HORIZONS

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Enter

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Welcome to HORIZONS

As we emerge from the (hopefully!) restful summer months, many of us are wondering *how is it already end of September?* 2025 is flying by, but the headlines across EMEA this summer have grounded us in stark reality.

Wildfires, extreme heatwaves, and other climate-related events have offered a sobering reminder: climate change hasn't taken a holiday. It's here. It's happening. And it's no longer a challenge we can afford to defer.

At the LMA, we've stayed busy throughout the season, engaging with members and regulators, advancing our initiatives, and preparing for what promises to be a standout fourth quarter. In particular, we're gearing up to release our much-anticipated Transition Loans Guidelines, a landmark piece of work we're incredibly proud of. And yes, I'm delighted to finally be able to say with full confidence: they're coming soon!

Naturally, geopolitics remained a prominent theme throughout the summer, and it would be remiss not to acknowledge its influence on sustainability. In this issue, our Political Pulse feature examines how the evolving EU–US trade deal may affect sustainability regulations within the EU, specifically the Corporate Sustainability Reporting Directive and the Corporate Sustainability Due Diligence Directive. We also consider how internal political tensions within the European Parliament are expected to influence the upcoming Omnibus negotiations this quarter.

We also welcomed the FCA's letter of 14 August[1], which acknowledged the continuing evolution of the Sustainability-Linked Loan (SLL) market since its 2023 review. It was encouraging to see recognition of the progress made in raising standards, enhancing governance, and embedding greater ambition and credibility in SLL structures. This aligns strongly with our own direction of travel, as seen in the March 2025 update to the Green, Social and Sustainability-Linked Loan Principles, and in our recent article, *Sustainability-Linked Loans: When Finance Rewards Sustainability Performance*[2].

Looking ahead to Q4, the calendar is full, both personally and professionally. Alongside Halloween, Bonfire Night and the run-up to Christmas (my favourites!), we're counting down to one of our biggest milestones: our flagship *Sustainable Finance Conference on 5 November*. This year's theme, "The Phoenix: Resilience in Action", couldn't be more timely. In the face of global challenges, our community doesn't stand still. It adapts, evolves, and rises stronger. Like the mythical phoenix, we're driven by purpose, innovation, and a commitment to building a more resilient and sustainable financial system. We can't wait to welcome you to this event so be sure to register.

As ever, *Horizons* is *for you*, our members and stakeholders. We hope you enjoy reading this edition and we'd truly welcome your thoughts, feedback, and ideas for future editions. Let us know what you'd like to see next, we're listening.

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LMA

1. Sustainability-linked loans market: 2 years on | FCA
2. SLLs - When Finance Rewards Sustainability Performance - 12 June 2025.pdf

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ESG Syndicated Loans Reshape Across EMEA: From Volume to Value in 1H25

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In the first half of 2025, global sustainable finance volumes—encompassing both loans and bonds—reached $774.7 billion, marking a 14% year-on-year decline.

This contraction was largely driven by a sharp drop in syndicated loan issuance, while the bond market showed signs of resilience, registering a modest 3% increase compared to the same period in 2024.

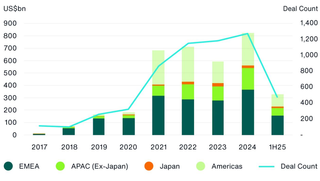
Global Sustainable Finance Volume

Source: LSEG LPC

Zooming in on syndicated loans, global volumes fell to $327 billion in 1H25, representing a steep 30% decline from the previous year.

The Americas recorded $97.4bn in 1H25. Despite promising growth indicators in 2021 and 2022, the calendar of new regional issuance has slowed meaningfully in the last few years as appetite for ESG compliance has become politically fraught in the US. APAC excluding Japan recorded $61.2bn in 1H25, down 24% year over year. The region was not sheltered from the wider market headwinds.

Global Sustainable Finance Loan Volume



Source: LSEG LPC

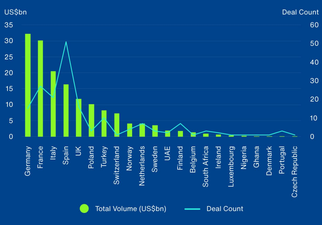
The EMEA region, traditionally a stronghold for ESG lending, was particularly affected. Volumes dropped by 32%, from $228.34 billion across 309 deals in 1H24 to $156.08 billion across just 181 transactions in 1H25. The slowdown was most pronounced in the first quarter, where issuance plummeted by 48% year-on-year, falling from $136.91 billion in Q1 2024 to $70.53 billion in Q1 2025. This front-loaded weakness reflected a broader loss of momentum in ESG loan origination.

EMEA Green-ESG Loan Volume

The macroeconomic environment remained challenging in the first half of 2025, with persistently high interest rates across Europe. At the same time, the market is undergoing a transition: borrowers are now subject to more rigorous scrutiny, with sustainability metrics expected to align with sectoral pathways and be supported by auditable data. Geopolitical tensions — including the ongoing war in Ukraine, the Israel-Gaza conflict, and the Iran-Israel escalation — combined with economic uncertainty stemming from President Trump's reciprocal tariff programme, created a complex backdrop in 1H25 and weighed on the overall loan market in the first half of 2025.

Germany led the EMEA region in Sustainable Finance loan volume, while Spain topped the region in deal count.

