

Fragmentation or Evolution? The Future of Global Sustainable Investor Alliances



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Introduction: Grand Designs

The historical precedent of the Pax Romana, an era of unprecedented stability under Roman hegemony, illustrates the virtues of centralized decision-making, shared rules, and harmonized infrastructure. In a similar vein, modern sustainable investing alliances have sought to establish a “financial pax”, in which unified goals, harmonized disclosure standards, and collective capital commitments provide a framework for navigating today’s global challenges.

However, as the Romans eventually learned, systemic pressures such as divergent regional interests and bureaucratic overreach can gradually undermine even the most unified system. This raises a critical question: is the ongoing fragmentation of sustainable investing architecture a precursor to a “Dark Age”, or an adaptive evolution toward a more effective, multipolar system?

The Rise of Global Convergence

Let us first consider what motivated the efforts to mobilize a united front to tackle the various shortcomings of the existing economic and capital system. The starting point was undoubtedly the realization that climate change represented an existential threat. Consequently, a joint target to prevent catastrophic global warming by limiting temperature increases to well below 2.0°C (ideally 1.5°C) was enshrined in the 2015 Paris Agreement. The financial sector was keen to play its part in the transition, and further extended ambitions through the proliferation of the ESG investing approach.

The emergence of a global consensus on climate triggered an urgent period of standardized disclosure and unification efforts, as market participants recognized that fragmented data hindered the effective allocation of sustainable capital. This convergence found its theoretical bedrock in the work of Healy and Palepu (2001), who provided the economic rationale for why harmonized reporting was essential. By establishing a common language of disclosure, these frameworks sought to reduce information friction and agency costs, thereby lowering the cost of capital for firms successfully aligning with transition goals.

Key collaborative action organizations, such as the UN PRI and UNEP FI, provided the technical foundation for this convergence. This was bolstered by high-ambition alliances like the Glasgow Financial Alliance for Net Zero (GFANZ) and the Net-Zero Asset Manager initiative. Another important facilitator was the massive

shift of capital toward sustainable opportunities and entities. This trend saw global flows to ESG funds peak in 2021 at approximately \$649 billion, at one point representing a staggering 50% or more of all net new fund flows in Europe.

The Mechanics of Fragmentation

Despite the historical surge in capital and the proliferation of high-ambition coalitions, the financial sector has recently begun to dial down its sustainable investing ambitions. What explains this reversal? A shift in commercial incentives has undoubtedly played a role. In 2025, global ESG funds experienced approximately \$84 billion in net outflows, according to Morningstar data, a stark contrast to the record-breaking inflows of previous years. This retreat was accompanied by widespread “green-hushing”, as firms engaged in large-scale ESG label removals and rebranding to avoid both regulatory and political scrutiny.

Another important driver has been a US backlash, driven by political forces and legal challenges. Opponents sought to characterize collaborative climate action as potential anti-trust behavior, leading to high-profile departures from alliances like Climate Action 100+ and GFANZ. This legal weaponization has turned what was once a reputational asset into a perceived fiduciary liability.

A further source of tension has been regulatory fragmentation. The growing divergence between US state-level anti-ESG mandates, the EU Taxonomy and Disclosure Regulations (SFDR) and the distinct transition priorities of emerging markets has created a patchwork of inconsistent incentives. For global investors, the harmonized infrastructure of the past is being replaced by a complex compliance maze.

Finally, geopolitical conflicts have introduced a new layer of friction. Recent military actions have forced a re-evaluation of defense spending, with some arguing that armaments should be considered “socially responsible” for national security. Furthermore, these tensions have accelerated the search for alternatives to the dollar-based financial system, threatening the unified capital flow that global sustainable goals rely upon.

So is the world about to be plunged into a period of fragmentation akin to a sustainable investing “Dark Age”? In this article, I argue that the perceived harmonization of financial sector infrastructure and the collaboration of its actors was never as deeply entrenched as many believed. Rather than resisting the fragmentation of the global sustainable investing architecture, the sustainable investing

community should shift its focus toward the interoperability of disparate financial systems. By making inherently fragmented systems work together, we can move beyond the one-size-fits-all model that has alienated many stakeholders.

