# SUSTAINABLE FINANCE: CHALLENGES IN THE GLOBAL CONTEXT

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## Nature protection is about business

Our forests hide a paradox. A felled tree provides its owner with income from selling the timber. A living tree, as such, provides none—even though it offers shade and coolness, hosts birds and insects in its branches, and, through its roots, supports countless fungi essential to soil health. A forested plot certainly has a higher asset value than a barren one, yet these functions are always considered "free." How did we get to this point?

The bias lies in our economic model, which, since the Industrial Revolution, has ignored nature. The three categories of ecosystem services that nature provides are ignored: provisioning (air, water, fish from the sea), regulation (of temperature or erosion), and contributions to our physical and mental well-being. While it may have made sense at that time - when the global population was smaller and vast territories remained unexplored and natural resources seemed limitless, today this approach is driving humanity to deplete nature.

British economist Sir Partha Dasgupta, author of the famous 2021 Dasgupta Review for the UK Treasury, believes the current estimate—that humanity already consumes the equivalent of 1.7 planets' worth of resources each year—is already unsustainable and underestimated. A 2023 PwC report calculated that "more than half of global GDP is exposed to nature-related risks, which, without immediate action, could materialize." Activities with high or moderate dependence on nature represent a value of about $58 trillion. It is therefore in our interest to preserve nature: agricultural and forestry businesses need productive soils, industry needs raw materials, and tourism needs clean seas and corals to protect lagoons. Human health also depends on the conservation of wild animal habitats, which can be vectors for viruses.

Even if we want to remain “competitive”, even if we need to invest in our defense, in AI and keep social systems alive in aging societies, treating dependence on nature as a secondary issue, is a major mistake. This is particularly ill-timed for Europeans, at a historical moment when other dependencies have become increasingly evident—on the United States for security, on Russia for gas supplies, and on China for industrial goods.

The problem also lies in how financial risks are traditionally measured, once again usually ignoring nature's role. A pioneer in this regard, the European Central Bank (ECB) demonstrated in a study that 75% of loans granted in the eurozone go to businesses that are dependent—or even highly dependent—on ecosystem services. If these services were compromised, the impact on our banking system would be severe. The ECB has also shown that the European economy is not prepared to withstand droughts linked to rising temperatures in Europe. Corporates and financial institutions should realize that nature is “material” to all human activities.

Ecosystems are complex systems with surprising interactions. For example, the reintroduction of wolves in Yellowstone Park allowed certain plants, depleted by the proliferation of herbivores, to flourish again. And what is the intrinsic value of a species threatened with irreversible extinction? Do we want to calculate the marginal price of the last dolphin, the last bear or life itself? Romain Gary’s novel “The roots of Heaven”, published in 1956 already draw our attention on the anthropologic dimension of hunting elephants.

This is not about ideology but about responsibility—in the general interest and that of business alike.

Solutions exist: produce while regenerating soils, limit the use of phytosanitary products, save water, travel less by means using fossil fuels, consume more soberly. Short-term indifference will only increase the costs in the middle term. Prevention is better than cure. Restoring a degraded environment ex post is sometimes possible, but not always (e.g., in the case of pollution from "forever chemicals"). In any case, it is expensive, especially as climate change increases the vulnerability of ecosystems that can no longer regenerate as they once used to do. For all these reasons, policymakers should act, together with businesses and society as a whole. This is not about ideology but about responsibility—in the general interest and that of business alike.

SUZANNE LLOYD
Vice-Chair – International Sustainability Standards Board (ISSB)

# Why high-quality sustainability information matters for capital markets

Generating high volumes of sustainability information does not, on its own, support investor decision-making. Capital movement relies on the quality, comparability and decision-usefulness of information.

Investors, companies and policymakers asked the International Sustainability Standards Board (ISSB) to develop globally applicable sustainability-related disclosure requirements that enable companies to meet this investor need.

Amid rising geopolitical tensions and extreme weather events, companies need to communicate how they are managing risks when their access to water, materials, markets and more is threatened and if they have identified opportunities.

The ISSB's Standards, which focus on sustainability-related risks and opportunities that could reasonably be expected to affect a company's prospects over the short, medium or long term, help companies communicate effectively.

The Standards are becoming the global language to help investors price risk accurately, providing relief to companies from the burden of meeting fragmented reporting requirements.

