMCO's duties, responsibilities and obligations to Ontario Pension Benefit (OPB), as well as OPB's governance and investment rights. Under this framework, OPB sets the investment strategy and IMCO implements it. Ontario has required disclosing whether ESG factors are incorporated into the pension plan's investment strategy since 2016.

IMCO's *2021 ESG REPORT - Adapting to a changing world*, is an ESG dedicated report published in 2022. The report provides a snapshot of how governing entities worldwide are implementing measures through regulations or guidelines with regards to how pension plans account for ESG factors in their investment strategies. IMCO's disclosures are in line with the TCFD framework. IMCO's ESG strategy uses ESG integration, stewardship, sustainable investing, and screening. IMCO uses SASB standards, ESG data from MSCI, ISS and Bloomberg, and aligns reporting with the UN'S SDGs.

#### 5.5.5 Sustainable Finance Action Council: Mobilizing finance for sustainable growth

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<sup>23</sup>The VEC is in the process of a phased decommissioning and will be replaced by a new Business and Economy Office within the City Manager's Office at the City of Vancouver. Work on ESG analysis and reporting will continue over several years at the city and is predicted to help inform the preparation of long-term capital plans and future budget allocations. Compiled from: Vancouver's Global Competitiveness for ESG Investing. <https://vancouvereconomic.com/research/vancouvers-global-competitiveness-for-esg-investment/>

<sup>24</sup> Most provincial pension managers do the same, for example British Columbia Investment Management Corporation (BCI) began operations under the Public Sector Pension Plans Act in 2000 to provide investment services to British Columbia's public sector. IMCO was selected for illustration purposes. Compiled from: Investment Management Corporation of Ontario. (2022). *2021 ESG Report: Adapting to A Changing World*. [https://www.imcoinvest.com/pdf/IMCO\\_2021\\_ESG\\_Report\\_June\\_27.pdf](https://www.imcoinvest.com/pdf/IMCO_2021_ESG_Report_June_27.pdf)

In 2022, SFAC published *The Taxonomy Roadmap Report: Mobilizing Finance for Sustainable Growth by Defining Green and Transition Investments*, which contains 10 recommendations on the implementation of a green and transition finance taxonomy for Canada.<sup>25</sup> The taxonomy is meant to further develop Canada's sustainable finance market and help mitigate greenwashing risks. It will serve multiple use cases across public and private sectors where there would be a need in having a standardized tool to benchmark climate and transition activities.

Eligible projects can benefit from issues of either green financial instruments or transition financial instruments depending on their alignment with the taxonomy. Within government, a taxonomy can inform the issuance of sovereign green and transition financial instruments (e.g., transition bonds). It can be used to inform the development of policy, including capital requirements and risk management. It may also be used to standardize the types of information and data filed by entities in relation to green and transition financial exposures and related areas. In addition to methodological matters, an administering body will be identified to apply the criteria and scores to issuances (e.g., ESG rating agencies, standard-setting body). In line with sustainability principles, projects that do not meet criteria will be ineligible for funding, for example, all projects related to solid fossil fuels.

#### 5.5.6 Statistics Canada: ESG engagement and consultations

In 2021, Statistics Canada launched a consultation pilot project to provide ESG information based on readily available data. The subsequent report published, *Environmental, Social and Governance Project and Indigenous Peoples Engagement Report*, was funded under the Disaggregated Data Action Plan (DDAP).<sup>26</sup> The DDAP will produce detailed statistical information to highlight the lived experiences of specific population groups, such as women, Indigenous People, racialized groups and people living with disabilities across Canada.

To better understand needs around ESG, Statistics Canada engaged with Indigenous governments and organizations, federal, territorial, and provincial partners, private sector organizations, regional and national industry regulatory bodies, and sustainability and ESG experts and academics. Some of the key findings from the consultative engagement initiative include: (1) ESG frameworks should be standardised and include Indigenous Peoples' values and interests, (2) data should reflect the interconnectedness of environmental, social and governance issues, (3) data users should have access to a range of data products to suit their different needs. The findings from the consultation are being used to develop ESG policies and to address the needs of Indigenous communities and organizations. More than half of the participants responded that ESG data supports decision making in social, financial, and economic development programs and policy development, as well investment or divestment by providing information on who is impacted and who is benefiting.

#### 5.5.7 The Canada Energy Regulator: ESG information vs. CER regulations

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<sup>25</sup> Compiled from: Sustainable Finance Action Council (2022). Taxonomy Roadmap Report: Mobilizing Finance for Sustainable Growth by Defining Green and Transition Investments. <https://www.canada.ca/content/dam/fin/publications/sfac-camfd/2022/09/2022-09-eng.pdf>

<sup>26</sup> Compiled from: Statistics Canada. (2023). Environmental, Social and Governance Project and Indigenous Peoples Engagement Report. <https://www.statcan.gc.ca/en/consultation/2022/esg/report>

The Canada Energy Regulator (CER) conducted research to better understand its role within the ESG arena. The research was published over several Government of Canada webpages and is entitled: *The Canada Energy Regulator and ESG – Executive Summary*.<sup>27</sup> This work was carried out because the CER recognized the implications of ESG on the Canadian energy sector, the increasing impact of ESG on CER-regulated companies, and the overlap between ESG factors and its regulatory oversight. In its research, the CER assessed the following: (1) ESG in terms of its mandate (to see if there is alignment between CER reporting and ESG reporting) (2) the CER’s regulatory function vs. that of ESG (to see if there is overlap between ESG and the CER’s operational standards and information management, such as metrics, reporting, and disclosure of information), (3) and ESG-related initiatives by the CER’s regulatory peers, government entities, and Indigenous Peoples.

The executive summary shows that at a high level, CER and ESG reporting are aligned. They both provide information to stakeholders who want to ensure energy companies act responsibly toward people and the environment. However, the summary explains that the differences in the level of detail and quality between ESG reporting and the CER’s regulatory information means they are not interchangeable because of the CER’s strict regulatory requirements.

#### 5.5.8 Standards Council of Canada: Harmonizing the ESG reporting landscape

The Standards Council of Canada (SCC) is a federal Crown corporation mandated with the purpose of leading the development of standardization strategies and related policy advice to governments at all levels in Canada.<sup>28</sup> At the national level, the establishment of the Canadian Sustainability Standards Board (CSSB) offers the same services. In its reports, *Beyond Disclosure: Driving Performance & Trust in ESG* and *Development of a National Standards Strategy*, published in 2023, SCC addresses important limitations within the current reporting landscape.

The SCC will be issuing guidance on best practices to transform existing processes and operations to respond to ESG indicators and targets. For the public sector, SCC will issue guidance on standards for projects and policies such as embedding climate change adaptation and resilience in building codes and standards; incorporating environmental management standards into government policies; and ensuring consistency in ESG reporting.

## 5.6 Conclusion

As is evident from the content analysis, governments in Canada are using various frameworks and standards to report on ESG issues. Governments are also engaging in ESG-related activities, even though they have not started reporting on these activities as of yet. Also evident from the supplementary documents are the many transmission mechanisms and pathways for policy learning and transfer in the public sector. The documents in the content analysis will be analyzed

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<sup>27</sup> Compiled from: The Government of Canada, (2023). *The Canada Energy Regulator and ESG – Executive Summary*. <https://www.cer-rec.gc.ca/en/about/publications-reports/canada-energy-regulator-esg/>

<sup>28</sup> Compiled from: Standards Council of Canada. (2023). *Beyond Disclosure: Driving Performance & Trust in ESG*. [https://www.scc.ca/en/system/files/publications/SCC\\_ESG\\_Report\\_EN.pdf](https://www.scc.ca/en/system/files/publications/SCC_ESG_Report_EN.pdf)

and discussed in detail in chapters 6 and 7, to provide a more fulsome picture of this evolving policy network.

## Chapter 6: Discussion and Comparative Content Analysis of Government Documents on ESG Issues

This chapter will provide an in-depth comparative analysis of why and how governments in Canada are reporting on ESG activities (e.g., format, style, scope), and how ESG reporting is being learned and transferred between governments, the private sector, and international organizations. Using the documents published by governments, as well as the supplementary documents published by other public sector and non-profit entities, it is demonstrated that effective policy diffusion has led to the uptake of reporting on ESG issues by some governments, and interest from others. There is also ample evidence of soft transfers of ESG ideas and concepts, and hard transfers of ESG reporting guidance and implementation, happening at every level of government in Canada [See Figure 3 below for a visual of ESG policy learning and transfer, including frameworks, standards, principles, and goals that governments use to report on ESG issues].

