

An aerial photograph of a two-lane road winding through a dense, lush green forest. Several cars are visible on the road, traveling in both directions. The text is overlaid on the upper half of the image.

IT TAKES AN ECOSYSTEM: HOW GOVERNMENTS, REGULATORS, CORPORATES, INVESTORS AND DEVELOPMENT BANKS CAN WORK TOGETHER TO SUPPORT DECARBONIZATION

The Investor Leadership Network



**INVESTOR
LEADERSHIP
NETWORK**



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EXECUTIVE SUMMARY

Decarbonization Ecosystem

The transition to a low-carbon economy is one of the most critical and complex challenges of our time. Achieving this transition requires technological breakthroughs, policy shifts and changes in consumer behavior, in addition to the mobilization of capital at an unprecedented scale.¹ Investors can play an important role in this effort, directing financial resources to support decarbonization initiatives in alignment with their fiduciary responsibilities. However, their ability to act is shaped by a broader ecosystem of interconnected agents, each operating with distinct responsibilities and constraints.

Within this ecosystem, some barriers impact progress and require collaborative solutions, while others are structural features of the system that define how decisions are made and capital flows. Understanding these dynamics is essential to unlocking the potential for action and accelerating the transition to a sustainable future.

The Objective of This Paper

This paper is an educational resource aimed at increasing understanding of the complex ecosystem influencing the flow of capital to support decarbonization efforts. It examines the roles of five key agents – governments, regulators, corporates, investors and multilateral development banks (MDBs) – and explores the variables that shape their actions, categorized as controllable, partially controllable, and systemic.

Through a structured framework and illustrative examples, the paper seeks to enhance awareness of how interconnected factors drive or constrain progress toward decarbonization. By fostering greater understanding of these interdependencies, our ambition is to support more informed discussions and strategic thinking about the challenges and opportunities involved in achieving a low-carbon economy.

Key Agents and Variables

This paper focuses on five key agents within the decarbonization ecosystem:



1. Governments



2. Regulators



3. Corporates



4. Investors (asset managers and asset owners)



5. Multilateral development banks

Each agent's ability to act is shaped by variables that fall into three categories:

- **Controllable:** Variables that an agent has the authority and capacity to shape or implement independently, such as setting decarbonization targets, developing climate-aligned products, or providing financial incentives. While external factors may create practical constraints, these variables remain within the agent's direct control.

- **Partially Controllable:** Variables where an agent has influence but cannot fully determine the outcome, requiring collaboration, alignment, or responsiveness from other stakeholders. Examples include investor engagement with corporate boards or partnerships with suppliers, where the effectiveness of the agent's actions depends on the willingness and capacity of others to act.
- **Systemic:** Variables that are beyond an agent's direct control or significant influence, such as global economic conditions, political environment, or index composition. These variables shape the broader context in which agents operate, requiring adaptation or acceptance as inherent features of the system.

While the paper focuses on these five agents, other actors, such as non-governmental organizations (NGOs), community groups, research institutions, and society at large play essential roles. Public sentiment and consumer behavior, for example, can influence corporate strategies and investment priorities, while advocacy and research informs regulatory and policy development.

These interconnected roles underscore the importance of recognizing the distinct contributions of each agent that shape the ecosystem. Among these agents, investors can be pivotal in driving decarbonization by channeling capital toward sustainable solutions. Investors' actions are fundamentally guided by their fiduciary responsibility, which typically requires the consideration of material risks, including those arising from climate change.

Key Conclusions:

1

Decarbonization is a shared systems challenge requiring coordinated action across agents.

The transition to a low-carbon economy depends on the collective efforts of governments, regulators, corporates, investors, and MDBs, among others. No single agent can achieve this transformation alone; aligning their actions can address systemic challenges and accelerate progress.

2

Strategic action requires understanding controllable, partially controllable, and systemic variables.

By identifying what they can control, influence, or must adapt to, agents can focus their efforts, refine their strategies, and engage effectively with others in the ecosystem.

3

Real-world decarbonization requires acknowledging system dynamics while fostering collaboration.

Progress hinges on understanding the ecosystem's complexities, building partnerships, and aligning diverse objectives.

How to use this paper

Navigating the transition to a low-carbon economy requires a clear understanding of the roles and responsibilities of different agents and the variables that shape their actions. This paper provides a structured framework to explore these dynamics, serving as a practical resource to:

- Identify potential opportunities for collaboration and alignment across agents.
- Understand the systemic factors that influence progress and shape decision-making.
- Highlight where investors may focus their efforts to support the transition while fulfilling their investment objectives.





ABOUT THE INVESTOR LEADERSHIP NETWORK

Launched at the 2018 G7, the Investor Leadership Network (ILN) champions initiatives and facilitates collaboration across leading global investors committed to accelerating the transition to a more inclusive and sustainable economy. The ILN's membership comprises 13 global institutional investors across six countries, with over US\$10tn in assets under management. This platform encourages members to share resources, expertise and networks to develop, promote and deliver scalable initiatives and solutions on climate change, diversity and inclusion, and sustainable infrastructure.

The ILN established its Climate Change Advisory Committee (CCAC) to facilitate collaboration among global investors, build on existing guidance and best practices, and promote and operationalize net-zero commitments. The ILN's CCAC is dedicated to providing investors and other industry stakeholders with resources and guidance to assess, manage and mitigate the impacts of climate change. The initiative's previously published reports have supported investors in integrating some of the most pertinent climate-related initiatives and practices. Each publication has advanced the industry's understanding of climate change impacts and the urgency of investor's involvement in supporting mitigation and adaptation.



INTRODUCTION

The transition to a low-carbon economy is a complex global challenge that demands coordinated action. Limiting global warming to well below 2°C, as outlined in the Paris Agreement, is required to prevent both the devastating environmental impacts of climate change and the escalating economic and financial risks it poses.² It is estimated that US\$125 trillion of investment will be required to support this transition by 2050.³ However, investors cannot act alone; their efforts are shaped by a broader ecosystem of agents, each with distinct roles, capabilities, and interdependencies.

The Ecosystem of Agents

Governments, regulators, corporates, investors and multilateral development banks all play roles in driving decarbonization. These agents form the foundation of the decarbonization ecosystem, where their actions can determine the pace and direction of the transition.



Governments establish the strategic framework for decarbonization by setting national climate targets, designing cross-sector policies, and providing incentives/capital for clean technologies and innovation. Their leadership signals long-term priorities that guide the actions of other agents.



Regulators operationalize government policies by creating actionable mechanisms, such as mandatory climate disclosures and capital requirements, to ensure transparency, accountability, and market stability. They also play a role in identifying and mitigating systemic climate risks within financial systems.



Corporates are central to decarbonization through changes in their operations, supply chains, and product offerings. They drive innovation and develop new solutions aligned with a low-carbon future. While corporate actions are influenced by investor expectations, regulatory requirements, and market dynamics, they also have the capacity to lead and shape progress.



Investors can provide the capital needed to support corporates' decarbonization efforts. They can direct investment flows toward clean and low-carbon (or decarb-enabling) technologies, businesses with viable decarbonization efforts, among other things. Their strategies are shaped by fiduciary responsibility, which typically requires the consideration of material risks, including those related to climate change.



Multilateral Development Banks play a pivotal role in supporting decarbonization in emerging and developing economies. By providing technical expertise, financial backing, and derisking mechanisms, they enable the scaling of clean technologies and innovation while addressing market gaps that private capital may not fully address.

Together, these agents form an interconnected system where the actions of one influence and are influenced by others. No single agent can achieve systemic decarbonization alone; their success relies on interconnected and coherent actions across the ecosystem to accelerate the flow of capital to support real-world decarbonization.

While this paper focuses on these five agents, society at large plays an indispensable role in shaping the decarbonization ecosystem. Public sentiment, consumer behavior, and societal advocacy influence the system, driving government policies, corporate strategies, and investment priorities. Increasing consumer demand for sustainable products can spur innovation and the adoption of cleaner technologies by corporates. Similarly, public calls for climate action can lead to regulatory reforms and shifts in national policy agendas.