More than 45 jurisdictions—representing approximately 60% of global GDP—are using ISSB Standards. By 2027, companies in 18 jurisdictions will be issuing ISSB-aligned reports.

The ISSB's general requirements standard—IFRS S1—requires companies to disclose material information about all sustainability-related risks and opportunities. IFRS S2 supplements IFRS S1, setting out disclosure requirements specific to climate.

Currently, the ISSB is developing proposals to help companies to disclose information to investors about nature-related risks and opportunities in accordance with IFRS S1.

As was the case with IFRS S1 and IFRS S2, we are drawing on market-leading disclosure frameworks to develop our proposals—specifically, the work of the Taskforce on Nature-related Financial Disclosures (TNFD)—and bringing it into the ISSB's global language.

Nature and climate-related risks do not exist in silos. So our goal is to help companies prepare robust, comparable disclosures, grounded in the concepts of IFRS S1 and connected to climate and other sustainability-related factors, as well as to information in the financial statements.

We will consult on these proposals later this year including to understand if they meet investor needs.

As well as helping companies meet the requirements in IFRS S1 on nature, we are also focused on helping them meet the requirements in ISSB Standards to disclose industry-specific information.

We know investors need industry-specific information because sustainability-related risks and opportunities vary by industry and investors typically compare companies operating in the same industry.

Following two consultations, we are making good progress on enhancing the guidance for extractive companies, as well as food and beverage companies. Our next focus will be on technology and communications companies.

Of course, some jurisdictions have other needs for sustainability information, beyond investor needs, such as to meet domestic climate and sustainability objectives.

Although the information is used for different purposes, the content often overlaps. That is because a company's impacts and dependencies on resources and relationships—such as water or people—can give rise to risks and opportunities. Take, for example, information on greenhouse gas emissions or a company's climate-related transition plans.

We want to make sure that when a company needs or chooses to use ISSB Standards and is also required to disclose information for other purposes or for multiple jurisdictional requirements, it can do so as efficiently as possible.

In this regard we are facilitating discussions with jurisdictions to support cross-border efficiency.

A feature of the discussions is 'ISSB passporting', a regulatory option granted by jurisdictional authorities that allows a company to use the 'ISSB Standards as issued by the ISSB' to comply with jurisdictional disclosure requirements.

To this end, we are working with EFRAG to identify efficient pathways for roughly 1,200 non-EU parent companies to build on disclosures made using the ISSB Standards to then provide additional disclosures to meet the EU's incoming ESRS-40a requirements—an 'ISSB+' approach.

The ISSB's work will continue to be centred on helping companies deliver high-quality information to capital markets. Securing an efficient, cohesive disclosure landscape is a vital aspect of this work.

STEPHEN NOLAN

Global Head, Sustainable Financial Markets, SFH – The United Nations Development Programme (UNDP)

# How insurance helps finance the fight against climate change

Insurance does more for the economy than most people realize. It is, first of all, a financial safety net. Without the confidence that comes from being able to transfer risk, many of the high-risk, high-return activities that drive growth would simply be too perilous to attempt. But insurers are also among the largest investors in the world, managing an estimated US$42 trillion in assets globally[1]. European insurers alone are the largest institutional investors in Europe, holding €9.3 trillion invested across the economy[2].

Insurance capacity to invest and to de-risk matters for the fight against climate change. One of the biggest obstacles to cutting greenhouse gas emissions is the perception of risk, which drives up the cost of capital for green infrastructure. Insurance can narrow that gap. By underwriting transition assets, the sector makes projects bankable for institutional investors and initiatives like the EU's Global Gateway.

Renewable energy is a case in point. Wind, solar and hydropower projects depend on specific climatic conditions to generate revenue, so their cashflows are inherently volatile. Parametric insurance that pays out when those conditions underperform can stabilize project revenues, turning otherwise volatile renewable investments into bankable assets for institutional investors.

Insurers, regulators and other stakeholders will grapple with exactly this at the UN Global Sustainable Insurance Summit in Dublin on 17 September, tackling the growing insurability challenge, catalyzing resilience and building momentum for climate action ahead of COP31 in Türkiye. Running alongside Climate Finance Week Ireland during Ireland's EU Presidency, the summit will bring market practice, supervision and public policy into conversation, while spotlighting how sustainable insurance can protect communities, steer capital toward resilience, consider nature, and support a just, orderly transition.