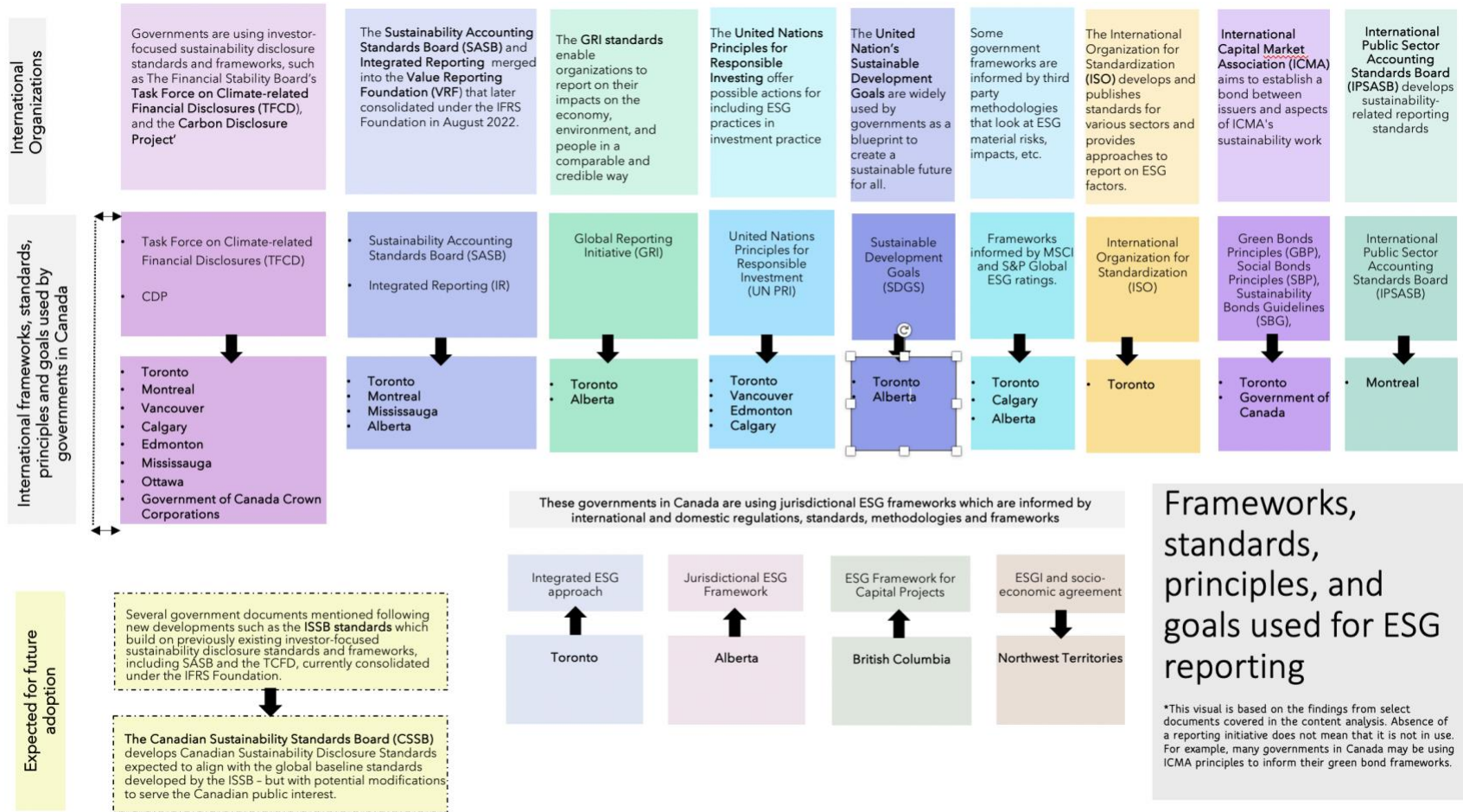
### 6.1 International Organizations: Diffusing guidance across all levels of government

International organizations play an overarching role in the ESG reporting landscape by diffusing guidance, typically based on widespread consultations of stakeholders, in the form of frameworks and standards used for ESG reporting (see Figure 3 below). Several ESG frameworks and standards that have gained widespread international support include those released by the Global Reporting Initiative (GRI), the Sustainability Accounting Standards Board (SASB), the International Public Sector Accounting Standards (IPSASB), and the Task Force of Climate-related Financial Disclosures (TCFD). As is being shown, governments in Canada are using international guidance to report on ESG factors and communicate their performance to investors and other stakeholders.

Evident from the content analysis in chapter 5, many municipal governments (i.e., Toronto, Montreal, Calgary, Edmonton, Vancouver, Ottawa, and Mississauga), are using the TCFD framework and are concurrently gaining additional guidance from the CPA on how to enhance climate related disclosures in their financial reporting activities. Federal Crown corporations have also adopted the TCFD framework for reporting by focusing first on climate-related disclosures, and second, by prioritizing gender and diversity reporting in the future. As this occurs, the Government of Canada is encouraging PT governments to also disclose climate-related financial information, especially in the context of G7 and G20 nations agreeing to do the same. Some governments (i.e., Montreal, Mississauga, Toronto, Alberta, the Government of Canada, etc.) are moving beyond reporting on climate-related issues to report on sustainability issues more generally.

Governments such as the City of Toronto, are seeking to emulate leading reporting practices by taking an integrated reporting approach that uses several ESG guidance documents by international organizations to meet the city's needs (i.e., SASB, MSCI ESG Government Ratings Methodology, Moody's ESG Scoring Framework, GRI, IIRC). Provincial governments such as BC and Alberta, are developing their own frameworks with insight from second- and third-party

Figure 3 Visualizing ESG Policy Learning and Transfer in Canada: Frameworks, standards, principles, and goals that governments use to report on ESG issues



opinions on credit ratings and ESG scores, and mapping ESG activities to existing legislative acts and strategic plans.

Furthermore, at the federal level, the Government of Canada is closely following the regulatory practices of its international peers and incorporating ESG criteria and standards in its international trade agreements (i.e., *Canada-EU Strategic Partnership on Raw Materials*). In some instances, policy learning and transfer is occurring via what is called band-wagoning (Ikenberry, 1990). Band-wagoning in this case is when governments introduce institutional or policy changes because they are concerned of falling behind their peers (i.e., Canada introducing policy changes to meet trade requirements established by the EU, which is leading the development of high-quality ESG standards with its adoption of ESRS)

Also related to ESG reporting, but more aligned with sustainability reporting, is the use of ICMA principles for green bond frameworks. While the content analysis only includes one example of reporting on green bonds in Canada, many other governments, such as cities of Vancouver and Toronto, are using these financial instruments to mobilize capital in support of environment-related objectives and create more diverse markets for investors.

As is evident from the content analysis, many government documents relating to ESG issues reference monitoring the ongoing development of international ESG reporting guidance, along with the expectations of their stakeholders regarding their implementation. In addition, some governments (i.e., Toronto, Calgary, Edmonton, Vancouver, Ontario) expect their investment managers to be signatories to international commitments such as the UN PRI. While the UN PRI began as a private sector approach to RI, it is being used to further public sector aims. As stated in chapter 4, the diffusion of policy highlights the adoption of a policy (Majone, 1991). Whether the current end result is inspiration or emulation, it is evident that ESG ideas, principles, and guidance is being diffused from international organizations to governments across Canada, resulting in uptake of ESG reporting practices.

## 6.2 Private Sector: Non-state and state interactions shaping policy change

The Government of Canada is taking an increasingly active role as a regulator to harmonize ESG policy and guidance in the private sector. Through entities such as SFAC, Canada seeks to transfer policy guidance domestically by creating a taxonomy that will serve multiple use cases across the private sector. The efforts require cross-government collaboration, resulting in whole-of-society changes. In SFAC's report (2022), there are references to joint initiatives by the federal government and participation from the financial sector. There is also direct reference to provincial ESG-related reporting initiatives (i.e., Alberta's ESG reporting on its Hydrogen Roadmap; and BC's reporting on its Clean BC plan). SFAC is also working in partnership with research institutions such as the Canadian Climate Institute, to develop a green and transition finance taxonomy for Canadians. Through partnerships such as SFAC, state actors are engaging in lesson-drawing with other state actors to develop ESG guidance, resulting in a changing policy environment (Rose, 1993).

