

INVESTMENT FLOWS TO THE NET ZERO TRANSITION: PROGRESS AND POLICY NEEDS

POLICY BRIEFING – OCTOBER 2025

An investor initiative in partnership with
UNEP Finance Initiative and UN Global Compact

ABOUT THE PRI

The Principles for Responsible Investment (PRI) works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of sustainability and governance-related issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating responsible investment issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system.

ABOUT THIS BRIEFING

This briefing is intended for national and international policy makers shaping the enabling environment for the global net zero transition. The analysis shows that although many institutional asset owners and asset managers have made progress in directing capital in support of the transition, they are unable to do so at the scale needed in the absence of more stable and ambitious policy.

Section 1 reviews the financing needs of the transition. Section 2 describes the recent rapid increase in investment in the transition and

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the need for further acceleration. Section 3 places these trends in the broader context of institutional investors' approach to climate risk management, illuminating some of the challenges to scaling investments and attempts to address them. Section 4 examines how institutional capital is beginning to overcome challenges to investing in transitions in emerging markets and developing economies (EMDEs) where the investment needs for the transition are greatest. The conclusion highlights the need for immediate and decisive policy leadership to scale investment to the transition by government policy makers.

This briefing is one part of a two-part series. The companion briefing, 'Who invests and how? Unlocking and mainstreaming institutional investment flows to EMDEs', turns to the challenge of financing the net zero transition in emerging markets and developing economies (EMDEs) where investment is critical to managing system-level climate risks and supporting development needs.

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EXECUTIVE SUMMARY

The global transition to net zero demands that governments collaborate with the private sector to drive the largest and most rapid reallocation of capital in modern history.

- Amidst record-breaking climate change, pension funds, insurers, and other stewards of long-term capital have **expressed deep concern about the systemic threat** to capital markets and have **called on governments for urgent policy reforms** that enable a rapid net zero transition.
- Delivering this transition across energy and land systems will require capital investment of around **US\$4.5trn–US\$6.5trn annually** by the early 2030s and remain elevated thereafter.
- The **costs of inaction or delayed transition are far higher**: while the transition requires an investment of 1% to 2% of cumulative economic output to 2100, the net costs of inaction by that date are estimated at 11% to 27% of cumulative economic output.

Despite record investments in clean energy, global capital flows remain misaligned with climate goals while governments collectively remain committed to fossil fuel expansion.

- Annual investments aligned with global climate goals increased by 26% between 2021 and 2023, reaching US\$1.9trn, up from an 8% annual growth rate from 2018 to 2020.
- In 2024, **investment in the energy transition worldwide grew to hit a record US\$2.1trn**, up 11% from the year earlier, while investment in oil, gas and coal totalled US\$1.1trn.
- Most of this investment currently goes to clean power and transport, while investment lags in hard-to-abate industrial processes, clean shipping, land use, and adaptation.
- **Only 15% of flows reach EMDEs** outside of China, undermining the global net zero transition.

- As of 2025, governments collectively remain committed to producing twice as much coal, oil, and gas by 2030 as would be compatible with a 1.5C pathway, highlighting a profound **misalignment between national climate goals and real world policy** on economic transition.

Institutional investors are eager to fund the transition but need support from policy makers.

- **80% of institutional investors** now have processes to identify and assess climate risks
- Investor stewardship and engagement on climate is now **widespread**.
- Asset owners in PRI-supported investor initiatives have allocated **more than US\$500bn to climate solutions** globally in recent years through their individual investment decisions.
- However, without policy reforms to increase credible, investable transition opportunities, this **progress is at risk** as fiduciaries will be unable to act on the scale that the transition requires.

Transition investments in EMDEs are multifaceted but need policy support to scale.

- **Sovereigns** are issuing sustainability and transition-linked bonds.
- **Asset managers** are creating EMDE-focused funds with public and private debt.
- **Blended finance** vehicles are de-risking investment for institutional capital.
- However, the scale of these efforts remains modest relative to capital investment needs.
- Independent analysis estimates that **private investment in EMDEs outside of China must increase seven-fold** from US\$135bn currently to US\$1trn a year by 2030 for transition needs.
- Mobilising this capital at scale to EMDEs requires a **strong enabling environment** domestically and internationally, robust financial regulation, and clear economic and sectoral policy.

1. NET ZERO CAPITAL NEEDS

Clean energy investment globally needs to more than double in the next decade.

