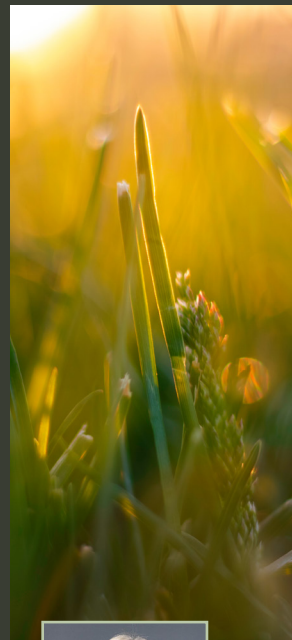


The Transition Finance Market Review

Review Chair, Vanessa Havard
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Westminster



Vanessa Havard
Williams



Baroness Vere

Introduction

The Transition Finance Market Review (TFMR) is a significant government-backed initiative to tackle systemic challenges in transition finance. Following an extensive consultation with financial institutions, NGOs, and green finance groups, the Review published its findings in October 2024. Participants underscored key challenges while also highlighting the immense opportunity. According to McKinsey, the transition finance market could represent a £1 trillion opportunity for UK companies by 2030. However, urgent action is needed, as other markets are advancing rapidly, posing a threat to the UK's competitive edge.



Key takeaways

Challenges identified by the review

- The review highlights a mismatch in risk-return profiles and concerns about greenwashing, which hinder investments in emerging technologies and credible transition plans – both critical areas for progress.
- Another key consideration is establishing greater clarity on the scope of transition finance and assurance on credibility.
- The Review recommends re-establishing the Net Zero Council to deliver sector-specific pathways to unlock entity-level financing. The Council would sit alongside other bodies.
- Sector pathways must be determined with *“finance and civil society in the room, not just the sectors themselves”*.

Transition planning

- Transition planning, aided by the Transition Plan Taskforce’s (TPT) disclosures framework, is driving company competitiveness and enabling financial institutions to prioritise investments - a Lloyds Bank survey found that 54% of institutional investors believe companies with ambitious transition plans have a competitive edge.
- *“CEOs today cannot defer decisions to 2050. They must address short-term targets now”*. Transition plans must include short to long-term milestones to maintain accountability and prevent delays.
- Robust short-term planning is critical because there are fewer certainties the further into the future you go.
- *“The way forward”* is for companies’ transition plans to be able to assure investors with certainty by articulating dependencies, chiefly government policies and regulations, including sector pathways - *“The market is shaped by the existing policy”*.
- The forthcoming transition plan consultation - following the manifesto commitment to mandatory TPs aligned with 1.5c - is therefore pivotal. *“We can’t let that momentum die out”*.

Shaping the market continued: incentives and disincentives

- *“Money will flow to where policy and legal incentives drive it. Without real economy demand, change will remain incremental.”*
- Sanctions, such as France’s penalties for greenwashing, demonstrate the role of accountability in driving compliance.

Climate risk “mispriced” and largely unaccounted for

- The underpricing of climate and nature-related risks remains an issue across the financial sector. This pervasive “mispricing” largely stems from a “massive disconnect” in the development of risk scenarios.
- Key models, such as those used by the Bank of England and the Office for Budget Responsibility (OBR), are not consistently peer-reviewed by scientists, resulting in gaps in their accuracy and reliability.
- As a result, climate risks are often “mispriced” in credit spreads. Without stronger alignment between scientific research, financial models, and policy frameworks, these risks continue to be offloaded onto the financial sector. Greater transparency in stress testing practices is urgently needed.
- Within companies there’s often a lack of coordination between financial, legal, and sustainability, the latter being much smaller. The natural impulse of legal teams is to comply only - e.g. FRS 102.
- Similarly, legal liability concerns and greenwashing fears create hesitancy. To address this, transition plans should be viewed as “*dynamic*” non-financial information, “*not treated as cast-iron promises*”.

Communications

- Communicating the importance of transition finance and how to deliver more funding is challenging due to the level of technical detail, “*but better than nothing*”.
- There should therefore be an emphasis on tangible benefits - “*transition is about cheaper renewables, energy efficiency, and healthier environments*”.

Issues raised

- Increase government-industry collaboration to align funding, and qualifications with sector needs, aligned with green strategies.
- Government action needs to go beyond adopting the recommendations of the TFMR, such as establishing a Transition Finance Council or defining sectoral pathways. Consistent commitment across policy and regulation is essential – “*markets won’t believe policy commitments without aligned actions*.”
- To drive meaningful change, the government should integrate transition plans into its procurement criteria and subsidy frameworks, creating strong market incentives for alignment with sustainability goals. “*Public and private markets need to work in tandem, with government setting clear, actionable pathways that inform financial decision-making*.”

Recommendations

Aligning government action: the role of procurement

- Increase government-industry collaboration to align funding, and qualifications with sector needs, aligned with green strategies.
- Focus on practical solutions prioritising outcomes, simplifying pathways, and enhancing accessibility for SMEs.
- Simplify training pathways, ensure they are competency-driven and aligned with industry needs.

Green Taxonomy

- Users of the EU Green Taxonomy have found it highly technical and inflexible, meanwhile only a tiny proportion of economic activity is aligned (0-1%) with the reference tool. Investors aiming for high taxonomy alignment are struggling to meet their goals, limiting its practical utility.
- The Taxonomy would likely be more effective as part as *“an evolution of detailed sector pathways and planning and government”*. It would be most useful at a later stage, when there is certainty over the economic activities we want to champion, otherwise it risks being an ineffective standalone exercise.

Looking ahead

- *“We need to make it easier for SMEs”* through simplified reporting requirements and pre-populated core data points, inspired by the open banking model's use of existing data to streamline processes.
- The challenge lies less in the existence of low-carbon technologies, but in scaling investment and aligning incentives to enable rapid deployment.
- The primary challenge isn't the availability of low-carbon technologies but scaling investment and aligning incentives for rapid deployment.
- Capacity challenges across the private sector persist, as many companies lack resources and depend on government leadership to act - *“there's an expectation that government will do it for them, creating a collective action problem”*.

Links

TFMR: 'Scaling transition finance'

Lloyds: 'Credible Transition Plans - Reporting vs Reality'

We would like to thank the members of our Advisory Board for their contributions and continued support.

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