Even though the vast majority of ESG guidance documents developed to date have been for use by the private sector, governments are learning about these practices and are seeking more information to advance their own agendas. As mentioned in the content analysis, guidance relevant to a Canadian context (i.e., ESGI), will serve multiple use cases, not only in the private

sector, but also in the public sector. This is important because as evident from the content analysis, credit agencies are not only assigning ratings to companies, but are also independently assigning ESG ratings to multiple jurisdictions which are now under pressure to communicate their ESG performance to investors. This entire process encapsulates the complexity of the policy transfer network as it shifts from being focused only on private sector reporting, to encompass public sector reporting as well.

### 6.3 Government of Canada: Developing ESG guidance to fit a Canadian context

The Government of Canada is starting to use ESG reporting for its own activities, as a means to promote sustainable finance. Regulatory amendments to directives that integrate ESG activities (i.e., Canada's revised *Directive on the Management of Procurement*), should lead to greater compliance in the public sector to meet intended sustainable development outcomes (House of Commons, 2022). Compliance is more likely if done alongside supporting regulatory incentives and within a broader policy framework. When enforced by regulations or law, standards can become a powerful tool for change.

These changes are not occurring in a vacuum. As noted in the literature review, governments in Canada at all levels have placed sustainability issues at the top of their agendas. Canada's CGF and green bond issuances will help develop the country's sustainable finance market and may mitigate some of the risks stemming from its resource-based economy as it transitions to a more sustainable economic model. The literature review made the connection that ESG performance on economic growth is most pronounced in high-income countries and but weaker in countries whose national income relies on natural resources (Wang et al., 2022). Although Canada is a high-income country, its economy has traditionally been built on natural resources and other emissions-intensive industries (PRI, 2023). These findings provide policy implications for promoting sustainable economic growth.

Policy learning and transfer is also evident among Canada's federal agencies. Statistics Canada's consultations on ESG reporting included a wide range of stakeholders, including Indigenous governments and organizations, federal, PT partners, private sector organizations, regional and national industry regulatory bodies, and sustainability and ESG experts and academics. Statistic's Canada's 2023 *Environmental, Social and Governance Project and Indigenous Peoples Engagement Report* provides key findings and data that can be used to inform the development of ESG guidelines and more accurately represent the Canadian context. A takeaway here is that Indigenous voices should continue to inform the development of ESG policy and guidance to meet the needs of Indigenous communities and ensure they have equitable representation on how resources in their territories are used. Evidently, stakeholder engagement is an important tool of policy learning because it provides insight into real opinions and views.

Policy learning is also evident from research activities that are documented and shared online for a wide audience. For example, the content analysis highlighted a research summary published by the CER which explores the overlap between ESG factors and the CER's regulatory oversight. The summary shows that CER and ESG reporting are aligned in that they both aim to provide information to stakeholders (e.g., investors) who seek assurance that energy companies act responsibly. However, the CER's summary argues that even though ESG information (i.e.,

reporting metrics), fulfill stakeholder demand, they differ in the in the level of detail and quality of data needed to meet the CER's regulatory requirements. This raises the point that ESG reporting might not always meet the strict reporting standards required by governments, their agencies, and others in the public sector.

#### 6.4 Provincial and Territorial Governments: ESG policy innovation and jurisdictional frameworks

Corroborating the findings from the literature review, PT governments (i.e., B.C, Alberta, NWT), are taking multi-pronged approaches to reporting on ESG issues. These governments are engaging in ESG reporting to help stakeholders such as investors and financial institutions identify areas of potential investment; align reporting strategies to advance sustainability goals; and address credit ratings.

Some jurisdictions, such as the Government of Ontario, are not issuing dedicated ESG reports, though certain public sector assets are being managed by external managers using ESG reporting. Ontario's steward IMCO uses ESG criteria to fit the OPB investment portfolio. Counterparts in other provinces also issue ESG reports. As mentioned in the literature review, this is part of a larger trend of external organizations managing government assets or investments (Wurster and Schlosser, 2021). Investors are users of ESG reporting and many act on behalf of clients as fiduciaries. Governments around the world are starting to require that investment policies for large assets such as pension funds account for financially material ESG factors. These funds can be funneled toward supporting the goals of sustainable development.

As more governments partake in ESG investing, entities such as IMCO are calling for support of the disclosure of comparable and reliable information, and the alignment of standards on sustainability reporting at an international level (IMCO, 2022, p. 34). In August 2022 IMCO signed a joint statement from companies, investors, and accountants that advocated for organizations that set standards (e.g., ISSB, U.S. SEC, EFRAG), to work together on a global baseline for reporting sustainability information. Since then, and combined with other calls for harmonization, the ISSB has been working with jurisdictions and companies to develop IFRS S1 that sets disclosure requirements on sustainability reporting over the short, medium and long term, and IFRS S2 that specifies climate-related disclosures (IFRS, 2023).

Unlike Ontario, BC and Alberta have taken dedicated approaches to report on ESG issues. The BC government in its dedicated *ESG Summary Report*, uses its own jurisdictional "ESG Framework for Capital" which acts as an "ESG lens" (BC, p.4). This lens is applied to capital plan investment supports to show how the government is meeting different ESG objectives. The report offers examples of the policies and services offered across government, and some of the performance measures used to assess this work.

Likewise, in its recognition that a globally accepted ESG framework of relevance to subnational governing entities does not exist, Alberta's ESG Secretariat with input from stakeholders, developed a jurisdictional ESG framework. To develop the framework, the policy learning process involved a jurisdictional scan and a review of international frameworks (i.e., the UN SDGs, GRI, SASB, MSCI, and S&P Global ESG ratings). Using this framework, Alberta outlines

in several fact sheets the strategic investments the province has made relating to ESG issues in the energy sector, as well as some of the metrics being used to measure performance.

On the one hand, these jurisdictional ESG frameworks can be viewed as policy innovation. Both provinces have been inspired to create jurisdictional frameworks because of the demands of a changing investment landscape. In doing so, BC and Alberta have taken to hybridization – where a government combines elements of policy in several areas to develop a policy that serves another need (Braun & Clarke, 2013). Though carried out in different formats, both reporting styles use terminology and language familiar to investors. Alberta and BC are incorporating what they learned from multiple sources to communicate to investors the ESG performance of several government initiatives.

On the other hand, hybridization has led to some noticeable reporting issues, such as the conflation of sustainability and ESG investment strategies. For example, BC's report highlights its sustainability commitment to lower GHG emissions but elsewhere states "natural gas is one of BC's key resources" (BC, 2022, p. 32). Similarly, Alberta's report claims it produces "clean, secure and ethically sourced energy" (Alberta, 2023) but details investment opportunities in natural gas and liquefied natural gas. Although ESG reporting can incorporate the concept of double materiality to advance the aims of sustainability, investing in natural gas contradicts BC and Alberta's claims of being committed to lowering emissions or being a clean and ethical province. With contradictions such as these, it is difficult to discern if these provinces are providing reliable ESG data. A similar phenomenon is observed in the private sector leading to accusations of green washing.

In addition, while oil and gas may provide economic stability in the short term, the literature review mentions that resource-based economies will face greater risks as the effects of climate change worsen (PRI, 2023; Wang et al., 2022). Unlike BC which details the risks and volatile prices of oil and gas, and their commitments to lower GHG emissions, Alberta's report fails to mention any risks the province might face due to its dependence on natural resources. Without a risk assessment, ESG reporting carries less value to stakeholders interested in how investments will perform over time. The lack of transparency in BC and Alberta's methodologies makes it difficult for external reviewers to assess, compare, or even benchmark ESG data among these peer jurisdictions. This points to a need for comparable ESG information among peer governments.

