



COP30 Presidency Roadmap for Transitioning Away from Fossil Fuels in a Just, Orderly and Equitable Manner: Institutional Investors Group on Climate Change (IIGCC) response

About IIGCC

IIGCC is an investor-led membership organisation. We bring the investment community together to navigate the risks and opportunities of the transition and support progress towards a net zero and climate resilient future. We work with our members to create guidance, tools, frameworks and resources that can help them, in their individual contexts, to manage climate-related financial risk within their individual portfolios. Our work also supports investors to make the most of opportunities presented by the transition towards a decarbonised global economy and the realities of a changing climate. We have 400+ members across 20+ countries.

More information at: www.iigcc.org

Responses to questions

Question 1: What are the most critical barriers – whether physical, economic, financial, institutional, technological or social— preventing a transition away from fossil fuels?

Whilst there are several barriers preventing the transition, we focus our attention on the most critical barriers from an investor perspective. These include, among others, misaligned policies and market incentives, fiscal, financial and technological challenges for fossil-fuel dependent developing countries and managing impacts on labour markets and communities.

The global economic system is still overly dependent on fossil fuels and the depletion of our natural resources. This is particularly true for emerging markets and developing economies (EMDEs) that typically have newer, fossil-based capital stocks. Whilst many EMDEs are disproportionately exposed to climate impacts, fossil-fuel driven economic development is often seen as the most viable pathway in these countries that face **higher marginal abatement costs, more limited fiscal space, lower technology and financial capacity** to pursue lower carbon investments.

Policy drives investment decisions by providing signals to investors on key opportunities; therefore, **misaligned policy incentives** continue to channel capital to high-emission technologies and sectors that do not support a country's climate goals.

Additionally, there is **a misalignment of time horizons within the financial sector**. Frameworks used for most asset valuations such as 'discounted cash flow analysis' often assume no low-carbon transition will take place, yielding financial assessments that overestimate positive terminal values for fossil fuel investments. More robust risk assessment and better pricing of climate risks can help address some of these market failures.

While the transition can bring long-term economic and financial stability outcomes, it also creates considerable short-term **challenges for workers and communities** dependent on fossil fuel-related industries. Economic shocks to workers, suppliers and consumers across global markets can provoke resistance to the transition. Far-reaching structural changes to energy systems, labour markets and local economies will be required.

Question 2: What potential levers, whether economic, financial, institutional, social or technological, exist for accelerating the implementation of the transitioning away commitment?

1) Policy levers

Supportive policy frameworks can steer capital towards clean energy investments. For example, carbon pricing and the removal of fossil fuel subsidies shift commercial incentives in favour of clean technologies; phase-out roadmaps for high-emitting sectors provide a clear direction for industry and an understanding of the viability of decarbonisation investments along concrete timelines; government support for key clean energy projects can help de-risk them and attract private finance.

In particular, the development of **sector decarbonisation roadmaps** by policymakers could be an effective way to help inform private investment decisions in the context of the transition in a specific sector. IIGCC defines sector decarbonisation roadmaps as: *long-term strategic plans to support the decarbonisation of material sectors in a jurisdiction's economy, particularly those that mostly rely on fossil fuels*. Roadmaps should set out the policy initiatives being taken to decarbonise a sector and how these interact with the wider policy environment. They should also explain how these are expected to evolve as the sector transitions, and vice versa.

Our recent [paper](#) sets out key principles for developing roadmaps:

(1) credible and decision-useful for investors by being action-orientated and directly supporting economy-wide decarbonisation targets, e.g.

- have clear time-bound actions for relevant stakeholders
- based on emissions reduction trajectories and underlying assumptions consistent with recognised evidence-based pathways
- set a clear deadline for the sector's decarbonisation, underpinned by ambitious but achievable interim targets and milestones
- set out key interdependencies and potential trade-offs

(2) provide clarity on how current and anticipated government policies will interact to support sectoral decarbonisation, e.g.

- overview of the current and expected future policy mix impacting a sector
- clear phase-out dates for environmentally harmful technologies and incentives
- details on the fiscal and market incentives and policies that will make decarbonisation cost-competitive
- considerations of how the policy mix relates to the wider macroeconomic context, including relevant international value chains

(3) accompanied by financing mechanisms that articulate total investment needs alongside measures to de-risk and crowd-in private capital, e.g.

- assessment of the total investment needs and breakdowns of financing and investment needs by sub-sector and relevant technologies
- mapping of a sector's investment needs to the most relevant sources of finance
- information about the public and private financial instruments that will be deployed

2) Investor levers

Institutional investors have been taking action to consider the risks and opportunities of the transition within their portfolios to fulfil their fiduciary duty to manage risk and return and protect the long-term value of their assets. They have several levers at their disposal to support the transition, from working directly with portfolio companies to strengthen corporate transition plans to developing net zero strategies – IIGCC supports investors with the tools and guidance to achieve this.

Our recent **Net Zero Investment Framework guidance on Just Transition**, developed with our partners as part of the Paris Aligned Investment Initiative, helps investors integrate just transition considerations into their net zero strategies, consistent with fiduciary duties and institutional mandates.

