Transition Finance Could Be A Path To Carbon Neutrality For The Largest Carbon-Emitting Industries, Report Says

NEW YORK, March 9, 2021 /PRNewswire/ -- S&P Global Ratings believes transition finance, including issuance, could contribute up to $1 trillion per year to the economy as companies in hard-to-abate sectors, which were previously absent from the sustainable debt market, raise capital and use the proceeds for activities that help them reduce their carbon footprint.

According to our new report "Transition Finance: Finding A Path To Carbon Neutrality Via The Capital Markets," published today, as the transition to a net-zero economy gains traction we believe new sectors and issuers will enter the market, expanding the pool of investable sustainable financing and allowing investors to diversify their contribution to sustainability objectives.

"It has become clear that issuer and investor appetite for financing climate response and other environmental objectives is strong and accelerating, but achieving the objectives of the Paris Climate Agreement and 2050 climate-neutrality goals will require significant capital investment in new processes and technologies that enable the decarbonization of high-carbon industries," said sustainable finance analyst Lori Shapiro.

Transition finance provides a potential solution by enabling the largest carbon-emitting industries and companies to raise capital and use the proceeds for activities that help them reduce their carbon footprint.

"We expect transition finance will extend beyond the use-of-proceeds bond model to include sustainability-linked and other financial products, helping companies and countries scale up capital allocation to meet their net-zero emissions commitments," Ms. Shapiro said.

We expect to see the transition label taking on a much wider scope and being used across various sectors and activities, ranging from entities making efficiency improvements to potential overhauls of entire business models. Ultimately, we believe the transition label will expand across a range of financial products that help scale up capital allocation for companies and countries able to demonstrate rigorous and achievable climate transition strategies. The challenge remains how this can be done quickly and efficiently while avoiding key downside risks, including green- or transition-washing.

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