At the same time, Alberta and BC are aware of reporting shortfalls, and both raise concerns that there is a general lack of direction and guidance on ESG reporting best practices for governments, which is impeding their efforts. For example, BC's *ESG Summary* states that governments are still seeking clarity on how to respond to investor demand for ESG information, and to ratings and scores from independent parties that each use their own methodology. The report adds that BC has developed an ESG framework for temporary use "because a global standard for an ESG framework does not yet exist [for governments]" (BC, p.4). Similarly, as mentioned by the Alberta ESG Secretariat, ESG assessments of governments by rating agencies is a relatively new practice and governments are still learning how to communicate ESG issues. The Secretariat goes on to say:

The categories, topics and indicators used by corporations to measure progress towards ESG goals were not designed to consider the range of sectors and ESG issues that a jurisdiction must consider and are often not fit for this purpose (Alberta, 2023).

As indicated, both provinces have indicated a gap in the ESG policy learning and transfer process. Although this may be a legitimate concern in some areas, the literature review provided evidence that guidance for governments does exist by way of organizations such as the World Bank (Cabral, R., et al, 2020). However, neither Alberta nor BC seem to be using this guidance.

Unlike BC and Alberta, the NWT does not issue a dedicated ESG report, but it does report on ESG investing approaches that are being used to build relationships and strengthen its public-private partnerships in areas of strategic investment, specifically the mining and critical minerals sector. Even though mining is an invasive activity that can damage the environment and landscape, the NWT's report does not make any contradictory claims that mining is a sustainable activity, ensuring greater reliability of data for investors. The NWT is also engaging in communicating its ESG activities to a broad audience by publishing short articles on their consultations, conferences, and forums, relating to its public-private partnerships. These sources provide insight into how ESG policy learning and transfer are happening in less populated, northern regions of the country. Policy learning and transfer is ongoing as NWT officials meet with Indigenous and industry leaders as well as various levels of PT and federal governments to talk about their ESG practices and the application of ESG through an Indigenous lens, referred to as ESGI (NWT, 2022).

While the ESG reports by PTs provide great insight into why and how ESG reporting is happening in Canada, they also present challenges being experienced by these governments, such as the lack of harmonized guidance which is resulting in unreliable ESG performance data. Better ESG guidance may lead to better reporting with transparent, reliable, and comparable ESG data for stakeholders.

## **6.5 Municipal Governments: Collaborating with peers to advance ESG-related reporting**

As with the federal and PT governments, Canada's largest cities are reporting on some aspect of ESG issues to drive investment, to align ESG reporting with sustainability reporting, and to address credit ratings and ESG scores. Toronto was the first government in Canada to issue a dedicated, annual ESG Performance Report. Montreal and Mississauga report on ESG-related issues in their annual financial reports, in a section dedicated to sustainability reporting. Likewise, Calgary and Edmonton report on ESG-related issues in a section of their financial reports, and additionally, are considering ESG issues in their investment reports. It is also apparent that cities such as Vancouver are paying close attention to the ESG reporting landscape and may incorporate ESG reporting in its future investment strategies. Smaller cities such as Ottawa are also taking notice of ESG-related issues and have started reporting on them in their annual financial reporting.

Similar to the Government of Canada, there is a focus on the E factor of ESG with uptake of ESG considerations by city governments. As mentioned in the literature review, this is part of a larger trend because climate-related emergencies are becoming more of a reality for cities across Canada (Bush, E., et al, (2022). For example, all the cities included in the content analysis

make climate-related disclosures using TCFD recommendations to report on four pillars (i.e., governance, strategy, risk management and metrics and targets) in a section of their financial reports. There is evidence of municipal governments (primarily Toronto, Montreal, Vancouver, Edmonton, Calgary, Mississauga), engaging in policy learning and transfer by obtaining city-level guidance from resources such as: the TCFD Guidance for Cities project, CPA Canada’s guidance documents for climate related disclosures by cities, and C40 Cities which connects 96 of the world’s leading cities working to confront challenges arising from the climate crisis. Policy learning and transfer here highlights that municipal governments are intentionally seeking structure and are looking to international standards for reporting. They are also using common reporting language to compare progress and increase transparency of their ESG-related accounting practices, investing practices, and more. These governments are considering ESG issues in financial reporting because it is more relevant to stakeholders than traditional annual reports.

*Toronto: Taking an Integrated Approach to Report on ESG Factors*

Toronto takes an integrated approach to reporting on ESG factors across government, and also externally in partnerships with those who manage city assets. Along with this, Toronto’s Chief Financial Officer and Treasurer are working to integrate global leading practices for reporting on ESG issues in the city’s investment policy. As with the other cities in the content analysis, Toronto is actively monitoring ESG developments in the international community such as ISSB’s work on how climate-related financial information should be recognized as part of municipal financial statements. Stated in the city’s ESG report is a commitment to remain “engaged in ongoing collaborations with other Canadian municipalities on this matter” (City of Toronto, 2022 Financial report, p. 108). As such, Toronto’s ESG report works to complement information in the city’s annual financial report, which includes a section on TCFD climate-related financial disclosures.

Toronto has also joined a data shop for governments called the World Council on City Data (WCCD), which includes over 30 participating Canadian cities as part of its Global Network. Toronto was among the first 20 cities globally to implement ISO 37120, which is:

“... a document that defines and establishes methodologies for a set of indicators to steer and measure the performance of city services and quality of life. This document is applicable to any city, municipality or local government that undertakes reporting initiatives to measure performance in a comparable and verifiable manner, irrespective of size and location” (ISO, 2018).

Guidance like this allows municipalities to measure their sustainability performance over time, across city services and quality of life, with standardized indicators that are comparable across peer jurisdictions. Through this harmonized and holistic approach, cities can engage in reporting that offers greater accuracy, consistently, and verifiable data. This data can then be shared across all levels of governments, peer municipalities, regulators, and community organizations, supporting policy development.

*Montreal: Collaborating with Peers to Advance ESG and Sustainability Reporting*

Montreal is advancing TCFD recommendations, as well as incorporating ESG factors in a section of its annual financial reporting. Montreal is engaging in much of this work because it is connected with their mandate to report on sustainability-related disclosures, including those relating to the climate. In their 2021 financial report, Montreal states:

While the application of this framework was initially geared to businesses operating in the financial sector, today, it is used by various private and public global organizations. Over the past three years, it has continued to gain ground in Canadian cities and federal government organizations, given that, like most industries, governments are not immune to climate change risks [...]. The risks, such as those related to climate change, can arise quickly and evolve dynamically, resulting in impacts of catastrophic proportions. Environmental, social, and governance (ESG) concerns will now be at the heart of strategies to build organizational resilience and ensure economic stability and global wellness. (P.81).

Along with incorporating ESG concerns in its annual financial reporting, Montreal's Accounting Department has been taking an active part in the C40 Cities Climate Budget Pilot which connects cities that seek to advance, implement, and improve climate budgeting processes. C40 Cities provides creates programme activities for cities to share best practices, promote capacity building, and equips cities with resources needed to progress. By doing this, Montreal joins Barcelona, Berlin, London, Los Angeles, Milan, Montréal, Mumbai, New York City, Oslo, Stockholm, Paris, Rio de Janeiro, Tshwane, all of which are supporting these activities. Coupled with this, Montreal is commenting on the exposure drafts issued by the IFRS, ISSB, and IPSASB, in an effort to help guide their work to develop new sustainability-related accounting standards.

Furthermore, Montreal is collaborating on the work being done by the PSAB, the MNAI, the Intact Centre, and the network of Canadian cities on matters concerning financial disclosures related to ESG issues. For example, stated in Montreal's 2021 financial report, is that "other Canadian cities, such as Edmonton, Toronto, and Vancouver have added in their annual financial reports, for the purposes of transparency, coherence, and comparability, the unaudited section" (p. 82), which addresses TCFD recommendations. This work is being done at an important time, because of "the unprecedented economic losses from climate emergencies occurring throughout the country" (Montreal, 2021, p. 85). The report documents how by February 2022, ECCC, the CSA, and the Municipal Natural Assets Initiative (MNAI) signed a new agreement that the CSA will develop a new national standard for natural asset inventories.

