Recalibrating the Role of Banks in the Energy Transition

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Climate Finance at a Crossroads

We are at an important inflection point in climate finance. Net-zero-aligned targets set with good intentions are now met with challenges from all sides — technical, economic, legal, and reputational. While some fear a retreat in ambition, we see this as an opportunity to check our assumptions, ask better questions, and ultimately chart a new path forward. We need a recalibration — one that will ensure that the role of banks in the energy transition is rightsized to focus on deals, not just disclosure.

In the last decade, banks have overhauled governance, launched net-zero strategies, and built internal capability at speed. Climate has moved from the margins, now enjoying board-level oversight and increasing attention from supervisors, shareholders, and clients. Banks are adept at answering questions such as: What is your portfolio emissions footprint? How is your strategy aligned with net zero? What are your main climate and transition risks?

But while momentum and expertise have grown, the impact on the real economy remains limited. Emissions continue to rise and clean infrastructure build-out is facing significant economic and political headwinds. If the point of commitments and targets was always to see finance flow to the transition, then what if the better question is: What is stopping the transition-enabling transactions from happening?

Moving forward, we need a sharper, more pragmatic understanding of banks' role in the energy transition. To avoid slipping into mere deck-chair rearrangement, the next phase of climate finance cannot rely on frameworks and commitments alone. It must be defined by successfully executed deals. This change requires those who have focused on banks' role in accelerating the transition to reflect on where we got things right, where we were wrong, and how we can help banks do deals differently to maintain returns while improving climate outcomes. Banks are not moral agents or policy substitutes. They are commercial actors operating within regulatory, fiduciary, and risk-based constraints.

Banks make up only part of the full investment chain, meaning they cannot be the sole architects of the energy transition. Climate strategies that overlook this reality and rely solely on normative or external pressures are vulnerable to political volatility and are unlikely to meet the scale of the challenge.

We must embed climate in the business case of finance and link it to growth, competitiveness, and long-term value creation. That means aligning climate ambition with how banks make decisions, serve clients, and structure transactions. The goal is to evolve the way we pursue the ambitions set by banks by focusing on the outcomes, not just the metrics and optics. Recognizing the limits of current tools and expectations does not diminish what's been accomplished but allows us to learn and strengthen our ability to move forward. To achieve real progress, we must work together — across finance, policy,

and civil society — to remove barriers, align incentives, and support transactions that enable the energy transition. Climate finance has matured on paper. Now it must deliver in the real and financial economy, or risk irrelevance.

This report aims to recalibrate this conversation and chart a constructive path forward for understanding the banking sector's role in the energy transition. RMI is committed to making these changes in our own work and helping others navigate this turning point in climate finance. To begin, we offer reflections on how we got here, why we got here, and where we collectively need to go next. Getting our next steps right could be the difference between a decade of market-shifting transactions and another decade of ambition statements with limited action.

How Did We Get Here?

The last decade's attention on climate finance has undoubtedly mobilized the banking sector. In 2024, 74% of the largest 100 financial institutions had net-zero commitments, and 43% had transition plans.[1] Financial institutions are now widely expected to report on their climate activities as a result of both mandatory regulations and voluntary initiatives. However, the abundance of climate finance frameworks and expectations arguably creates more confusion than clarity. For example, the Climate Polity Initiative's *Global Landscape of Climate Finance* identified more than 30 taxonomies and 200 frameworks, standards, and guidelines on sustainability reporting and climate-related disclosures in the 40 countries surveyed.[2]

Before we think about what comes next, it is important to take a moment to understand how we got to this point and reflect on what has been expected of banks and why.

What has been expected of banks?

1. **Banks can play a leading role in the transition**
2. **Banks should disclose how they are exposed to physical and transition climate risks**
3. **Banks should set net-zero portfolio targets, interim sectoral targets, and transition plans to guide internal climate action**

EXPECTATION 1 Banks can play a leading role in the transition

The Paris Agreement, signed in 2015, marked the first acknowledgment in international law that the financial sector had a role to play in supporting climate goals and, specifically, net zero by 2050, with the goal of limiting temperature warming to less than 2°C above preindustrial levels.[3] This shifted the attention from banks' own carbon footprints (business travel and office efficiency) to the much larger environmental impact of their portfolio clients and balance sheets. The Paris Agreement was signed just a few months after then-Governor of the Bank of England Mark Carney's "tragedy of the horizon" speech warning of the financial stability implications of climate-related physical, transition, and liability risks.[4]

Together these created a groundswell of attention on climate change as both a risk and an opportunity in the banking sector. Banks began anchoring their net-zero targets and strategies to Article 2.1(c) of the Paris Agreement, which specifically calls out "making finance flows consistent with a pathway towards low greenhouse gas (GHG) emissions." This magnified attention on the role of banks in influencing the real economy via their clients' climate strategies and impact.

