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Sustainability Snapshot

Data and transparency in transition finance

Global climate commitments are failing to translate into capital flows at the scale required. While banks and investors have pledged trillions towards net-zero, the gap between what is committed and what is financed continues to widen. The central constraint is not a shortage of ambition, but a shortage of credible, decision-useful information. Without transparent, comparable disclosure on where capital is flowing and how it aligns with transition pathways, markets cannot price risk, regulators cannot enforce accountability, and transition finance remains indistinguishable from business-as-usual lending.

We argue that transparency is the critical missing link in closing the climate finance gap. It shows how weak and voluntary disclosure undermines capital allocation, outlines the technical and regulatory building blocks required for credible transparency and examines South Africa's position as a case study. South Africa has built some of the strongest policy foundations in emerging markets, including a robust Green Finance Taxonomy and growing regulatory momentum through the Financial Sector Conduct Authority. The next phase is decisive: moving from voluntary frameworks and pilot exercises to mandatory, assured and granular disclosure that can unlock greater flows of transition finance.

In this issue

Why the climate finance gap persists?

Global commitments to climate action have not translated into capital flows at the scale required. Banks committed through the Glasgow Financial Alliance for Net Zero in 2021 to align $130tn in assets with net-zero goals by 2050. Since then, membership has shrunk and the credibility of these commitments has weakened. Annual global energy transition investment reached $2.3tn in 2025. Estimates suggest $3.5tn–$5.6tn a year is required to meet net-zero by 2050. The gap is not narrowing. It is widening.

The constraint is less a lack of stated ambition and more a lack of verifiable information. Financial institutions provide high-level commitments and aggregate portfolio metrics, but insufficient data to allow markets, regulators, or the public to assess whether capital is genuinely shifting away from emissions-intensive activities. As a result, capital allocation remains inefficient, transition risk is mispriced and greenwashing persists.

How transparency enables capital to flow

Transparency sits at the centre of effective transition finance. Capital markets rely on credible, comparable information to price risk and opportunity. When disclosure remains aggregated, backward-looking, or inconsistent, markets cannot distinguish between genuine transition activity and business-as-usual lending labelled as sustainable.

Current disclosure practices obscure the very information that matters most. Banks rarely provide asset- or client-level emissions data, credible assessments of borrower transition plans, or forward-looking emissions trajectories. Less than 30% of banks disclose portfolio-level emissions with sufficient granularity for transition tracking. Around 42% of financed emissions remain unquantified or unreported. Fewer than 15% of banks disclose client-level transition plans. Nearly nine in ten institutional investors report that the lack of standardised climate data limits their ability to assess transition risk.

This information asymmetry undermines price discovery and accountability. Investors cannot reward banks that manage transition risk well or penalise those expanding exposure to emissions-intensive activities.

> Without transparency, public net-zero commitments become unverifiable statements rather than constraints on capital allocation.

The financial consequences of data opacity are already manifesting across three channels:

1. **Cost of capital penalties:** Banks with opaque transition exposure face higher costs of capital as investors apply uncertainty discounts to institutions they cannot properly assess. Empirical evidence from equity markets shows sustainability-linked bonds from banks with robust climate disclosure trade at spreads of 15-25 basis points tighter than comparable instruments from peers with limited disclosure. This translates to tens of millions in annual financing cost differentials for major institutions.
2. **Stranded asset exposure:** An estimated $1-4tn in fossil fuel assets sit on bank balance sheets globally, potentially stranded under 1.5°C scenarios. The wide range reflects data inadequacy; without granular disclosure, even order-of-magnitude estimates of exposure vary by a factor of four. McKinsey estimates that under stringent climate policy scenarios, $400bn in petrochemical assets alone face demand destruction risk.
3. **Competitive positioning:** Early movers on transparency are capturing a disproportionate share of sustainable finance mandates. Corporate clients seeking sustainability-linked loans increasingly demand that banks demonstrate portfolio-level emissions management, not just willingness to structure green products. Similarly, institutional investors allocating capital to sustainable finance strategies prioritise banks with verifiable transition performance.