This shift offers a vital opportunity to extend financial infrastructure more inclusively, particularly to the Global South. These nations are at a vastly different stage of economic development but remain essential to the global sustainability. Recent data from the International Energy Agency (IEA) highlights the urgency of this shift: while emerging economics already account for the lion's share of new electricity demand, this shift is expected to become even more pronounced in the next five years (*Chart 1*). By moving from universal standards to interoperable frameworks, we can finally bridge this investment gap, allowing the Global South to play its critical role in the transition without being forced into a DM-centric regulatory mold.

Fragmentation Is Not Accidental, It Is Structural

The recent fragility displayed by the sustainable investing alliance highlights the difficulty of addressing key market failures – discussed in my earlier Japan *SPOTLIGHT* articles https://www.jef.or.jp/journal/pdf/247th_Special_Article_03.pdf and https://www.jef.or.jp/journal/pdf/256th_Special_Article_03.pdf – through a singular, top-down framework.

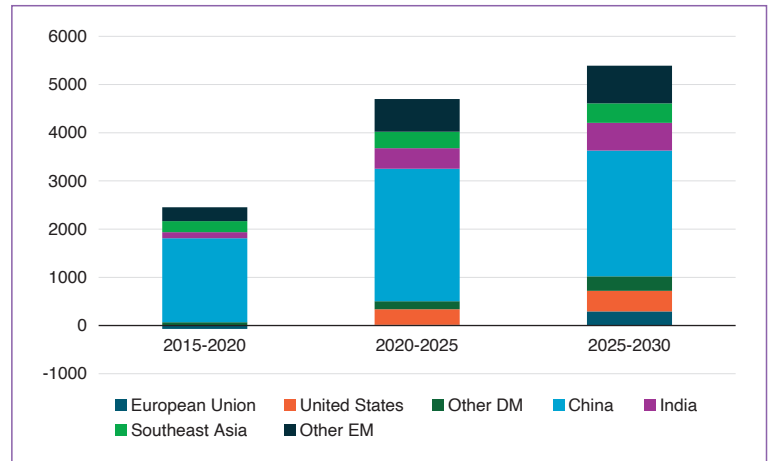
However, the recent fragmentation is not accidental, it is structural. The theoretical underpinning of this fragmentation can be found in investors' heterogeneous preferences. Pastor et al. (2021) suggest that because investors do not have a single, unified set of values they will naturally gravitate toward different “green” objectives based on their specific social and financial priorities. This diversity of thought makes a single, global “Pax” nearly impossible to maintain, as the market is naturally inclined toward a multi-polar reality where different regions value different ESG outcomes.

Compounding this philosophical divide is the practical issue of data fragmentation and divergences in technological deployment. Since there is no standardized measurement for what constitutes “good” ESG, rating agencies often provide wildly different scores for the same company. This technical dissonance creates the very environment where interoperability, rather than harmonization, becomes the only logical path forward.

Finally, while sustainable investing remains an essential economic mechanism to address market failures, its “harmonized infrastructure” has proven vulnerable to political cycles, particularly when short-term competing priorities collide with long-term climate goals. In periods of geopolitical stress or high inflation, the incentive structure for both firms and governments shift rapidly toward immediate survival, prioritizing energy security, domestic price stability, and national defense. While the market has been conditioned to adapt to macroeconomic shifts like rising interest

CHART 1

Global growth in electricity demand total, by region, 2015-2030



Source: IEA's annual report, 2026

rates, it struggles to maintain a unified standard aimed at longer term drivers of sustainable returns.

Conflicting temporal incentives are particularly acute for the Global South, where the push for harmonized sustainable investing often pulls against a harsh economic reality defined by currency volatility and capital flight. When the US dollar strengthens and oil prices rise, the fiscal burden on EM governments intensifies, particularly in energy-importing nations where fuel subsidies create a direct link between exchange rate depreciation and budget deficits. This creates a powerful counter-incentive to harmonized approaches: when a country is fighting a “macro de-risking” battle to protect its credit rating and fund its fiscal deficit, it cannot prioritize a rigid, global ESG rulebook.

While the tendency to deprioritize sustainability during crises underscores the urgent need for a framework that holds actors accountable for systemic externalities, such mechanisms must be designed with the flexibility to engage, rather than alienate, the very stakeholders and heavy emitters whose participation is essential for a globally resilient transition.

From Hegemonic Harmonization to Multi-Polar Interoperability

With the benefit of hindsight, we now know the Pax Romana occurred concurrently with another great hegemonic civilization: the Han Dynasty in China. Had the Romans explored far beyond the fringes of their “walled garden”, they would have discovered a civilization thriving under an entirely different language, set of customs, and legal rules.