EXPECTATION 2

Banks should disclose how they are exposed to physical and transition climate risks

Based on a 2015 request from the Financial Stability Board, the Taskforce on Climate-related Financial Disclosure (TCFD) codified a multiyear international effort to improve disclosure on climate-related financial risk.[i] When the TCFD recommendations were published in 2017,[5] they became a de facto international standard that initiated a rapid increase in the number of firms measuring and disclosing key information, helping to move climate from a corporate social responsibility topic to a financial risk consideration. Such reporting is now mandated in many countries around the world, including through the European Union's Sustainable Finance Disclosure Regulation.

Increased transparency expectations were further bolstered by the Partnership for Carbon Accounting Financials' (PCAF) Global GHG Accounting and Reporting Standard for the Financial Industry, which quickly became another industry standard. Notably, this popularized financed emissions metrics. Stakeholders increasingly expected banks to measure and disclose the emissions associated with their portfolio companies. These metrics helped banks and their stakeholders identify emissions hot spots, but there is growing scrutiny on their use and impact.

The assumption was that financed emissions disclosures would lead to portfolio risk management and incentivize cleaner investment opportunities over time. In practice, however, financed emissions measurements — even when done well — do not inform market returns or the financial risk of lending and investment.[6] Furthermore, methodological challenges and fears of greenwashing accusations have hindered financed emissions calculations and reporting. Concerns are also emerging that overly focusing on this metric could lead to missed opportunities because it disincentivizes support for transition activities by high-emitting clients and in hard-to-abate sectors (discussed further below).[7]

EXPECTATION 3

Banks should set net-zero portfolio targets, interim sectoral targets, and transition plans to guide internal climate action

In the past five years, there has been a rapid adoption of climate targets and transition plans among large financial institutions, including banks.[8] Following the Paris Agreement, policymakers and climate advocates argued that if financial institutions aligned their own portfolios to net zero and published plans to make this happen, then money would flow to climate solutions and away from polluting companies. It was argued that this would, over time, get the real economy to net zero.

The Net-Zero Banking Alliance (NZBA) launched in 2021, quickly followed by the Glasgow Financial Alliance for Net Zero (GFANZ) at the 2021 United Nations Climate Change Conference (COP26) as the umbrella for net-zero alliances from across the financial sector. These initiatives catalyzed commitments from leading banks around the world and produced guidance on key aspects of net-zero banking, including guidance on sectoral target setting and transition planning,[9] as well as annual reports on collective progress and case studies of climate action.