Non-governmental organizations, community groups, and research institutions also contribute significantly by fostering innovation, raising awareness, and holding agents accountable. Their efforts often complement those of governments, corporates, and investors by introducing new ideas and advocating for systemic change. While these actors fall outside the primary scope of this analysis, their contributions are integral to the broader success of the transition.

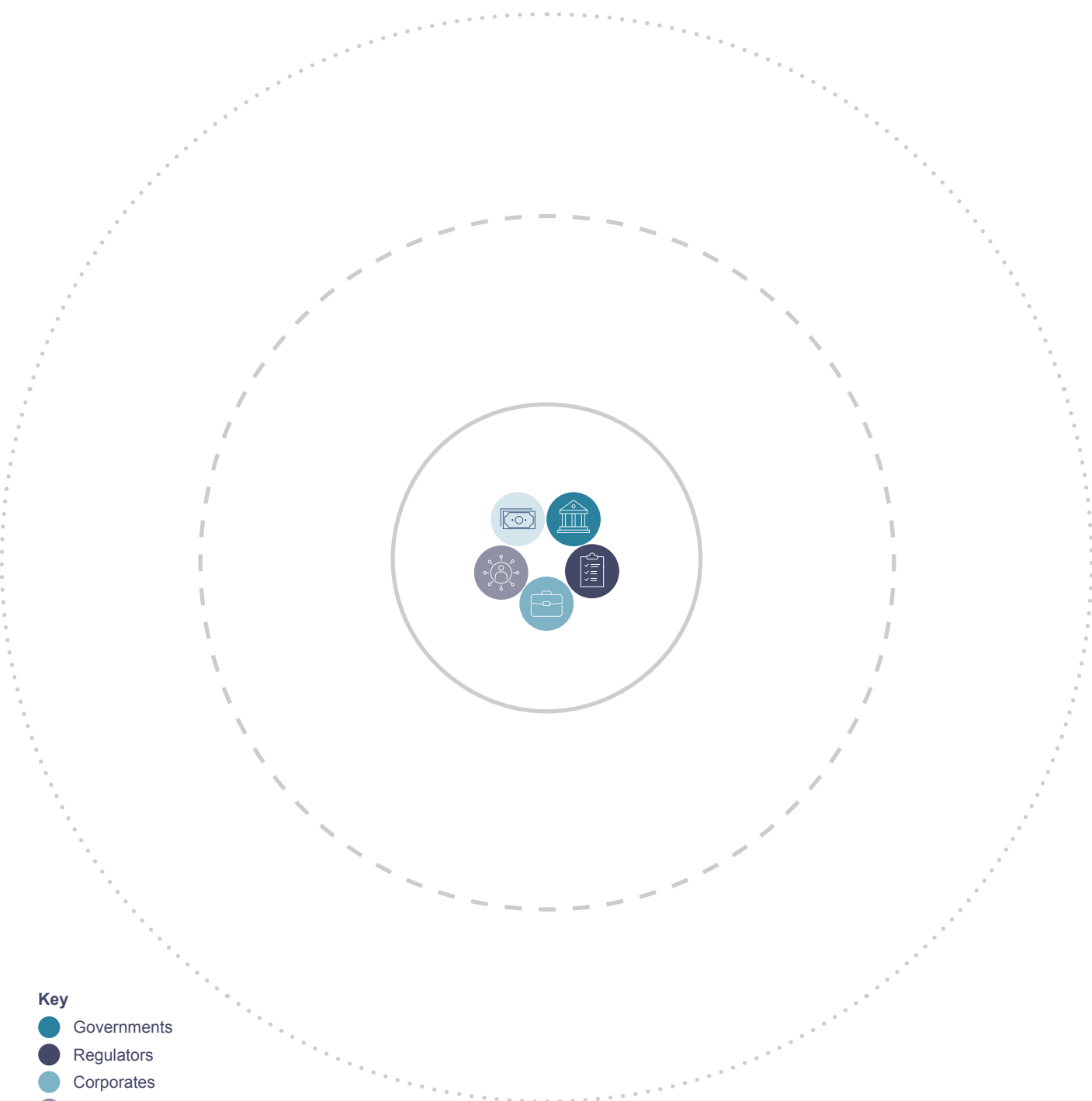
The next section introduces the types of variables influencing the decarbonization ecosystem, offering a framework to navigate the complexities of this transition.

Understanding the three types of variables

Three types of variables shape the actions the five agents can take, they are:

1. **Directly controllable variables** —————
2. **Partially controllable variables** - - - - -
3. **Systemic variables**

While some variables may appear to limit an agent's ability to act, they often reflect essential considerations or serve broader purposes beyond decarbonization. For example, investors must fulfill investment objectives, governments balance diverse national priorities, regulators ensure market stability, corporates drive innovation, and MDBs allocate resources effectively. Understanding these variables highlights the actions available to agents and underscores the nuanced considerations and interconnected complexities they navigate in advancing decarbonization.



Key

- Governments
- Regulators
- Corporates
- Asset Managers & Asset Owners
- MDBs & Development Finance Institutions

Directly Controllable Variables

Directly controllable variables are those that an agent has the authority and capacity to shape or implement independently. While external factors may introduce practical constraints, these variables remain within the agent's direct control.

Examples include:

- **Governments:** Setting national climate targets, introducing supportive policies and incentives, and directly investing in climate infrastructure or emerging low-carbon technologies.
- **Regulators:** Establishing climate disclosure regimes, harmonizing standards and taxonomies to improve transparency and reduce greenwashing, and setting market rules.
- **Corporates:** Improving transparency through climate data disclosure, raising capital via green finance instruments, developing innovative low-carbon products and services, implementing decarbonization initiatives in operations, and the choice of suppliers/supply chain requirements.
- **Investors:** Investing in climate solutions with appropriate risk return profiles or developing climate and transition-focused products, such as funds targeting renewable energy or low-carbon technologies, and decarbonizing existing assets through value creation plans.
- **MDBs:** Deploying concessionary or blended finance to reduce investment risks, scaling up funding for low-carbon projects, and providing technical assistance to governments or corporates pursuing decarbonization.

While these actions fall within an agent's control, their implementation can be shaped by practical limitations, such as:

- **Market demand:** For example, asset managers may create climate-focused products, but uptake may depend on client preferences or risk appetites.
- **Resource constraints:** For example, corporates, especially smaller companies, may lack the resources or expertise to implement significant decarbonization measures.
- **Competing priorities:** For example, governments may face challenges in prioritizing long-term climate investments over immediate economic or political pressures.

Understanding directly controllable variables highlights the areas where agents can independently drive change while recognizing the operational realities and trade-offs they must navigate.



Partially Controllable Variables

Partially controllable variables are those that agents can influence but whose outcomes rely on the actions, decisions, or commitments of others. Success in these areas depends on collaboration, alignment, and mutual engagement.

Examples include:

- **Governments:** Working with international organizations or other nations to establish global decarbonization agreements, where success depends on the political will and commitment of all parties involved.
- **Regulators:** Promoting international alignment on standards, such as harmonized climate disclosure requirements, which requires cooperation across jurisdictions and sectors.
- **Corporates:** Lobbying for supportive climate policies, but achieving success depends on government responsiveness, broader political dynamics, and public sentiment.
- **Investors:** Engaging with companies on climate topics or clients to provide information on climate risks and promote products that can achieve decarbonization objectives alongside risk/return requirements. The outcomes of these engagements are shaped by the companies' and clients' willingness and ability to act as well as legal and regulatory considerations.
- **MDBs:** Partnering with local governments or private sector actors to create climate projects, which hinge on factors such as political stability, institutional capacity, and local market conditions.

These variables underscore the importance of collaboration in amplifying impact across the decarbonization ecosystem. When aligned, agents can transform partially controllable variables into shared opportunities, creating pathways for progress.