#### *Mississauga and Ottawa: Initiating Sustainability Reporting*

Mississauga in its 2022 annual financial report uses not only the TCFD framework, but also includes information on the city's current sustainability-related initiatives. These are organized under its "Integrated Reporting framework capitals" (p. 139), with its scope being human, financial, manufactured, intellectual, social and relationship, and natural, with connections noted to the UN's SDGs. While Mississauga acknowledges that even though global standards do not always apply to municipal government operations, the city is monitoring the "evolving industry frameworks on sustainability accounting and reporting" (p.139). In fact, the term Integrated Reporting is hyperlinked to the IFRS foundation's webpage on the Integrated Reporting framework, illustrating the direct transfer of international guidance to the municipal level where

this knowledge is being utilized. While not as all-encompassing as Mississauga, Ottawa too engages in TCFD reporting, illustrating that even smaller, less populated cities in Canada are aware of ESG-related issues international frameworks and are incorporating them in a section of their annual financial reports.

#### *Calgary and Edmonton: Considering ESG Issues in Financial Decision-Making*

Calgary and Edmonton both consider ESG issues in annual reporting and investment policy. In regard to Calgary, the city uses TCFD reporting in its financial reporting and draws inspiration from private sector investment initiatives to consider ESG issues in the city's investment report. For example, Calgary's investment report references the benefits of ESG reporting in the private sector, reiterating the point that "...many ESG factors have a material impact on investment risk and return across time horizons and asset classes" (p. 5). ESG activity in the private sector has created pressure for governments to bandwagon, because "incorporating ESG reporting in the investment process is becoming common practice in the institutional investment industry" (p. 27). As such, Calgary is taking steps to monitor how ESG is implemented in the investment management decisions of its own operations and its investment mandates with external managers. Although this is a new initiative, it is evident that Calgary is emulating private sector practices to operationalize ESG reporting.

Similar to Calgary, Edmonton incorporates TCFD recommendations in the city's annual report and factors in ESG issues in its investment report. First, relating Edmonton its annual report, in a section on climate-related disclosures, Edmonton includes a carbon budget that integrates financial decision-making with GHG emission disclosures and impacts. The carbon budget provides a framework to annually track and manage GHG emissions through qualitative and quantitative data. As for the Edmonton's investment report, Edmonton's Investment Policy contains a commitment for the city to support social and ethical business practices by exercising its shareholder rights and voting through a shareholder resolution process. The shareholder resolution process emulates the practices of companies in the private sector. Both Edmonton and Calgary are applying private sector, industry-wide standards in how city investment managers and external investment managers assess due diligence for city assets and monitor their investments.

#### *Vancouver: A nuanced approach to reporting on ESG issues*

Even though Vancouver has incorporated the TCFD framework in its financial reporting since 2018, the city's annual financial report voices that TCFD recommendations and requirements are primarily aimed at the private sector. The report states that "concepts like 'investors' and 'market risks and opportunities,' are not directly transferable" (p. 51) to a municipal government. Furthermore, Vancouver views government reporting as distinct from private sector reporting because government interests cross both public and private domains. To differentiate itself from the private sector in its reporting and disclosure, the city's report clarifies that it "incorporates a broader community view, to climate risks and impacts on both the City as a local government and as a community" (p. 51) While there is a gap in knowledge on how governments should respond to investor demand for ESG-related information, Vancouver

does mention in its report that it looks to future government-specific guidance and will continue to evolve reporting disclosures as needed.

The city is also monitoring international and national developments in reporting guidance for public-sector reporters by participating in consultation on draft climate-related standards and discussion papers from the IFRS Foundation and the International Public Sector Accounting Board. Vancouver is also engaging in policy learning and transfer by working with CPA Canada in their *TCFD Guidance for Cities* project. Not does Vancouver mention working with other Canadian municipalities to raise awareness on climate-related financial disclosures, but the city also states that it has encouraged the Government of BC to include TCFD recommendations in their annual financial report. This indicates city-province policy learning and transfer as well.

#### *VEC: Promoting the City of Vancouver as a Place of Investment*

VEC serves to strengthen Vancouver's economy and support local companies by offering programming and advising business leaders and policy makers research on the region's economic health. VEC is engaged in research to identify metrics and communicate to investors the city's advantages in relation to both capital and operational investment attraction. Interestingly, VEC uses data from leaders in sustainable city research such as C40 and CDP, to benchmark ESG performance by peer cities. This shows that having comparable standards for reporting KPIs and other ESG data leads to usable data.

As mentioned in the content analysis, it was recently announced that VEC is being decommissioned and will be replaced by a new Business and Economy Office within Vancouver's (City) Manager Office. Thus, in the near future, Vancouver may internally pursue the work of communicating the jurisdiction's opportunities and risks to investors.

#### *MFA: An Example of Cross-Municipal Support and Reporting*

The MFA is a cooperative financial institution created by, governed by, and exclusively available to BC's local governments to pool borrowing in financial markets to finance infrastructure. The MFA acts as an ESG knowledge hub by hosting a repository of relevant metrics that enhance ESG decision making and advocating for the standardization of ESG reporting within the local government context. Through these activities, the MFA brings together much needed educational expertise that directly supports elected officials and their staff teams to advance ESG activities. Similar to other jurisdictions, the MFA raises the point that standardization with aligned taxonomy and shared definitions and documents would improve insight into what organizations are doing and how their operations are impacted by ESG issues. Evidently, organizations such as the MFA also play an important role in ESG policy learning transfer.

## **6.6 Indigenous Governments: Incorporating Indigenous views in ESG Reporting**

An interesting finding from the content analysis is that the ESG reporting landscape is also being shaped by input from Indigenous Peoples. The FNMPCC's activities are setting a new precedent by giving Indigenous Peoples an equity stake in projects being developed in their own territories, as well as empowering them to develop and implement their own frameworks and standards, such

as ESGI. This contribution is relevant in a Canadian context because of the country's history of colonialism. Historically, Indigenous governments and business have faced challenges acquiring the necessary capital to fund projects because lender typically assess them as higher-risk borrowers. However, when backed by a government or other loan guarantee (e.g., in the case of the Cascade Power Plant), Indigenous governments can access capital to invest in projects and create their own revenue streams. By taking part in these projects, Indigenous People are free to integrate their own viewpoints in ESG reporting and express their right to self-determination.

This is especially important because existing ESG guidance documents often do not take Indigenous rights and interests into consideration. Only GRI and SASB have limited references to Indigenous People. With GRI, Indigenous issues are only viewed as important when Indigenous People initiate court action against a company. This approach works against the achievement of better ESG outcomes since Indigenous interests are only viewed as financially material after legal remedies are applied.

Incorporating Indigenous viewpoints in ESG reporting is not without its challenges. The report, *ESG-Indigenous Case Study: Cascade Power Plant Project Alberta, Canada* (FNMPC, 2021), used in the content analysis, examines some of the issues involved in developing frameworks such as ESGI. For example, the report interrogates whether the Cascade Power Plant project successfully integrates the Indigenous "I" into ESG, by raising questions such as, "if an investment is in the fossil fuel industry, but includes a meaningful percentage of Indigenous ownership and board representation, does that still constitute as a positive ESG impact?" (FNMPC, 2021, p.15). Given this, the FNMPC's case study report argues that the power plant project supports the S factor in ESG by advancing Indigenous equity but leaves unanswered the question of whether this project supported the E and G factors in ESG. By asking these questions, the report addresses the issue that the purpose, scope, and outcomes of ESG reporting may at times conflict with Indigenous values such as environmental stewardship.

As the FNMPC continues to address these challenges, they are sharing resources to better inform policy learning and transfer and ensure Indigenous perspectives are a part of the larger ESG reporting discussion. Their website offers free resources in the form of stories, ESG guidance documents, ESG case studies, video series, and ESG project overviews. The FNMPC also provides free advice and toolkits to help Indigenous nations get involved as key players in major project development in their territories. They also host and present at local and national conferences and forums, for public, private, and Indigenous sectors. This speaks to the degree that Indigenous nations and Indigenous thought-leaders are, in real time, influencing public and corporate policy.