With this in mind, we should build a sustainable investing infrastructure that allows for diverse systems to coexist in a multi-polar world. If we accept that a singular, harmonized approach is unviable, we can finally address the structural underrepresentation that has plagued global alliances. The apparent fracturing of global

alliances should not be viewed solely as a retreat but rather, a reset which may provide a structural opportunity to create greater interoperability under a bigger tent.

Beyond the Walled Garden: Bridging the Participation Gap in the Global South

The underrepresentation of Emerging Markets (EMs) in sustainable investing alliances creates a participation gap which risks transforming global standards into a form of regulatory exclusion. This tension is examined by Katrin and Arjalies (2024) who find that universal mandates frequently ignore the unique institutional contexts and developmental priorities of the Global South, leading to a disconnect between international expectations and local realities.

In these developing regions, the logic of sustainability may also collide with the immediate demands of geopolitics and sovereignty. In the Middle East and Africa, the Green Transition is not a standalone objective; it is a subset of national security. When global alliances demand the phasing out of fossil fuels without offering a viable path to energy security or domestic industrial stability, they run into a wall of sovereign resistance. In these markets, ESG must align with capital formation and infrastructure needs, not just disclosure volumes. If a framework cannot help build a bridge or secure a power grid, it is viewed as a luxury of the developed world, a “compliance tax” that many EM nations are no longer willing to pay.

In this environment, there is a very real risk of a “two-speed ESG world”, where the Global North continues to refine increasingly complex frameworks like SFDR or the CSRD, while the rest of the world develops its own, often incompatible, structures. This divergence is not just a matter of different rules; it is a structural disconnect. When frameworks are too complex for EM institutional capacity, and the incentives differ so fundamentally, the alliances lose their global coherence. Instead of a bridge, the “Financial Pax” becomes a barrier, preventing capital from flowing to where the marginal carbon reduction, and the marginal social impact, is the highest.

How Organization for Collaborative Action Can Adapt

Navigating this fractured landscape requires a fundamental pivot from the imposition of universal mandates to the design of flexible, regionally sensitive frameworks. For global alliances to regain relevance, they must evolve into platforms facilitating functional interoperability rather than absolute uniformity, a shift already redefining the strategies of major international bodies.

The UN PRI, long the primary architect of the global sustainable investing construct, exemplifies this struggle; its expansion into emerging markets has lagged as its reporting frameworks failed to find sufficient anchoring in Africa or Asia, which accounts

for approximately 3% and 5% of members respectively (Chart 2).

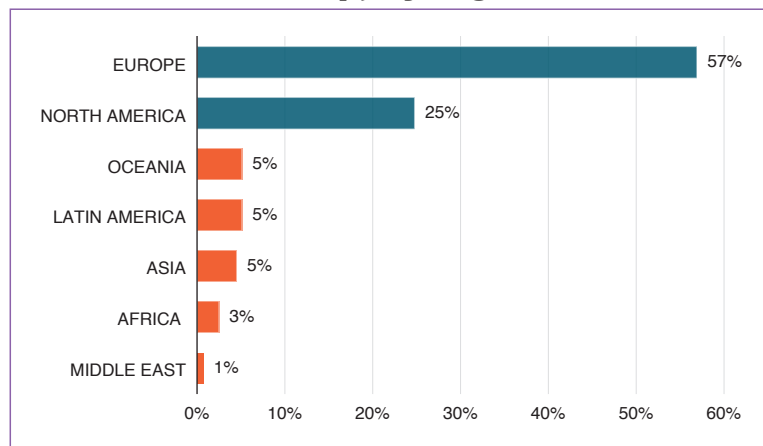
This is beginning to change. The PRI’s recent move toward Progression Pathways represents an admission that global relevance depends on regional connectivity and shared outcomes rather than forced harmonization. Furthermore, the opening of educational resources such as the PRI Academy to entities in emerging economics is a critical step to deepening incentives to pursue long term sustainable goals, even in times of crises.

The shift toward localized anchoring had been epitomized by a planned PRI regional event in Abu Dhabi in May 2026, which was to serve as a rallying call to MEA to deepen expertise and extend connections with sustainable entities globally. While the postponement of the conference was clearly a setback, there are nations in the region already demonstrating a way forward. In particular, this has been illustrated by South Africa, which inaugurated its own Code for Responsible Investing in South Africa (CRISA) in 2023. By developing CRISA, South African institutions created a “translation layer” that allowed them to participate in global finance while remaining anchored in the domestic necessity. This model proves that sophistication in sustainable investing is achieved not through rigid adherence to a central script, but through the localized adaptation of global standards.