In **2025, total energy sector investment is projected to reach US\$3.3trn**, of which US\$2.2trn is directed to clean energy technologies: double the US\$1.1trn allocated to fossil fuels. The share of capital flowing to renewable generation, grids, storage, efficiency and other low-emission technologies now surpasses fossil energy investment, **reflecting a structural shift in global energy finance.**

The IEA's Net Zero Emissions scenario estimated that to reach net zero emissions by 2050, global clean energy investment must rise to around **US\$4.5trn annually by the early 2030s** and remain elevated thereafter.¹ This implies cumulative deployment of US\$110trn–US\$130trn by 2050 across renewables, grids, energy storage, efficiency, low-emission fuels, industry and carbon removals.²

Annual clean energy investment requirements by the early 2030s will be around US\$2.5trn–US\$3.2trn in advanced economies, US\$1.3trn–US\$1.5trn in China, and US\$3trn–US\$3.5trn in EMDEs. Investment needs across all areas of climate action i.e., the net zero transition of the global economy and adaptation to climate impacts, are estimated at **US\$6.5trn annually** by the 2030s.³

Land system investments are most needed and impactful in low-income regions.

The land system – spanning agriculture, forestry, ecosystems, soil carbon, and nature-based solutions – also demands large-scale capital flows. UNEP's State of Finance for Nature report estimates that **investment needs in land and nature solutions** must rise from around **US\$200bn today to reach US\$542bn annually** by 2030 and rise further to US\$737bn by 2050, implying cumulative needs of around US\$8trn.⁴ Around two thirds of this must occur in tropical and low-income regions, where deforestation, land degradation, and biodiversity loss are most acute, but where high-impact nature-based mitigation opportunities also carry the greatest mitigation and resilience potential.

Investing in the transition now has a far lower cost than delay or inaction.

Across studies, it is agreed that the **costs of investment are far lower than the costs of delay** or inaction (from stranded assets, transition shocks, and physical damages). In its 2025 analysis, the University of Cambridge and Boston Consulting Group estimated that a timely and orderly transition requires a total investment of 1% to 2% of cumulative economic output to 2100.⁵ By contrast, the net cost of inaction – the cost of not addressing climate change after accounting for the investment required for mitigation and adaptation – is 11% to 27% of cumulative economic output.

1) IEA (2023), [Net Zero Roadmap: A Global Pathway to Keep the 1.5 °C Goal in Reach – 2023 Update](#); 2) Energy Transitions Commission (2023), [Financing The Transition: Making Money Flow For Net Zero – ETC](#); 3) Bhattacharya A, Songwe V, Soubeyran E and Stern N (2024), [Raising Ambition and Accelerating Delivery of Climate Finance](#); 4) UNEP FI (2023), [State of Finance for Nature 2023 | UNEP – UN Environment Programme](#); 5) BCG and University of Cambridge (2025), [Too Hot to Think Straight, Too Cold to Panic](#)

By enacting policy that matches national commitments, governments could attract higher levels of private capital, including for transition in emerging markets where investment is low.

Mobilising the required capital at scale will depend on private sector participation. Public finance, especially bilateral, and multilateral, and concessional flows, remains essential for early-stage investment and de-risking frontier markets. National governments' own fiscal spending – on infrastructure, incentives, and direct public services – will also remain a core driver of transition outcomes. However, **private finance is expected to contribute significantly to long-term investment:** both the New Collective Quantified Goal (NCQG) and the Baku-to-Belém Roadmap explicitly embed expectations that **private capital must be scaled and steered alongside public resources.**^{6,7}

According to the Independent High Level Expert Group (IHLEG) on Climate Finance, EMDEs will not be able to finance the long-term investment programmes necessary to meet their climate and development goals without mobilising additional private capital of at least US\$1trn a year by 2030.⁸ This would represent a seven-fold increase on the US\$135bn of private finance reported by the IEA and IFC in their 2023 analysis of clean energy investment in EMDEs outside of China.⁹ The IHLEG estimates that cross-border private investment has the potential to provide half of these needs.¹⁰

6) UNFCCC (2024), [Ad hoc work programme on the new collective quantified goal on climate finance – Report by the co-chairs](#); 7) UNFCCC (2025), [Message from the Presidencies on the "Baku to Belém Roadmap to 1.3T"](#); 8) Songwe V, Stern N, Bhattacharya A (2022), [Report of the Independent High-Level Expert Group on Climate Finance](#); 9) IEA (2023), [Scaling Up Private Finance for Clean Energy in Emerging and Developing Economies](#)