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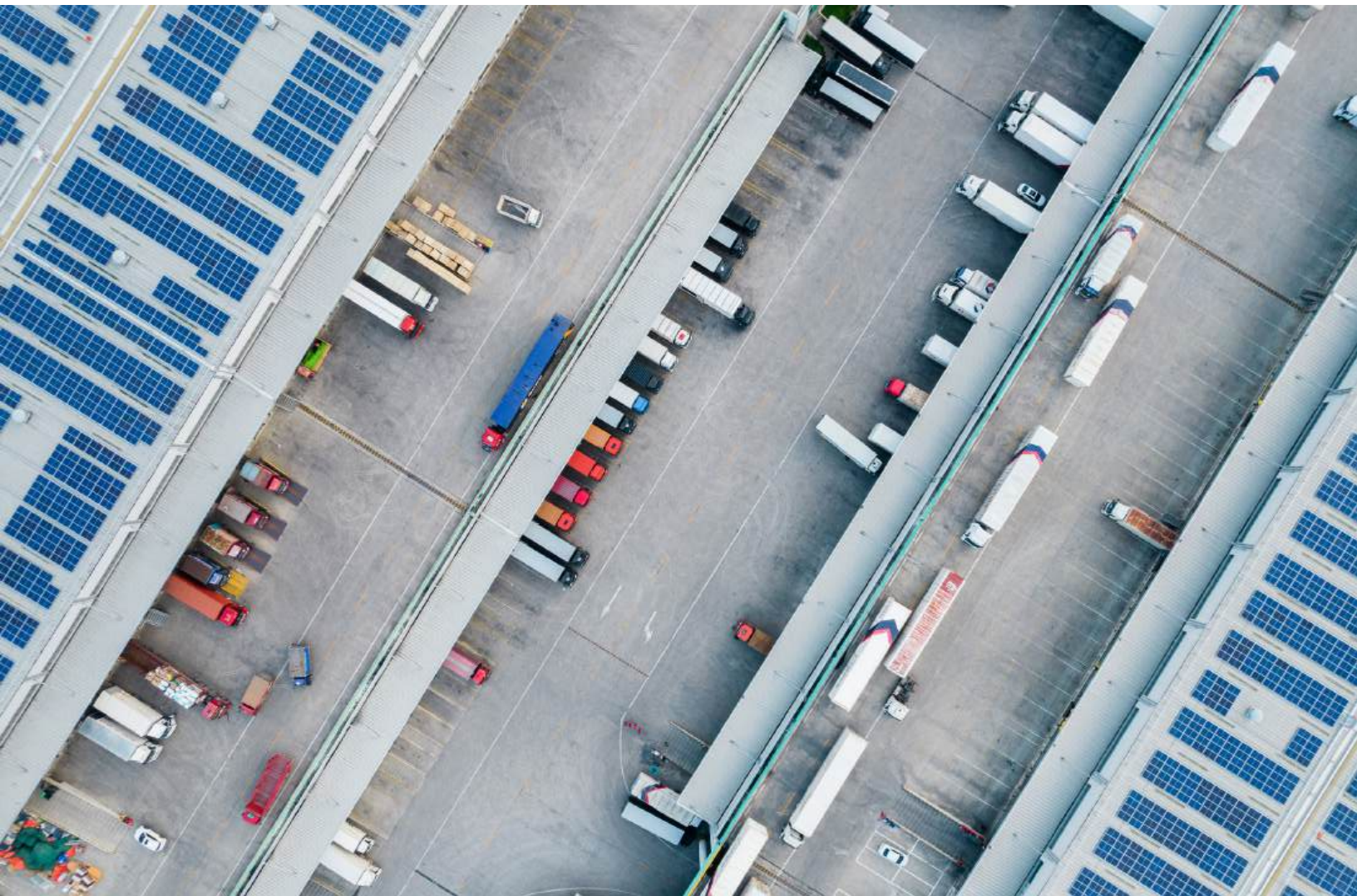
i In 2023, the task force disbanded, but the recommendations have been integrated into regulations around the world and are monitored by the International Financial Reporting Standards (IFRS) Foundation.

These forums for shared ambition built significant momentum, advice, and knowledge sharing among peer banks. Building on the work of GFANZ and other organizations, the Transition Plan Taskforce published further guidance on transition planning that was quickly integrated into regulations (in the UK) and reporting standards (through the International Sustainability Standards Board and IFRS, for example).[10] These guidelines gave banks a clearer understanding of how to engage with their corporate clients on sector-specific transition plans, and instruction on how to produce bank transition plans.

These plans were expected to outline how financial institutions would implement their transition targets and ambitions in practice.[11] The assumption was that, if implemented at scale, these plans would put those organizations (and by extension whole sectors and economies) on track to transition. It was also thought that doing so could lower climate and transition risks in portfolios. However, this expectation overlooked the reverse logic that a bank's transition is predicated on available market opportunities and must account for fiduciary constraints (discussed below).

Target setting, transition plans, and reporting are helpful accounting and accountability mechanisms, but they do not guarantee that there is a business case for climate action or that the banks' actions can or will align the real economy with net-zero goals. There is therefore concern that targets and plans provide false comfort on future progress that may not materialize. Furthermore, reporting requirements increase time and cost burdens and drain resources from other efforts that could more effectively move capital and manage risk. As such, targets and transparency should be supported as providing internal impetus for action but should not be the sole focus or end goal.



What Have We Achieved?

As a result of these changes and expectations, many banks are structurally and culturally different from a decade ago. Climate action is now integrated into regulatory expectations and banks' self-reported targets and transition plans. Banks have built teams, upskilled employees, altered governance structures, published new policies and frameworks, devised new communication and engagement strategies, and invested in new data and risk models.

Where data was once considered a main barrier to climate finance, an explosion in quantity and quality of data now means that financial institutions (and their supervisors and stakeholders) have a stronger understanding of how the companies they finance — and future investment decisions — affect, and are affected by, the climate. Significant and meaningful institutional change took place, made possible by the dedicated and thoughtful work of civil society, policymakers, and financial sector professionals.

However, when we take stock of the impact of this work on real-world emissions and progress toward the real-economy energy transition, the results are decidedly mixed.

There are bright spots: while few figures exist for the banking sector alone, finance to clean energy technologies and infrastructure exceeded $2 trillion globally in 2024 and is now higher than global investment in fossil fuels, according to the International Energy Agency.[12] More than one in four new cars sold in 2025 will be electric.[13] These results reflect innovation and the business opportunity promised by the energy transition. Finance, enabled by favorable policy conditions, has played a pivotal role.

