Financing a FOSSIL-FREE FUTURE

A roadmap for realigning public and private finance with a just and managed fossil fuel phase out

Executive Summary

The Santa Marta Summit presents a critical opportunity to advance a roadmap for a fossil-free future grounded in equity and just transition principles. A central barrier to fossil fuel phase-out is the financial sector. Financial systems continue to enable fossil expansion while shielding its beneficiaries from accountability. A credible and durable phase-out therefore requires aligning financial rules, incentives, and regulations with climate goals and human rights and biodiversity protections.

This brief traces how financing enables expansion at every stage, from public subsidies to private capital and insurance. It highlights the systemic drivers that enable continued fossil fuel financing and sets out policy recommendations for financial sector reforms across regulation of private finance, government policies to reduce public financing of fossil fuels, and alignment with human rights and ecological integrity.

Fossil Fuel Expansion is Structurally Enabled by Public and Private Financing

Finance is the lifeblood of fossil fuel expansion. New oil, gas and coal projects would simply not proceed if unbankable, uninsurable, and unprofitable. Transitioning away from fossil fuels therefore requires speedy reforms of a financial system which incentivizes their expansion. Yet today — ten years after the Paris Agreement and five years since the International Energy Agency's Net Zero by 2050 report[1] — the finance sector as a whole remains structurally misaligned with climate goals, fueling fossil expansion, locking in high-carbon pathways and undermining a just transition. Support from public and private financial actors reduce the cost of capital for fossil expansion: turning unprofitable activities profitable, distorting energy markets and driving unfair competition with more cost-effective and energy-efficient renewable alternatives.

Public finance often works as the foundation layer for new fossil capital developments. Domestically, governments provided $921 bn in explicit fossil fuel subsidies in 2024.[2] These include budgetary transfers, tax breaks as well as a variety of services that directly sustain fossil fuel production or consumption. In 2024, G20 governments gave away at least $37bn in additional fossil fuel financial support via multilateral development banks, export credit agencies and bilateral development finance institutions.[3] Absent this government support, de-risking and lax tax and regulatory environment, many oil, gas and coal companies face, many capital-intensive expansion projects simply would not have been financially viable.

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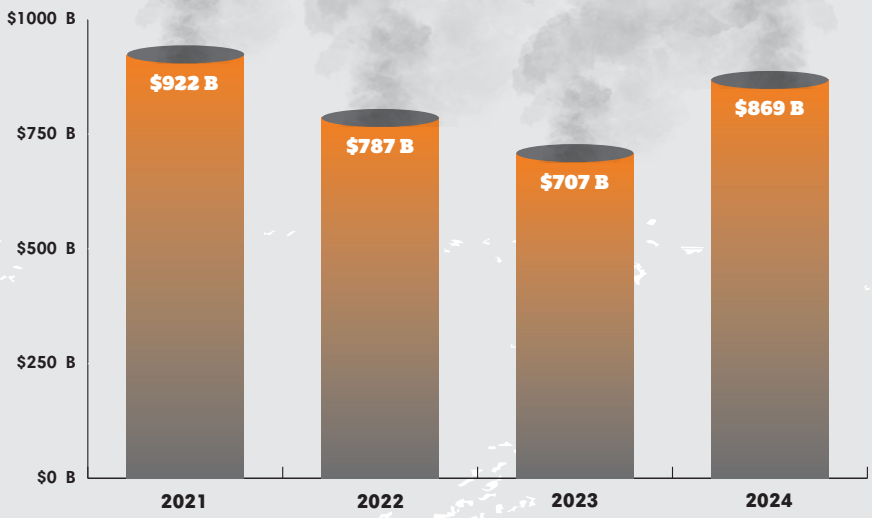
If governments provide the foundation layer propping up fossil fuel lock-in, *private debt financing* (in particular commercial banking) is the workhorse fueling infrastructure build-out across business cycles. *Commercial banks* provide extensive fossil fuel financing primarily through *syndicated loans* (pooled resources across multiple banks), revolving credit facilities, reserve-based lending, and project finance. Banks also serve as arrangers and underwriters for bond and equity issuances. Between the Paris Agreement in 2016 and the end of 2024, the world's 65 largest private banks financed $7.9 trillion in lending and underwriting to fossil fuel companies. In 2024 alone, the world's 65 largest banks provided $869bn in fossil fuel financing, with nearly half - $ 429bn - committed to companies engaged in fossil fuel expansion.[4]