2. GLOBAL CAPITAL FLOWS REMAIN MISALIGNED WITH CLIMATE GOALS

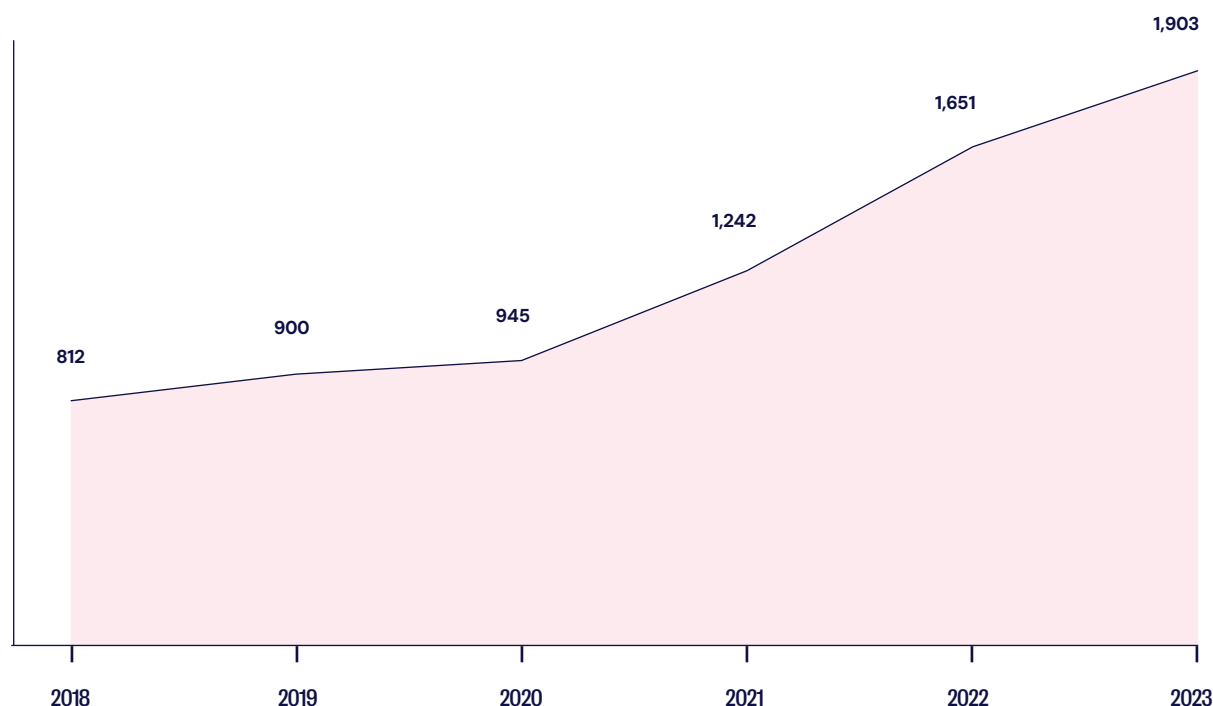
Climate-aligned investment is rising, but high investment in fossil fuel energy persists.

According to 2025 analysis by the Climate Policy Initiative (CPI), shown in Figure 1, global finance flows aligned with climate goals reached a **record US\$1.9trn in 2023, covering mitigation and adaptation**. This data is analysed with a two-year lag and represents the latest verified data across all sources. Measured on an annual basis, growth in climate-aligned finance has averaged more than 25% per year since 2020, up from around 10% annually in the previous decade.¹¹

The IEA, using broader investment accounting that includes corporate capital expenditure in energy systems, reports that **capital flows to clean energy are set to rise in 2025 to US\$2.2trn globally**, representing more than double the capital flows to fossil fuels of about US\$1.1trn.¹² It finds that **75% of clean energy investments today are funded from private and commercial sources**, including equity investments by private enterprises and households, alongside debt from financial institutions.¹³

Figure 1

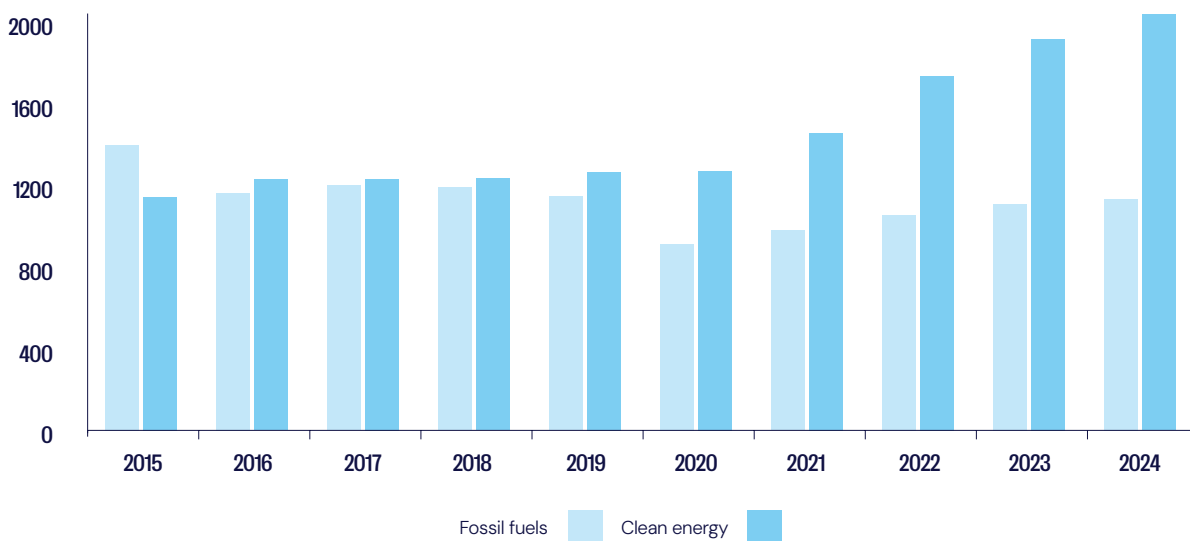
Global financial flows aligned with climate goals have risen sharply in recent years, reaching US\$1.9trn in 2023 – nearly triple the level in 2018 (CPI, 2025). Figures in chart are in US\$ billions (CPI, 2025)