The International Sustainability Standards Board (ISSB) is another organization seeking to shift from rigid harmonization to functional interoperability. The ISSB standards have achieved a critical mass, with 40 jurisdictions representing 60% of global GDP adopting the framework as their foundational baseline. This illustrates that a global baseline does not require the erasure of sovereign priorities. For example, while the EU’s revised 2026 standards continue to emphasize Double Materiality, the high degree of technical alignment between the ISSB and EFRAG ensures that these divergent philosophies remain communicative even if simultaneous compliance has proven elusive.

Of course, for some the interoperability may not be enough. The ISSB has received criticism from scientific and environmental

CHART 2
UN PRI membership, by region



Source: UN PRI Annual Report, 2025

advocates for its decision to delay a dedicated nature standard (S3). However, the Board must resist these pressures to protect its primary mandate as the global provider of a functional, interoperable baseline for financial materiality. Introducing an expansive nature standard now would impose an excessive reporting burden on a global financial ecosystem that is still seeking to operationalize S1 and S2, particularly in emerging markets where data infrastructure is less mature.

Governance as a Global Bridge

It is not just organizations that need to adapt, the legal architecture and industry norms must evolve. The proliferation of soft law across diverse jurisdictions provides an accelerated mechanism for resetting market norms and behaviors.

In particular, governance may serve as a vital translation layer that converts abstract global standards into concrete, locally relevant investment discipline. In a multi-polar financial world, governance frameworks act as the connective tissue between disparate regulatory layers, shifting the focus from rigid ESG narratives toward the measurable outcomes of capital allocation. Furthermore, governance functions as the primary enforcement mechanism for sustainability within the private sector. While disclosure frameworks provide the necessary data, it is the governance architecture, specifically stewardship and fiduciary duty, which ensures this information is integrated into core strategic decisions.

The Japanese experience provides a roadmap for how a sophisticated economy can combine global standards with local institutional realities. For example, Japanese firms have embedded financial materiality directly into integrated reporting, linking ESG factors to strategy, KPIs, and return metrics rather than treating them as standalone disclosures. With over 60% of large-cap firms producing integrated reports, the highest adoption rate globally, Japan has created a disclosure environment that enhances both internal capital discipline and external investor monitoring. While not unique to Japan, a distinctive feature is the use of back casting within investor-facing reports, articulating mid- to long-term sustainability goals and linking them to staged pathways that inform current capital allocation and operational decisions, giving disclosures a clearer strategic logic and time horizon.

How Stewardship Unifies Fragmented Jurisdictions

The interoperability of the governance layer may be further reinforced by stewardship activities. Across 10 Asia-Pacific jurisdictions, stewardship codes function not as rigid mandates, but as a common language of accountability (Chart 3). By focusing on

CHART 3

Stewardship codes in Asia

Country	Date of adoption	Sponsor type	Signatories	Level	Last revision
Japan	2014	Government	Yes	Comply-or-explain	2025
China	2025	Industry body	Yes	Mandatory	
South Korea	2016	Industry body	Yes	Comply-or-explain	Expected 2026
India	2019	Government	No	Mandatory	
Taiwan	2016	Exchange	Yes	Comply-or-explain	2023
Hong Kong	2016	Government	No	Voluntary	
Thailand	2017	Government	Yes	Comply-or-explain	
Malaysia	2014	Industry body	Yes	Voluntary	2022
Singapore	2016	Industry body	No	Voluntary	2022
Australia	2017/18	Industry body	Yes	Comply-or-explain	2024

Source: Effective Stewardship – spillover benefits and capital allocation, oversight and management efficiency. Govinda Finn (2024), updated 2026

transparency and engagement, they allow global investors to navigate diverse “sovereign pathways”, such as Malaysia’s Islamic finance principles to Singapore’s market-driven model. This ensures that while local rules vary, the fundamental expectations for shareholder dialogue remain communicative across borders.

Beyond technical alignment, stewardship also offers a culturally resonant framework for navigating complex power structures in emerging markets. In regions dominated by state-owned enterprises or family conglomerates, adversarial activism often fails. Stewardship codes provide a mechanism for minority shareholders to engage majority owners, filling regulatory gaps where formal law lags behind systemic risks like climate change. By shifting the burden of “good behavior” to capital providers, it preserves governance pillars without requiring a single centralized decree.