EMEA Sustainable Finance Loan Volume



EMEA Green-ESG Loan Volume

Source: LSEG LPC

ESG formats, which often require additional structuring and negotiation, were not immune to the pressures mentioned above. Many corporate borrowers opted for straightforward refinancing solutions, avoiding the complexity of sustainability-linked structures that demand credible KPIs and third-party verification.

Regulatory developments also played a significant role. The European Banking Authority's final guidelines on ESG risk management, published in January 2025, pushed banks to embed ESG considerations into credit origination and monitoring processes. The increased focus on due diligence contributed to slower deal execution.

Guidelines on the management of ESG risks | European Banking Authority

The market is undergoing a transition. Borrowers are now subject to more rigorous scrutiny, with sustainability metrics expected to align with credible sectoral pathways and be supported by auditable data.

Structurally, the ESG loan market is shifting from rapid expansion to consolidation. The emphasis is increasingly on quality over quantity, with fewer but more robust deals coming to market. Innovation in funding structures is also underway.

In summary: 1H25 confirmed a slowdown in ESG syndicated loans, driven by higher rates, regulatory tightening, and credibility concerns. While headline volumes fell, the quality of deals is improving, suggesting the market is in a transition phase from expansion to consolidation, setting the stage for more resilient growth ahead.

Post scriptum

The data presented in this article is reflective of news stories, press releases and lenders activities across the sustainable finance sector. If you wish to contribute for league tables purposes, please send transactions info to emea.loans@lseg.com

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Macropolitical Context

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Here we are in Q3, and there is a lot to digest from the summer months. While some were sunning themselves, others were delivering an EU-US trade agreement.

Between threats of ever-increasing tariffs and social media politicking, it became clear that a deal needed to be reached. As Commission President von der Leyen said in her State of the Union address in Strasbourg on 10 September, "we ensured that Europe got the best possible deal out there". Hardly ideal, but pragmatic perhaps, and arguably the only option left to von der Leyen and her team as temperatures rose.

Of course, what we want to discuss here are the implications of the deal on the EU sustainability agenda. The EU-US trade deal announced on 21 August has implications for the **Corporate Sustainability Reporting Directive (CSRD)** and the **Corporate Sustainability Due Diligence Directive (CSDDD)**, particularly in terms of regulatory scope, enforcement, and political dynamics.

In the communication accompanying the agreement, the European Commission **(EC)** pledged to ensure that CSRD and CSDDD do not impose "undue restrictions" on transatlantic trade. This was a direct nod to extraterritorial implications in the Directives. Given that negotiations are ongoing, it remains to be seen how the final agreement will be impacted. But concerns have been raised about the **erosion of EU legislative sovereignty,** with trade negotiations seemingly pre-empting democratic processes. What is clear is that the current US administration has signalled it will not tolerate EU regulatory impositions that affect US industries, particularly fossil fuels and agriculture.

Let's remember that the whole premise of the Omnibus 1 proposal was to **reduce regulatory burden**, including reducing administrative burdens for business, especially SMEs, proposing changes to the harmonised civil liability regime under CSDDD and reducing the climate-transition obligations in both Directives. However, there have been suggestions during the negotiations for a two-tiered system where stricter rules could be imposed on third-country corporates. Unsurprisingly, this has elicited strong reactions and countercalls to maintain a level-playing field.

The other big impact of the trade deal has been on a **political and civil society level.** We continue to see backlash to what has been seen by some as overt capitulation by the EC to US pressure. There has been strong criticism of how the EU conducted the negotiations, especially from NGOs, sustainability advocates, and EU lawmakers, including Commissioner Ribera, the leading social-democrat in the EC. Many warn that embedding deregulation in a trade deal could **lock in weaker standards** for years. Any softening of the EU's green commitments further strains the "von der Leyen coalition", the political groups that supported her re-election as President for a second term (EPP, S&D, Renew Europe, and the Greens). Indeed, there was an immediate reaction from the S&D Group when von der Leyen chose not to champion the Green Deal in her State of the Union address. She instead spoke to the importance of climate resilience and nature-based solutions, with a focus on renewables and nuclear power as Europe's path to energy independence. A further sign that the EU's green agenda has shifted towards pragmatism over idealism.

All of this will have implications for the ongoing Omnibus 1 negotiations. The European Parliament **(EP)** position will very much depend on whether a majority is sought from the centre or from a centre-right/far-right majority. The European debate on ESG simplification has entered a decisive but deeply complex phase.

Navigating Omnibus 1 Negotiations

European Parliament: Warborn's compromises under pressure

The EP's work is proving as divisive as many expected. Rapporteur Jörgen Warborn's (EPP, SE) most recent set of compromises edge closer to the political centre on CSRD scope, but move further towards the Council position on CSDDD, which fixes the scope at 5,000 employees and €1.5 billion turnover. On CSRD reporting, Warborn suggests lowering his proposed employee threshold to 1,750 (rather than 3,000) while keeping the €450 million turnover trigger. **This is framed as a middle ground with Renew, S&D, and Greens,** who continue to push for much lower thresholds, but still leaves him **short of a clear majority.**

On the EU Taxonomy, Warborn suggests removing the optional reporting regime for mid-sized companies, though in practice his scope proposal already takes these companies out. Within the EPP, pressure is mounting to go further still and scrap mandatory taxonomy reporting altogether; an idea that centrist and left groups fiercely oppose.