10) Bhattacharya A, Songwe V, Soubeyran E and Stern N (2024), [Raising Ambition and Accelerating Delivery of Climate Finance](#); 11) CPI (2025), [Global Landscape of Climate Finance 2025](#); 12) IEA (2025), [World Energy Investment 2025](#); 13) IEA (2024), [World Energy Investment 2024](#)

Figure 2

Global investment in clean energy and fossil fuels 2015–2024, in US\$ billions (IEA, 2025)



Despite this overall shift towards clean power, five aspects of the distribution of financial flows make clear that **stronger policy intervention will be needed** to steer the global economy towards net zero.

1. Energy sector dominance: the energy sector continued to dominate transition investments in 2024, with investment lagging for other sectors key to achieving net zero emissions.

- The IEA projection for 2025 is complemented by analysis from Bloomberg New Energy Finance (BNEF) on **observed capital flows to real economy investment** in technology and infrastructure aligned with the net zero transition, which totalled US\$2.1trn last year.¹⁴
- **Electrified transport** remained the largest investment driver, reaching US\$757bn in 2024. Investments in **renewable energy**

hit US\$728bn, including wind, solar, biofuels, biomass, marine, geothermal and small hydro. Investment in **power grids** totalled US\$390bn.

- These **mature sectors** together drew US\$1.93trn, growing 14.7%, a healthy rate considering the headwinds of the past two years, such as elevated financing costs, supply chain delays, slow grid integration, permitting bottlenecks and continued policy support for fossil fuels.
- **Investment in wind is now slowing** due to policy decisions in the US, and project cancellations or delays in Europe, Japan, and India, due to costs and supply chain effects.¹⁵ Investment in **emerging technologies**, including electrified heat, hydrogen, clean industry, and clean shipping, was US\$155bn, down 23% year-on-year. Investment in these solutions must be de-risked if they are to have a meaningful impact on emissions this decade.¹⁶

¹⁴) BNEF (2024), [Global Investment in the Energy Transition Exceeded \\$2 Trillion for the First Time in 2024](#); ¹⁵) IEA (2025), [Renewables 2025: analysis and forecasts to 2030](#); ¹⁶) BNEF (2025), [Energy Transition Investment Trends Report 2025](#)

- Investment in **clean energy supply chains** – for instance to construct factories and materials production facilities to supply technology for the energy transition – fell to US\$130bn but is set to grow to US\$160bn this year. More than half of the total investment in clean energy supply chains went to batteries, reflecting the capital-intensive nature of battery cell factories.
- Total **debt and equity** raised for the transition in 2024 exceeded US\$1trn in 2024, rising 3% compared with 2023. In equity finance, climate-tech companies raised US\$50.7bn in private and public equity, down 40% year-on-year, and marking the third year of contraction.

2. Geographic imbalance: private capital is flowing towards the transition where policy certainty is strongest, not where emissions and investment needs are greatest.

- BNEF's analysis on real economy investment shows that **China was the largest market** for investment in 2024, which accounted for US\$818bn of investment, up 20% from 2023.¹⁷
- Investment in the transition **stagnated in the US**, reaching US\$338bn, and was down in both the EU and UK, hitting US\$375bn and US\$65bn, respectively. India and Canada also added to overall global growth, increasing their investments by 13% and 19%, respectively.
- There are also signs that **policy instability is affecting capital flows**. Renewable energy investment in the US fell US\$20.5bn, or 36%, between the second half of 2024 and first half of 2025, whereas Europe saw investment rise by 63% in the same period.¹⁸ **In a dynamic environment, capital is being reallocated to where there is higher certainty on the transition.**
- IEA analysis finds that outside of China, **EMDEs**

account for only 15% of global clean energy spending, despite representing the fastest-growing source of future energy emissions.¹⁹

- IEA further finds that around **60% of future clean energy investment in EMDEs outside of China must come from private investment**, representing a **seven-fold or greater increase**.²⁰
- The IMF has warned that underinvestment in EMDE transitions could cause the propagation of climate risks through the global financial system, leading to **macroeconomic instability**, sovereign downgrades, capital flight and higher borrowing costs.²¹