Integrating **just transition considerations** is not only about managing risks, but also essential to enabling an orderly transition to net zero across both developed and emerging markets. Just transition considers the **transition risk for key stakeholders, including workers, communities, customers and supply chains**, to mitigate economic shocks and support a transition grounded in decent work, social equity, community resilience, and fair distribution of risks and opportunities. Where this risk is well managed investors are better able to mitigate

systemic threats to long-term stability and avoid the destruction of value at companies in which they invest.

3) Transition finance

Many investors have also advocated for a **concept of transition finance** that promotes capital allocation and management of assets to **catalyse the transition of the asset**, for example through the provision of ringfenced finance for a transition activity. But at present, the lack of a robust and consistent definition is inhibiting this capital flow.

In IIGCC's report [From concept to capital flows: the investor perspective on transition finance](#), we articulate that a robust concept of transition finance that:

- (1) enables investors to deliver climate objectives and avert greenwashing;
- (2) must involve an intentional transition objective and an accountability mechanism to deliver it;
- (3) should be classified according to practical distinctions by asset class, instrument and asset characteristics to reflect likely outcomes.

For example, investment in a grid operator or developer providing power system flexibility solutions that enable the grid to take on a higher proportion of renewables. Without investment in developing and deploying this technology, we cannot transition from a fossil-fuel based electricity grid, so this solution directly supports the transition of the energy sector. Despite this, this investment may incur higher emissions in the short-term due to the current predominantly fossil-fuel based grid.

Question 3: What country, regional or sector roadmap experiences, best practices, and lessons learned can be shared?

1) Sector roadmaps

Policymakers in several jurisdictions have developed **sector decarbonisation roadmaps** in recent years, albeit often with different names and large variation in the level of detail. Our [paper](#) provides a collection of examples of existing sectors roadmaps from across the world setting out how these documents have defined technological and policy pathways to enable the transition of energy-intensive sectors.

For example, Japan's Ministry of Trade, Economy and Industry (METI) developed a series of sector-specific technology roadmaps to support Japan's 2050 net zero commitment. The

roadmaps were designed to be used as a reference point for companies seeking to formulate transition strategies and assess the suitability of different technologies when raising transition finance. They are also intended to enhance investor understanding of the decarbonisation trajectories for key sectors and the identification of transition-related investment opportunities. The roadmaps were initially formulated for **seven hard-to-abate and high impact sectors, including power, steel, petroleum and gas**, and are aligned with Japan's NDC and wider international Paris-aligned scenarios. As of March 2023, the technology roadmaps have supported companies operating in the relevant sectors in raising over 1 trillion yen in transition finance.

2) Investor engagement on just transition

Investor engagement with high-emitting companies is one of the tools highlighted in the previous section. IIGCC has collected a **series of case studies** providing real-world examples of how investors can translate just transition principles into practice.

In particular, we highlight an example (p. 22) of how investors can set **expectations for energy utilities on their just transition strategies**, requiring them to assess the social impact of their decarbonisation plans. Utilities should aim to engage extensively and creatively, bringing key stakeholders (including workers, community, supply-chain and consumers) with them on the journey to net zero in a way that addresses the trade-offs and maximises its benefits.

Question 4: How can a just, orderly and equitable transition best reflect the diverse realities of countries at different stages of development and with different degrees of dependence on fossil fuels?

Countries can use **Nationally Determined Contributions (NDCs)** to help plan for a just and equitable transition, setting out goals and pathways that reflect their specific context and development stages. The **country-led nature of NDCs** enables countries to formulate their climate and development plans based on **their unique domestic context, priorities, and needs and challenges**.

Enhanced NDCs will benefit both countries and investors. On the one hand, countries can attract the finance needed to achieve their climate and development goals, beyond public finance sources. On the other hand, investors can gain a better understanding of the policy direction and investment potential across different sectors, to inform effective asset allocation and risk management.

In an IIGCC paper: Making NDCs investable – the investor perspective, we suggest that NDCs could also include an overview of **how a country’s broader macroeconomic context impacts target setting** and how it is expected to evolve through the transition. This would strengthen the credibility of targets and support the case for private investment. In particular, investors would benefit from additional details on:

- Country energy resource mix, including renewable energy potential and related industries
- Natural resource endowment, including critical minerals for the transition
- Stage of market development (e.g. expected demand for net zero technologies and products)
- Energy sector dependencies, and how these are tracked and managed
- Fiscal constraints and forward-looking fiscal strategy (e.g. taxation, subsidies, etc.)
- Expected foreign direct investment
- Reliance of targets on Carbon Capture and Storage (CCS) and other unproven or not yet commercially viable emission removal technologies
- Current capacity and gaps for NDC implementation, including skills, technological ability and penetration of those technologies

For example, when assessing developing economies that are heavily reliant on energy exports, investors will look for **short, medium, and long-term plans that mitigate the impacts of the low-carbon transition on their trade revenues, as well as on employment**, with a particular focus on just transition considerations. Similarly, countries with limited renewable energy potential will have to clearly set out alternative pathways for decarbonisation that ensure energy security. In contrast, developed economies that rely on fossil fuel imports may be expected to transition more quickly based on their larger financial and technological means.