Fossil Fuel Financing from the World's Top 65 Banks (2021-2024)



$869 BILLION USD in 2024
Nearly **$3.3 TRILLION USD** since 2021

SOURCE: Banking on Climate Chaos 2024

Alongside loans, *bond markets* have emerged as an increasingly critical channel for fossil fuel financing. The share of bonds in fossil fuel companies' funding strategies has nearly doubled over the past decade. In 2023–2024, 51% of financing for companies involved in fossil fuel expansion came from corporate bonds, representing roughly $391 billion in issuances.[5] Investment banks play an instrumental role as underwriters for these bonds, structuring their issuance, marketing it to investors, and earning fees — all without carrying the risk on their own balance sheets. Bonds are increasingly seen as a substitute for conventional bank loans as they typically receive less scrutiny for climate and stranded asset risks.[6]

Taking advantage of changing risk appetite, tighter underwriting standards and some reputational concerns by big banks, *non-bank lenders* — such as *PE firms*, *hedge funds*, and *specialized credit funds* — are increasingly providing privately-negotiated loans directly to fossil fuel companies with minimal regulatory oversight or public disclosure.[7] Private credit deals in the oil and gas industry topped $9 billion across 2022 and 2023, up from just $450 million in the preceding two years — a roughly 20x increase.[8]

Equity financing represents a relatively small share of the overall fossil fuel finance stack — just 5% of global fossil fuel finance in 2018[9]— but plays an important role at specific moments, in particular as new fossil fuel entrants go public and to fund acquisitions and expansion projects. Alongside traditional equity holders, such as institutional investors, private equity is increasingly emerging as a significant (if shadow) financing layer enabling new fossil fuel buildouts. Private equity firms have invested over $1 trillion in the energy industry since 2010 with fossil fuel companies making up 64% of these firms' energy portfolio. Operating with far less transparency and regulatory oversight even than public markets and banks, private equity can often extend the life of declining assets, and provide growth capital to independent fossil operators.[10]

Lastly, insurance and *reinsurance companies* serve as indispensable enablers of fossil fuel expansion. For at least fifty years, the insurance sector has been aware of the physical risks of climate change.[11] Despite this knowledge, the underwriting business of major insurers remains heavily focused on the fossil fuel sector.[12] Their role in the fossil fuel financing stack is twofold. Insurers are themselves major institutional investors holding hundreds of billions in fossil fuel assets, and are simultaneously essential underwriters without whom high-risk fossil fuel infrastructure projects simply would not proceed.

The Current Financial Architecture Sustains the Incentives Driving Fossil Fuel Expansion

Fossil fuel expansion persists because public and private financial actors continue to treat it as commercially rational, and because the regulatory environment still allows that judgement to go largely unchallenged. Individual banks and other private financial institutions use their fiduciary duties to shareholders as pretext to center all their decision-making around short-term profits. Individual banks face a set of perverse incentives, in which earnings performance metrics rarely align with collective action needed to phase out fossil fuels, especially in the absence of regulatory action. Financial supervisors rarely fully integrate climate, biodiversity and human rights risks into their oversight. Transition and physical climate risks are often underestimated and underpriced in asset valuation and credit decisions, even where reserves cannot be burned in line with climate goals. In most jurisdictions, financial institutions face limited legal consequences for financing environmental and human rights harm, and limited short-term financial consequences for financing fossil fuel expansion.

In the current global financial architecture, benefits accrue disproportionately to financial actors and elites—particularly in major financial centres in the Global North —through profits, shareholder returns, and concentrated ownership, while costs are socialized across frontline communities and economies through climate impacts, instability, and economic shocks. Constrained fiscal space and sovereign debt burdens intensify extractive pressure. Governments facing high debt service obligations and foreign exchange shortages often expand fossil and mineral exports to stabilise revenue flows.[13] Import-dependent countries too suffer from enormous fiscal shocks of volatile fossil fuel prices. In the aftermath of the US-Israeli intervention in Iran and ballooning oil and gas prices, for example, various import-dependent Asian countries are facing intense strains to fiscal policy as the first line of defense to protect against energy inflation domestically.[14]