Compromises on transition plans and due diligence also scope fractures. Warborn and Renew's Pascal Canfin favour "reasonable efforts" with fewer prescriptive requirements, whereas the Greens and S&D want climate transition planning to remain firmly tied to the 1.5-degree target and intermediate milestones. On due diligence, left-of-centre groups push for obligations to extend beyond direct suppliers, while Warborn insists on a more limited scoping exercise based on "reasonably available" information.

The timetable is ambitious but fragile: further negotiation meetings are scheduled for late September, with a committee vote pencilled in for 13 October and a possible plenary vote in the week of 20 October. Whether that schedule can be maintained depends entirely on the pace of compromise which, at present, looks uncertain.

Council: thresholds and carve-outs dominate

By contrast, the Council has already settled on its general approach, giving a clearer sense of how Member States are interpreting simplification. The idea behind the deal is to raise reporting thresholds and limit knock-on obligations for smaller firms. Under the Council text, only the largest EU companies and listed entities — those with over 1,000 employees and high turnover — would remain firmly in scope, with equivalent triggers applying to non-EU groups with a significant presence in Europe.

Alongside this, national ministers agreed on a series of carve-outs and delays. These include **postponing any potential extension of scope until 2029**, restricting how far large companies can demand sustainability data from smaller suppliers, and easing requirements for third-country auditors. Together, these measures reflect a determination to shield mid-sized and smaller firms from additional burden, even at the cost of narrowing the policy's overall reach.

On due diligence, the pattern is similar. The Council opted for higher thresholds, a tighter focus on direct business partners, and a two-year delay to transition planning requirements, which are framed on a "reasonable efforts" basis. Efforts to introduce harmonised civil liability at EU level have been firmly abandoned, while financial penalties are capped at 5% of global turnover.

EFRAG's simplification drive

While political negotiations are grinding on, EFRAG has been reshaping the European Sustainability Reporting Standards (**ESRS**) that underpin the CSRD. Its exposure drafts, out for consultation, aim to reduce burdens by cutting down data points, clarifying materiality, and aligning more closely with global frameworks.

Headline figures include mandatory data points reduced by 57%, and overall disclosure requirements — including previously voluntary points — reduced by 68%. Narrative requirements have been made less granular, and many voluntary datapoints have been reclassified as methodological application requirements or shifted to non-binding guidance. The intent is to simplify without dismantling.

EFRAG is also pushing interoperability. The drafts build stronger connections with ISSB and GRI standards, recognising that multinational companies need alignment across jurisdictions. The double materiality assessment has been streamlined, starting with a "top-down" business model analysis before delving into specific issues, supported by proportionate evidence.

Notably, EFRAG's revisions stop short of areas still being negotiated at Level 1 — such as the scope of transition plan requirements and sensitive information reliefs. This underlines that while technical simplification is progressing, its boundaries remain politically defined.

Where the politics leaves policy next quarter

In Council, a consensus exists, while in the EP, divisions cut across and within party groups, leaving the fate of Omnibus 1 highly uncertain. Meanwhile, EFRAG is offering its own simplification package, but its impact will depend on how much of the legislative architecture survives the political process intact.

Looking ahead to Q4, the key question is whether EP can converge around thresholds and transition planning, or whether entrenched positions delay the vote and push compromises into 2026. For companies, the message is mixed: technical relief is on the horizon through revised ESRS, but the broader obligations — who reports, what they report, and how transition plans are framed — remain **hostage to political bargaining.**

Tracking the reshape: where do we stand?

Policy Intervention	Description	State of Play	RAG (Progress)
Omnibus: Stop-the-Clock Directive (Level 1 legislation)	The directive postpones by two years the CSRD requirements for large companies yet to report and listed SMEs, and by one year the transposition and application of the CSDDD.	Approved by both the European Parliament and the Council, national transposition is required by 31 December 2025.	🟢
Omnibus: Substantive amendments (Level 1 legislation)	This proposal encompasses changes to the CSRD, CSDDD and EU Taxonomy in relation to scope, due diligence obligations and precise reporting requirements.	The European Parliament is expected to vote on its position by mid-October. Only after that can negotiations with the Council begin — a process likely to extend well into 2026.	🟡
ESRS amendments (Level 2 legislation)	Amendments to the ESRS are linked to reporting requirements under the CSRD. The Commission has tasked EFRAG with streamlining the number of datapoints and aligning the ESRS framework with international standards.	EFRAG is currently consulting on its revised reporting standards. It aims to deliver its final advice to the Commission by late November, which will serve as the basis for a delegated act to amend the ESRS. This exercise will also likely run into 2026.	🟡
Taxonomy (Level 2 legislation)	This legislative file proposes amendments to the EU Taxonomy delegated act focusing on simplifying reporting templates, DNSH simplification, and a de minimis financial threshold of 10%.	A public consultation on the draft amendments ran until March 26, 2025. The Commission adopted its revised delegated act in July, which is currently under co-legislator scrutiny, and aims to complete the revision of the Taxonomy disclosures delegated act before 2026.	🟡
Review of the Sustainable Finance Disclosure Regulation (SFDR)	The review aims to simplify the existing framework, reducing legal ambiguities and compliance costs and improving clarity. Still in early stages, the Commission is assessing whether to introduce targeted amendments or implement more significant changes.	Following a call for evidence, the Commission is expected to submit its Level 1 proposal in Q1 2026 given its intended alignment with changes brought about by the Omnibus package.	🟡

Join us for the next edition of Political Pulse – SFDR reform on the horizon.