This creates network effects: banks with superior transparency attract clients and investors demanding proof, generating proprietary data that further enhances analytical capabilities, creating a self-reinforcing competitive advantage.

What is required to improve transparency?

Improving transparency requires more than better reporting templates. It demands both technical infrastructure and clear policy and regulatory mandates.

Technical infrastructure

Banks must move from voluntary, annual reporting towards integrated, decision-grade climate data systems. Moving from aggregate disclosures to actionable transparency requires fundamental infrastructure development that most financial institutions have not yet undertaken. The transition from voluntary, backward-looking reporting to mandatory, forward-looking disclosure demands systems integration, data management capabilities, and analytical sophistication that the current banking infrastructure was not designed to support.

Four capabilities are critical.

1 Complete client emissions inventories

Banks need reliable Scope 1, 2 and material Scope 3 emissions data for borrowers above defined thresholds. Where client data is unavailable, banks must use sector-specific estimation models, asset-level engineering calculations for project finance, and building-level models for real estate portfolios. This requires expertise in carbon accounting and lifecycle analysis that many institutions still lack.

2 A credible assessment of client transition plans

Banks need standardised frameworks to evaluate whether borrower commitments align with capital expenditure, governance structures, technology deployment timelines and managed decline plans for high-emitting assets. This shifts banks from passive recipients of client narratives to active assessors of transition credibility.

3 Science-based benchmarking

Portfolio performance must be measured against recognised sector pathways such as those from the International Energy Agency, the Intergovernmental Panel on Climate Change, or the Science Based Targets initiative. This allows portfolios to be classified as aligned, aligning, or misaligned with 1.5°C pathways.

4 Ongoing monitoring

Annual disclosures are insufficient in a fast-changing policy and technology environment. Banks need systems that can update financed emissions as portfolios change, flag deviations from projected trajectories and support scenario analysis.

> These capabilities require significant technology investment. For large banks, building this infrastructure may be a significant upfront investment, with ongoing operational costs. However, these costs are modest relative to total assets and must be weighed against higher costs of capital, regulatory penalties and lost business resulting from opaque disclosure.

Policy and regulation

Technical capability alone is not enough. Without mandatory requirements, disclosure remains partial and selective. Voluntary frameworks fail through adverse selection, first-mover disadvantage and an absence of consequences for non-compliance.

Multiple regulatory initiatives are converging on enhanced climate disclosure requirements, such as:

SEC Climate Disclosure Rules (2024): Require Scope 3 financed emissions disclosure for the largest US institutions. However, enforcement remains uncertain following the SEC's decision under Chair Paul Atkins to cease defending the rule in court, creating regulatory limbo where the rule exists but compliance is voluntary.

EU Taxonomy Regulation: Mandates that banks report the percentage of their exposures aligned with technical screening criteria. This creates binary classification requirements; activities are taxonomy-aligned, or they are not, forcing transparency on what proportion of bank portfolios meet environmental sustainability thresholds.

ISSB Standards (IFRS S2, 2024): Establish a global baseline requiring disclosure of Scope 3 Category 15 financed emissions with sector-specific guidance. Adoption varies by jurisdiction, but major economies, including the UK, Canada, Australia, and Japan, have committed to mandatory ISSB-aligned disclosure. South African regulators are gradually aligning local frameworks and guidance to this emerging baseline.

Basel Committee Climate Risk Framework: Introduces enhanced data requirements for climate stress testing across internationally active banks, embedding climate risk into prudential supervision.

Most frameworks require full implementation by 2026-2027, with partial reporting already mandatory in several jurisdictions. Rather than converging toward harmonised global standards, disclosure requirements are fragmenting across jurisdictions with incompatible definitions, methodologies and enforcement mechanisms. In South Africa, alignment efforts are tempered by an appreciate of our complex, globalised, supply chains in our extractive and manufacturing sectors. This suggests a pragmatic, but fragmented approach.

This fragmentation serves multiple constituencies:

For banks: Complexity creates compliance costs that favour large institutions with resources to manage multiple frameworks, while creating legitimate justification for delayed implementation.

For regulators: Jurisdictional variation preserves sovereignty and allows calibration to domestic political economies, particularly where fossil fuel interests influence policy.