Meeting that agenda takes institutions willing to do unglamorous, patient work — and the United Nations Development Programme (UNDP) is one of them. Its insurance portfolio, active in over 55 countries, splits into two connected strands.

One is regulatory, focused on strengthening insurance rules, shaping public policy and building the local capacity that markets need to function at all. At global level, the Sustainable Insurance Forum, chaired by SARB deputy governor Ms Fundi Tshazibana and hosted by UNDP, plays a pivotal role. This year, it marks 10 years of embedding climate, nature and other sustainability-related risks and opportunities into insurance regulation and supervision. At national level, in 2025, UNDP has helped push through concrete regulatory and policy reforms in 13 countries, for example by aligning regulatory frameworks with international insurance standards, or developing inclusive insurance sector strategies and roadmaps. A functioning local market matters, because risk-mitigation guarantees are what draw foreign investment to emerging economies.

The second strand is more hands-on, focused on designing and delivering country-led insurance solutions. Last year alone, new products ranged from parametric crop insurance in Viet Nam to jaguar-protection insurance in Argentina, reaching more than 4.3 million beneficiaries across 13 countries. Among other notable initiatives, UNDP, BMZ, Generali and ICMIF Foundation are delivering the world's largest inclusive insurance innovation programme, powering a new generation of insurance solutions tailored to local contexts, and increasing financial protection where it is needed the most.

UNDP's insurance work extends to nature as well. It underpins National Nature Restoration Plans, protecting natural assets and safeguarding the investments made in restoring them. Reefs, mangroves and forests reduce risk and underpin economic resilience, which is why they are increasingly treated as macro-critical infrastructure. The bigger opportunity is to fold insurance into the wider architecture of transition finance, rather than treating it as something that only pays out once the damage is already done.

**Insurance capacity to invest and to de-risk matters for the fight against climate change.**

Better data, risk modelling and public-private partnerships help here, too, steering capital toward the markets that need resilience most. The payoff is lower uncertainty for investors, steadier public budgets and enough confidence for households, firms and governments to invest. For emerging economies in particular, that is what insurance ultimately offers: a way to turn risk into something investable.

1. *2025 Global Insurance Market Report (GIMAR), IAIS, December 2025 (data to end-2024).*
2. *Strength in Numbers, Insurance Europe, June 2026.*

ROHAN LEE

Director, Financial Services – HM Treasury

# Sustainable finance: turning ambition into investable delivery

The question facing policymakers today is not whether climate change and nature loss are driving changes in the global economy. The question is how those changes can be managed - how our economies mitigate emerging risks, seize new opportunities, and remain competitive as this transformation unfolds. The transition to a lower-emissions and more climate-resilient economy is already reshaping energy systems, industries, and supply chains. At the same time, recent extreme heat events across Europe have brought the costs of physical climate impacts into sharp focus.

The climate transition is not happening in isolation. Geopolitical uncertainty, energy security, and emerging technologies such as AI are reshaping investment priorities across our economies. These do not diminish the case for prioritising sustainable finance but reinforce it. Energy price shocks have exposed the risks of reliance on volatile fossil fuel markets, while the growth of AI is creating new demands on energy systems and infrastructure.

Taken together, these developments are contributing to significant investment needs across infrastructure, industrial transformation, and economic resilience. Meeting those needs will require capital to be deployed at massive scale and directed towards activities that support long-term competitiveness and resilience.

In the UK, we typically think about sustainable finance as key to pursuing four real-world priorities:

- Clean energy, supporting investment in cleaner energy sources and infrastructure needed to deliver the transition to net zero.
- Transition finance, supporting companies and sectors as they decarbonise and transition to lower-emissions business models.
- Adaptation and resilience, supporting investment that helps businesses, infrastructure and economies withstand the physical impacts of climate change.
- Nature, supporting the protection and restoration of the natural assets and biodiversity that underpin economic growth and financial stability.

Together, these areas help economies manage risks, build resilience, and capture the growth opportunities associated with the transition to a net zero, climate-resilient and nature-positive economy.

The challenge is ensuring that capital reaches credible activities. This requires connecting investors with firms that are credibly decarbonising and managing sustainability risks effectively. That is why the UK Government, and regulators have focused on strengthening the market infrastructure that underpins investor confidence, including UK Sustainability Reporting Standards, the regulation of ESG ratings and the Sustainability Disclosure Requirements regime for investment products.