The FNMPC's contributions to the ESG reporting landscape are also being partly funded by the federal government which provided \$13.5 million in funding as part of the Indigenous Natural Resource Partnerships program. Chapter 5 also highlighted instances of policy learning and transfer between Statistics Canada and FNMPC through stakeholder consultations. At an international level, the FNMPC is also responding to requests to participate in efforts to ensure ESG frameworks and standards reflect Indigenous interests. Guidance developed may be relevant to other countries where both Indigenous matters and ESG reporting have become a priority, such as Scandinavian countries, New Zealand, Australia, the US, and others (FNMPC, 2021).

## 6.7 Conclusion

As can be seen, governments in Canada are engaging in various ESG reporting approaches and activities and are starting to document these actions. A few overall themes have started to emerge. First, ESG policy is being institutionalized in many ways by governments, from concentrating on reporting on the “E” factor of ESG by advancing climate-related disclosures, to integrating ESG reporting across government budgets for services and policies, and even developing jurisdictional ESG frameworks to report on select material factors. As this happens, there is evidence of using guidance from international organizations and even consulting at a domestic level with different demographics to strengthen ESG reporting in Canada’s public sector. Chapter 7 will explore these themes more closely and draw more connections about this changing policy landscape.

## Chapter 7: Thematic Findings

This chapter includes a summary of the seven thematic findings of the thesis, as well as several recommendations and closing remarks. Beginning with the key thematic findings, the seven major themes shaping the ESG reporting landscape for governments in Canada are: (1) the institutionalization of ESG Policy, (2) ESG data quality, (3) ESG policy harmonization, (4) ESGI, (5) the emphasis on the “E” factor in ESG, (6) the alignment of ESG and sustainability reporting, (7) advancing the concept of double materiality. Each of these themes is a result of policy learning and transfer between different levels of government, among peer governments, and the ESG reporting developments occurring in the private sector and internationally.

### 7.1.1 The Institutionalization of ESG Policy

One of the themes that emerged through the content analysis is that many governments are taking select policies and related instruments and mapping them to “ESG” frameworks to showcase their performance to investors. This means that governments are taking initiatives already in existence and re-categorizing them as ESG issues and communicating about them as such in various reports. These governments are reporting on ESG issues to stay relevant in a changing landscape that is placing a higher priority on ESG considerations in investment and lending decisions. For example, Toronto, Alberta, and BC, published dedicated documents to report on ESG performance of select initiatives (i.e., services, policies, investments, debt instruments). The initiatives taken from across government are re-packaged within an ESG report (Toronto), or summary (BC), or several fact sheets (Alberta), in an effort to highlight and profile how they fit ESG criteria and advance ESG outcomes.

Some scholars consider the revision of policy goals as a form of policy layering (Rayner et al., 2017; Vij et al., 2018). Policy layering is one process of institutional change. Thelen et al. (2010) describe four processes of incremental institutional change: ‘layering’, ‘drift’, ‘conversion’, and ‘replacement.’ Each emphasize a particular way that past policies and administrative structures constrain current policies and strategies. Layering is the idea that incremental institutional changes might result from layers of new policies and rules that are added to an institution and its existing policies (Hejiden, 2010).

Rayner & Howlett, (2009), explain that layering is an ‘integrated’ policy strategy that can be used to create optimal results based on two criteria: “multiple policy goals can be coherently pursued at the same time, and second, policy instrument mixes are consistent, in the sense of being mutually supportive in the pursuit of policy goals” (p. 100). Thus, coherent goals and consistent policy tools or instruments are needed to produce optimal results to specific issues. In this case, some of the instruments used to support other goals (i.e., sustainable development goals), are being used to support the new goals of ESG reporting and more responsible investing practices.

In the long term, layering can lead to complex arrangements of policy elements. This may lead to situations of incoherence and inconsistencies, as is the case with Alberta and BC’s reporting that at times, conflates ESG investing initiatives with the language of sustainability.

Unless ESG reporting takes into account the concept of double materiality, governments may be conflating sustainability reporting with financially-material ESG reporting, even though the latter does not necessarily prioritize positive outcomes for the planet and other ethical considerations.

### 7.1.2 ESG Data Quality

At present, there are many frameworks developed by international organizations, governments, non-profits, private sector coalitions, and other actors, for a variety of users and audiences. Several ESG frameworks and standards that have gained widespread international support are being used or considered for future use by governments in Canada (see Figure 3). The data produced by reporting on ESG factors can benefit investors and other stakeholders. This is especially the case when governments and their peers use the same frameworks, such as the TCFD framework being used by many municipalities in Canada. As is evident, many governments have operationalized TCFD recommendations to monitor and measure climate-related risks and opportunities for sustainable economic growth. Investors can use the metrics and targets reported by governments to identify progress being made in these areas. For example, with so many cities having adopted similar frameworks (i.e., C40, CDP, TCFD, and others), organizations such as the VER are able to provide global peer city comparisons across ESG factors and benchmark ESG performance (See Appendix 1 for an example).

On the one hand, as more governments join the ESG conversation and learn from each other, they may use similar metrics to produce comparable data. It also helps that there seems to be more guidance for certain levels of government (i.e., municipal governments) to report on their ESG-related performance. On the other hand, if governments do not have adequate guidance and are left to innovate by creating their own jurisdictional frameworks, these initiatives might not lead to comparable data. As mentioned earlier, BC and Alberta use their own ESG frameworks that lack of comparability. For instance, Alberta and BC, do not report on the same issues. Also, Alberta uses more qualitative assessments to show improvements in areas it views as having potential for investment, while BC is still developing its methodology which could in the future input detailed KPIs from select policies and services. The data provided by these two governments is thus incomparable.

Much of the ESG guidance at present was created for the private sector, and as a result, many governments are struggling to effectively communicate their ESG performance. By extension, the issues affecting ESG reporting for those in the private sector are also affecting the public sector, and many governments have highlighted limitations within the current ESG reporting landscape. The SCC's report mentioned that ESG reporting suffers from a crowded field of frameworks, lack of standardization and inconsistent terminology among frameworks, variation in the adoption of frameworks, and gaps in guidance around key topics which could have a meaningful impact on the sustainability performance of organizations (SCC, 2023).

Furthermore, as investors and others in the financial community more frequently require ESG reporting to be based on international standards, jurisdictional frameworks of governments may be rendered ineffective. In addition, it is unlikely that rating agencies will consider jurisdictional frameworks when rating these regions' ESG performances because they utilize their own frameworks and standards as well. While this might change in the future, at present,

ESG reporting by governments does not require the consistent disclosure of data methods, thresholds, benchmarks, or performance measurements.

It could also be argued that ESG reporting overlaps with many government reporting strategies and methodologies already in existence that address ESG factors through more reliable, accurate, and transparent methodologies. Governments abide by regulatory frameworks, acts, regulations, and guidance developed by legal and policy experts. For example, the CER mentioned that it has a strict regulatory framework and as such, would not require regulated companies to develop ESG frameworks or mandate specific ESG reporting. Many governments and their agencies have reporting frameworks and strategies for data compilation and mechanisms to evaluate performance and compliance with a level of accuracy that at present is not a requirement in ESG reporting.

### 7.1.3 ESG Policy Network and Harmonization

Across the country, many governments are seeking guidance around key topics in ESG reporting. At the federal level, Canada is supporting the development of broader sustainable finance tools such as taxonomies for use in both the private and public sector, in an effort to meet ESG standards in strategic trade agreements and to advance multilateral cooperation. In addition, Canada may provide more guidance for those it has mandated to report on ESG factors (i.e., Crown corporations) and for some of its own operations, pension funds, and investments in sustainable finance. The PTs and municipalities are paying close attention to these changes in the ESG reporting landscape, with many of them awaiting guidance from the nation and international organizations. In the interim, governments such as BC and Alberta's, are forging ahead with their own hybridized, distinctive frameworks.

Municipal governments in particular are engaging in meaningful policy collaborations with their peers and mention the ESG policy learning and transfer pathways that are being built across the country and beyond borders. Municipal governments in Vancouver, Toronto, Montreal, Edmonton, and Calgary, also refer to working collaboratively and learning from leading practices in the private sector, to strengthen reporting strategies.