Credit rating agencies play a critical role constraining the policy choices available to governments. Their opaque and unaccountable methodologies frequently privilege short-term fiscal consolidation and export-led growth models while discounting the ecological resilience, climate stability and long-term macroeconomic foundations essential to managing debt sustainably. Credit rating agencies have a history of punishing governments which take concrete measures to protect the ecosystem against fossil fuel buildout, for example by downgrading Ecuador's credit rating in anticipation of a vote to protect a nature reserve against further oil drilling.[15] Furthermore, even when credit rating agencies recognize climate risk, their assessments of fossil fuel companies are often insufficient because they prioritize short-term financial performance over long-term risk or systemic environmental liabilities.[16]

PHOTO: Amazon Watch

The Costs of Inaction - Human Rights & Biodiversity Impacts in the Amazon

Oil and gas development in the Amazon over the past 50 years has caused widespread human rights violations against Indigenous, Afro-descendant, and local communities—groups that have historically protected the region. Nearly 5,000 oil spills and related incidents in the past 15 years have created unremediated environmental liabilities with little corporate accountability.

Around 31% of global oil and gas resources lie beneath areas of high natural and cultural value, including tropical forests and Indigenous Territories–among which includes the Amazon biome - the world's largest contiguous tropical rainforest, spanning 847 million hectares across 9 countries. Studies suggest that nearly 20% of the Amazon region is designated for leasing for exploration and extraction. Moreover, major portions of the 470 existing oil and gas lease blocks in the Amazon, overlap significantly with critical water systems, including almost 90% of aquifers.[17] A large portion of oil blocks (68%) remains undeveloped, and expanding into these areas would greatly increase environmental damage, pushing extraction deeper into sensitive ecosystems.[18]

Research[19] shows that developing untapped reserves beneath the Amazon would generate billions in stranded assets under all International Energy Agency (IEA) climate scenarios while doing little to improve national energy security; governments, such as Peru and Ecuador, are considering new extraction plans.[20]

The problem is reinforced by a global system that prioritizes corporate interests over environmental and community rights. Just ten banks are responsible for 75% of oil financing in the Amazon, and two-thirds of financing originates from banks in North America and Europe.[21] Although some banks have applied corporate-level exclusion policies for financing of oil and gas in the Amazon, banks frequently greenwash their practices to avoid meaningful due diligence.[22]

Private finance to state-owned oil companies in Amazonian countries drives long-term "fossil-fuel lock-in," incentivizing domestic development of oil and gas reserves. Financial institutions benefit from state bailouts—such as loan guarantees and emergency cash injections—when state-run companies cannot cover short-term debts.[23] Taxpayers then shoulder repayment to foreign creditors, often harming local and historically oil-impacted communities. This cycle, reinforced by the global financial system and climate pressures, locks Amazonian governments into extractive paths that degrade the biome.[24]

Realigning Financial Rules and Incentives for a Managed and Just Phase-Out

A managed phase out of fossil fuels demands structural reform of the global financial architecture which includes addressing the debt burden, closing the persistent financing gap for climate action and rebuilding fiscal space for a just transition. Without addressing these structural financial conditions, fossil fuel phase-outs will remain uneven, unjust and unsustainable.

Governments and policymakers must also confront the financial rules across public and private finance that lock in fossil dependence. We identify three priority action areas that could emerge from Santa Marta and set the foundations for aligning public and private finance with a fast, fair, and funded fossil fuel phase-out.

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1. Macroprudential, monetary policy and financial regulatory reforms

Financial institutions' voluntary frameworks and net zero pledges have failed to align finance with the Paris Agreement. Macroprudential policies, which are policies that aim to protect the stability of the financial system and safeguard against systemic financial risks, monetary policy and financial regulation must account for the economic, climate and human rights impacts of fossil fuel dependence. Concretely, we call on legislators, regulators and central bank authorities to:

- Require comprehensive disclosures of climate risk and integration of climate risk into supervisory frameworks with clear and binding expectations for how financial institutions must identify, assess, and mitigate climate-related risks across their activities.
- Integrate climate and biodiversity risks into prudential requirements. Climate and biodiversity risks create real exposure to stranded assets, excessive concentration in fossil assets, and balance sheet vulnerability. Central banks and financial regulators should consider whether existing capital and liquidity requirements adequately address climate risk and apply precautionary prudential tools—such as higher capital buffers for high risk activities and for loans and investments in high-emitting sectors.
- Ensure robust climate stress testing. Regular climate stress testing to assess how financial institutions' portfolios would perform under various scenarios needs to be accompanied by continued efforts to strengthen climate modeling. Current models used for stress testing significantly underestimate climate risk and regulators should provide greater clarity on the limitations of their models. Stress testing should include biodiversity risks.
- Mandate transition planning by banks, non-banks and insurers. Financial institutions should be required to develop credible Paris-aligned transition plans with clear targets, including policies that restrict financing to fossil fuels, notably ruling out support to new coal, oil, and gas projects and the companies that develop them, particularly in biodiverse regions such as the Amazon. Transition plans must be actionable and timebound with clear criteria that apply at the client level, and clearly require fossil fuel phase-outs and scaling up of climate solutions (eg, Clean energy, agroecological approaches).
- Extend many of these requirements to private equity holders, private creditors and other non-bank entities driving fossil fuel finance.
- Ensure greater transparency and regulatory oversight of credit rating methodologies, and integrate climate and biodiversity risk factors into fossil fuel expansion companies' assessments and bond ratings.

2. Government policies to reduce public support/incentives for fossil fuels

Instead of incentivizing further expansion, governments should be rewriting their tax codes and implementing policies to discourage fossil fuels and rebuild the fiscal capacity to invest in climate resilience and renewable alternatives. This would mean:

- Rapid wind down of supply-side fossil fuel subsidies, tax exemptions, subsidies, guarantees or other public assistance for new oil, gas, and coal projects. This would include transparent, time-bound plans for winding down existing exposures.
- Ending multilateral development bank, bilateral development finance, and export credit agency support for fossil fuels.
- Demonstrating international leadership by signing onto the Clean Energy Transition Partnership to phase out international support for fossil fuels and transition public finance to renewables and support an agreement at the Organization of Economic of Cooperation and Development Export Credit Group to phase out export credit agency support for fossil fuels.
- Making polluters pay for climate damages, including through domestic and global excess profit taxes on fossil fuel corporations which are fairly captured for public benefit, helping finance diversification and just transition measures
- Redirecting this public financial support toward renewable, decentralised, and community-led distributed energy systems which support climate resilience, broaden participation and reduce long-term fiscal risk.

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3. Aligning finance with just transition principles of human rights, ecological integrity and accountability

While there is no one-size-fits-all approach to what a just fossil fuel phase-out entails, human rights, ecological integrity and accountability anchor a vision of a financial system fundamentally different from the one we inhabit today.

Without proper safeguards for land, rights, and ecosystems, even well-meaning transition investments can reproduce extractive harms rather than advance a just transition. A sustainable and just phaseout cannot be achieved by shifting costs onto forests, land, or the rights of Indigenous Peoples and local communities. Land-based carbon offsets should not be used and carry significant risks of dispossession. Transition pathways must also ensure that rising demand for critical minerals does not drive new waves of forest loss, land conflict, and rights violations under the banner of decarbonisation.

The financial transition away from fossil fuels must be governed by binding safeguards that protect human rights, forests and ecological integrity. This includes:

- Ensuring policies are in line with internationally recognized Indigenous Peoples rights, such as the United Nations Declaration on the Rights of Indigenous Peoples (UNDRIP)–which expresses the recognition of the right to self-determination, right to "say no," and FPIC–and the International Labor Organization's Indigenous and Tribal Peoples Convention No. 169 (ILO Convention 169).
- Integrating robust human rights and environmental due diligence, accountability and remedy mechanisms in transition planning and implementation at national and international levels, strengthening protections for affected communities.
- Mandating human rights due diligence requirements for the financial sector to actively identify, prevent, and mitigate adverse impacts on human rights and the environment across operations and value chains. This should include establishment of independent grievance and remedy mechanisms for affected communities, in line with the UN Guiding Principles on Business and Human Rights.
- Ensuring public finance institutions also are subject to transparent reporting, redress mechanisms, and legal accountability to international human rights standards and law, including women's rights, Indigenous Peoples' rights, and workers' rights.

Conclusion: What Santa Marta Can Deliver

Fossil fuel phase-out is not only a technological or diplomatic challenge. It is a challenge of financial governance and power. Without reform of the rules that determine how capital is allocated, expansion will continue regardless of political pledges. Santa Marta can deliver a credible framework for financial governance aligned with ecological stability and justice—if governments are prepared to confront the rules that currently reward extraction and shield its beneficiaries from accountability. It also creates an opportunity for enhanced cooperation and leadership for like-minded states towards supporting reforms for a managed and equitable transition that reduces systemic instability, broadens economic participation, strengthens resilience and restores ecological balance.

Endnotes

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