3. Policy support for fossil fuels prevents higher private investment in the transition.

- IEA's 2025 analysis illustrates the misalignment of global capital flows and climate goals, with the continuing annual investment of US\$1.1trn in fossil fuel infrastructure. Figure 3 below demonstrates the **persistence of investment flows to fossil fuels** across regions.
- As of 2025, **governments, collectively, still plan to produce more than double the amount of fossil fuels** in 2030 than would be consistent with limiting warming to 1.5C, and 69% more than is compatible with a 2C pathway. **These plans risk locking in high-carbon assets**, underscoring deep misalignment that amplifies economic and financial risk.²²
- Investment decisions are strongly influenced by real economy signals – policy, regulation, and technology costs – and **governments play a decisive role** in setting these conditions.
- In 2024, 651 institutional investors managing more than US\$34trn in assets urged governments to enact policies that deliver on

17) BNEF (2024), [Global Investment in the Energy Transition Exceeded \\$2 Trillion for the First Time in 2024](#); 18) BNEF (2025), [Global Renewable Energy Investment Still Reaches New Record as Investors Reassess Risks](#); 19) IEA (2024), [World Energy Outlook 2024](#); 20) IEA (2023), [Scaling Up Private Finance for Clean Energy in Emerging and Developing Economies](#); 21) IMF (2023), [Global Financial Stability Report, October 2023: Financial and Climate Policies for a High-Interest-Rate Era](#); 22) SEI, Climate Analytics, & IISD (2025), [The Production Gap Report 2025](#)

their global agreement to transition away from fossil fuels, including through the **removal of fossil fuel subsidies**.²³

- In 2024, the **Coalition of Finance Ministers for Climate Action** underscored that **finance ministries have the levers to phase out fossil fuel subsidies** that distort markets and lock in carbon-intensive investment, as well as the potential to **redirect savings towards clean energy and resilience investments** that strengthen long-term growth and fiscal stability.²⁴

4. Neglect of land use: CPI estimates that only 3% of financing is directed to agriculture, forestry, and other land-use systems, despite their key role in both mitigation and adaptation.

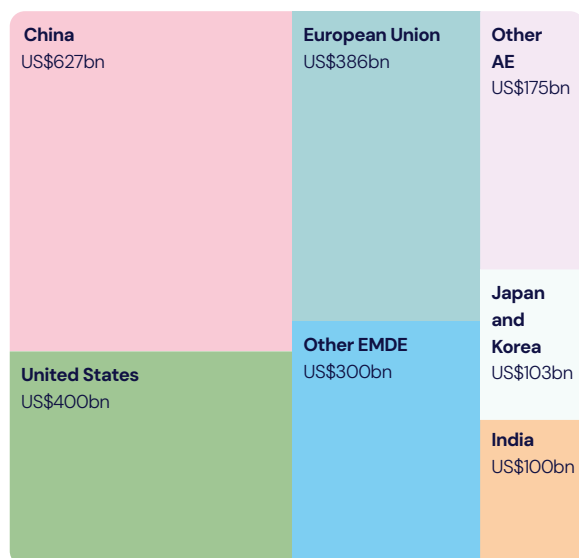
5. Adaptation gap: most climate financing focuses on mitigation activities (such as renewables generation) although investment in adaptation and resilience is also urgently needed.

In sum, **while clean energy investments are now attracting record levels of capital, their type and geographic distribution are not well aligned with the needs of the transition.** Meanwhile, fossil fuel investment continues at volumes that risk locking in emissions over the long term. Without stronger economic policy signals to direct capital, the **goals of the Paris Agreement are at even higher risk.**

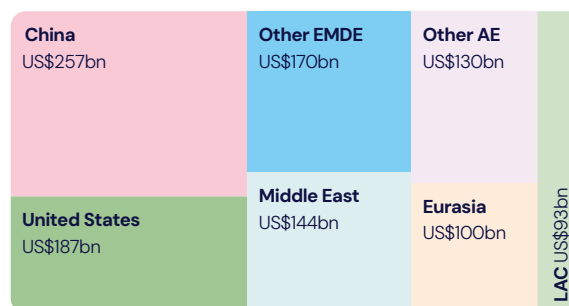
Figure 3

Global clean energy investment (left) and fossil fuel investment (right) by region in 2025 (LEF = low-emission fuels, EMDE = emerging markets and developing economies, AE = advanced economies, LAC = Latin America and the Caribbean) (IEA, 2025)

Clean energy



Fossil fuels



23) Investor Agenda (2024), [Global Investor Statement to Governments on the Climate Crisis](#); 24) The Coalition of Finance Ministers for Climate Action (2024), [Fossil Fuel Subsidy Reform – Removing harmful incentives and appropriately pricing fossil fuel products](#)

3. TRENDS IN INVESTOR ACTION ON CLIMATE

Pension funds, insurers, and other stewards of long-term capital have **expressed their deep concern to governments about the direction set by current policies**, which put the world on track for a temperature increase of 2.6–3.1C this century, and the systemic threat that climate change poses to capital markets.^{25, 26} In recent years, **institutional investors have devoted increasing attention to the financial materiality of climate change** and how they can manage climate-related financial risks.