Capital Allocation as the True North

While interoperability allows different regulatory regimes to coexist, a “True North” centered on capital allocation is essential to ensure that technical alignment serves its ultimate purpose: directing financial flows toward sustainable outcomes.

While traditional ESG ratings have long been criticized for their low correlation and inconsistent signals, new evidence suggests that market-based sustainability metrics, grounded in actual investor behavior, provide more informative signals. Recent research on portfolio-based ESG measures, specifically market-implied sustainability, finds a significantly stronger association with financial performance than traditional ratings, as these metrics are derived from observed capital allocation decisions rather than static, model-based firm scores (Giacometti et al., 2025). Furthermore, technology, specifically AI, is acting as a structural equalizer. AI facilitates the instant analysis of disparate disclosures, allowing for the processing of vast amounts of unstructured data within fragmented regulatory regimes, Swiss Sustainable Finance (2026). This augurs for the acceleration of machine-reader disclosure reports, a key new requirement for disclosure regimes.

By streamlining the bridge between disclosure and the cost of capital, these technological advancements allow hidden costs to be more accurately priced by the market. When sustainability performance is financially integrated into asset prices with high precision, the necessity for top-down enforcement diminishes; the market itself effectively becomes the primary enforcement mechanism for corporate accountability.

The Final Frontier: Systemic Risk & the Limits of the Market

While interoperable governance and localized stewardship provide the "translation layers" for a multi-polar world, they encounter a formidable wall when facing systemic risk. This is the most difficult challenge to counter in a landscape of regionalized standards. Unlike idiosyncratic risks, which can be managed through diversification and better disclosure, systemic risks, such as climate-change and biodiversity collapse, are non-diversifiable. They ignore the artificial borders of fragmented governance, creating a critical tension: how can a decentralized system protect a centralized global commons?

The Necessity of Layer 3: Beyond Disclosure and Governance

The current transition proves that disclosure (Layer 1) and governance/stewardship (Layer 2) are necessary, but insufficient. The ISSB can tell us what is happening, and stewardship can tell us how firms are responding, but neither can force the collective action required to mitigate a system-level threat. This is why Layer 3 (Prudential and Transition Policy) is the essential insurance policy of the new financial architecture.

Systemic risk justifies a global minimum denominator of alignment: we do not need to share a global ESG value system, but we must share a global understanding of systemic risk. Mispriced systemic risk leads inevitably to misallocated capital, and misallocation leads to instability. Therefore, capital allocation efficiency depends on a shared information architecture regarding these unhedgeable threats.

Who Carries the Burden?

The fracturing of the "Financial Pax" has raised a fundamental question: should investors be required to carry the burden of systemic risk mitigation, or has the financial sector proved it can only go so far? Many argue that such heavy lifting should be handed over entirely to governments through carbon taxes and direct regulation.

However, the answer is not to surrender the financial sector's role, but to redefine it. Handing systemic risk entirely to governments ignores the reality that political cycles are often shorter than climate cycles. Instead, we must find a way to incentivize and account for mitigation efforts within the market. We should not expect every investor to be a "steward of the planet", but we must require every

investor to be a "steward of their own solvency". When systemic risk is properly priced through macro-prudential tools, such as capital requirements linked to transition risk, mitigation ceases to be an act of advocacy and becomes a requirement of fiduciary discipline.

Conclusion: a Resilient, Multi-Polar Stability

Ultimately, the future of global sustainable investing lies in a tiered architecture rather than a singular, top-down mandate. We must accept that a one-size-fits-all approach to global sustainable finance has reached its structural limits. In its place, a more resilient system is emerging, one that is globally aligned on core disclosure baselines through frameworks like the ISSB, yet remains functionally interoperable across regional governance and stewardship codes.

This evolution allows for the complexities of a multi-polar world while preventing a descent into a sustainable investing "Dark Age". By shifting the focus toward capital allocation outcomes and the technical, AI-enabled cross-jurisdiction analysis, the industry can move beyond mere administrative compliance toward genuine, long-term value creation. While the alliances of the past have reset, the underlying economic logic remains clear: a stable global order depends on an architecture that is diverse enough to be inclusive, yet interoperable enough to be resilient.

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