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Sustainable Financing for African Digital Infrastructure

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The achievement of a robust digital infrastructure in Africa will require significant financing for the development of physical assets including data centres, macro towers, small cells, fibre optic networks and marine cables.

Studies estimate that Africa's infrastructure finance needs total of US$130-US$170 billion a year, with a mammoth financing gap of between US$68 billion and US$108 billion[1]. However, to ensure long-term stability and development, African countries will need to factor in resilience in their bid to finance digital infrastructure, by exploring investments that can address the infrastructure deficit while mitigating climate change, addressing social issues and contributing to a more sustainable future. One might wonder why this content promotes sustainable financing as a viable solution in relation to digital infrastructure development in Africa.

The integration of sustainable measures into digital infrastructure projects (in accordance with the relevant sustainable financing instruments) helps to effectively minimize the carbon footprint of digital infrastructure businesses, thereby mitigating environmental impairment across Africa, preserving the African ecosystem and allowing digital infrastructure businesses in Africa to contribute to global efforts to alleviate the effects of climate change. Sustainability is increasingly becoming a priority in the strategies of top cloud service providers with hyperscalers like Amazon Web Services, Microsoft and Google investing in sustainability initiatives to achieve net zero emissions within the decade[2].

There might also be a nagging query as to how African countries can address its infrastructure deficit, while deploying sustainable financing solutions in the African digital infrastructure landscape. Ahead of our JEE London Africa Digital Dialogue & Reception which took place in October 2024 with the theme, **"Investing in Africa's Digital Economy: Catalysing the Next Frontier of Growth"**, we thought it necessary to explore how stakeholders in Africa's digital infrastructure landscape could utilize sustainable financing instruments for digital infrastructure development while delivering positive outcomes for the African society through the integration of environmental, social and governance (ESG) considerations into financing strategies.

1. Africa Development Bank (2023) Public-private partnerships needed to bridge Africa's infrastructure development gap. Available at: https://www.afdb.org/en/news-and-events/public-private-partnerships-needed-bridge-africas-infrastructure-development-gap-65936
2. Marcus Law (2024) Sustainability is Central to Hyperscalers' Strategies. Data Centre Magazine, April 03.

Sustainable Debt Instruments Financing Digital Infrastructure

As succinctly stated by Fong and Aguirre (2023)[3], sustainable finance is much more than just numbers and profits but represents a commitment to the broader impact of investment decisions. We will proceed to consider sustainable financing instruments developed in accordance with the principles of the International Capital Market Association and the Loan Market Association that can be effectively deployed for African digital infrastructure projects under two broad categories:

(a) utilisation-based financing – where the use of proceeds is ring-fenced exclusively for the financing or refinancing, in part or in full, new and/or existing eligible projects/assets/companies that have climate and/or environmental and/or social and/or sustainable benefits and are labelled a green, social orsustainability bonds or loans (as the case may be); and

(b) performance-based financing – wherein the financial instrument commits itsissuer to achieving certain predefined and forward-looking sustainability targets.

Utilisation-Based Financing

Green Bonds and Loans

The proceeds of these type of debt instruments are exclusively utilized for the financing or refinancing of green projects, including intangible assets or expenditures pertinent to climate mitigation and adaptation goals, or other objectives associated with clear environmental benefits. Green bonds and loans are required to be certified as green by their issuers and borrowers (as the case may be) and subject to screening processes, including external reviews. The drawing power of green financing instruments is that they appeal to the interest of investors who prioritize investments in environmentally responsible projects in Africa, while allowing for a reduction in financing costs, as the coupon/interest rate is adjusted at intervals to reflect the performance of issuer or borrower in relation to the applicable environmental objectives[4].

Social Bonds and Loans

These types of debt instrument are applied towards financing or re-financing eligible projects aimed at addressing or mitigating a specific social issue and/or seek to achieve positive social outcomes, especially but not exclusively for a target population. Instances of target populations can include unserved or underserved communities in Africa. Digital divide is considered a social justice issue[4], therefore bridging the divide in Africa and ensuring digital inclusion via financing the development of critical infrastructure can be considered a viable social outcome. A good example is the social bond program of the Internation Finance Corporation (IFC) which includes projects that expand access to telecommunications, such as broadband or mobile phones.

Sustainability Bonds and Loans

The proceeds of these type of debt instruments are used to finance or refinance a combination of projects designed to achieve both positive environmental and social outcomes. This could traverse investments in projects that tackle climate issues to funding enterprises that work to support digital inclusion of underserved communities.

Performance-Based Financing

Sustainability Linked-Loans and Bonds

Unlike utilisation-based instruments which ring-fence the use of proceeds for specific purposes, Sustainability-Linked Bonds (SLBs) and Sustainability-Linked Loans (SLLs) have coupon payments that are linked to the sustainability performance of the issuer, allowing the borrower or issuer to use the capital for general purposes, provided that specified sustainability performance targets (SPTs) are achieved by the issuer or borrower. Under these instruments, the issuer or borrower (as the case may be) receives a lower interest rate if it improves its performance in relation to the SPTs, thereby rewarding the positive performance of the borrower or issuer.

Sustainability-linked instruments provide a significant advantage of allowing borrowers and issuers to highlight nature-based commitments to their existing investor bases while attracting an expanded pool of investors interested in sustainable investing at a lower cost of capital. Furthermore, the achievement of SPTs tied to climate or nature improvements helps to enhance shareholder value, both in the short and long term, by increasing community resilience and mitigating climate risks.