On the other hand, progress remains stalled for other critical pillars of the economy that must decarbonize. Bloomberg New Energy Finance estimates that only 3% of energy transition investment in 2023 went to heavy industries like steel, cement, and petrochemicals.[14] Where Mission Possible Partnership (MPP) estimates that the world will need 90 near-zero-emissions steel plants in operation by 2030, only three are operational today.[ii] At the same time, while it now trails the renewables industry in growth investment, the fossil fuels industry has remained persistent. Emissions from the sector have held roughly steady for the past decade, and global bank financing for fossil fuels reached a record high in 2024.[15] Where climate activists and investors hoped that a portfolio approach would lead banks to rebalance in both directions — growing "green" financing while phasing out "brown" financing — to date, the former has largely taken place without the latter. While the market is enabling finance to lead in some key areas of the energy transition, for technologies and sectors where the economics do not yet make sense, progress remains stubbornly slow.

A movement to lead through initiatives and regulations focused on transparency and disclosure — relying on the premise that banks will manage what they measure — misunderstands the weight of economic drivers and policy signals on investment decisions. Banks are not arbiters of where financial flows are

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ii As of August 2025, according to the MPP Global Project Tracker. See **https://tracker.missionpossiblepartnership.org/mpp-global-projects-map/pipeline**.

needed, nor can they magically align returns and balance risk solely based on desired climate outcomes and pathways. More recently, polarized pressure from political and civil society groups has also forced some banks to reduce what they say publicly about their climate actions. Several banks, particularly in North America, are walking away from, delaying, or diluting their climate targets and leaving target-based alliances as it becomes clearer that banks will struggle to deliver on net-zero commitments if the economies they operate in are not aligned.[16]

The current moment calls for introspection and careful consideration of where we go from here. Were our assumptions realistic or flawed? Did we fully understand the barriers and systems banks are operating in when designing interventions? Where do we need to make changes and focus our attention?

A successful and enduring way forward must be grounded in reality and tied to business outcomes. The next two sections offer a deeper reflection on where expectations and assumptions failed to embed existing constraints or relied on flawed logic, before a new path forward is presented in the final section.

What *Really* Guides Bank Climate Action?

The past decade emphasized what banks *should* do to support the energy transition but paid too little attention to what they *could* do. To unpack these dynamics further and explore what might be possible in the future, it is important to pay closer attention to the constraints that banks operate under and challenge key climate finance assumptions.

Banks face a complex set of challenges: structural constraints rooted in fiduciary responsibilities, competing pressures from across the political spectrum, and a limited pipeline of transition-aligned opportunities that meet commercial risk-return thresholds. Acknowledging these will help foster a more pragmatic understanding of a bank's role — and its limits — in the energy transition.

What constraints do banks face in the energy transition?

1. **Fiduciary constraints and transition bankability**
2. **Conflicting stakeholder expectations**
3. **Policy and market dependencies**

CONSTRAINT 1 Fiduciary constraints and transition bankability

Let's start with fiduciary constraints, which refer to banks' legal and ethical responsibilities to their stakeholders that drive decision-making priorities and operating models. While research has shown that climate can be considered as part of fiduciary concerns,[17] expectations of banking climate leadership have tended to overestimate the influence of banks on the real economy and underestimate the constraints on banks' ability to innovate within these legal and economic frameworks. Short-term risk-return expectations and incentives, along with increased capital requirements, have slowed innovation and financing of clean technologies. Traditional risk models can misprice new risks, markets, and technologies,[18] meaning that too few transition projects meet bankability criteria. This lack of a suitable risk-return profile is further compounded by continued high returns in the fossil-intensive sectors and the changing political economy of the energy transition.

Incumbent technologies benefit from years of operating data, mature markets, and connective infrastructure investments. This makes it a much easier decision to prioritize fossil-intensive sectors and follow the status quo as capital tends to flow down the path of least resistance and market incentives remain short-term. Projects that are small, high-risk, early-stage, or require extensive due diligence or high transaction costs challenge risk-return mandates and fiduciary constraints. As such, current capital frameworks provide very little incentive to support transition technologies and avoid potential long-term stranded assets.

Where climate-aware financial regulation has been adopted, it has tended to focus on transparency via disclosure rules and stress testing. Less focus has been on enabling fundamental shifts in how banks can operate to identify transition risks or financing opportunities or, perhaps most importantly, shifting the underlying economics of transition solutions so that banks see it as a pure business decision to scale their financing to where it can deliver the greatest climate return.