Most institutional investors have integrated material climate considerations into risk management and investment strategy.

- Provisional data from PRI 2025 Reporting, based on responses from 2,779 asset owners and investment managers, shows that a **substantial majority of investors now have processes to identify and assess climate risks**. Globally, 80.1% of investors report having such processes, including **78.2% of asset owners** and **80.4% of investment managers**.
- Similarly, provisional data from the CPI's Net Zero Finance Tracker (NZFT), which independently tracks climate activity across 1,500 private financial institutions (representing US\$285trn in assets) finds that the **use of mitigation targets by financial institutions (FIs) expanded rapidly** in recent years **from 33% of all FIs in 2019 to 80% in 2024**.²⁷

Transition planning is becoming more common.

- The NZFT analysis suggests that **having a transition plan makes a clear difference in targets and implementation**. Three quarters of the institutions assessed in the NZFT make climate risk disclosures. FIs are progressing in internal accountability, disclosure of emissions

data, and shareholder and client engagement in support of transition planning efforts.

- Among PRI signatories, typical metrics used to frame targets include investee companies' degree of transition alignment and the carbon intensity of financed emissions. An increasing number also set targets for engagement or for share of investment in climate solutions.

Climate solutions allocations are growing as new investment opportunities come online.

- With or without formal targets, **climate and transition allocations among leading institutional investors are growing**, with the scale of change underway evident in reporting from the UN-Convened Net Zero Asset Owner Alliance (NZAOA).
- At the end of 2023, NZAOA members had invested **US\$555bn in climate solution investments**, up from US\$380bn the year before – a **46% increase in just 12 months**.
- Climate solution investments were highest in corporate bonds (US\$148bn) and real estate (US\$132bn), followed by listed equity (US\$99bn) and infrastructure (US\$75bn).
- The most striking relative gains have come from **private markets**, where climate solution investments more than tripled to US\$33bn in 2023. This surge into higher risk, illiquid assets signals a growing investor appetite to move earlier in the capital cycle and to surface credible opportunities that can help expand the pipeline of climate-aligned investments.

Investor stewardship and engagement on climate is widespread.

- Investors concerned with the systemic risk of climate change are **influencing the real economy** by using ownership rights to encourage corporate alignment with climate goals.

25) UNEP (2024), [Emissions Gap Report 2024](#); 26) NZAOA (2024), A Call to Action to Governments to Respond with Urgency on Systemic Climate Risk; 27) CPI (2025), [Climate Policy Initiative – Net Zero Finance Tracker 2025](#) (forthcoming)

- The **Climate Action 100+ initiative** offers an instructive case. Representing over 600 investors, it is the **world's largest investor engagement initiative on climate change**, focused on the systemically important companies whose emissions profiles and business models are most critical to the global transition.
- As of 2025, **a majority of Climate Action 100+ focus companies** had adopted 2050 net zero targets that did not exist prior to investor engagement, with **85% of companies** also setting GHG reduction targets for the medium term to 2035. A total of 69% of assessed companies had reduced their absolute emissions and 67% reduced their emissions intensity over the past three years, with **32% reducing their emissions intensity in line with credible 1.5C benchmarks for their sectors**, signalling progress on near-term decarbonisation. Equally notable, **91% of focus companies disclosed evidence of board-level oversight of climate risks**.
- Increasingly, investor engagement extends beyond company-level dialogue across sectors and value chains to address **systemic barriers**. In 2024, Climate Action 100+ launched a **pioneering sectoral engagement on steel**, aimed at addressing policy barriers to green steel and the lobbying practices that risk slowing decarbonisation in Europe. This effort brought investors into direct dialogue not only with European steel producers but also with the EU Commission and key trade associations. Parallel efforts engaged 25 companies across the steel value chain to build momentum towards Paris-aligned pathways. In the same year, investors created the European Climate Lobbying Working Group to press companies on ensuring their policy advocacy is consistent with their stated climate goals.

Sovereign engagement aims to create an enabling environment for transition investment via stewardship.

- **PRI's Collaborative Sovereign Engagement on Climate Change, more than 40 investors managing over US\$17trn** engage with governments on climate-related macro risks and opportunities.²⁸
- This engagement enables investors to better understand how governments are managing climate risks and progressing with their climate commitments and supports governments in **identifying policies and actions** that mitigate investors' portfolio risks from climate change.
- Dialogue is structured around ensuring that national climate strategies are aligned with Paris Agreement goals, and advancing credible financing frameworks to attract private investment.
- Since its launch in 2022, the initiative has established **structured engagements with governments across multiple regions**, reflecting the recognition that sovereign action is pivotal for both macroeconomic stability and the enabling environment for private capital flows.

Most institutional investors have over recent years **integrated climate considerations into risk management and investment strategy**. However, the fact that supportive policy environments are not in place in many countries has **hampered investors' ability to support the transition further**. In the absence of strong and clear policy frameworks to implement governments' national climate commitments, there are **insufficient investment vehicles** for transition funding, and the **market continues to underprice climate risk**.

