
The Future of Energy Transition and Climate Finance



By Lily Fang , INSEAD

What more can companies and investors do to facilitate the transition to cleaner energy and reduce greenhouse gas emissions?

The weighty and highly charged topic of energy transition – and the role that climate finance plays in it – was the focus of a panel I moderated at the [INSEAD Alumni Forum Europe](#), which was recently held in London.

I was joined by a group of speakers with expert interest and experience in the sector, including [Lord John Browne](#), chairman and co-founder of [BeyondNetZero](#), a US\$3.5 billion fund that invests in energy transition and climate-related technology. Also on the panel were [Allison Bennington](#), a partner at investment fund PJT Partners and global head of its environmental, social and governance (ESG) practice, and INSEAD alumnus [Huw van Steenis](#) (MBA '95J), a vice-chair and partner at consulting firm Oliver Wyman who currently sits on the Climate Advisory Board of the Norwegian sovereign wealth fund.

Have we reached peak ESG investing?

While the sector has witnessed exponential growth in the past few years, 2022 saw some notable defections alongside a general sense of fatigue surrounding ESG investing. Recently, Vanguard – the world’s second-largest asset manager with US\$8.1 trillion in assets under management – **pulled out of the Net Zero Asset Managers Initiative**, part of the United Nations’ **Glasgow Financial Alliance for Net Zero** that was founded with the aim of steering the global economy towards net-zero emissions.

Meanwhile, in the United States, **the House of Representatives voted** to prevent pension funds from incorporating ESG criteria into their investment decisions, requiring them to return to their fiduciary duty of maximising returns to their clients. My first question for the speakers was therefore whether we are past the days of peak **ESG investing**.

All the panellists agreed that climate finance – investment in technologies that address climate change and therefore broader than ESG investing – still has much room for growth. “I think we are nowhere close to the peak,” Lord Browne said. “[Globally], we spend about US\$3 trillion in this area a year, and I think to [keep warming below] 1.5 degrees [Celsius], we have to take that up to at least US\$4 trillion a year immediately. There’s a lot more to do here... and we need to make sure we expand all the possibilities of investment.”

Bennington noted that although there may be a retreat from ESG funds by public capital, private capital is going “full steam ahead” on climate finance. This is not just in the form of private equity and venture capital, but also multi-billion-dollar capital expenditure by firms – including oil and gas companies such as BP and others.

A fundamental reason why public funds are retreating from the climate finance arena is that there is a duration mismatch. Energy and infrastructure investments have pay-off periods measured in decades, but liquid fund managers need to and should generate returns for their investors quarterly and annually.

To van Steenis, the “ESG” label is not a helpful guide for those wanting to invest in climate finance. If we are truly talking about climate investing, he added, the better capital providers in the space are long-term-oriented investors such as private capital, public-private partnerships and large corporations, rather than so-called ESG funds.

Part of the solution

Looking beyond climate investing, what must companies do to support the energy transition? In recent years, many of them have tried to boost their ESG credentials by hiring chief sustainability officers and establishing a sustainability practice. However, this alone will not suffice if the ultimate goal is to reduce emissions, especially if organisations treat it as a box-ticking exercise. To achieve real results, the entire company needs to be involved.

The binary labelling of organisations as either “green” (generally those in low carbon-emitting industries) or “brown” (generally those in high carbon-emitting industries) is also problematic. “Brown” companies – such as oil and gas players – have drawn the ire of regulators and society. But the reality is they are often capable of multi-billion-dollar, annual capital expenditure and are investing in innovative technologies to reduce emissions. They also have deep insights into how things can be done differently. For example, some of the best carbon-capture technologies are available right on the oil extraction platforms.

“Companies that are part of the problem are actually part of the solution. Often, these companies are the best placed to create the solutions and put them into effect faster,” Bennington said, adding that governments must also play a role by providing capital to these industries. “There are a lot of shareholders or investors that see a brown asset and [decide] they can’t be involved, when some of these companies are the very best places to invest going forward.”

Lord Browne and van Steenis echoed these views. “We need to get to a situation where we’re thinking not just about reducing financed emissions, but financing emissions reduction,” van Steenis stressed.

Lord Browne said change ultimately needs to take place within the companies themselves. “It’s very important for companies to have an espoused purpose with quantitative measures that get them from A to B,” he said. “They need to report against it, and there can’t be any floppiness or [picking and choosing which] measures to follow. There has been a lot of this [selective] activity, and as a result, I think that’s why credibility is going down.”

He also highlighted the importance of investors keeping their eyes on the prize: doing everything possible to reduce greenhouse gas emissions. “[Our purpose is] not to select one thing over another, it’s to do the things that contribute... to get greenhouse gas emissions down to net zero by 2050,” he said.

Opportunities for emerging economies

Following on from this debate, I asked how we can hope to balance reducing emissions with economic growth, as the world’s total demand for energy will continue to increase due to the growing population and rising living standards in Asia and Africa. Poverty is ultimately a poverty of energy. Affordable and reliable energy sources for lighting, cooking, etc. are essential for access to education and nutrition. Is energy transition and climate finance just a worry for more developed countries? Or could emerging economies tap into technological advances to chart a greener future for themselves?

“A lot of the developing world has a tremendous opportunity to leapfrog the more developed world in terms of creative approaches to energy and energy use,” stressed Bennington. She gave the example of telecommunications – where the technology has developed free of the burden of legacy systems – as an area in which this has already occurred. “[Emerging economies can] use amazing technology [including] microgrids and minigrids that are much more difficult to use on a traditional grid that we have in the United Kingdom, Western Europe or the United States.”

Indeed, emerging economies can tap a myriad of technologies to generate green energy, including wind, solar, green hydrogen and nuclear power. As Lord Browne said, these solutions are affordable and can propel growth. Continued investment is also needed for such innovation to occur. “International financial institutions do need to channel money [to make this happen],” van Steenis emphasised.

To close the session, I asked the panellists to share some final thoughts with the current and future business leaders in the room. Lord Browne perhaps summarised it best. “[The first thing is to] have a purpose... and stick to it. Part of that has to be getting greenhouse gas emissions down,” he said.

“The second thing leaders do is they practise very high-end inclusion – they include everybody in that purpose. And I think that’s been part of our problem. This is not a thing for elites. It’s not a thing for policymakers. It’s

not a thing for financiers. It's a thing for the real economy... [so] work very hard to include every constituent in your movement."

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