For example:

- **Global standards:** Harmonized climate disclosure frameworks, when widely adopted, simplify accountability and reduce complexity for stakeholders.
- **Shared commitments:** Unified international agreements provide a foundation for cohesive and accelerated climate action.
- **Collaborative investments:** Partnerships between MDBs, local governments, and private actors unlock scalable climate solutions, particularly in regions with higher barriers to entry.

By recognizing the strategic potential of these variables, agents can build partnerships that address challenges and create innovative solutions. This collaborative approach ensures that individual efforts contribute meaningfully to the collective goal of a low-carbon economy.



Systemic Variables

Systemic variables are shaped by broader external conditions beyond the direct control of any single agent. These variables define the operating context for decarbonization efforts and influence agents' ability to act. They can be grouped into two categories: those impacting all agents and those specific to individual agents.

Systemic variables impacting all agents:

Certain systemic variables shape the broader environment for decarbonization efforts across all agents.

Examples include:

- **Global economic conditions:** Factors like interest rates, inflation, and economic growth determine the financial landscape in which all agents operate. Favorable conditions can enhance access to capital and investment viability, but adverse conditions may constrain decarbonization efforts.
- **Political environment:** Stable, climate-focused political systems create predictability for long-term investments, while geopolitical priorities and political shifts influence the consistency and direction of climate action.

Systemic variables specific to individual agents:

Some systemic variables affect particular agents differently based on their roles in the ecosystem

Examples include:

- **Corporates:** Consumer demand for sustainable products can drive innovation and operational change, while weak demand or economic pressures may slow decarbonization efforts.
- **Investors:** Investors can hold investments in fixed income securities, which have interest rate risks. Income may fluctuate due to changes in interest rates affecting interest-bearing securities, which is not controllable by the investment manager. Furthermore, the value of fixed-rate securities may be influenced by actual or anticipated interest rate changes. This can also impact the value of equity (both public and private) investments through cost of financing and future cash flows.
- **MDBs:** Donor funding, influenced by political priorities and national budgets, directly impacts the capacity of MDBs to scale climate-related initiatives.

Adapting to systemic variables:

- While systemic variables often reflect inherent features of the system that are unlikely to change, agents can still navigate these dynamics thoughtfully to align their actions with decarbonization goals:
- **Governments** can engage in multilateral agreements to align global climate priorities and encourage collective action.
- **Corporates** can adjust to shifting consumer preferences by developing sustainable products and exploring new market opportunities.
- **Investors** can work with index providers to expand the availability of climate-aligned benchmarks while considering how systemic constraints like index composition shape portfolio strategies.
- **MDBs** can collaborate with private-sector partners to diversify funding sources, reducing reliance on donor contributions.

By understanding systemic variables, agents can align their strategies with the realities of the broader ecosystem. Some variables, such as the composition of market indices, are structural features that reflect the existing system and may not be subject to change. Recognizing these distinctions allows agents to focus on actions that respect systemic realities while pursuing decarbonization within these constraints.

CONCLUSION

The global transition to a low-carbon economy requires coordinated action from governments, regulators, corporates, investors and MDBs. Each agent has a distinct role to play, wielding tools and strategies shaped by the variables they directly control, those they can influence, and those they must navigate within the broader systemic context.

For **governments**, setting clear policies, creating incentives, and making public investments establish the foundation for climate action. Effective collaboration with international organizations and alignment with global frameworks amplify their impact, even as systemic challenges like technological maturity and economic conditions shape their decisions.

Regulators influence financial ecosystems by implementing disclosure requirements, taxonomies, and risk management standards. Their actions foster transparency and create consistent frameworks that enable corporates and investors to integrate climate considerations, while navigating jurisdictional and systemic constraints.

Corporates drive real-world decarbonization through operational changes, innovation, and supply chain engagement. While systemic variables like market demand and technology availability shape the pace and scale of their efforts, their alignment with investor and regulatory expectations is critical to advancing the energy transition.

Investors, as stewards of capital, act in accordance with defined investment objectives and in accordance with fiduciary responsibilities to clients and/or beneficiaries. By designing innovative products, engaging with corporates, and aligning portfolios with long-term sustainability goals, they can contribute to the transition while meeting their clients' investment objectives.

MDBs play a catalytic role, using financial instruments and expertise to attract private capital and de-risk investments in regions where market barriers are highest. Their success depends on balancing the priorities of diverse stakeholders while aligning with global decarbonization goals.

The interplay between fiduciary responsibility, investment objectives, economic realities, and decarbonization objectives underscores the complexity of this transition. Recognizing climate risks as material financial considerations and fostering collaboration across agents will be key to building a more resilient and sustainable economy.

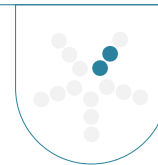
Each of these agents has opportunities to contribute to progress within their sphere of influence. Whether through policy decisions, financial innovation, corporate action, or investment strategies, every organization involved in this transition can consider how they can drive meaningful change. As you reflect on your role in this evolving landscape, where do you have the ability to take action? What levers can you pull to enable progress? By working within the existing context and leveraging shared opportunities, agents can contribute to the global transition to a net-zero future.



UNDERSTANDING TRANSITION AGENTS' ROLES

GOVERNMENT





GOVERNMENT

Controllable Variables

Governments are key to driving national decarbonization by leveraging their ability to directly shape critical factors. They set the strategic direction through ambitious climate targets and plans, provide financial incentives, invest in essential infrastructure, and raise public awareness. These actions create an environment that attracts private capital, encourages innovation, and speeds up the transition to a low-carbon economy.

Incentives for Climate Technologies

Governments can accelerate the adoption of low-carbon technologies by implementing trade policies that enable their uptake and introducing financial incentives, such as tax credits, subsidies, and grants. These mechanisms lower the upfront costs of climate technologies, making them more attractive to private investors and corporates. These incentives are designed to reduce financial barriers, spur private-sector participation in clean energy and accelerate the scaling of emerging industries.

Climate Targets and Action Plans

Clear climate targets, as well as the associated policies and sector-specific strategies offer predictability, enabling investors and corporates to have more confidence in the regulatory landscape.⁴ Research published by the International Monetary Fund (IMF) has found that a higher number of climate policies are linked with higher green Foreign Direct Investment (FDI) inflows.⁵ Conversely, a lack of clear targets or credible action plans can delay capital allocation, as investors and corporates hesitate to commit to long-term decarbonization strategies in uncertain policy environments.

Public Investment and Infrastructure Development

Governments play a role in developing foundational infrastructure that supports the low-carbon transition and through government procurement have the ability to purchase climate-friendly products such as electric vehicles (EVs) or green cement. By directly funding large-scale projects, such as renewable energy generation, grid upgrades, and public transit systems, governments create the enabling conditions for private capital to flow into decarbonization efforts, and for corporates to operate more sustainably. For example, **Germany's Energiewende** (Energy Transition) has expanded its renewable energy capacity by building wind farms, modernizing electricity grids, and supporting the development of energy storage solutions through direct funding.⁶

Partially Controllable Variables

Governments influence many decarbonization outcomes through collaboration, alignment, and partnership with other agents. These partially controllable variables require coordinated efforts at both national and international levels to establish consistent frameworks, unlock investment opportunities, and drive collective action. While governments can shape these outcomes, their effectiveness often depends on the actions, priorities, and commitments of others.

International Collaboration and Multilateral Agreements

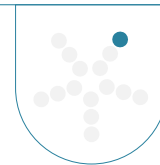
Engaging in international frameworks, such as the **Paris Agreement**, enables governments to align national policies with global climate goals. Effective collaboration establishes consistent standards and incentives, creating a more predictable environment for investors. For example, the **Green Climate Fund**, established through international cooperation, pools resources from multiple governments to finance climate adaptation and mitigation projects in developing countries.⁷

However, international agreements often face challenges due to differences in national priorities and levels of commitment. For instance, the **global carbon market mechanism** under Article 6 of the Paris Agreement took six years to negotiate, delaying opportunities for coordinated action.⁸ Such prolonged timelines can create uncertainty, slowing the flow of capital into climate-aligned projects.