> **While there has been a lot said about transforming the financial sector, this has often overlooked the fact that it can only finance what is present in the current real economy and is not empowered to bring about a new one.**
>
> — ***Rewiring Finance*, Cambridge Institute for Sustainable Leadership**[19]

CONSTRAINT 2 Conflicting stakeholder expectations

Alongside fiduciary constraints, banks are also facing conflicting stakeholder expectations. Banks are stuck in the middle of a polarized debate on the financial materiality of environmental and social issues and whether banks are doing too much or not enough to tackle climate change. These challenges are not new, per se, but are nevertheless a drain on already scarce resources and attention. The squeeze by various policymakers, regulators, industry groups, and civil society activists creates paralysis. Banks' actions are being examined closely for "greenwashing" — accusations of misleading claims about their climate commitments and the sustainability of their financial products.[iii] In a "damned if you do, damned if you don't" environment, banks have taken to "greenhushing," leaving public ambition initiatives such as the NZBA, and downplaying their climate-related activities in shareholder communications.[20] The often-changing goalposts of what is deemed necessary have triggered unintended consequences of disincentivizing leadership and innovation, causing a retreat to the safety of mere regulatory compliance for some banks.

CONSTRAINT 3 Policy and market dependencies

Many banks set climate targets in good faith to demonstrate ambition in line with policy signals and shareholder interest. However, achieving these goals relies significantly on political action to translate aspiration into enabling regulatory and policy frameworks. Right now, these dependencies are not on track to deliver, putting banks at risk of missing these targets. Even if banks *could* meet their targets by shifting portfolio holdings and reducing financed emissions metrics in line with targets, paper decarbonization is unlikely to deliver material emissions reductions because of the fungibility and depth of capital markets. Over-relying on targets could mean that the hardest transition challenges remain under-resourced.

Banks also make up only one part of the capital stack of many transition technologies and companies. They rely on capital pools from institutional and retail investors, co-investments and syndicated offerings from

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iii According to an analysis of Sustainalytics data for 15 large banks, the number of litigation incidents related to the environmental and carbon impact of products increased 12-fold between 2020 and 2023. Learn more at **https://www.sustainalytics.com/esg-research/resource/investors-esg-blog/double-trouble--the-rise-of-greenwashing-and-climate-litigation-for-banks**.

other financial institutions, underwriting from the insurance sector, and, in some cases, catalytic capital from public finance organizations. Competitiveness and reputation in the markets matter, and there are limits to a bank's influence on individual corporate actions. Banks' credibility is being questioned over the lack of tangible emissions reductions in companies that they do not directly or fully control.

It is perhaps not a surprise, then, that banks are struggling to keep all stakeholders happy and are reevaluating public statements and commitments. They are under attack for both financing and *not* financing new oil and gas projects. This is compounding methodological and economic challenges. In uncertain times, banks are likely to revert to what they know best and stick to the status quo while waiting for the dust to settle. Banks' role in the energy transition needs more clarity, pragmatism, and upsides in the face of these realities. Climate action at scale will ultimately need to pass economic and societal tests: it must make (or at least safeguard) money and maintain or improve standards of living. We believe this is both an opportunity and a challenge.

What is Holding Us Back?

The question, then, is not whether banks should take the lead in the energy transition, but what role they are best positioned to play — and how the broader ecosystem can support them in fulfilling it. To understand this, we must come back to the logic that has driven climate finance expectations to date, and with the benefit of hindsight and a more nuanced understanding of the challenges and constraints in the banking sector, debunk four core myths.

What are common misconceptions in climate banking?

1. A bank's targets and transparency would unlock new deals
2. Financed emissions metrics would incentivize real-economy decarbonization and risk management
3. Increased scrutiny on bank approaches would lead to enhanced climate action
4. The economic necessity of the transition would make profitable deals readily available

MYTH 1 A bank's targets and transparency would unlock new deals

This assumption was based on the concept that banks would "manage what they measure" and that that would lead to lower real-economy emissions. However, although targets and transparency have increased, case studies of transition-enabling transactions have remained few and far between. Sustainability teams have faced reporting fatigue, and compliance burdens have impinged on available resources that could have been used for client engagement and dealmaking or addressing market barriers. Banks *are* managing what they measure, and they are measuring returns.

Timelines complicate this picture. There may well be some truth to the assumption that, over time, targets and transparency can lead to the signals and incentives required to make transition-enabling deals possible.[21] But it takes time to build expertise and client relationships that will result in transactions, and — even then — single transactions typically do not move the needle for portfolio-wide metrics and targets. It is therefore perhaps time to reset the intense focus on targets and transparency as conduits for change and expectations of visible progress (especially in the short term). This could help avoid incentivizing banks to only reach for the low-hanging fruit that helps them look good without leading to either business value or real-economy impact.