Sometime in June 2024, it was reported that International Finance Corporation (IFC) and Proparco provided a financing package including loans of US$10 million and ZAR 200 million from IFC, US$20 million from Proparco and an additional US$10 million loan from Rand Merchant Bank to the West Indian Ocean Cable Company (WIOCC) Group for the purpose of funding WIOCC's expansion strategy in Nigeria, Democratic Republic of Congo and South Africa meet growing demand for colocation and other data centre services, thereby enhancing the continent's digital infrastructure and connectivity and supporting economic growth[5]. The financing is structured as a sustainability-linked debt, with pricing linked to WIOCC's commitment to improve the energy efficiency of its data centres.

3. Fong, Shirley and Aguirre, Ale Jimenez (2023). What Is Sustainable Finance and Why Is It Important? Rydoo. October 18.
4. Sanders CK, Scanlon E. The Digital Divide Is a Human Rights Issue: Advancing Social Inclusion Through Social Work Advocacy. J Hum Rights Soc Work. 2021;6(2):130-143. doi: 10.1007/s41134-020-00147-9. Epub 2021 Mar 19.
5. pressroom.ifc.org/all/pages/PressDetail.aspx?ID=28238
6. African Economic Outlook 2024. Driving Africa's Transformation: The Reform of the Global Financial Architecture. African Development Bank Group

Recommendations for Viable Sustainable Financing of African Digital Infrastructure

According to a recent study conducted by the African Development Bank Group, domestic resources alone will be insufficient in many African countries to fill their financing gap for structural transformation by 2030[6]. Many African countries have limited fiscal space and low tax capacity, and the private sector remains very risk averse with relatively low participation, especially toward investment in critical sectors for structural transformation. In view of this, how can African countries effectively position themselves to access sustainable financing for digital infrastructure development in Africa? To stimulate private investment and attract foreign capital for the development of sustainable digital infrastructure in Africa, the following recommendations are provided below:

Enabling Policy and Regulatory Reforms

African countries need to institute endogenic reforms and policies adapted to areas of relative advantage as priorities and give consistent effect to them, while ensuring that anti-progressive policy reversals are avoided, as such disruptions corrode investor confidence. These reforms and policies should be aimed at promoting sustainable development and environmentally friendly investments through the encouragement of financial institutions to provide more financing through sustainable financing instruments; the adoption of environmental, social, and governance standards; the development of sustainable finance markets to support companies in the digital infrastructure space with eligible projects; the promotion of green and sustainable insurance products to mitigate environmental risks, and the enhancement of financial regulation in view of relevant environmental risks.

According to the African Development Bank Group, continuous and systematic implementation of public policies will create certainty and stability to attract domestic and foreign capital inflows into areas supportive of the structural transformation agenda[7]. It is therefore important to ensure that the regulatory frameworks and business climates in the locations of these projects are conducive to private investment[8].

Conducive Business Climates

African countries should strategically provide targeted and streamlined incentives to catalyse private capital flows to support their endogenic development plans for structural transformation. To stimulate increased domestic and foreign capital investment in the African digital infrastructure landscape, it is imperative for African countries to create conducive business environments and providing targeted fiscal incentives, such as investment tax credits and other fiscal reliefs.

Availability of Viable Project Pipelines

For digital infrastructure projects that are unlikely to be financially attractive to private sector investors on their own, it is recommended that project developers and sponsors should consider packaging such projects alongside revenue-generating projects to enhance the appeal of the packaged projects to prospective investors[9]. The lack of investment-ready project pipelines is often cited as a cardinal impediment not only to unlocking private finance but also leveraging existing sustainable finance instruments. Large digital infrastructure projects have extensive development and gestation periods and often involve complex feasibility studies and expert transaction advice. Many African governments and local private sector players lack the capabilities, as well as the resources, to undertake such infrastructure projects with commercial potential. Therefore, capacity building in respect of project preparation and implementation is essential.

7. Ibid
8. Gouett, M. (2023) 'Innovative Financial Instruments and Their Potential to Finance Climate Change Adaptation in Developing Countries'. International Institute for Sustainable Development
9. African Economic Outlook 2024. Driving Africa's Transformation: The Reform of the Global Financial Architecture. African Development Bank Group

Conclusion

In view of the foregoing, we appreciate that sustainable financing is crucial for bridging Africa's digital divide and driving resilient economic growth on the continent. Governments and regulatory authorities, digital infrastructure service providers, investors, lenders and other stakeholders are encouraged to collaborate on the adoption of these models and support the development and deployment of sustainable finance instruments in the digital infrastructure space. With an appropriate approach towards sustainable financing, Africa can unlock its digital potential and drive economic growth while enjoying the positive outcomes derived from the implementation of sustainable finance principles.

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Harmonisation of Sustainability Standards to Accelerate Investment Into the Real Economy Transition

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Investment into the energy transition has been a significant opportunity and focal point for banks for many years now, particularly for global banks with client-centric strategies who can offer sector and geographic expertise to support long-term clients in their decarbonisation pathways.

We have seen significant developments in banks' sustainability strategies as renewables and low-carbon technology deployment has reached new heights and data availability has improved, underpinned by transition-focused client engagement and disclosure.