Trade and Tariff Policies

Governments can influence the adoption of climate technologies through trade policies, such as reducing tariffs on renewable energy components or imposing duties on high-emission goods. These measures lower costs, enhance supply, and incentivize the transition to low-carbon technologies.

However, protectionist policies can undermine these efforts. U.S. tariffs on Chinese solar panels, intended to support domestic manufacturing, inadvertently increased costs for renewable energy projects, to some extent complicating efforts to expand clean energy capacity.⁹ Such trade-offs illustrate the complexities governments face in balancing domestic priorities with global decarbonization objectives.



GOVERNMENT

Systemic Variables

Systemic variables lie beyond the direct control of any single government and shape the broader context within which decarbonization efforts occur. These variables influence the feasibility, timing, and success of climate actions, requiring governments to adapt their strategies and collaborate with other agents. Key systemic variables include economic conditions, societal expectations, and the political environment.

Economic Conditions

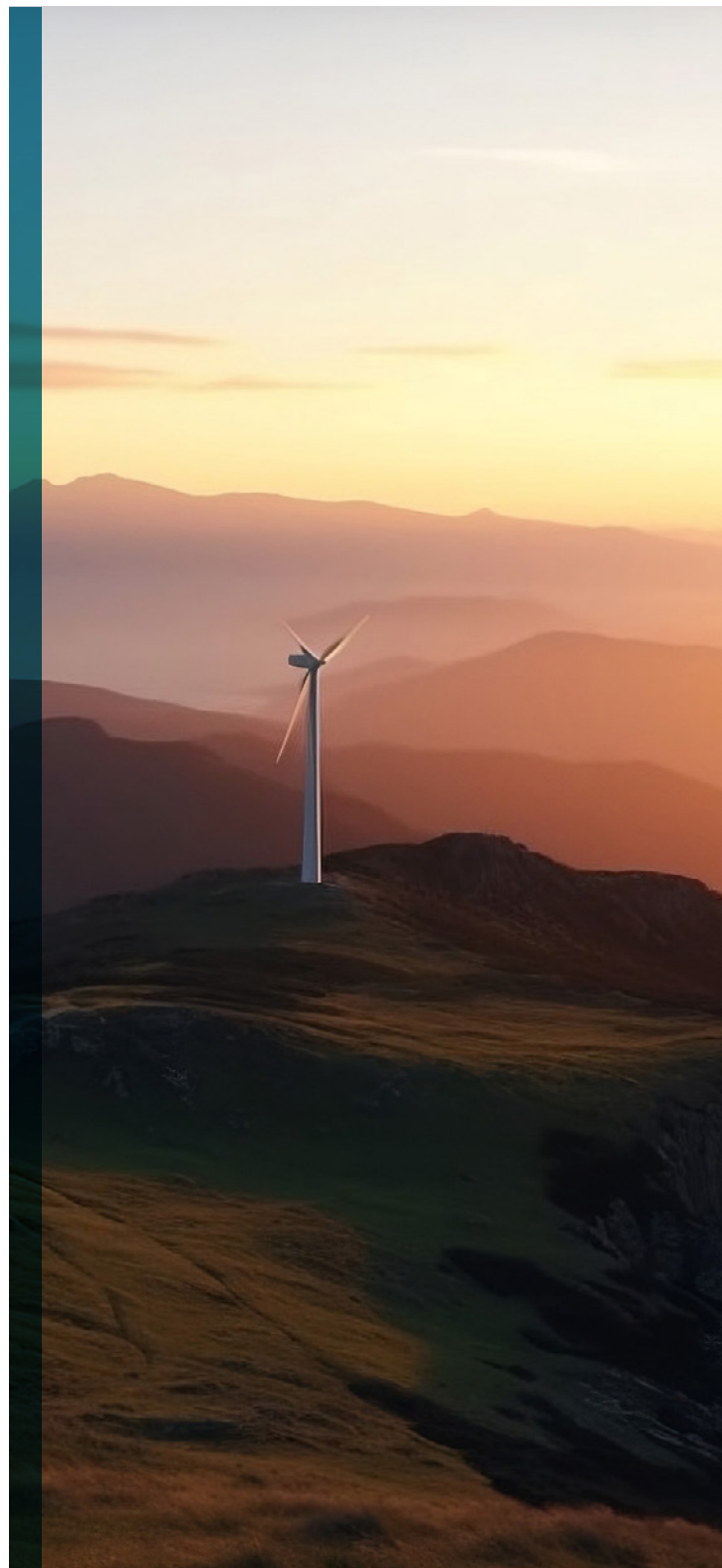
Global economic conditions, such as inflation, interest rates, and economic growth, define the financial landscape for climate investments. Favorable economic environments lower borrowing costs, enabling large-scale renewable energy projects and infrastructure development. Conversely, high interest rates or economic downturns can reduce the financial viability of such projects, deterring private-sector participation.¹⁰

Societal Expectations

Cultural norms and public expectations influence the appetite for ambitious climate policies. In regions where public support for climate action is strong, governments are more likely to implement transformative initiatives that align with societal demand. However, resistance can weaken political momentum and lead to policy rollbacks.

Political Environment

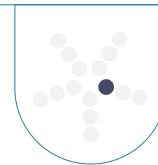
Political stability and bipartisan support play a central role in ensuring the consistency and predictability of climate policies. Governments with cross-party commitments to decarbonization can provide long-term signals necessary for sustained private-sector investment. Conversely, frequent policy reversals, fragmented regulations, or political instability introduce uncertainty, increasing risks for investors and slowing progress.



UNDERSTANDING TRANSITION AGENTS' ROLES

REGULATORS





REGULATORS

Controllable Variables

Regulators hold direct control over market-defining tools, such as climate disclosure mandates, sustainability taxonomies, and risk management standards. These frameworks provide the foundation for transparency, accountability, and alignment, enabling investors to integrate climate considerations into financial strategies effectively. By shaping these mechanisms, regulators can promote market stability, manage climate risk and guide capital toward sustainable activities.

Climate Disclosure Mandates

Mandatory climate disclosures are one of the most powerful tools at regulators' disposal. By requiring companies to report climate-related risks and opportunities, alongside disclosing climate targets and progress made towards these, regulators ensure that companies are being held accountable for their actions and commitments. Through these requirements, regulators also provide investors with consistent data to evaluate companies' resilience and transition risks. For example, the UK's adoption of mandatory Task Force on Climate-Related Financial Disclosures (TCFD)-aligned disclosures has enhanced market transparency, enabling investors to assess climate risks systematically.¹¹ Requirements to develop transition plans further encourage corporates to evaluate the financial implications of their commitments and outline credible pathways for decarbonization.¹²

However, the effectiveness of disclosure mandates depends on companies' ability to comply. Smaller firms, particularly in emerging markets, often lack the resources to produce comprehensive climate reports, resulting in gaps in investors' ability to assess risk across their portfolios.¹³ At the same time, regulators may face constraints due to political pressures or limited resources, which can delay implementation or weaken enforcement of disclosure regimes.