We must continue to seek to create the conditions for capital to support the transition of high-emitting and hard-to-abate sectors. That is why in 2025 the UK Government and the City of London Corporation co-launched the Transition Finance Council. Earlier this year, the Council published its Transition Finance Guidelines, providing a practical framework for assessing credible company transition activity. This should help create more consistent expectations across sectors and institutions, deepen the experience of the market in delivering transition transactions, and help the market scale up to the size we need.

However, sustainable finance is more likely to scale effectively where investors can operate across markets. Capital moves across borders, but fragmentation of policy and regulatory frameworks raises costs both for firms and investors comparing opportunities.

**The next phase of work on sustainable finance should be judged by whether it helps turn ambition into investable delivery.**

That why the UK continues to collaborate with international partners on internationally interoperable sustainable finance frameworks and standards that reduce friction for firms and investors operating across borders. We also believe a more internationally consistent understanding of transition finance can create consistent expectations across industry and help the market scale.

Greater attention is also needed in emerging markets and developing economies (EMDEs), where investment needs are greatest but barriers to capital remain high. That is why, in May 2025, the UK established the Emerging Markets and Developing Economies (EMDE) Investor Taskforce, an industry-led initiative focused on mobilising long-term investment into sustainable opportunities across EMDEs.

The next phase of work on sustainable finance should be judged by whether it helps turn ambition into investable delivery. The UK will continue to work with domestic and international partners to make that happen.

QUENTIN GUERINEAU
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# Stability and pragmatism: keeping Europe's climate transition on track

Europe is going through a period of profound questioning of its regulatory framework. Recently, calls for simplification have grown louder, driven by legitimate concerns about administrative burdens, reporting complexity and the need to strengthen European competitiveness.

While this debate is both necessary and healthy, one principle should remain unchanged: the long-term stability of climate commitments. This is essential for economic actors to continue investing, innovating and financing the transition. Renewable energy infrastructures, industrial decarbonisation projects or the deployment of clean mobility solutions require all decades-long planning horizons. Financial institutions play a central role in this transformation by allocating capital, supporting corporate investment strategies and helping households to finance sustainable choices. For these investments to materialise at scale, investors, corporates and consumers need clear and predictable signals.

In this context, many financial institutions continue to reaffirm their commitments despite a more challenging political and economic environment. Several major European banks, including Crédit Agricole, have maintained their decarbonisation objectives and their support to the transition. This persistent commitment reflects a growing understanding that climate considerations are no longer a peripheral issue but a core component of risk management, business strategy and long-term value creation.

Frequent regulatory shifts or uncertainty about policy direction may have the opposite effect. When economic actors lose visibility on future expectations, investment decisions are delayed, financing costs increase and innovation slows down. Stability does not mean rigidity, nor does it imply that existing frameworks cannot be improved. It simply means preserving a consistent direction of travel and maintaining confidence in the long-term objectives that Europe has collectively set.

Therefore, simplification, which has become indispensable, should aim at improving effectiveness, reducing unnecessary complexity and concentrating efforts on the most material information, while ensuring that we maintain our common environmental goals. Such an approach is not a retreat from sustainability objectives. On the contrary, it may be the best way to preserve them. This is especially important as financial institutions such as Crédit Agricole are expanding their focus beyond climate mitigation to areas such as adaptation, biodiversity, water and the circular economy. As geopolitical pressures are unlikely to disappear, simplifying the framework may be the most effective way to protect its underlying objectives over the long term and give financial institutions the flexibility they need to tackle new environmental challenges.

The relationship between competitiveness and environmental commitment should also be reconsidered. Too often, these objectives are presented as competing priorities. They can reinforce one another. Europe's ability to remain competitive and sovereign will increasingly depend on its capacity to innovate, reduce its dependence on imported fossil fuels and develop the technologies and infrastructure required by the low-carbon economy.

Banks already see numerous examples of this positive dynamic. Financing renewable energy projects contributes both to decarbonisation and to European sovereignty. Supporting building renovation programmes helps households reduce energy bills while stimulating local economic activity. Financing electric mobility accelerates emissions reductions while strengthening industrial ecosystems linked to batteries, charging infrastructure and new transport solutions. In each of these areas, environmental investment generates economic opportunities, enhances resilience and supports competitiveness.