MYTH 2 Financed emissions metrics would incentivize real-economy decarbonization and risk management

The metrics and methodologies designed with good intentions to help banks and other financial institutions measure their exposure and alignment with climate benchmarks have contributed to

misguided incentives that prioritize portfolio decarbonization rather than real-economy transition. For example, financed emissions metrics promote a focus on clean technology and divestment from high-emitting assets rather than supporting transition within hard-to-abate sectors. This can mean that long-term transition opportunities suffer from a relative lack of financial support.

Financed and avoided emissions metrics are also susceptible to accounting tricks that would allow baseline and future emissions calculations to be manipulated and greenwashed for the appearance of progress.[22] Double counting of emissions is common, and there are significant unresolved scoping issues for those using the PCAF guidance, for example, such as treatment of government securities and off-balance sheet exposures. These reduce the utility and credibility of financed emissions metrics for banks.

Further, there was an assumption that transparency of emissions hot spots would lead to portfolio risk management, but this conflates transparency with action and neglects the fact that financial risks are not directly correlated to climate risks. A bank could increase its financed emissions while reducing its overall portfolio climate and financial risk, and vice versa.

Although insights from financed emissions accounting can be helpful for some use cases, including informing client engagement and strategic transition planning, considerable time has been spent on identifying a perfect metric, when in reality this is unlikely to exist and a suite of metrics, well planned and well executed, could prove more effective for real-economy decarbonization and portfolio risk management.

MYTH 3 Increased scrutiny on bank approaches would lead to enhanced climate action

Although public campaigns, peer pressure, and regulatory expectations have a history of accelerating progress, increasing scrutiny of climate finance activities has led to frustration among banks and a trend toward more limited communication of their climate actions, a phenomenon known as "greenhushing." Reasons could include unrealistic expectations, given the financial sector dynamics constraints outlined above, and insufficient attention to unintended consequences.

Activists and regulators alike have moved the goalposts of what acceptable action looks like, arguably without leaving sufficient time for banks to build necessary infrastructure and expertise before being judged. Such scrutiny has led to assessment results that show little progress despite concerted efforts. This has likely contributed to banks' pushback against future changes that could be helpful but are seen as too far from existing approaches and a burden when resources are already stretched and the added value of more metrics in financial decision-making remains underexplored. Including nature-based metrics in transition plans, for example, is facing pushback from firms that are only just starting to implement transition plans based on GHG emissions metrics that have taken years to develop and remain imperfect.

The climate community's posture of skepticism and indiscriminate pressure on banks is breeding reciprocal distrust. Mixed and noisy signals, and the search for perfect metrics, are creating paralysis in a time when swift, focused action could better enable transactions in the real economy.

MYTH 4

The economic necessity of the transition would make profitable deals readily available

Even though the economics of transition technologies — particularly renewable energy and battery storage — are improving in many markets,[23] there are still large parts of the transition that are not bankable. Additionally, the predicted risk downside from stranded assets hasn't occurred at scale, and fossil fuels are still profitable. Despite the scale of the transition and the volume of financing needed to make this happen, banks are not yet realizing losses from climate risks or making sufficient gains from investing in the transition over most traditional financing time horizons and holding periods.

Given these constraints and realities, it is perhaps unsurprising that capital is not flowing in line with projected pathways required for a net-zero transition. But these insights do offer us clear next steps if we want to support and maximize banks' role within the energy transition. We need to change the underlying economics to make transition deals attractive and feasible within banks' financial decision infrastructure.

What Does a New Path Look Like?

Without dismissing or diminishing banks' critical role in the transition, this report so far has shed light on the realities of entrenched economics, nascent markets, evolving regulatory requirements, skewed incentives, flawed assumptions, and conflicting stakeholder pressures that have made the job of banks' chief sustainability officers challenging to say the least. If we factor in this context and the lessons learned in the last decade of climate finance, the next 10 years can look different.