Whilst global banks are well placed to offer unique sector- and geography-specific expertise, they are also faced with hurdles arising from the changing geopolitical environment and evolving policy and regulation which is fragmented globally.

Inconsistent reporting requirements and policy signalling across regions can disrupt the execution of a harmonised global sustainability strategy at parent level. Ensuring compliance may require diverting resources away from implementation of sustainability initiatives, ultimately affecting the support that global banks can offer their clients, and slowing the rate of investment into the transition.

Harmonisation of Global Regulations

However, 2025 has been a pivotal year for harmonisation of global regulation with the introduction of the "EU Competitiveness Compass". Designed to revitalize Europe's economic dynamism and position the EU as a global leader in innovation, sustainability, and resilience, this is a call for action in Europe to demonstrate that sustainability and competitiveness go hand in hand. The compass aims to simplify the core elements of the EU sustainability disclosure regime (CRSD, CSDDD, and the EU Taxonomy).

The UK PRA has also updated its supervisory statement on the management of climate and environmental risks. Though still in the consultation phase (CP10/25), the final iteration is likely to broaden the current expectations to ensure financial institutions have the governance in place to embed sustainability practices throughout the organisation, including within strategy and business planning.

Interoperability with ISSB Standards

Both the EU competitiveness compass and PRA consultation focus on interoperability with the ISSB standards. These standards set a global baseline for sustainability reporting, providing consistent, comparable and decision-useful data to help navigate the sustainability transition. As of June 2025, the ISSB standards have been adopted or utilised to varying degrees by thirty-six jurisdictions, including Japan in the form of the SSBJ.

By prioritising alignment with these global standards, the UK and EU regulators are laying the groundwork for a robust energy transition by enabling entities to focus on the crux of sustainability regulatory and disclosure regimes: to embed sustainability into the business strategy to ensure robust business planning and long-term resilience. A transition plan is, after all, a business plan.

Redefining the Role of Global Banks

With improved interoperability now on the horizon, global banks are able to redefine their role in the real economy transition. Harmonisation of global reporting regimes allows them to shape their sustainability strategies around their portfolios, investing a larger proportion of resources in providing tailored support for clients' transitions through research, advisory and investment into innovative technologies.

Reduced fragmentation in disclosure regimes also enables banks to obtain better, more consistent and more comparable data from clients, helping to guide engagement discussions surrounding the challenges that each client faces in their sector and geography. This improvement in data availability presents an opportunity for banks to build data systems, integrate AI tools, and establish ESG data governance that allow for effective reporting across jurisdictions.

Upcoming Developments

Whilst progress has been evident over the last few years, achieving 2030 and 2050 objectives still requires a rapid increase in sustainable investment and stronger global co-ordination. The upcoming launch of the LMA's newly developed Transition Loan Guidance (to be published in Q4) will help to make headway by providing clarity, transparency and credibility to the transition-labelled finance market.

The development of guidance on a Use of Proceeds label to support transition loans will support capital flows into climate-aligned transition activities and unlock liquidity, particularly for the hard-to-abate sectors.

Mizuho's Approach to Transition and Climate Change

At Mizuho, our approach to transition and climate change is based on 3 perspectives: promoting transitions in real economy, capturing business opportunities and appropriately managing risks.

Since our first TCFD report in 2017, we have steadily transformed our reporting from a regulatory compliance driven exercise to a comprehensive and forward-looking approach that integrates climate, nature, and social impact into our core business strategy. Sustainable finance targets play a key role in monitoring execution of our strategy.

Harmonising sustainability disclosures is not just a regulatory exercise but a strategic enabler of the energy transition. It is important for corporates and financial institutions to move beyond disclosures and integrate sustainability and climate risks and opportunities into business strategy.

The LMA Guidance will be a welcome addition to the LMA's existing set of principles and guidelines which establish product labelling best practice, and will further harmonise and accelerate investment into the energy transition.

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Lenders Can Put Nature-Based Opportunities on the Table Through Cross-Sector Collaboration

James MacPherson
Co-Founder
BRAE

Nature is a big opportunity for the lending market. Direct investments in nature natural capital and enabling technology, infrastructure, and materials require a staggering $1.2 trillion in annual private sector investment.

Lenders can play a key role in providing this[1]. There are challenges in making nature opportunities a reality: risk-return profiles are atypical, and there are spatial and temporal mismatches between investments and economic benefits. But these are challenges that collaborative innovation can help solve.

In a recent collaboration with World Business Council for Sustainable Development[2], BRAE highlighted that markets for sustainable products and services are underdeveloped. This is symptomatic of a commercial ecosystem that encourages lenders to focus on 'downstream' functions like disclosure frameworks, taxonomies, and investment platforms. Meanwhile, 'upstream functions' like industrial strategies and investment plans tend to be developed by governments in isolation from business, finance and civil society stakeholders who are critical to success.

This gearing is particularly problematic when considering nature innovation and investment: Nature markets are less mature relative to climate and need urgent and proactive development if we are to meet climate goals and reverse the tide of catastrophic biodiversity collapse that is currently unfolding globally[3].

Recent discussions with financial innovators and land stewards have revealed a number of focus areas that could unlock nature opportunities for the lending market. These are not exhaustive, but should serve as prompts for deeper engagement.