28) PRI (2025), [Collaborative Sovereign Engagement on Climate Change](#); 29) Climate Bonds Initiative (2025), [Sustainable Debt – Global State of the Market 2024](#)

4. INVESTING IN EMDE TRANSITIONS

EMDE transition investments are growing in some markets, but scale remains constrained.

EMDEs are central to the success of the global net zero transition. These countries are home to the **fastest growing populations**, the bulk of **future emissions growth**, and many of the world's most **powerful mitigation opportunities**. Despite interest from institutional investors, capital flows to EMDEs remain modest, undermining progress in the global transition to net zero. Persistent challenges – including **currency volatility, shallow capital markets, limited project pipelines, and unpredictable policy environments** – continue to constrain private investment. Regulatory requirements, including capital adequacy requirements and limits on foreign currency exposure, compound these challenges.

Nevertheless, several government and investor efforts in recent years have tested **new approaches that seek to bridge these structural challenges** by aligning debt markets with national transition goals. These innovations signal where governments and investors are searching for credible mechanisms to reduce risk, improve transparency, and link financing directly to progress on transition outcomes.

Some sovereigns have pioneered green, sustainability-linked, and transition bonds.

- **Green bonds** remain a foundation of climate-aligned debt markets, with total annual issuance reaching US\$670bn and market capitalisation reaching US\$3.5trn in 2024.²⁹
- **Sovereign participation** in the green bond market **increased by 8.5% in 2024** (from US\$123bn to US\$134bn) as countries raise debt to finance large-scale renewable energy investments.

- **Sustainability-linked bonds (SLBs)** complement these by expanding the sustainable debt universe beyond project finance to larger scale transitions, tying borrowing costs to sustainability or climate-related performance targets for economy wide transitions.
- **Chile's** US\$2bn sovereign SLB – the world's first in 2022 – links coupon payments to emissions and renewable energy targets; **Uruguay's** US\$1.5bn issuance later that year ties costs to progress on emissions reduction and forest coverage goals.^{30, 31}
- Both instruments attracted **strong demand from global institutional investors**, showing that government action in support of the transition can materially address a longstanding structural barrier in EMDE financing: the perception of policy and transition uncertainty.
- Global SLB issuance contracted in 2024–2025, reflecting macroeconomic uncertainty, higher rates, and a drop in first-time issuers.
- **Transition bonds** represent a more recent innovation, focusing on extending the reach of sustainable finance into key carbon intensive industries. Several G7 countries are developing frameworks that aim to standardise eligible activities and support transition finance at scale.

The Scaling Capital for Sustainable Development (SCALED) initiative aims to overcome structural challenges in blended finance by standardising investment vehicles.

Complementing these sovereign-led innovations, asset owners and asset managers are also **experimenting with new vehicles** designed to channel institutional capital to EMDE transitions.

- The [SCALED](#) initiative represents a notable example that **addresses the mismatch**

30) Green Finance LAC (2023), [Chile places the first sovereign sustainability-linked bond in local currency](#); 31) Ministry of Economy and Finance, Uruguay (2025), [Uruguay's Sovereign Sustainability-Linked Bond \(SSLB\)](#)

between asset owner expectations and investment manager capacity – particularly for those that do not have in-house blended finance teams or experience.

- The initiative brings together major governments, development finance institutions, and institutional investors and insurers including Allianz, Zurich, and CDPQ, **aiming to mobilise billions of dollars over the next decade for sustainable investment in EMDEs** by standardising the vehicles, frameworks, and processes through which blended finance is structured.
- It aims to **reduce structural complexity**, cut transaction costs, provide repeatable blended finance solutions, and improve the efficiency and speed of deal origination.

Institutional investors are working with multilateral development banks (MDBs) and development finance institutions (DFIs) on blended vehicles that are enhancing capital flows.

Some institutional investors are allocating capital to EMDE transitions through blended finance vehicles that provide exposure to EMDE transition opportunities while partially **de-risking investments** through relying on MDB/DFI origination, due diligence, and safeguard frameworks.

