Transition Finance Council Working Group 2 – Pathways, Policy, and Governance

By email: transitionfinancecouncil@cityoflondon.gov.uk

17th July 2025

Dear Chairperson,

BVCA Feedback on the Call for Evidence on Scaling Transition Finance through Sector Transition Roadmaps

With a membership of over 600 firms, the BVCA represents UK-based Private Capital, as well as the wider ecosystem of professional advisers and investors. Private Capital consists of Private Equity and Venture Capital which makes long-term investments to grow British businesses and build a better economy. Private credit and venture debt also provide active and engaged debt finance to businesses. The Private Capital industry backs 13,000 UK businesses, nine in ten of which are small or medium-sized enterprises (SMEs). Businesses backed by the industry employ 2.5 million people across the UK and contribute 7% to GDP. In 2024, £29.4bn was invested by Private Capital into UK businesses in sectors across the UK economy, ranging from consumer products to emerging technology. This increased investment has fuelled the growth of businesses across the UK, with six in ten (58%) of the businesses backed in 2024, located outside of the capital. These investments are long term, with an average investment period of six years, in contrast to less than a year in public markets.

Role of Private Capital in the Net Zero

The UK's Private Capital industry has a leading role to play in the global challenge of eliminating the causes and effects of climate change. Private Capital is a global industry, with our members actively investing and diversifying their portfolios worldwide. The industry stands at the unique intersection of deploying capital, investing for the long term, and helping to shape the strategy of investee companies. This allows Private Capital to play a leading role in ensuring portfolio companies adapt to the global climate crisis, embedding environmental and social considerations into businesses across the UK economy as well as invest into and help grow the innovative businesses of tomorrow.

According to World Economic Forum (WEF) data SMEs are responsible for approximately 60% of global business emissions, emphasising the importance of decarbonising this market. Moreover, these companies are often critical players in the supply chain of large corporations and therefore their decarbonisation is critical as part of wider net zero goals. As either majority or significant minority owners, principally of unlisted, fast-growing SMEs (which account for nine in every ten UK companies receiving private investment), Private Capital is well-placed to drive their transition and reach parts of the UK and global economies that public markets cannot. This is principally done in two ways:

- The industry's "active ownership" model allows it to help its portfolio companies, across sectors, to embed environmental considerations and reduce the emissions intensity of their operations; and
- The industry's backing of innovative companies which are needed to combat climate change and support businesses to transition to a low carbon.

Whilst the transition to a net zero economy and increase in regulation is driving the increase in green investment, there is also increasing evidence that integrating sustainability makes for a smart business strategy and drives value creation as well as resilience. The Private Capital model needs to be sustainable as it considers how businesses perform today under one firm's ownership but also must be informed by the needs of future owners in the years ahead. Those years will be drastically impacted by climate and biodiversity challenges, so enabling innovative decarbonisation and nature-positive strategies now will be beneficial for the future bottom line.

British Private Equity & Venture Capital Association
+44 (0)20 7492 0400 | bvca@bvca.co.uk | www.bvca.co.uk

Private Capital's interplay with SMEs and sector-specific roadmaps/transition pathways

As the Private Capital ecosystem continues to navigate the complexities of the net zero transition, the importance of sector-specific transition pathways and roadmaps cannot be overstated. The BVCA's Investment Commission report highlighted that 33% of surveyed members indicated a clear net zero and policy roadmap would make investing in UK businesses more straightforward. A well-articulated roadmap will therefore help SMEs and firms to clearly understand the business case for change, strengthen investor confidence, and serves as a catalyst for engagement, clarity, and decisive action. Principally it will help reduce pushback by making the value proposition clear and accessible. When companies see what part they play in their sector's transition journey and the risks and opportunities it presents, they are far more likely to engage meaningfully and effectively.

We firmly believe there is a role for these roadmaps across all parts of the economy and that every sector should have a pathway that reflects its unique challenges and opportunities. When considering roadmaps, accessibility is key. They must be clear, practical, and reflective of the transitional nature the green transition represents. For every stage of the transition journey, there needs to be defined expected outcomes, milestones and actionable steps that a leadership team can pick up and implement rather than needing to hire a specialised and often prohibitively expensive, resource. These roadmaps can help shape the argument for investment, guiding companies on where to focus their time and resource. This is especially clear in instances where a fund manager has a portfolio company looking to expand its product offering. A roadmap will help them understand the most effective and climate-forward pathways to achieve this from the outset. Following specific roadmaps can also signal commitment by SMEs and funds. They can indicate where portfolio companies can get involved to drive value, not just for themselves but for the broader ecosystem.