1. https://www.bcg.com/publications/2024/nature-is-the-next-opportunity-for-banking
2. https://www.wbcsd.org/wp-content/uploads/2025/03/Evidence-Base-A-New-Era-of-Public-Private-Collaboration-to-Transform-Sustainability-Markets.pdf
3. https://www.theguardian.com/environment/2024/oct/10/collapsing-wildlife-populations-points-no-return-living-planet-report-wwf-zsl-warns

Evolve engagement across the lending value chain to develop new nature-related products and services

Effective dialogue between financiers and their portfolio companies is critically important to influence change in the business community, and to help with risk management. If we take things a step further and move towards product and service innovation, nature-related commercial opportunities can be identified with wins for nature, society and business.

Some leading institutions are moving in this direction. Banco Do Brasil, supported by US$500m from the World Bank[4], are now offering their clients access to nature markets, broadening access to nature-based carbon credits (such as from afforestation or regenerative agriculture) for SMEs. Other large lenders around the world are offering advisory services linked to emerging nature markets, such as Lloyds Bank in the UK who are helping businesses engage in nature-based carbon removal projects and procurement[5].

Moving beyond this and driving the next wave of opportunities will require public and third sector engagement in innovation processes. Opportunities for lenders include nature positive materials, infrastructure and business models. These markets are nascent however and will require supportive policy such as subsidies for nature-positive activities and the removal of harmful subsidies. They will also require innovative financing, such as the use public money to de-risk and shift risk-return profiles for nature funding and new structures to pool investment. The private sector alone cannot provide these things, and government can't act without clear demand signals and engagement from lenders.

4. https://www.worldbank.org/en/news/press-release/2022/12/22/banco-mundial-banco-do-brasil-desenvolvem-solucao-financiamento-climatico
5. https://www.lloydsbank.com/business/resource-centre/insight/unlocking-uk-potential-of-carbon-and-nature-markets.html#:~:text=Lloyds%20is%20here%20to%20help,portfolios%20of%20high%20integrity%20carbon

Fertilise new place-based financing structures through cross-sector collaboration

Innovative mechanisms for transacting environmental services at landscape levels such as Landscape Enterprise Networks have been developing at pace and provide potential entry points for lenders into nature markets. These collaborative initiatives facilitate markets for ecosystem services like carbon sequestration, flood management and soil improvement at landscape levels, linking service providers and beneficiaries. Promising demonstrators are being delivered worldwide, from the City of Cape Town to the Fens of East Anglia in the UK.

But progress is slow due to weak demand from businesses. Many financial institutions are now keen to deploy capital to nature-related landscape initiatives and there are myriad land management experts and innovators ready to support implementation on the ground. But incentives for business to invest in nature at scale are underdeveloped, so the market is sluggish despite the abundant capabilities of those working in the field.

This issue stems in part from a lack of strategic alignment between policymakers and the private sector. By focusing on strategic alignment across the public, private and third sectors, starting with developing a slate of shared outcomes, lenders can catalyse demand and improve project bankability. National Biodiversity Strategies and Action Plans (NBSAPs), now being updated globally in line with the Kunming-Montreal Global Biodiversity Framework, offer a timely entry point for the loan market to align public and private agendas.

There is an opportunity for nature to capitalise on existing momentum for climate transition planning. Jurisdictions globally are turning towards sectoral decarbonisation roadmaps and the UK's Transition Finance Council is looking at developing an internationally scalable framework for this. Informed by global and national pathways, the roadmaps will aim to capture key milestones and needs in respect of technology, policy and investment.

Given that nature is essential in meeting climate goals, integrating nature into climate transition planning should provide quick wins and routes to nature market development. These broader scope sectoral plans could be co-created using public-private engagement mechanisms that foster alignment around shared goals and create a constructive feedback loop between policy, finance and real economy delivery. We have the foundational thinking required to do this now[6], but need to move into active co-design and delivery.

6. https://cetex.org/publications/taking-the-lead-on-climate-action-and-sustainable-development/

Adopt a progressive stance on (prudential) policy advocacy for nature

In the current political and economic context, flows of catalytic capital from both public and philanthropic sources are strained. Scaling nature finance will require creative approaches to risk-sharing and market incentivisation. Macroprudential frameworks, while beginning to receive attention[7], are often overlooked by the business and nature community leading to missed opportunities.

It now seems inevitable that supply shocks linked to nature degradation, likely compounded by contemporary forces like protectionism and geopolitical conflict, will cause future inflationary pressures and trigger monetary responses. It is essential that prudential policies evolve in a way that supports long-term economic resilience, not just short-term stability. The lending market can advocate for alignment and participate in co-designing enabling regulation.

This is an emerging arena, and innovative (sometimes radical) proposals abound. For example, it has recently been proposed that mechanisms like the European Central Bank's Targeted Longer-Term Refinancing Operations (TLTROs), currently channelling over €1.3 trillion to banks, could be repurposed to support green and nature-positive lending in line with EU environmental policy[8]. This, says Positive Money Europe, would reward innovation while maintaining a level playing field.

Economists will of course have strong opinions about such proposals. I am a business and nature expert and natural scientist by training, so I will leave it to others to weigh in on the technicalities of innovation in macroprudential regulation. But I do know for sure that we need to start putting new ideas on the table (fast) and working through them as a community if we are to conserve and restore the fundamental (natural) underpinnings of economic activity in time.