- Invesco's [Climate Adaptation Action Fund](#) (ICAAF), for instance, targets up to US\$500 million in public and private bonds across Africa, Asia-Pacific, and Latin America. It blends concessional capital from MDBs and DFIs into a 25% 'junior' tranche, designed to absorb first losses and de-risk the remaining 75% 'senior' tranche for institutional investors.
- The fund's focus is to invest in public and private placement bonds in developing countries with a **tilt towards climate adaptation** sectors, including urban infrastructure, food security, nature-based solutions, water, and hydropower.
- Within its first year, the fund secured US\$250m in commitments, an indication of latent **demand when risk is appropriately structured**. The fund is one of the first of its kind in its geographical focus on adaptation in the least developed countries (LDCs), small islands developing states (SIDS) and African states.
- The success of the fund in supporting countries to deliver on their national adaptation plans will ultimately **depend on the willingness of DFIs and public sector investors** providing the capital for the junior class units to establish risk return profiles that allow institutional investor participation for the senior class units.
- Another case, from ILX Management B.V., offers insights into how **institutional capital is scaling into syndicated loans** originated by MDBs and DFIs including IFC, EBRD, ADB, and IDB-Invest. By investing alongside these institutions on the same terms, ILX enables pension funds and insurers access to the development finance asset class, which has historically been associated with lower default rates and strong recoveries.
- [ILX Fund I](#) launched in 2018 with around US\$1bn, primarily from Dutch pension investors, and focused on sectors such as renewable energy, infrastructure, and financial inclusion. ILX Fund II launched in 2024 with additional commitments from European pension funds, bringing the total AUM across the two funds to US\$1.7bn. [Fund II](#) diversified across geographies and sectors while maintaining **investment-grade, market-rate debt characteristics**.

- The experience of ILX highlights both the promise and the limitations of this approach. It shows that institutional capital can in some cases be **mobilised at scale into EMDE transitions without concessional finance**, provided risk is transparently managed and MDB/DFI pipelines are available. At the same time, the model remains **contingent on public institutions for origination and structuring**, underlining that further scale will require both a larger pipeline of bankable projects and **predictable policy environments** in host countries.

Asset managers are creating EMDE-focused transition funds with public and private debt.

Several asset managers are creating funds specifically designed to aid in the climate transition, often with an **EMDE focus**, recognising the **demand from clients** for these thematic investments.

- The **Ashmore Group** introduced its [EM Impact Debt Strategy](#) in early 2024 with US\$100m, prioritising issuers whose bonds contribute to the UN Sustainable Development Goals in areas such as clean energy, education, healthcare, and sustainable agriculture. While modest in scale compared to transition needs in countries, it reflects a growing institutional willingness to embed **measurable impact in emerging market credit portfolios**.
- Ninety One's [Emerging Markets Transition Debt strategy](#), launched in 2024, blends public and private debt to finance **emerging market companies with credible transition plans**. Its impact is measured using proprietary carbon reduction and just transition metrics.

- **Goldman Sachs Asset Management** launched its [Emerging Markets Green and Social Bond Active UCITS ETF](#) (GEMS) in mid-2025, investing in labelled green, social, and sustainability bonds from EM corporates and sovereigns. Despite its modest initial US\$29m AUM, GEMS complements GSAM's broader US\$15bn sustainable fixed income platform and **highlights investor appetite for benchmark-aware, actively managed transition products**.
- These signs of innovation demonstrate how tailored financial architectures and institutional partnerships are **making inroads** in terms of **allocating private capital to EMDE transitions**. They remain modest in scale, however, relative to requirements.

The approaches and innovations reviewed above illustrate that **institutional capital can contribute to closing the gap in EMDEs when government policy and frameworks are supportive**. Importantly, **each nation's sovereignty over its transition remains central**: investors require public policy to guide capital and **support national transitions determined by governments**. Many institutional investors are still taking cautious steps in relation to EMDE investments, reflecting the reality of market inertia and existing structural barriers. **Raising private finance to the levels required** in the countries where it is needed will **require a step-change in targeted, coordinated efforts** from policy makers, public finance institutions and investors.

5. POLICY SUPPORT IS NEEDED TO SCALE INSTITUTIONAL CAPITAL IN THE TRANSITION

In recent years, **institutional investors** have devoted increasing attention to the financial materiality of climate risk and **expressed deep concern to governments** about the direction set by current policies.

This briefing has demonstrated **where institutional capital is flowing** to investment opportunities in the transition, revealing that market forces are channelling it primarily into already **mature sectors** and **bypassing EMDEs**. The level of investment in the transition also remains inadequate relative to what is required. Moreover, **fossil fuel investment** (in many cases supported by fossil fuel subsidies and inadequate policy to support the transition) **persists at levels that threaten to delay the transition**.

To remedy this situation, institutional investors have encouraged national policy makers to develop clear and concrete plans to implement their countries' NDCs, create **policies and plans that will attract institutional capital** and align market incentives and fiduciary duty understandings with the needs of the climate transition,^{32, 33} The **investment community** has developed an awareness of climate's significance as a financial issue, and it **stands ready to play its part in accelerating the transition**.

The counterpart briefing in this two-part series, 'Who invests and how? Unlocking And mainstreaming institutional investment flows to EMDEs', takes a deeper look at **the question of how to unlock capital flows to the transition in EMDEs at scale** by co-designing markets, regulation and financial vehicles.

32) Investor Agenda (2024), [Global Investor Statement to Governments on the Climate Crisis](#); 33) PRI (2025), [PRI key climate policy priorities ahead and beyond COP30](#)

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To inform this paper, the following group has been consulted: PRI Climate Reference Group

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