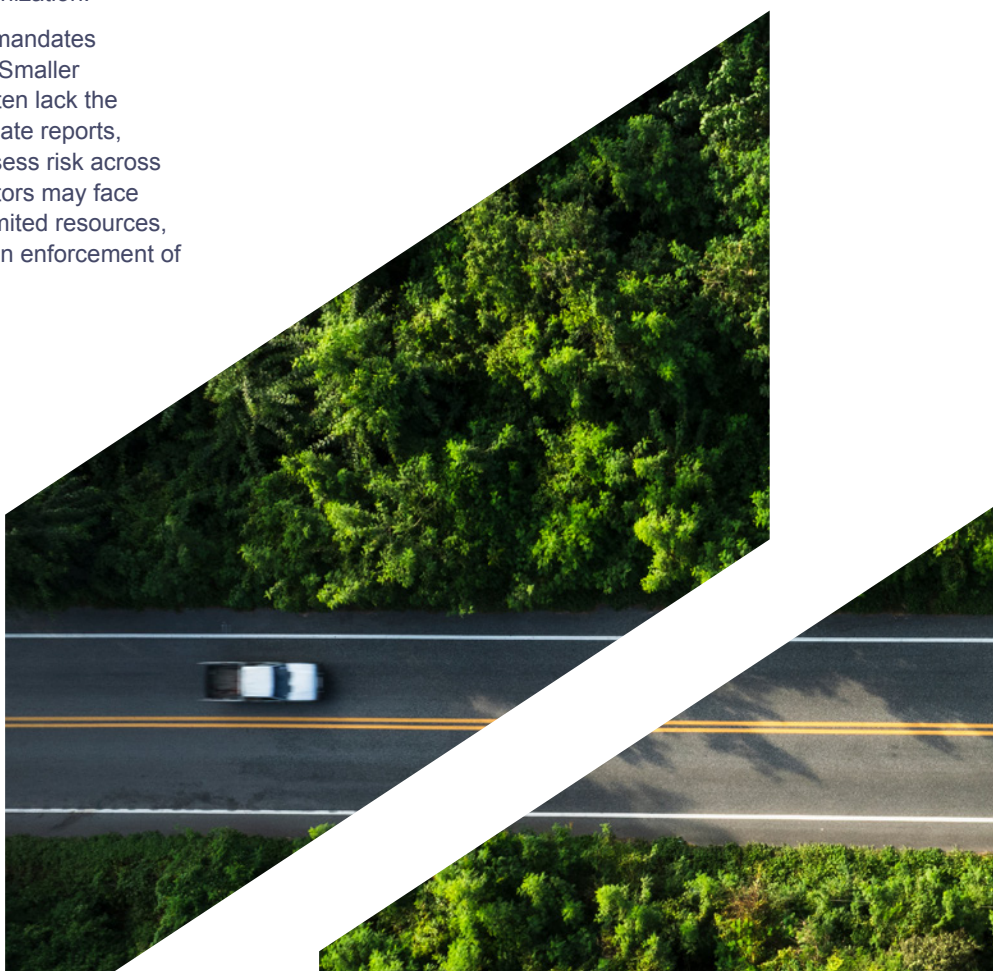
Sustainability Taxonomies

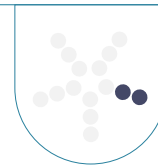
Taxonomies provide clear definitions of sustainable activities, helping investors identify opportunities that align with decarbonization goals and avoid greenwashing. Frameworks such as the EU Taxonomy allow investors to align their strategies with decarbonization goals, helping investors avoid greenwashing and strengthen the credibility of climate-aligned funds.¹⁴

Taxonomies must balance clarity with adaptability to remain relevant as markets evolve. Overly rigid frameworks risk becoming obsolete or misaligned with regional economic realities, while excessive complexity can hinder adoption by investors and corporates.

Risk Management Standards

Climate-related risk management standards, such as stress testing, help banks, insurers and investors to evaluate climate risks. Implementing these standards, which may or may not be mandatory, requires expertise and resources. This could strain institutions with limited technical capacity. Similarly, regulators themselves often face resource constraints, limiting their ability to develop appropriate tests and standards. By effectively leveraging these tools, regulators establish robust financial ecosystems that can help align private capital with decarbonization goals while enhancing market resilience to climate shocks.





REGULATORS

Partially Controllable Variables

While regulators have significant authority within their jurisdictions, many decarbonization outcomes depend on their ability to collaborate, align, and advocate on a global scale. These partially controllable variables require engagement with international bodies, financial institutions, and market participants to harmonize standards, shape market behavior, and foster cross-border investments.

Harmonization of International Standards

One of the most impactful ways regulators influence decarbonization globally is by collaborating with international bodies to harmonize climate-related standards. For instance, the development of International Sustainability Standards Board (ISSB) standards represents a global effort to create consistent, comparable disclosure frameworks that reduce compliance costs and enable multinational investors to integrate climate risks into decision-making.¹⁵

However, the varied adoption pace of ISSB standards across countries may lead to inconsistencies that can make it difficult for multinational corporations. Global investors may have challenges implementing a unified approach to climate risk integration, creating additional compliance challenges.¹⁶ To address these challenges, regulators can advocate for broader adoption and work with international associations, such as International Organization of Securities Commissions (IOSCO), to build consensus and promote consistent application.

Engagement with Industry Stakeholders

Regulators also influence market behavior by engaging with the corporates and financial institutions they regulate to refine policies and standards. This collaboration ensures that frameworks, such as disclosure requirements or green taxonomies, remain practical and aligned with market needs. For example, regulators may introduce transitional compliance periods for smaller firms or consult with industry groups to adapt requirements based on feedback. For instance, the Corporate Sustainability Reporting Directive (CSRD) applied to large EU companies in 2025 and was phased in for smaller companies.¹⁷

Despite these efforts, achieving broad industry buy-in often requires demonstrating the financial value of compliance, which may not always be evident in the short term. Misalignment between regulatory ambitions and commercial realities risks creating technically sound but underutilized standards.

Systemic Variables

Regulators operate within a broader ecosystem shaped by systemic variables, including political environment, societal norms, and global economic conditions. While these factors lie beyond regulators' direct control, they influence the feasibility and timing of climate-related frameworks.

Political Environment

Stable political systems and bipartisan support for climate action provide regulators with the mandate to implement ambitious policies. Conversely, political instability or policy reversals can disrupt regulatory efforts, creating uncertainty that deters private-sector investment.

Cultural and Societal Norms

Public expectations significantly impact the scope and ambition of regulatory action. Strong societal demand for climate policies empowers regulators to introduce robust frameworks, while anti-climate sentiment can limit their ability to act decisively.

Global Economic Conditions

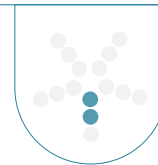
Economic factors, including inflation, interest rates, and growth, directly impact the feasibility of regulatory interventions. During periods of economic stability and low interest rates, it might be easier for regulators to pursue policies encouraging long-term climate investments without exacerbating financial pressures on businesses or investors. In contrast, economic downturns or high borrowing costs may deprioritize climate initiatives in favor of short-term economic recovery.

Regulators can influence some systemic variables such as inflation through monetary policy, however systemic variables are largely outside a regulator's control. Applying their influence allows regulators to adapt strategies and advocate for structural changes.

UNDERSTANDING TRANSITION AGENTS' ROLES

CORPORATES





CORPORATES

Controllable Variables

Corporates play a pivotal role in real-world decarbonization by directly reducing emissions and creating the transparency investors need to allocate capital toward climate-aligned assets and projects. Key actions within their control include setting emissions reduction targets, disclosing climate-related data, innovating low-carbon solutions, and raising sustainable capital.

Emissions Reduction Targets

Setting credible emissions reduction targets and actions is an important activity for corporate decarbonization. By addressing emissions through operational efficiency, renewable energy adoption, and supplier engagement, corporates demonstrate accountability and support investors in assessing climate alignment. For instance, Microsoft's carbon-negative commitment, coupled with comprehensive reporting across all emissions scopes, provides clarity to investors who integrate decarbonization objectives into their strategies.¹⁸ While achieving targets is dependent on factors that may be outside the corporate's control, targets can give confidence to asset managers focused on climate-aligned investing.

Transparency Through Climate-Related Disclosures

Comprehensive disclosures, including transition plans, emissions data, and progress updates, support investors to evaluate alignment with decarbonization goals and better understand risks and opportunities. Transparent reporting is an enabler of trust and capital flows. However, smaller corporates can face resource constraints that can make it challenging to meet disclosure expectations, creating disparities in access to climate-focused investment.

Innovation and Raising Sustainable Capital

Corporate innovation drives the development of scalable low-carbon solutions, such as renewable energy technologies or energy-efficient products, providing investors with new opportunities to fund impactful initiatives. Additionally, raising capital through green bonds or sustainability-linked instruments, as exemplified by Apple's green bond program, allows corporates to attract climate-conscious investors while directly financing decarbonization projects.¹⁹ These instruments create a clear link between corporate actions and measurable environmental outcomes, using capital to support tangible progress.