Importantly, there is evidence of governments reaching out to Indigenous communities that have been historically marginalized, by engaging with them in stakeholder consultations. Indigenous communities are also not waiting to be added to the conversation and have started creating their own ESG frameworks to ensure their inclusion in decision-making processes. Overall, effective policy diffusion has led to uptake by some governments, and interest by others. The content analysis has provided evidence of soft transfers of ESG ideas and concepts, and hard transfers of ESG reporting guidance and implementation, happening at every level of government in Canada. These collaboration pathways are building meaningful spaces for learning, prioritising the needs of jurisdictions at all levels, and generating new policy solutions to harmonize the ESG policy landscape.

#### 7.1.4 ESGI

The FNMPC's ESG reports are precedent setting because they provide Indigenous Peoples with an equity stake in projects undertaken in their own territories and the opportunity to shape their own frameworks such as ESGI. Taking into account Canadian case law on Indigenous rights, as well as UNDRIP which will be enshrined into law, failing to include Indigenous perspectives could be a capital risk. Within this context, it is apparent that in order to be successful, any investment that affects Indigenous Peoples and their territories should integrate their perspectives.

As mentioned earlier, the Canadian Government is seeking to incorporate Indigenous views in ESG reporting. If done effectively, Canadian ESG frameworks and standards will integrate some of the traditions, knowledge and values of Indigenous People who are involved in major capital projects, as well as the needs of other stakeholders. As more work is done to develop a Canadian interpretation of ESG reporting, any progress should entail discussion between Indigenous Peoples who have a vested interest in ESG.

#### 7.1.5 The Push for the “E” Factor in ESG

As evidenced in the literature review, the “E” factor in ESG captures under its umbrella important environmental issues such as climate change, which is one of the biggest motivating forces for ESG gaining importance domestically and internationally. The effects of climate change are creating risks that are placing sustainability concerns high on government agendas. As such, all three orders of government in Canada have announced commitments to report on climate-related issues. For example, federal entities and Canadian cities are using the TCFD framework to disclose climate-related risks. These jurisdictions and others are part of another policy network – one that includes subnational governments working to monitor, measure, and achieve their GHG mitigation objectives and, to ensure that the GHG-reduction initiatives, policies, and programs of these jurisdictions are aligned with national reduction commitments. Certain entities in this network have realized that to meet climate objectives, investment is needed in activities and sectors that will help jurisdictions transition to a low-carbon economy. Governments are having to play a role in establishing accountability over its GHG emissions, as well as align with forecasted changes to Canadian and international accounting standards for climate-related disclosures.

At the same time, the goals of sustainable development or climate objectives cannot always be conflated with the goals of ESG reporting. For example, many governments are under pressure to reduce emissions of GHG. On December 12, 2015, Canada and 194 other countries reached the Paris Agreement to limit global warming to well below 2 degrees Celsius. The Canadian Net-Zero Emissions Accountability Act, which became law on June 29, 2021, enshrines in legislation Canada's commitment to achieve net-zero emissions by 2050. The Act ensures transparency and accountability as the government works to deliver on its targets. Ultimately, unlike companies in the private sectors, governments are accountable not only to investors, but the public, and they may commit to objectives that place the well-being of society over financial gain. This thesis suggests that strategies that serve the private sector and hold companies to more responsible financial practices, are not always as encompassing as those required to hold the government accountable to the public.

### 7.1.6 Policy Alignment – ESG and Sustainability Reporting

ESG reporting can enhance the financial resiliency of governing entities by providing data that helps them make informed financial decisions. As mentioned throughout the thesis, a major pull toward applying TCFD reporting mechanisms is that international and domestic private corporations are now increasingly being rated on their ESG impact and performance, with governments starting to follow this practice. Going forward, both private and public organizations will be defined by how well they handle ESG-related risks and opportunities. Paired with climate action plans and sustainability plans, ESG reporting is a useful mechanism for communicating progress toward sustainability goals. For example, TCFD frameworks require accounting for GHG emissions with the aim of lowering emissions to mitigation transition risk, and ESG reporting helps support this type of reporting. The uptake of TCFD recommendations may be a steppingstone toward using broader ESG reporting frameworks. Use of TCFD is encouraging greater interest in ESG, which is helping to ensure transparency by tracking government commitments and targets and subsequent sustainability outcomes and impacts.

Many governments are aligning or coupling ESG and sustainability reporting in investment practices. The Government of Canada is building on the strength of long-standing conventional debt instruments, with sustainable financing become a growing part of debt issuance programs. Green bond programs, which restrict the use of debenture proceeds to eligible green projects, allowing governments at all levels to expand investor bases to include those with a sustainability mandate. Unlike investors of conventional debentures, these investors are often required to measure their return on investments from both the financial and environment or social outcomes. By reporting on the performance of multiple financial instruments, issuing ESG reports is part of a larger movement that focuses on progress towards sustainability and positive socioeconomic outcomes.

### 7.1.7 The Concept of Double Materiality

While financial materiality remains the primary focus of most ESG frameworks, there is increasing interest in materiality from a broader impact perspective. The concept of double materiality considers both an organization's broader impacts on the economy, environment, and people, as well as topics that are material to an organization's value. Integrating double materiality in reporting helps advance sustainability agendas and at the same time, root out misinformation and greenwashing if backed by impact-focused metrics and data. As sustainability plans and effective ESG reporting are advanced in parallel, it takes the concept of materiality in sustainability reporting one step further to double materiality. However, emphasis should not only be on the "E" factor of ESG. It is not just climate-related impacts on the government that can be material but also impacts of a government on the climate – or any other dimension of ESG factors. Data should reflect the interconnectedness of ESG issues. Though none of the governments included in the content analysis make specific reference to the concept of double materiality, it is implied in most of their documents which communicate the impacts of advancing sustainability goals. This illustrates that governments are increasingly recognizing that ESG issues are financially material for investors and therefore should be communicated in an easy-to-understand format and with language or terminology relevant to this audience.

## 7.2 Recommendations

Below are several recommendations for those working in the ESG policy learning and transfer space for governments.

1. Governments at all levels need relevant guidance and technical expertise to report on ESG issues in an accurate and timely manner.
  - a. As demonstrated by governments, and public sector and non-profit entities in the content analysis, guidance documents, standardization, and shared definitions, would improve insight into what governments are doing and how their operations are impacted by ESG issues.
  - b. Governments should consult international organizations (i.e., the ISSB standards that build on the TCFD and the CDSB, consolidated into the IFRS) for insight into voluntary reporting standards to develop a consistent framework for reporting.
  - c. Also, as exemplified by organizations such as IMCO and MFA, governments could also consult external managers of their investment funds or other financial instruments, who may already be engaging in ESG reporting on their behalf. By doing this, governments can gain valuable insight on ESG reporting and broaden its scope for reporting on ESG issues in internal operations.
  - d. Not only should governments monitor the development of harmonizing ESG policy and tools, but they should also remain aware of expectations of their stakeholders regarding these frameworks/standards.
2. While there is evidence of municipalities in Canada adopting ESG reporting practices, especially in regard to climate-related issues following the TCFD recommendations, PT governments are seeking more relevant ESG frameworks and standards to report on broader sustainability issues.
  - a. On this note, PT governments would benefit from greater collaboration and the building of more cohesive policy networks to share ESG information.
    - i. Creating stakeholder groups or communities of practice at the PT jurisdictional level may help facilitate peer to peer learning and peer policy networks.
    - ii. Learning from other countries through tools such as the World Bank's ESG portal which offers many case studies, can help governments understand how investors use ESG information in their investment strategies, and how debt managers are engaging with them, and how engagement can be improved.
  - b. There should also be consensus on why and how peer governments will report their ESG performance, so that ESG data is measurable, and governments are held accountable to their goals and objectives.

3. ESG frameworks should include Indigenous peoples' values and interests.
  - a. The ESGI framework considers Indigenous perspectives, whereas all other international frameworks and standards were found to be lacking. The Canadian Government is taking steps to incorporate Indigenous views into ESG reporting, which may help integrate some of the traditions, knowledge and values of Indigenous People who are involved in some infrastructure and capital projects.
  - b. In addition, non-profits such as the FNMPC are leading the development of ESGI indicators. Organizations such as the FNMPC should be consulted by governments seeking to incorporate Indigenous perspectives, in an effort to ensure ESGI initiatives are Indigenous-led.
    - i. There are also opportunities for partnerships, to share resources and tools between the different levels of government and Indigenous Peoples.
4. Regarding governments financial investment activities, ESG data should not conflate sustainability strategies with responsible investing strategies, in an effort to mitigate greenwashing.
  - a. Data included in ESG reports should reflect material impacts, risks, and opportunities.
  - b. ESG reporting can be aligned to greater sustainability strategies by adopting the concept of double materiality in investment decisions for internally or externally managed assets.