To be effective, SME transition roadmaps must be built on a foundation of incentive-driven strategies that reward progress rather than punish delay or misalignment, embracing a "carrot over stick" philosophy to accelerate meaningful decarbonisation. This means prioritising early-stage financial support to enable action, designing mechanisms that celebrate and amplify success and fostering a culture of positive reinforcement.

In the context of economic transition, Private Capital, through its active ownership, has the potential to unlock segments of the market that may be less accessible to government initiatives. The Private Capital model offers agility, innovation and targeted investment strategies that can complement public efforts. We encourage policymakers to engage with and leverage its expertise to drive inclusive, effective transformation and growth.

Summary of Key Points

We firmly believe there is a need and role for roadmaps to support the transition of all parts of the economy, as detailed below. As the representative body of investors who invest into SMEs (which represent a sizeable portion of the global emissions and the UK economy), we consider that transition efforts of SMEs should be enabled alongside the hard-to-abate sectors. Roadmaps for this part of the economy need to be clear, accessible, and reflective of the transition nature of the environment. As well as being built on a foundation of incentive driven strategies to reward progress. The BVCA value its role as an associate member of the Transition Finance Council and are keen to engage and support the work being done and recognise the role that Private Capital can play in scaling transition finance.

Questions

1. **Have you used or engaged with any sector transition or investment roadmaps? Do you see them playing a role in supporting your transition planning now or in the future? (400-word limit)**
- *If yes, please share how you have used or might use them—for example, in shaping strategy, fundraising, or business planning. Please provide 1-2 specific examples.*
- *If not, do you think you might use them going forward? Why or why not?*

We firmly believe there is a role for these roadmaps across all parts of the economy and that every sector should have a pathway that reflects its unique challenges and opportunities. Examples of roadmaps used by Private Capital include:

The Private Markets Decarbonisation Roadmap (PMDR), developed by initiative Climat International (iCI) and the Sustainable Markets Initiative (SMI), provides a structured approach for private equity firms to assess and disclose the decarbonisation progress of their portfolio companies. It is particularly useful for navigating the complexities of emissions reduction in private markets, where data availability and fund cycles can pose challenges. Furthermore, it provides steps to help companies move towards alignment to Net Zero.

Similarly, the Net Zero Investment Framework (NZIF), led by the Institutional Investors Group on Climate Change (IIGCC), offers a comprehensive methodology for setting portfolio-level objectives and asset-level targets to align with net zero goals.

These frameworks have been instrumental in shaping internal climate strategies and aligning investment decisions with long-term sustainability goals. Engagement with these roadmaps has typically involved using them as reference points for developing internal decarbonisation plans, assessing climate-related risks, and communicating progress to stakeholders. For example, NZIF's emphasis on asset alignment and engagement targets has helped guide stewardship activities, while PMDR's asset-class-specific guidance has been valuable for tailoring decarbonisation strategies across different investment types, reflective of the different stage's firms may be at on their journey. These tools have not only improved transparency but also fostered a more disciplined approach to integrating climate considerations into investment processes.

As regulatory expectations and investor scrutiny around climate-related disclosures continue to grow, frameworks like PMDR and NZIF are becoming essential tools for transition planning. The updated NZIF 2.0, for instance, reflects investor feedback and shifts focus towards financing reduced emissions, which aligns better with practical decarbonisation outcomes. This evolution makes it more practical and credible for investors to use the framework in setting and tracking meaningful climate targets. Similarly, PMDR 2.0 introduces tools like Excel-based support systems and asset-class-specific decarbonisation levers, which enhance its usability and relevance for day-to-day decision-making.

Looking ahead, these frameworks will play a vital role in aligning corporate and sectoral transition plans with national strategies. As the UK government pushes to become the "sustainable finance capital of the world," with initiatives like the Transition Finance Council, Net Zero Council and sector-specific roadmaps, the integration of tools like PMDR and NZIF into corporate planning will be critical. They provide the structure and credibility needed to attract capital, manage transition risks, and demonstrate alignment with broader climate goals.

2. **What is the role of a) government; b) industry; and c) finance sector in developing and implementing roadmaps? How can these sectors work together most effectively? (400-word limit)**
- *Do you have any specific examples of effective collaboration from your sector or experience?*

a) Government:

Government plays a critical role in setting the strategic direction for transition roadmaps. As SMEs are responsible for a large part of global emissions, government needs to emphasise the role that SMEs and Private Capital have in net zero ambitions, even though they might not specifically fall into a "hard-to-abate" sector. This would send a positive signal and foster greater awareness of the importance and viable pathways for SMEs to transition toward net zero. Government must define clear objectives, such as achieving net zero and work closely with industry initiatives to ensure sector-specific guidance meets ambitions. Rather than relying solely on compliance interventions, governments should focus on enabling policies, including alignment incentives and ease of access to transition finance.

b) Industry:

Industry must take ownership of its transition journey by developing tailored roadmaps that reflect sector-specific challenges and opportunities. Larger firms, particularly in emissions-intensive sectors, often have the resources to lead, but SMEs require more structured support. For micro and small enterprises, the transition presents an opportunity to integrate sustainability from the outset. Industry associations can play a key role in disseminating best practices and facilitating knowledge-sharing across the value chain. Industry initiatives can ensure roadmaps are clear and jargon-free. Additionally, they can work with the Government to develop measurable outcomes and targeted Key Performance Indicators (KPIs), helping businesses understand expectations and track progress. Tools like GHG calculators and simplified reporting frameworks are essential to support SMEs. We, therefore, urge the Council and government to actively engage with the BVCA and our membership base to gain a clearer understanding of where support is most needed in the development of decarbonisation roadmaps. As an industry association, we are pleased to share our industry's valuable insights to support the development of these roadmaps and help identify the most effective strategies for achieving the outlined goals.

c) Finance sector:

The finance sector, more specifically Private Capital, is uniquely positioned to accelerate the transition through active ownership, capital allocation and SME support. While many General Partners (GPs) already prioritise responsible investment, broader participation is needed. Incentivising investment in businesses that face greater transition challenges, through blended finance, tax incentives or innovation grants, can unlock progress. If proven effective, these innovative financing approaches should be integrated into roadmaps to create more comprehensive strategic solutions. The finance sector can also support roadmap implementation by offering tailored financial products and advisory services.

Furthermore, Private Credit, as one key part of the private capital industry, has a key role to play in advancing decarbonisation roadmaps. As private credit managers increasingly integrate responsible investment practices, they are not only aligning portfolios with sustainability goals but also catalysing systemic change across markets. By expanding access to capital for private companies and SMEs, Private Credit, alongside debt providers more broadly, can unlock critical funding for decarbonisation initiatives, particularly in sectors and regions underserved by traditional financing. This positions Private Credit as a key enabler in accelerating the transition to a low-carbon economy.

Effective collaboration:

Collaboration is most effective when each sector leverages its strengths. For example, in our experience, partnerships between government, industry and Private Capital have enabled the co-creation of sectoral roadmaps that are both ambitious and practical. One helpful model is the UK Business Climate Hub which involved a public-private working group that developed a seven step process to sustainability, including SME climate commitments, case studies and leadership articles. To maximise the impact of such tools, it is essential to raise awareness of their availability, ensure they are well understood and tailor their application to the specific needs of their target audiences. This will create opportunities to extrapolate successes to other similar models, roadmaps, and frameworks. Furthermore, therefore, it is important that bodies, such as the Transition Finance Council, Net Zero Council and City of London Corporation, act as the conduits between government and the wider capital market to ensure that government ambitions are appropriately aligned with industry capabilities.

Success depends on clarity, inclusivity, and practicality. Roadmaps must be easy to understand, actionable and supported by the right incentives. By working together, these sectors can create a coherent ecosystem that supports a just and effective transition.

3. **What do you see as the potential benefits of better connectivity between national strategy, sector roadmaps and corporate transition planning? (400-word limit)**

- *What key developments would help improve coordination and practical support?*

The UK government has specific net zero aims and objectives and sector-specific transition pathways should align with those ambitions. Better connectivity between national strategies, sectoral roadmaps and corporate transition plans can significantly enhance the coherence, credibility, and effectiveness of climate action. When these layers are aligned, it creates a clear signal to investors, regulators, and businesses about the direction of travel, reducing uncertainty and enabling more confident capital allocation. For instance, the UK's national strategy, as outlined in the most recent communications from government sets the overarching goals and ambitions to become a global sustainable finance leader. Sector roadmaps then translate these into actionable pathways, while corporate plans operationalise them at the firm level. Better connectivity between the Government and industry initiatives will result in transition pathways which are accessible, and which focus on the most important decarbonisation factors.

This alignment also facilitates the flow of transition finance. Investors are more likely to fund projects and companies whose plans are consistent with national and sectoral priorities. It also helps avoid duplication of effort and ensures that corporate actions contribute meaningfully to systemic change. Moreover, it supports regulatory harmonisation and enables benchmarking, which is crucial for tracking progress and holding actors accountable. Better connectivity fosters a shared understanding of what a credible transition looks like, which is vital for scaling impact.