Partially Controllable Variables

Corporate decarbonization often depends on collaboration with governments, investors, and supply chain partners. These variables, while influenced by corporate action, require alignment and cooperation to unlock their full potential. By engaging effectively with key stakeholders, corporates can foster supportive ecosystems that amplify their impact on the low-carbon transition.

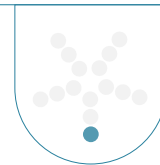
Government Lobbying and Advocacy

Advocacy for supportive climate policies is a tool for corporates seeking to create favorable regulatory environments. For example, Ford and Unilever lobbied for the IRA, which introduced tax credits that made clean energy investments more attractive to institutional capital.²⁰ However, the effectiveness of lobbying efforts depends on political priorities and competing interests, which can dilute their impact.

Supply Chain Decarbonization

Reducing emissions across supply chains is another key variable. Companies like Unilever have worked to set procurement standards and offer incentives or support that encourage suppliers to decarbonize.²¹ These efforts enhance transparency, reduce risks, and align with investor expectations. However, suppliers' ability and willingness to meet these standards vary widely, with smaller or less-resourced firms often struggling to comply. Corporates that successfully engage supply chain partners create ripple effects that extend their impact across the value chain.





CORPORATES

Systemic Variables

Systemic variables shape the broader context in which corporates operate, influencing their ability to decarbonize and attract climate-aligned investment. While these variables are beyond the control of individual companies, they play a critical role in shaping corporate strategies and progress toward a low-carbon economy. Key systemic variables include market demand, technological maturity, and the political environment.

Market Demand for Low-Carbon Products

Consumer demand drives innovation and investment in sustainable solutions, creating opportunities for corporates and investors alike. For instance, Volkswagen's expansion into EVs reflects growing market interest in sustainable transport, which has attracted climate-conscious investors and catalyzed sector-wide progress.²² However, demand can be constrained by factors such as cost, accessibility, and skepticism about new technologies. In such cases, limited consumer uptake reduces opportunities for corporates to scale low-carbon offerings, slowing the flow of capital into green sectors.

Technological Maturity and Innovation Gaps

The readiness of key technologies significantly impacts corporate decarbonization pathways. In hard-to-abate sectors such as cement, steel, and aviation, the lack of commercially viable solutions – like carbon capture technologies or sustainable aviation fuels – delays emissions reductions and limits opportunities for investor alignment. While corporates in these sectors often set ambitious targets, their ability to achieve them depends on technological breakthroughs that are still in development. This gap underscores the importance of innovation partnerships and targeted R&D investments, which can create new opportunities for capital flows and climate progress.

Maximizing Shareholder Value

Companies prioritize initiatives that deliver financial returns, which could make investments in low-carbon technologies or sustainability strategies more challenging if they involve substantial upfront costs or carry higher risks.

Political Environment and Policy Stability

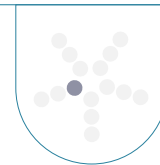
The political environment plays a significant role in shaping corporates' decarbonization strategies. Stable policies and consistent regulatory frameworks provide predictability, enabling long-term investments in sustainable projects. Conversely, policy reversals, fragmented regulations, or political instability increase uncertainty, deterring private-sector engagement. To navigate this uncertainty, corporates must maintain flexibility and engage with policymakers to advocate for stable, climate-aligned policies.



UNDERSTANDING TRANSITION AGENTS' ROLES

INVESTORS (ASSET MANAGERS & ASSET OWNERS)





INVESTORS (ASSET MANAGERS & ASSET OWNERS)

Asset managers and asset owners play crucial roles in shaping how capital flows align with economic and climate objectives. While asset owners – such as pension funds, sovereign wealth funds, and insurance companies – often act as stewards of large capital pools on behalf of beneficiaries, their investment approaches vary. Some allocate capital to external managers based on specific mandates, while others engage in direct investing to achieve their objectives.

Asset managers, in turn, design and execute investment strategies tailored to client mandates, which may include risk-adjusted returns, liquidity requirements, or long-term growth targets. Their responsibilities often involve constructing portfolios, assessing risks and opportunities, and engaging with companies to address material risks, including those linked to climate change. Increasingly, investors include risks and opportunities arising from climate change as part of their assessment of broader investment risks and opportunities, which they undertake in accordance with their fiduciary duty, to the extent applicable or when requested by clients.

Sometimes completing similar activities, both asset managers and asset owners operate within a shared ecosystem that presents opportunities and challenges in advancing the transition to a low-carbon economy. Their ability to integrate climate considerations into investment strategies depends on navigating a complex landscape of financial, regulatory, and systemic factors, while fulfilling their investment objectives and addressing fiduciary considerations.

Controllable Variables

Investors play a role in aligning capital with climate goals through their direct control of internal capabilities and investment products. By strategically leveraging these variables, they can integrate climate considerations into their operations and decision-making in accordance with their investment objectives and fiduciary obligations.

Setting targets

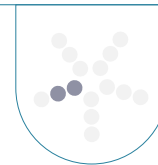
Investors can set targets to focus their activities and guide investment decisions, using them as a structured approach to aligning portfolios with broader financial and sustainability objectives. These targets can shape capital allocation, engagement strategies, and investment selection while allowing flexibility in how they are achieved.

One example is portfolio coverage targets, as described by the Institutional Investors Group on Climate Change (IIGCC). This approach considers how different assets align with long-term decarbonization goals, categorizing holdings based on their net-zero alignment status. Investors may work toward these targets through asset selection, active management, and engagement. For example, in real estate, decarbonization is often best addressed through asset management, while in listed equities, engagement may be the primary tool.²³ While setting these targets is within their control, achieving them often depends on factors beyond their influence.

Product Design

Asset managers have direct control over the design and development of investment products that address climate-related risks and opportunities. These products include climate-focused Exchange Traded Funds (ETFs), Paris-aligned funds, or renewable infrastructure portfolios that support the transition to a low-carbon economy. For example, Ninety One developed the Emerging Market Transition Debt Fund, which specifically invests in companies contributing to net-zero goals in emerging markets, focusing on sectors with the greatest decarbonization potential.²⁴





INVESTORS (ASSET MANAGERS & ASSET OWNERS)

While product design is within asset managers' control, they face practical constraints. The availability of climate-aligned assets can vary across markets, and structural requirements, such as replicating index benchmarks, may limit flexibility. For instance, passive funds must track indices that often include high-emitting sectors, restricting their ability to exclude such companies directly. Additionally, the appeal of climate-focused products may be influenced by their risk-return profile, liquidity, or costs, which must align with client expectations to attract sufficient capital.

Portfolio Design

Asset owners play a central role in shaping investment strategies through portfolio design and capital allocation, ensuring their decisions align with their investment objectives. These processes involve structuring portfolios across asset classes, sectors, and geographies to achieve risk-adjusted returns, maintain diversification, and meet liquidity requirements.

Portfolio design can enable asset owners to determine their exposure to transition risks and opportunities, amongst other metrics, based on their specific mandates and priorities. For instance, some asset owners have allocated capital to renewable infrastructure, climate-aligned indices, or sustainable technologies as part of their broader strategies. The New Zealand Superannuation Fund, for example, shifted 40% of its portfolio to climate-aligned indices, such as the MSCI World Climate Paris Aligned Index, in alignment with its long-term objectives.²⁵

Capital allocation decisions are shaped by systemic and market factors, including the availability of climate-aligned assets, liquidity constraints, and investment objectives. These external conditions influence how asset owners balance their overall portfolio strategies with evolving market dynamics and financial considerations.

Internal Capability Building

Building internal expertise is an effective way for investors to enhance their integration of climate considerations. This includes training investment teams in sustainable finance, climate risk assessment, and net-zero strategies, or hiring specialists to provide technical support. Enhanced capabilities help firms evaluate climate risks and opportunities so they incorporate climate considerations into investment processes.

