PRESS RELEASE

Transition Finance: Unlocking the Path to a Sustainable Economy

23 December 2024 – BETTER FINANCE has today published a report highlighting the transformative potential of transition finance in driving the global shift to a sustainable economy. As the world races to meet the 1.5°C climate goal, the report reveals an expanding yet underdeveloped market, offering insights and actionable recommendations to bridge the gaps in transition investing.

Transition finance represents a critical middle ground in sustainable investing, targeting industries with high greenhouse gas (GHG) emissions and supporting their transformation towards greener practices. However, the report underscores the persistent disparities between investments in green, sustainable, and transitional financial tools.

Key Findings Reveal Urgent Opportunities and Challenges

- Market Growth: European Union (EU) climate benchmark funds surged by €135 billion in 2024, while Taxonomy-aligned capital expenditure (CapEx) increased by €58 billion, underscoring growing momentum.
- Investor Awareness Gap: One-third of individual investors remain unaware of transition finance, highlighting the need for clearer communication and education.
- Risks of Transition-Washing: A lack of standardised definitions and regulatory safeguards continues to threaten transparency and accountability.

Individual Investors Demand Greater Clarity and Engagement

In a survey of French, German, and Italian individual investors, participants emphasised the need for:

- Clearer communication on transition finance products.
- Dedicated financial product categories for transitional activities.
- Harmonised legislation to improve transparency and trust.

BETTER FINANCE's Managing Director, Aleksandra Mączyńska, stated: *"Transition finance offers unparalleled opportunities to engage individual investors in the fight against climate change. Yet, our report shows a critical need for robust frameworks to enhance transparency and trust. Only then can the true potential of transition finance be realised."*

New Insights on Individual Investor Appetite for Transition Investing

The latest iteration of the report reveals an emerging and concrete individual investor appetite for transition investing. This marks a significant shift from 2023, when the previous report primarily focused on the uptake of institutional investors' interest in transition-linked assets. In this year's report, BETTER FINANCE highlights growing demand from individual investors, who are eager for clearer products and more accessible investment opportunities.

Changes in Investment Assessment and Analysis

The report also introduces a shift in the assessment of transition investments. While the first iteration analysed the transition per country, as determined by the Transition Performance Index, the current iteration focuses on the distribution of transition investments specifically within the energy sector. Due to data limitations past 2020, the report now provides a snapshot of sustainable fund flows between 2021 and 2024, broken down by region, providing a more dynamic view of market shifts.

On investigating companies' Sustainable Responsible Investment (SRI) assets under management (AuM), the report reveals an interesting trend. The previous report indicated that one company reported a high of 27% in SRI investments during 2022-2023. In contrast, the latest findings show that the highest reported SRI investment for 2023-2024 stands at only 9%, indicating a shift in how companies are allocating funds towards green, sustainable, responsible, and transition investments.

Transition Finance: A Catalyst for High-Impact Change

Unlike traditional green investments, transition finance targets sectors with the highest emissions, including energy and transport. The report highlights a 30% growth in assets under management for EU climate benchmarks since 2021, yet less than 20% of corporate CapEx aligns with EU Taxonomy standards.

Key to advancing transition finance is the adoption of credible, science-based transition plans. These should include clear milestones, dedicated resource allocation, and a commitment to avoid environmentally harmful activities. The report also highlights critical EU legislative frameworks such as the Corporate Sustainability Reporting Directive (CSRD) and the EU Green Bond Standard (EGBS), which provide the foundation for effective transition planning.

A Call to Action

To harness the full potential of transition finance, the report urges policymakers, financial institutions, and investors to take coordinated action:

- Strengthen regulatory frameworks to prevent greenwashing and standardise definitions.
- Foster individual investor participation through transparent communication and simplified engagement tools.
- Encourage credible transition plans aligned with science-based targets and net-zero goals.
- Harmonise global standards to build trust and accelerate the transition.

European Leadership with Global Implications

Europe remains at the forefront of sustainable finance, accounting for 84% of global sustainable fund assets. However, the report calls for international cooperation to address barriers such as inconsistent disclosures and inadequate regulatory requirements, which hinder global progress.

A Shared Responsibility for a Sustainable Future

The report concludes with an optimistic outlook: transition finance is poised to play a pivotal role in addressing the climate crisis. By overcoming key barriers and engaging all stakeholders – from financial institutions to individual investors – it is possible to catalyse the systemic changes needed to achieve a sustainable global economy.

➔ The report is available on BETTER FINANCE's website.

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