4. **What do you need to see in a sector transition or investment roadmap to support financing decisions? (400-word limit)**

- *Please provide as much specificity as possible (e.g. what level of policy granularity, what time scale, what kind of technology or emissions metrics).*
- *Financing decisions should be considered broadly and includes e.g. insurance, capex, procurement, accessing or deploying capital.*

To support financing decisions, it is important that sector transition or investment roadmaps clearly articulate where companies currently stand and how they plan to progress. One practical approach could be to link these roadmaps to disclosures already found in annual reports, allowing investors to easily track a company's transition journey and emissions profile. This could be implemented in a light-touch manner, leveraging existing reporting practices. Many companies (including SMEs) already disclose emissions data, therefore, integrating this into a broader transition narrative should not be overly burdensome. Establishing a clear emissions baseline is a critical first step as without it, a credible decarbonisation strategy cannot be assessed.

Furthermore, a sector transition or investment roadmap must offer clarity, credibility, and comparability. Clarity involves well-defined decarbonisation pathways, including interim targets, timelines, and technology assumptions. For example, PMDR's asset-class-specific ambition levels and decarbonisation levers provide this detail. Credibility comes from alignment with science-based targets and/or integration with recognised frameworks which ensures that the roadmap is not just aspirational but grounded in feasible, measurable actions.

Additionally, a sector transition or investment roadmap should clearly outline early-stage financial support mechanisms, incorporate incentive-based approaches that reward progress ("carrot" instead of "stick" approach) and include targeted, transparent reporting that enables governments, banks, and companies to communicate their decarbonisation efforts effectively. Even if individual businesses are not major emitters, the roadmap must take a sector-wide view to ensure the collective impact is addressed and the transition is meaningful at scale.

Roadmaps should further enable investors to assess how different companies or sectors are progressing relative to each other. This requires standardised metrics, transparent methodologies, and guidance on data quality. Additionally, roadmaps should address financing needs explicitly, in other words, what types of capital are required, at what stages and what risk-sharing mechanisms might be needed. Finally, integration with policy signals, such as carbon pricing, subsidies, or regulatory timelines, helps investors understand the broader context and make informed decisions about risk and opportunity. A distinct challenge when it comes to comparability lies in the development and standardisation of quantitative metrics that allow for meaningful comparison and progress tracking. Encouraging companies to align on these metrics will be key to enabling effective capital allocation and accountability.

The roadmaps should also be considerate to any international misalignment in climate policy private capital may be exposed to from their investor base. Where possible providing mechanisms and approaches for those exposed to such conflicts whilst still setting a strategic direction for those with specific decarbonisation goals.

5. **Are there examples of sector transition or investment roadmaps (UK or international) that have been particularly helpful for your financing decisions? (400-word limit)**

- *What made them useful? Please provide as much specificity as possible.*
- *Financing decisions should be considered broadly and includes e.g. insurance, capex, procurement, accessing or deploying capital.*

No response.

6. **Are there examples of sector transition or investment roadmaps (UK or international) that were missing something specific which if included would have supported your financing decisions? (400-word limit)**

- *Financing decisions should be considered broadly and includes e.g. insurance, capex, procurement, accessing or deploying capital.*

No response.

7. **Are there particular asset classes or financial instruments that sector roadmaps could be particularly helpful in unlocking? (400-word limit)**

- *What specific features or information would help make these instruments more viable for your business or sector? (e.g. revenue certainty to support debt, pipeline visibility for infrastructure investment, or clearer demand signals to attract equity).*

When developing sector roadmaps, it is crucial to consider the role of SMEs in the broader decarbonisation effort. These businesses make up a sizeable portion of the economy and often face unique challenges when it comes to accessing finance for green initiatives. Roadmaps can be powerful tools if they are designed with practicality and relevance in mind, especially for smaller enterprises that may lack the resources of larger firms. Roadmaps should be inclusive, sector-specific and based on practical business needs. They should avoid being overly complex or abstract and instead focus on enabling tangible progress, especially in parts of the economy that are often underrepresented in policy discussions.

To unlock the decarbonisation capabilities of Private Capital firms, and the SMEs they invest in, roadmaps should highlight clear, actionable pathways that reflect the realities of different sectors. For example:

- Revenue certainty can help SMEs access debt financing by giving lenders confidence in future cash flows.
- Pipeline visibility is essential for infrastructure investors who need to see long-term opportunities and project continuity.
- Clear demand signals can attract equity investment by showing that there is a market for low-carbon products and services.

8. Are there any additional insights or experiences related to this work that you think we should consider? (400-word limit)

- *We are particularly seeking views on barriers and solutions to accessing finance or investing in the transition and how sector transition roadmaps can help with this.*

No response.

The BVCA are supportive of the Council's drive to affect more impactful decarbonisation pathways for companies of all sizes and for all high-risk sectors. However, we emphasise the need for enabling effective pathways for SMEs, as meaningful decarbonisation cannot be achieved without their active participation. For further engagement or to explore perspectives on Private Capital, please feel reach out to Chris Khoury or Harriet Assem.

Yours sincerely,

Lucie Mills, Chair, BVCA Responsible Investment Advisory Group