For example, PSP have provided in-depth sustainability training to investment professionals in all of their asset classes in 2024 to foster sustainability expertise and drive innovation.²⁶

Partially Controllable Variables

While many variables lie outside the direct control of investors, they can influence these areas through sustained collaboration and strategic engagement with stakeholders. Success depends on aligning with clients and market participants to integrate climate considerations effectively.

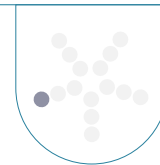
Advocacy, Engagement & Voting

Investors can influence corporate behavior and drive value creation through active engagement strategies, advocacy efforts, and voting activities. By engaging with portfolio companies, investors can encourage businesses to adopt better sustainability practices, such as setting science-based emissions reduction targets, improving climate-related disclosures, or implementing credible transition plans. These activities not only help businesses manage material climate risks but also unlock opportunities for long-term value creation by enhancing operational efficiency, improving resilience, and positioning companies for growth in a low-carbon economy.

Investors may advocate for improvements that align corporate practices with decarbonization pathways, such as accelerating emissions reductions or adopting forward-looking risk management measures.

Investors can also leverage voting power to hold public companies accountable for climate performance, whether through shareholder resolutions or board-level engagements. Advocacy efforts further enable investors to influence market conditions more broadly, as demonstrated by the Institutional Investors Group on Climate Change (IIGCC), which successfully pushed for more ambitious EU climate targets.²⁷

However, the effectiveness of engagement strategies depends on companies' willingness and capacity to act. In private markets, investors often have greater influence to work directly with businesses to implement changes, while in public markets, influence is limited by the type of investment. For instance, equity holders typically have voting rights, whereas bondholders or passive strategies may face constraints in directly shaping company outcomes. Additionally, political dynamics, legal restrictions, cost/CapEx considerations and the availability of technologies can limit the scope and impact of advocacy efforts.



INVESTORS (ASSET MANAGERS & ASSET OWNERS)

Systemic Variables

Systemic variables shape the broader context in which asset managers and asset owners operate, influencing their ability to align portfolios with decarbonization goals.

Market Structures and Investment Strategies

The structure of financial markets affects how investors can align pursue objectives, shaping both public and private investment approaches.

Public Markets and Passive Strategies: Passive strategies, which follow established indices like the S&P 500 or FTSE 100, allocate capital based on the composition of these indices. This approach ensures cost efficiency, diversification, and alignment with client mandates. However, many passive strategies inherently reflect the broader economy, including high-emitting sectors, and offer limited flexibility to prioritize investments in companies driving or benefiting from the energy transition. Climate-aligned indices, such as the MSCI World Climate Change Index, provide options for better reflecting sustainability goals.²⁸ Importantly, the choice to pursue a passive strategy is not typically driven by climate considerations but is instead guided by client preferences, such as risk tolerance, cost, and diversification needs.

Active Strategies: Active strategies allow investors more discretion to align portfolios with climate objectives by selectively allocating capital to companies with strong transition plans or low-carbon opportunities. For example, active managers can target sectors like clean energy or sustainable industrial processes. While this approach offers more flexibility, it must operate within the realities of markets, client needs, and investment objectives. Additionally, influencing corporate climate strategies can be challenging in the absence of significant ownership stakes or board representation.

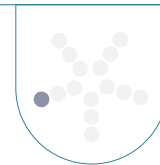
Private Markets and Direct Influence: Private equity, infrastructure, and real assets provide investors with more direct opportunities to support decarbonization. In these markets, investors can engage closely with companies to implement emissions reduction strategies and develop long-term transition plans. For example, private equity firms might collaborate with portfolio companies to adopt cleaner technologies or improve operational efficiency. This hands-on approach allows for greater influence over real-world emissions reductions compared to investments in public markets.

Despite these advantages, private markets face unique challenges. Scalable and economically viable projects can be limited, for example in emerging markets. Early-stage climate technologies, such as carbon capture or sustainable aviation fuels, are high-risk, capital-intensive, and require long investment horizons that may not align with the risk appetite of all investors. Additionally, the illiquidity of private assets can pose challenges for investors with short-term mandates or liquidity requirements. Climate-focused private investments may also need to be balanced with other private investments that deliver higher cash flows or align more directly with broader portfolio objectives.

Regulatory Environment

The regulatory landscape affects investors' ability to support climate objectives. Consistent and harmonized regulations, such as mandated climate disclosures or incentives for low-carbon investments, create certainty and facilitate effective integration of climate considerations into portfolios. For example, the UK's Contracts for Difference (CfD) regime has catalyzed renewable energy investments by reducing project risks, aligning opportunities with investor expectations.²⁹





INVESTORS (ASSET MANAGERS & ASSET OWNERS)

Climate Data Availability

Access to high-quality, standardized climate data is essential for making informed investment decisions. Widespread adoption of frameworks like the TCFD has improved data consistency, enabling investors to evaluate risks and opportunities systematically.³⁰ While investors can actively try to improve data quality, gaps remain.³¹ Limited or inconsistent reporting on Scope 3 emissions and other key metrics hinders investors' ability to evaluate climate risks comprehensively. This gap is particularly pronounced in emerging markets, where disclosure standards are still in development.³² Addressing this systemic constraint will require coordinated efforts across regulators, corporates, and investors. Data inconsistencies can hinder comprehensive climate risk assessments and may create uncertainty in aligning portfolios with net-zero targets.

Global Economic Conditions

Macroeconomic factors, such as inflation, interest rates, and currency stability, shape the financial viability of climate investments. Economic downturns and rising borrowing can increase project risks, and may deter private-sector participation in decarbonization initiatives.

Maturity and Viability of Decarbonization Technologies

Investors may be impacted by the maturity of decarbonization technologies. While there is appetite to support low-carbon solutions, investments must be economically viable and align with client objectives. Emerging technologies, such as carbon capture or sustainable aviation fuels, often involve higher risks and longer time horizons, which may fall outside acceptable risk thresholds. Without scalable, deployable technologies, opportunities to align portfolios with climate goals remain constrained.

Political Environment and Societal Norms

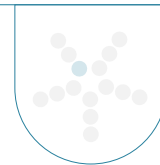
Political stability and societal support for climate action influence investors' ability to align portfolios with decarbonization pathways. Supportive political environments and public demand for climate transparency encourage ambitious investment strategies. However, political instability, policy reversals, or anti-ESG sentiment can limit the scope of climate-aligned actions, creating uncertainty and slowing progress.



UNDERSTANDING TRANSITION AGENTS' ROLES

MULTILATERAL DEVELOPMENT BANKS





MULTILATERAL DEVELOPMENT BANKS

Controllable Variables

MDBs can directly support capital mobilization for climate-aligned activities by leveraging financial instruments and technical expertise to reduce risk and build capacity. Through these tools, MDBs enhance the financial viability of climate projects, particularly in regions where market barriers or institutional gaps hinder private-sector investment.

Concessional Finance

MDBs deploy concessional finance to reduce risks for private investors and catalyze climate investments. Concessional finance provides loans at below-market rates or extended terms, making high-impact but commercially challenging projects viable. For instance, the Asian Development Bank's concessional finance program has facilitated solar and wind energy projects across Southeast Asia, unlocking billions in private capital.³³

While these tools are effective, their success depends on donor funding and the ability to align objectives among diverse stakeholders, particularly in complex blended finance structures.

Green Bond Issuance

MDBs issue green bonds to raise capital for climate-friendly projects, providing investors with a transparent and stable instrument aligned with sustainability goals. The World Bank has raised billions to fund renewable energy, energy efficiency, and resilience projects, showcasing how MDBs can set benchmarks for transparency and reporting in green finance.³⁴ Investors have invested in these bonds to gain exposure to sustainable investments while benefiting from the stability offered by the World Bank's credit rating. While green bonds attract institutional investors, lower yields and limited issuance volumes may reduce their appeal to some return-focused investors.