For investors: Fragmentation perpetuates incomparability, preventing meaningful benchmarking and preserving information rents for sophisticated investors with proprietary data capabilities.

The result is regulatory momentum without regulatory effectiveness, multiple frameworks creating a compliance burden without delivering the transparency necessary for capital reallocation.

Globally, regulatory momentum is accelerating. The International Sustainability Standards Board's IFRS S2 standard establishes a global baseline for climate-related disclosure, including financed emissions. The European Union's taxonomy and disclosure regime requires banks to report alignment with defined sustainability criteria. Prudential regulators are embedding climate data into stress testing and supervision. Yet enforcement remains uneven and implementation fragmented across jurisdictions.

> The lesson is clear. Framework sophistication does not guarantee market impact. Mandatory disclosure, external assurance, and enforcement determine whether transparency improves capital allocation.

South Africa's position in the disclosure journey

South Africa illustrates both the opportunity and the risk. The country launched its Green Finance Taxonomy in April 2022 after an extensive consultation process led by National Treasury. The taxonomy aligns with international standards, covers key sectors and provides clear technical screening criteria. It is widely regarded as Africa's most advanced green finance classification system. However, three years on, its influence on capital flows remains limited.

> Banks contributed an average of R36.6bn a year in climate finance between 2022 and 2023[1], less than a third of domestic flows and more than 90% below what is required to meet national climate targets.

There is no systematic disclosure showing what share of bank portfolios align with the taxonomy. Guidance from the Prudential Authority encourages climate risk management but does not mandate disclosure or external assurance.

This gap between policy design and implementation allows contradictions to persist. Major banks maintain net-zero commitments while increasing fossil fuel exposure. Aggregate targets and intensity metrics coexist with rising absolute emissions. Without granular, comparable disclosure, these inconsistencies remain largely invisible to markets. At the same time, South Africa has begun to move in the right direction.

The Financial Sector Conduct Authority has signalled its intention to introduce mandatory sustainability disclosure aligned with IFRS S2. The authority is working with the International Finance Corporation on disclosure capability building and is piloting taxonomy-alignment reporting. These initiatives recognise that transparency is a precondition for mobilising private capital at scale.

1 Climate Policy Initiative (2025) *The South African Climate Finance Landscape 2025*.

What comes next for South Africa?

South Africa is well-positioned to translate policy leadership into implementation leadership. Doing so requires three clear steps.

- **First, mandate disclosure.** Climate-related financial disclosure aligned with IFRS S2 and the Green Finance Taxonomy should become compulsory, with phased timelines starting with large banks and insurers. Requirements should include financed emissions, sector-level emissions intensity and taxonomy alignment.
- **Second, require assurance.** External verification of climate disclosures, particularly financed emissions and taxonomy alignment claims, is essential for credibility. Assurance standards and provider qualifications should be clearly defined.
- **Third, increase granularity.** Disclosure should move beyond aggregate metrics to include client-level transition plan assessments for material exposures and forward-looking emissions trajectories.

These steps would strengthen market discipline, improve risk pricing, and support the reallocation of capital towards credible transition activities. The technical infrastructure exists. The policy groundwork is largely in place. What remains is the political and regulatory resolve to make transparency mandatory.

Conclusion

Closing the climate finance gap depends on restoring trust between commitments and capital flows. Transparency is the mechanism that makes this possible. Without it, transition finance remains marketing rather than measurable action.

South Africa has built strong foundations through its taxonomy and emerging disclosure initiatives. By mandating and enforcing high-quality disclosure, it can unlock greater flows of transition finance and demonstrate leadership beyond framework design. The alternative is familiar: sophisticated policy, voluntary adoption and limited impact on the ground. The choice is still open.

Sneak peek into next month's Snapshot

Next month's snapshot takes a closer look at the national budget, with a focus on how it addresses sustainability. We unpack what the budget says on issues ranging from infrastructure investment to electric vehicles, and what these signals mean for South African businesses and capital allocators. It is a comprehensive deep dive into priorities, trade-offs and implications. Set aside time in your diary now to read it.