Instead of being locked in regulatory reporting loops and stakeholder battles, renewed focus on strategic partnerships and transactions can enable deals across banks' portfolios that unlock cleaner and cheaper energy, lower healthcare costs, increase food security and distributed supply chains, and power systems that reduce geopolitical risk. These are goals we can all support. Achieving this will require recalibrating our strategies, expectations, and investments of effort and resources. Dr. Paul Batalden, a healthcare leader and coauthor of *Value by Design*, said, "Every system is perfectly designed to get the results it gets."[24] Designing a new model for banks' role in the energy transition geared toward on-the-ground results rather than merely incentivizing transparency is possible, but we must start now, and we must do it together. **The goal is not to downplay ambition or the need for reporting, but to ensure that, moving forward, we focus our collective efforts on the root of the problem.**

This new path forward would set expectations and strategies that account for constraints and prioritize transactions, not just targets. Ultimately this can help unlock more bankable deals and real-economy impact. This will require refining metrics and tools to generate "transition intelligence." By transition intelligence, we mean business-relevant insights from corporate transition assessments, such as how feasible and ambitious clients' transition plans are, how clients will be affected by different transition scenarios, and how resilient they are to change. This can inform a range of bank decisions, from credit risk differentiation, capital allocation, and product structuring to client engagement strategies.[25]

While this transition intelligence may not necessarily unlock bankable deals where the real-economy conditions don't exist, it can help banks better understand and manage risk, identify missed opportunities for financing and client engagement, and pinpoint where strategic policy advocacy could help break down systemic barriers to deals. Banks play a role in advancing all these shifts but cannot be expected to do this alone. Civil society, financial service and data providers, policymakers, and others can provide support with the right guidance, tools, metrics, and incentives to create an enabling environment and a path to real-economy impact.

Below we highlight the four essential shifts we think are needed to make this recalibration happen.

Four shifts to recalibrate the role of banks in the energy transition

1. Recognize banks as commercial actors
2. Get capital flowing by playing to banks' strengths
3. Build transition intelligence infrastructure and capacity
4. Rightsize the role of banks within an enabling system

1 Recognize banks as commercial actors

Banks face real limits — fiduciary, regulatory, and economic. Expecting them to offer unlimited concessional climate capital or lead without systemic support is a misunderstanding of their business model and role in society. Enabling progress means partnering to generate the conditions that make the transition investable and attractive. This change includes aligning climate strategies and expectations with the realities of banking models, risk appetites, and fiduciary duties. We need to double down on the reality that climate-smart investing is just smart investing, and where that is not yet the case, work to close the gap.

2 Get capital flowing by playing to banks' strengths

The energy transition is not business as usual, but we do need banks to do more of what they are good at: structuring deals, deploying capital, and advising clients. Financing grid upgrades, electrification, industrial efficiency, and new technology deployment will require access to these services. This all requires moving beyond a binary lens of "green versus brown" lending. Instead, it means more deliberately applying banks' core competencies to identify and unlock transition opportunities. Specifically, this includes working with banks to:

- **Diagnose real-world bottlenecks**, such as permitting delays, demand risk, or capital stack challenges, that are preventing progress in key sectors or regions
- **Understand how projects are future-proofed** by integrating climate resilience, regulatory foresight, and long-term cost competitiveness into deal assessment and client engagement
- **Strengthen communication to investors**, not just on risk mitigation, but on the upside potential of high-impact, first-of-a-kind projects
- **Engineer creative syndicates and partnerships** to bring together the right mix of public and private capital, insurance, and technical expertise needed to close complex transactions

Banks already have the tools to implement many of these solutions. But meeting the moment may also require building new areas of comparative advantage through innovative structuring, cross-sector collaboration, and even the development of entirely new business lines focused on transition finance. This will take time to get right, meaning scrutiny should be proportional to what is possible and what

is necessary, and adjusted to recognize banks' expertise, portfolios, and resources. A bank that has no sector expertise or exposure to aviation, for example, should not be penalized for not having a sustainable aviation fuel (SAF) target or transaction history.

A "pledges and prohibition" approach to net zero that doesn't have the megawatts of clean power, the tons of green steel, the liters of SAF, the number of zero-carbon homes, the tons of abated methane, or the electric vehicle plants to show for it is missing the point. Although targets can help create the internal and external signals needed to accelerate progress, they can create perverse incentives and rely on external dependencies beyond any one bank's control. At the end of the day, it is the underlying transactions and the real-economy outcomes they deliver that really matter. Without this, almost all targets will be missed anyway.

3 Build transition intelligence infrastructure and capacity

To make this possible, we need to zero in on the few key metrics and data points that will identify and incentivize transition-enabling transactions. Conventional metrics and methodologies have gaps and biases, and they often rely on high-level or aggregated data on companies and sectors. They have not always led to helpful insights, incentives, or market signals.[26] Going forward, the focus should be on prioritizing insights that guide financial decision-making. The market does not necessarily need more data, but rather material and business-relevant data. Corporate transition assessments have the potential to help fill this gap and provide transition intelligence. To be effective, however, assessments need to improve to integrate feasibility and context into the analysis. This includes three key innovations:

- **Transition footprint mapping:** mapping a company's activities and assets to understand where transition exposure and opportunity really lie
- **Investment alignment:** evaluating whether a company's actual investment pipeline (beyond aggregate capital expenditure figures) is consistent with stated targets and sector and regional pathways
- **Dependency mapping:** understanding how market factors, technological developments, and national policy frameworks shape what is possible and when for different companies

Although banks face capacity and data limitations across extensive portfolios, implementing even some of these practices for high-priority companies can yield significant benefits. This type of transition intelligence will allow banks to better assess corporate transition risks and opportunities and then integrate those insights into financing and risk decisions and client engagements.[27]

4 Rightsize the role of banks within an enabling system

The expectation that banks (or any part of the financial sector) could drive the energy transition was myopic. It didn't fully factor in the bigger picture: the complex, interconnected spider webs that comprise financial and real economies. To create a constructive environment going forward, we must acknowledge and work with (and through) the internal and external dependencies that shape every financial and business decision. Progress — in both the demand and supply of capital for the energy transition — will require more communication and cooperation among different parts of the financial system, as well as among finance,

the real economy, civil society, and policy. Facilitating these connections without triggering antitrust or competitiveness concerns will prove essential to forging a clearer role for banks to contribute proactively within an enabling economic system.

Implementing this new path forward requires more than analysis. It demands action. RMI's Center for Climate-Aligned Finance is evolving its approach to pursue this new path, moving from frameworks to execution. In the next 12 months, we will bring forward investable projects, support critical decision-making functions from underwriting to credit teams, build tools and infrastructure that increase banks' capacity to identify and deploy transition intelligence, and address structural barriers to climate-aligned finance. The insights and way forward outlined in this report will be our North Star. The energy transition is already shaping the future of banking, whether the sector is ready or not. Our job is to help foster and deepen that readiness, not by demanding the impossible, but by clarifying what's needed, building what's missing, and empowering banks to do what they do best: finance the future.

Conclusions and Call to Action

Here is our call to action to those wanting to support banks' role in the energy transition: we must reclaim the middle ground, the space where pragmatism, not ideology, drives action and expectations. If we want clean infrastructure, electrified logistics, decarbonized heavy industry, and secure low-carbon energy supplies, we'll need a healthy financial system to structure, underwrite, finance, and syndicate that future. In today's polarized landscape, climate ambition is too often used as a wedge. In reality, no major economic transformation has ever occurred without the financial system playing an enabling role.

The last decade of climate finance laid important foundations. Climate is now embedded in bank governance, disclosure, and risk frameworks. Voluntary initiatives and regulatory expectations have driven institutional change — progress that should be recognized and protected.

But progress in ambition and reporting has not yet translated into deals and decarbonization at the speed and scale required for the energy transition. Structural barriers, political headwinds, unfounded assumptions, and misaligned incentives continue to slow transactions.

Recalibrating banks' role in the transition does not mean backing away from ambition. It means evolving how we pursue it. We must acknowledge where ideas and approaches have not led to the hoped-for change and move on. We must align climate goals with economic realities and shift from generalized pressure to focused action and nuanced expectations. We must build the transition intelligence, organizational infrastructure, and enabling environment that allow banks to support their clients' transitions. Banks can be powerful implementation partners if supported with the right tools, metrics, and market conditions.

Let's be clear: banks do have a role to play in the transition. There is real opportunity to create and capture value in what is, despite current political headwinds, a defining macroeconomic shift. To do this, banks need to play to their strengths: bringing credibility, capital structuring expertise, and client relationships to the table. Climate leadership in finance will not be measured merely by the numbers in a report. It will be defined by stories and deals that move steel, power, transport, food, and buildings into the future — a future fueled by abundant, affordable, clean power that offers wealth and security to all.

Let's stop merely measuring good intentions and start building good outcomes. RMI is ready. But we can't do this alone. There's too much at stake and too much to do. If you're ready to focus on what it takes to get the transition done — not just designed or discussed — we're ready to partner with you.

Let's get to work.

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Disclaimer

The views and opinions expressed in this report are those of RMI and do not necessarily reflect the official policy or position of its funders, partners, or any other affiliated entity. While this report reflects RMI's perspective alone, we hope it sparks a productive conversation and collaborative effort to foster climate finance leadership.

About RMI

Rocky Mountain Institute (RMI) is an independent, nonpartisan nonprofit founded in 1982 that transforms global energy systems through market-driven solutions to secure a prosperous, resilient, clean energy future for all. In collaboration with businesses, policymakers, funders, communities, and other partners, RMI drives investment to scale clean energy solutions, reduce energy waste, and boost access to affordable clean energy in ways that enhance security, strengthen the economy, and improve people's livelihoods. RMI is active in over 60 countries.

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