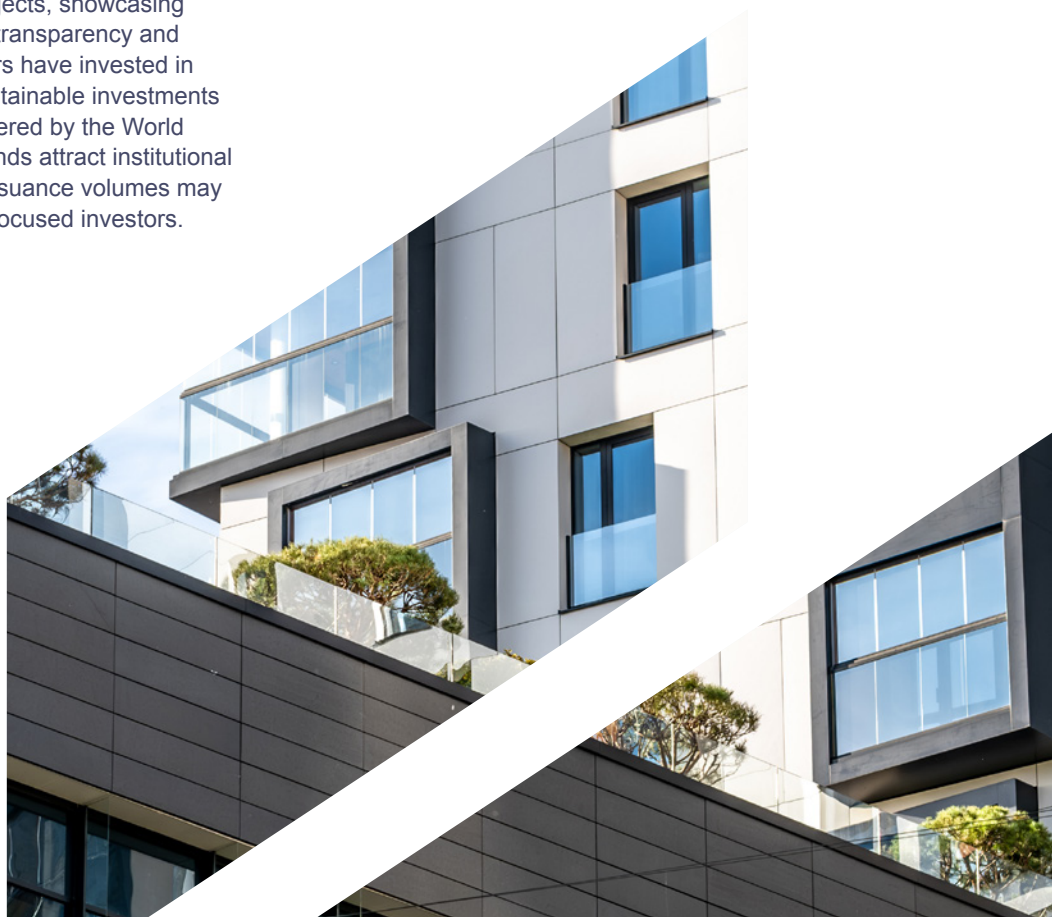
Technical Support

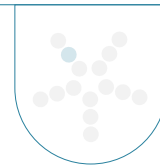
MDBs provide technical expertise to help countries design, implement, and manage climate-aligned projects and policies, addressing the bankability gap. Through capacity-building programs, project design advice, and policy guidance, they reduce regulatory uncertainty and improve the bankability of climate projects. For example, through the Sustainable Renewables Risk Mitigation Initiative, the World Bank has helped shape renewable energy frameworks that attract private capital by addressing barriers and risks.³⁵

However, technical support must be tailored to local conditions to be effective. Insufficient institutional capacity in some regions can limit the impact of these efforts, underscoring the need for ongoing collaboration and context-specific solutions.

Integration of Climate Priorities in Lending

MDBs embed climate objectives into their ordinary lending activities, ensuring that low-carbon projects are treated as core priorities rather than niche initiatives. For example, the European Investment Bank's Climate Bank Roadmap mandates alignment of all financed projects with the Paris Agreement, sending a clear signal to markets about the importance of climate-aligned investments.³⁶ Yet, borrower countries' competing priorities, such as traditional infrastructure or fossil fuel reliance, can limit alignment with these goals.





MULTILATERAL DEVELOPMENT BANKS

Partially Controllable Variables

While MDBs play a role in the climate finance landscape, many outcomes depend on collaboration with governments, private investors, and local institutions. These partially controllable variables require alignment among diverse stakeholders to create the conditions necessary for impactful climate investments.

Blended Finance and Stakeholder Alignment

Blended finance mechanisms illustrate the collaborative nature of MDB efforts. By combining concessional funds with private sector capital, MDBs reduce risks for institutional investors, enabling participation in high-impact climate projects. For instance, the Green Climate Fund has supported renewable energy initiatives in Sub-Saharan Africa by leveraging public funding to attract private investment.³⁷ These mechanisms require close alignment among host governments, project developers, and investors, and they need to have aligned objectives or strong governance structures to ensure their execution.

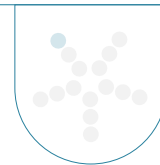
Alignment with International Climate Frameworks

MDBs can play a role in advancing global climate goals by aligning their strategies with international frameworks like the Paris Agreement. By standardizing approaches to climate finance and supporting cooperative initiatives, MDBs encourage consistent investment practices. Yet, their ability to drive alignment depends on national governments' willingness to adopt shared standards and on the private sector's responsiveness to these frameworks, which can vary widely across regions.

Engagement with National Governments

MDBs collaborate with host governments to create enabling environments for investment. This often involves regulatory reforms, infrastructure development, or capacity-building initiatives to enhance institutional readiness. For example, MDBs might assist governments in establishing renewable energy frameworks that attract private capital.³⁸ However, these efforts rely on strong political will and stable governance, which can be difficult to achieve in resource-constrained or politically unstable regions.





MULTILATERAL DEVELOPMENT BANKS

Systemic Variables

MDBs operate within a complex global ecosystem influenced by systemic variables that shape their capacity to mobilize and scale climate finance. Beyond their direct control or indirect influence, these factors impact their ability to support decarbonization goals and catalyze private sector investment.

Global Economic Conditions

Economic conditions, such as interest rates, global liquidity, and currency stability, play a significant role in shaping the feasibility of climate finance initiatives. During periods of low interest rates, MDBs can raise capital at lower costs, enabling them to provide concessional loans that reduce risks for private investors.

However, adverse conditions such as high interest rates or exchange rate volatility can increase borrowing costs and deter private sector participation, particularly in emerging markets where project risks are already elevated. While MDBs can deploy instruments like currency hedges or guarantees to mitigate some of these risks, they cannot fully shield climate projects from macroeconomic pressures.

Donor Government Priorities

The funding and operational capacity of MDBs are heavily influenced by the priorities of donor governments, which act as their primary capital providers. Consistent and substantial commitments from donor countries enable MDBs to invest in large-scale climate projects, such as renewable energy development or climate resilience initiatives in vulnerable regions. For example, the European Union's Green Deal funding has empowered MDBs like the EIB to significantly scale climate finance across Europe and beyond.³⁹

Conversely, shifting political agendas or budgetary constraints in donor nations can limit MDBs' ability to pursue high-impact decarbonization opportunities. Pressure to prioritize specific regions or sectors aligned with geopolitical interests may divert resources from areas with the greatest climate finance needs, creating inefficiencies in global decarbonization efforts.

International Cooperation and Political Will

MDBs rely on international political cooperation and alignment. When governments align their climate goals and support collaborative initiatives, MDBs can secure commitments for large-scale climate finance, unlocking co-investment opportunities for private capital. For instance, international agreements like the Paris Agreement create a framework for coordinated action, enabling MDBs to channel resources toward aligned decarbonization strategies.

However, misalignment among key stakeholders or a lack of political will can constrain MDB efforts. Diverging national priorities, insufficient support for multilateral climate initiatives, or weak international consensus on climate goals can reduce the scale and impact of MDB interventions, limiting their ability to mobilize capital and foster global climate progress.





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