The debate should move beyond the perceived opposition between sustainability and growth. The real challenge is to design a framework that enables both. Stable climate commitments provide the visibility needed for investment. Simplified regulations improve efficiency, implementation, and customer adoption. Together, they create the conditions for innovation, competitiveness and sustainable prosperity.

> **Simplifying the framework may be the most effective way to protect its underlying objectives.**

Europe has established a clear destination. The priority now is to focus on what is essential, to avoid unnecessary complexity and to preserve the long-term certainty that investors, financial institutions and citizens need. By doing so, Europe can continue to advance its climate objectives to the benefit of its economic sovereignty and competitiveness. Stability in ambition, combined with pragmatism in implementation, remains the most impactful path forward.


# JULIA SYMON

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## Sustainable finance must stay on course

Evaluating the impact of the sustainable finance agenda to-date will not be meaningful without considering the real economy transformations and the progress towards the global climate targets. The world is currently on track to overshoot the Paris Agreement target of 1.5°C warming by 2029. Only seven G20 members are on track to achieve their nationally determined contribution (NDC) targets, but few are on a clear trajectory towards their net-zero emission pledges, in accordance with the UN Global Emissions Gap Report 2025. In the meantime, financing flows into unsustainable activities continue at an unabated pace.

Further, it has to be taken into account that most sustainability initiatives - such as taxonomies, disclosure standards, sustainability risk management and transition planning - have not matured yet and have not even been adopted by all jurisdictions uniformly. Estimates of sustainable investments suffer from a lack of robust and harmonised definitions of what constitutes a sustainable investment. Funding and investment gap estimates also disregard the variable contribution of different financing instruments to the transition. Primary markets, which provide fresh capital, have far greater funding power than secondary markets, where securities merely change hands. Similarly, conditional financing – such as green bonds tied to specific projects – ensures greater directionality than general-purpose funding.

Given still incomplete transparency, underappreciated risks and the world being on track to significantly overshoot Paris targets, the logical response would be to continue refining disclosures, improve risk assessment and commit firms to green objectives. Instead, the EU has embarked on the rapid and underinformed deletion of parts of the sustainable finance framework, weakening disclosure requirements without addressing the underlying incentives driving corporate and investment decisions.

The narrowing of the scope of the Corporate Sustainability Reporting Directive, after market participants had already begun aligning with its requirements, introduced uncertainty. Information that firms had prepared to disclose will now reach the market through fragmented and duplicative requests. Obligations to translate information into action through credible transition plans have been removed from the Corporate Sustainability Due Diligence Directive before even being implemented. Undoing in one year what was developed over five has not resolved issues in the framework; it has introduced new problems. The EU competitiveness agenda in the banking sector, which started in the name of fostering growth, innovation and financing of the green and digital transition, lacks any links to the declared real economy objectives and risks undermining the resilience of the banking sector and its ability to lend sustainably.

Continued efforts on the sustainable finance agenda are more essential than ever - not only to address the challenge of climate change, but also to ensure legal certainty for companies to operate in the EU, the EU's energy independence, economic resilience and security. This relates to all countries of the world more broadly, where climate change triggers natural disasters, inequality, food and energy insecurity.

Measures to foster long-termism in financial decision-making should be further explored. Current financial rules largely reward short-term performance, discouraging investment in riskier, long-horizon projects central to climate mitigation and adaptation. Prudential frameworks such as Basel and Solvency II operate on one-year horizons, overlooking systemic, long-term climate risks. Hence, prudential regulation and supervision should evolve to incorporate forward-looking indicators and measures (such as macroprudential capital buffers) in order to price in the risks of delayed transition and the benefits of earlier mitigation. Transition plans should be further mainstreamed as strategic investment and risk management tools.

**Maintaining momentum and international collaboration is a political imperative.**

The limited bankability of certain green investments should be solved. Nascent technologies and large infrastructure projects often carry risks and long horizons that deter investors. Other initiatives – such as some protective infrastructure or biodiversity preservation – generate public goods without direct financial returns, making them unbankable by design. These are the areas where public initiatives and public finance must play a key role.

Maintaining momentum and international collaboration in the area of financial policymaking to address sustainability risks and reorient capital flows is not only major challenge, it is a political imperative.