## Chapter 8: Conclusion

Reporting on ESG issues is gaining traction among governments in Canada. Governments are considering ESG issues in their reporting approaches because it attracts investment, is linked to sustainability-related agendas, and affects jurisdictional creditworthiness. Through offices tasked with financial decisions, governments are communicating their ESG activities through various reporting strategies. Some governments, such as the City of Toronto, are taking integrated reporting approaches to consider ESG factors across the government's services, policies, and investments. Other governments, such as BC and Alberta, are reporting on ESG factors relating to select services and policies happening across government by packaging this information into ESG documents for investors. Other governments, such as the NWT, Montreal, Vancouver, Edmonton, Calgary, Mississauga, and Ottawa, are considering ESG issues in reporting because it is more relevant to stakeholders than traditional government reports. At the national level, the Government of Canada is leading harmonization efforts to strengthen ESG reporting in the private and public sector, while also taking steps to integrate ESG reporting in government procurement and green bond/wealth fund activities. Indigenous Peoples are also contributing to this evolving space by informing new frameworks such as ESGI.

Additionally, the literature review and the content analysis have made evident the soft transfers of ESG ideas and concepts and the hard transfers of ESG reporting guidance and implementation, occurring through policy learning and transfer from international organizations to governments at every level, and among peer governments. Evidently, there are several policy networks, where policy learning and transfer are being carried and diffused from international organizations which inspired more responsible investment practices first in the private sector and then in the public sector. For example, the content analysis shed light on the policy network of local governments that show government commitment to annual data reporting through initiatives of the CSA, WCCD, the ISO 37120, the Canadian Municipal Network for TCFD, and others. This policy network illuminates some of the opportune outcomes of increased collaboration as governments build their own reporting capabilities and at the same time, monitor evolving practices.

While the thesis highlights some of the opportunities of ESG policy learning and transfer policy among governments, it also points to some of the challenges. For example, one of the major challenges affecting provinces such as Alberta and BC, is the lack of standardized ESG guidance, resulting ESG performance data that lacks comparability with peer governments. There is room for future studies to use methods such as interviews, to take a deeper look at the policy networks between international organizations and sub-national governments, to explore the presence or absence of international guidance at the PT level, or if there may be ongoing collaboration between these peer governments to improve reporting. It would also be interesting for a future research project to explore how governments abroad, for example in the EU, are meeting investor demand for ESG information, and if governments at Canada can learn from these practices.

Lastly, it would be beneficial to study how government reporting on ESG issues changes over time. As mentioned earlier in the thesis, the sustainability reporting landscape has recently seen the emergence of high-quality standards with the adoption of the CSRD at the European

level and, internationally, with the publication of the ISSB exposure drafts. International organizations such as the ISSB are developing global baselines for sustainability-related disclosures. Over time, the TCFD framework will inform and enrich other ESG related disclosures. When this happens, governments may broaden their focus from reporting primary on the E in ESG (i.e., climate-related disclosures), to also incorporating the S and G factors more comprehensively.

Though this thesis leaves questions unanswered, it did answer two questions – why and how ESG reporting is being operationalized by governments. It also provided insight on some of the pathways being formed by governments at all levels in Canada as they engage in ESG policy learning and transfer, and work to generate new policy solutions to harmonize the ESG policy landscape. Over time, with stronger international guidance, continual political backing, coordination across ministries or departments, and dedicated resources and expertise, governments in Canada will continue to improve their reporting of ESG issues. With national and some subnational governments demonstrating commitment to continue reporting on ESG factors, other governments will notice these actions and may engage in ESG reporting in the near future to meet stakeholder expectations regarding ESG standards and provide transparent and higher quality ESG data.

## Appendix A

Example of how VEC and its partner Delphi uses available metrics to compare global peer cities in regard to ESG performance

### Global Peer City Comparison

#### Legend

E = Environment, S = Social, G = Governance

High ranking performance City Ranking / Performance Low ranking performance

ESG	Metric	Vancouver	Toronto	Montreal	Edmonton	Seattle	Copenhagen	Stockholm	Dublin	Singapore	Tel Aviv	Sydney
E	<b>Cost of Energy</b> \$USD per KWH	\$0.08	\$0.10	\$0.06	\$0.14	\$0.16	\$0.48	\$0.29	\$0.29	\$0.20	\$0.17	\$0.21
E	<b>GHG Intensity of Energy</b> GHG intensity (GHG) per KWH	11.5 gCO <sub>2</sub> e/KWH	n/a*	n/a*	n/a*	n/a*	n/a*	n/a*	n/a*	n/a*	n/a*	n/a*
E	<b>Airport Sustainability</b> Qualitative scale	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
E	<b>Port Sustainability</b> Qualitative scale	Yes	Yes	Yes	n/a	Yes	Yes	Yes	Yes	Yes	n/a	Yes
E	<b>Sustainable Mobility</b> Index ranking of 100 cities	56	54	36	n/a	74	12	9	44	8	n/a	51
E	<b>Climate Resiliency</b> Index ranking of 182 countries	14	14	14	14	18	5	4	21	6	27	13
S	<b>Cost of Living</b> Index ranking of 227 cities, with the most expensive as #1	108	89	125	n/a	45	11	87	49	8	6	58
S	<b>Quality of Life</b> Index ranking of 230 cities	3	16	21	n/a	46	8	23	33	25	104	11
S	<b>University Reputation</b> Index ranking of 700 universities	3	2	42	118	62	71	98	171	81	341	5
S	<b>Labour Force Participation</b> Labour force participation rate	67.4%	65.6%	68.1%	68.2%	64.2%	72.1%	74.2%	64.7%	67.5%	63.2%	66.7%
S	<b>Gender Pay Equity</b> Difference between median earnings of men and women (country)	16.7% + P.T.	16.7% + P.T.	16.7% + P.T.	16.7% + no P.T.	16.9% + P.T.	5% + P.T.	7.4% + P.T.	8.3% + P.T.	10.8% + no P.T.	24.3% + no P.T.	15.3% + P.T.
S	<b>Human Rights Protections</b> Index ranking of 165 countries	6	6	6	6	15	3	9	5	48	62	8
S	<b>Accessibility</b> Qualitative scale	Yes	Yes	Yes	Yes	Partial*	Partial*	Partial*	Yes	Partial*	Partial*	Yes
G	<b>Cleantech Ecosystem</b> Index ranking of 280 cities	16	12	n/a	n/a	19	31	3	17	30	2	22
G	<b>Ease of Doing Business</b> Index ranking of 190 countries	23	23	23	23	6	4	10	24	2	35	14
G	<b>Open Data</b> Qualitative scale	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
G	<b>Climate Action</b> Qualitative scale	Yes & Yes	Yes & Yes	Yes & Yes	Yes & Yes	No & Yes	Yes* & Yes	Yes* & Yes	Yes & Yes	No & Yes	No & Yes	Yes*
G	<b>Zero Waste</b> Qualitative scale	Yes	Yes	Yes	Yes	Yes	Partial*	Yes*	Partial*	Yes	Partial*	Yes
G	<b>Circular Economy</b> Qualitative scale	Partial*	Partial*	Partial*	Yes	Partial*	Yes	Yes*	Yes*	Partial*	Partial*	Yes*

n/a\* = The calculation of GHG/kWh for each city is complex and out of the scope of this project  
 \*see report for more information  
 P.T. = pay transparency  
 Yes & Yes = have declared a climate emergency and have a city climate action plan in place  
 Sources are available in the full report

Source: Vancouver Economic Commission, (2023). *Vancouver's Competitiveness as a Global ESG Investment Destination*. [https://vancouvereconomic.com/wp-content/uploads/2023/06/Vancouver-Competitiveness-as-a-Global-ESG-Investment-Destination\\_FINAL.pdf](https://vancouvereconomic.com/wp-content/uploads/2023/06/Vancouver-Competitiveness-as-a-Global-ESG-Investment-Destination_FINAL.pdf)

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