7. https://www.unepfi.org/industries/banking/navigating-nature-policy/
8. https://positivemoney.org/eu/archive/green-tltros/

These few examples indicate the latent potential for innovation that can be unlocked when we bring the right people together. We need more spaces that bring together technical specialists with creative problem solvers and innovators across sectors. These ways of working remain fringe activities at present, but our research with WBCSD provided clear evidence that mainstream actors across sectors globally can see the need for them. Loan market participants have served a critical role in the evolution of green financing instruments such as sustainability-linked loans in the past. There is a clear role for them again here.

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Projects

The Green, Social and Sustainability-Linked Loan Principles create the foundations upon which this market can thrive and we continue to work to produce greater clarity, transparency and granularity around these Principles to drive forward sustainable lending liquidity.

This quarter has seen the following activity:

Q2 Publications	WIP
Mandate Letter for SLL Sustainability Coordinator	Model Provisions for Use of Proceeds Transactions
Guidelines for Sustainability-Linked Loans Financing Bond	Transition Task Force
	Annual Review of the Green, Social and Sustainability-Linked Loan Principles

Regulatory Submissions

Q2 Publications	WIP
Transition Finance Market Review Call for Evidence, where we expressed the view that in order to meet climate goals, there is still a vital need to transition various hard-to-abate sectors and that transition finance will be essential to enable this transition to take place.	

Resources

Regulatory Submissions

Q4 2023	Q1 2024
European Commission's Targeted Consultation on the Sustainable Finance Disclosures Regulation (SFDR), where we stressed, among other things, the need for further clarity around certain key concepts under the SFDR as well as a need for greater interoperability across global reporting regimes	UK Financial Conduct Authority's consultation on its anti-greenwashing rule guidance, where we requested, among other things, clearer guidance on market best practice to ensure that market participants understand the correct processes to follow to avoid inadvertent greenwashing.

What is the view of the Platform on Sustainable Finance?

Platform on Sustainable Finance: Simplification of the EU Taxonomy

On 5 February 2025 (prior to publication of the Omnibus Package), the Platform on Sustainable Finance (**Platform**) published a report - Simplifying the EU Taxonomy to Foster Sustainable Finance ((**Report**) - which builds on previous work by the Platform including the Compendium of Market Practices published in January 2024 (see previous Horizon publications).

The Report refers to the EU's plans for a package of measures aimed at refinement and simplification of the EU Taxonomy in order to increase its effectiveness. The Report sets out specific recommendations to reduce the reporting burden for non-financial companies and simplify reporting for financial institutions by using estimates, proxies, a streamlined DNSH assessment approach and the introduction of a materiality concept. The Report also emphasises the importance of improving interoperability between the EU Taxonomy and other Taxonomies internationally in order to enhance the flow of capital.

The following four core proposals are included for simplifying taxonomy reporting:

1. **Reduce corporate reporting burden** by one-third by: (i) making the OpEx KPI voluntary disclosure, other than for R&D, in line with the Accounting Directive; (ii) introduce a materiality threshold for reporting the Turnover, OpEx, CapEx KPIs and the combined KPIs of financial companies; (iii) improve alignment with financial reporting; and(iv) simplifying reporting templates and reducing data points;
2. **Simplify GAR to encourage green and transition lending** by (i) creating symmetry with similar numerator and denominator composition; (ii) simplifying retail exposure reporting and focusing on substantial contribution; (iii) allowing for the use of estimates and proxies for reporting along with safe harbours to protect against greenwashing; and (iv) applying the materiality principle to the combined KPI for financial undertakings, excluding immaterial business areas;
3. **Provide a practical approach to DNSH criteria** by (i) providing for a lighter compliance assessment process; (ii) reviewing the DNSH criteria as part of the Omnibus; and (iii) introducing a temporary "comply or explain" approach for DNSH assessment of the Turnover KPI; and
4. **Help SMEs access sustainable finance** by (i) adopting a streamlined and voluntary approach exposures to unlisted SMEs; and (ii) adopt a simplified approach to the Taxonomy for listed SMEs.

Key updates include

IFRS Sustainability Disclosure Standards

- the Government is aiming to make ISSB-endorsed reporting standards (UK SRS) available in Q1 2025 following assessment of IFRS S1 and S2 by the UK Technical Advisory Committee
- following positive endorsement and a consultation process, the FCA can use the UK SRS to introduce sustainability-related reporting requirements for regulated UK-listed firms
- a decision regarding future requirements is expected in Q2 2025 at which point, the Government will also consider exemptions from pre-existing requirements under the Companies Act 2006. Any changes would be effective no earlier than accounting periods beginning or after 1 January 2026.

Transition Plan Disclosures

Given the overlap between IFRS 2 and the TPT Disclosure Framework, the FCA will consult in 2025 on enhancing its expectations on transition plan disclosures with reference to the TPT Disclosure Framework. The Government will also consult in Q2 2024 on how the UK's largest companies ought to disclose their transition plans.

SDR and investment labels

The Government has announced its intention to issue a consultation in Q3 2024 on whether to extend the scope of SDR to include funds under the Overseas Funds Regime (OFR). On 1 May 2024, HM Treasury and the FCA jointly published a roadmap for the implementation of OFR.

Green Taxonomy

The UK Government will continue to develop the proposed UK Green Taxonomy and will consult on its design in due course. The consultation will seek feedback on the overarching framework and once finalised, there will be a testing period for voluntary disclosures and use for at least two reporting years before exploring mandating disclosures. A decision as to whether to introduce mandatory disclosures against the Taxonomy has not yet been taken and is reserved until such a time that the consultation is complete.

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