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1. Introduction

Latin America must pursue its own development trajectory while reducing its greenhouse gas emissions. Rich in natural resources, countries in the region remain exporters of primary commodities while importing higher value-added goods. The equation does not balance. Financing economic and ecological transformation by leveraging these resources is one of the central challenges.

This paper argues for the importance of developing strong institutions and financial instruments from fossil fuel revenues capable of attracting investment into sustainable and resilient infrastructure, low-carbon industrial processes, and innovative agri-food systems, among others, drawing on extractive revenues.

Sovereign wealth funds (SWFs) with mandates to invest in domestic development via strategic investment funds (SIFs) can become a critical pillar in financing a just transition, particularly in fossil-fuel-dependent economies such as those of Latin America. Together with traditional development finance institutions (DFIs), there is scope to advance synergies by exploring climate finance mechanisms to promote sustainable development at regional, national, and subnational levels. Such complementarities of mandates have emerged in Africa and Asia, as well as in Brazil, and may serve as inspiration for scaling up this agenda.

To develop this discussion, the present working paper is organised into three sections in addition to this introduction and the concluding remarks. The second section explores opportunities to channel resources and crowd in private investment for just transition agendas. The third section examines synergies and complementarities between SWFs and DFIs and brings illustrative cases, and possible pathways to be pursued for Latin America

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countries. The fourth section provides some recommendations. The fifth and final section presents concluding reflections.

2 Sovereign wealth Funds driving sustainable development agendas

Collectively, SWFs manage more than USD 13 trillion in assets globally and are increasingly directing their investments towards transformative sectors such as renewable energy, urban transport, and digital networks. Many of the more than 100 sovereign funds worldwide are capitalised through surpluses derived from the extraction and export of commodities. This is particularly the case in producer countries that are highly exposed to the phase-out of fossil fuels and face the dilemma of how to address their structural dependencies. In this sense, they are both a repository of extracted wealth and a potential engine for financing future low-carbon development.

SWFs are intergenerational by nature, with long-term investment and savings horizons that must project savings across 20+ year time scales. With environmental risks likely to intensify and the green transition to take decades to play out, SWFs must explicitly incorporate low-carbon transition aligned mandates to safeguard portfolios and national wealth for future generations.

The investment decisions of these funds strongly influence whether economies remain locked into fossil fuel dependence, or move towards diversification. Crucially, when endowed with strategic mandates, they provide the patient, long-term capital required to finance complex transition investments in energy systems, transport, and social infrastructure—projects that often involve long payback periods and struggle to attract short-term private finance.

Over the past two decades, a new generation of sovereign investment vehicles has emerged, notably in Africa and other emerging markets. These SWF mandates are known primarily as strategic investment funds (SIFs) or also national development funds (NDFs), a concept developed by the World Bank (World Bank, 2022). More than 30 national SIFs have been established since 2000, representing around half of the membership of the International Forum of Sovereign Wealth Funds (IFSWF), the largest industry group of SWFs.

They differ from traditional SWF mandates in that they invest primarily within their own countries or regions, and have a 'double-bottom line' mandate to produce financial returns alongside domestic development outcomes (World Bank, 2022). SIFs can operate as a standalone mandate in a SWF structure, or alongside other ringfenced funds with differing

mandates and investment strategies, such as a fiscal stabilisation fund. A critical difference being that SIFs take a more active investment strategy with a double-bottom line mandate, rather than traditional SWF approaches that prioritise more steady returns in lower-risk assets like foreign deposits and public equities.

Unlike traditional SWFs, which predominantly invest abroad, SIFs deploy capital domestically in priority sectors such as infrastructure, renewable energy, transport, water, sanitation, and digital connectivity, as well as productive sectors aligned with each country's comparative advantages. SIFs can act as co-investors and risk mitigators in large-scale transition projects, and act as credible investment partners for foreign capital looking to invest in developing markets.

Many of these SIFs are financed by fossil revenues, yet invest significantly in renewable energy and resilience. They occupy a strategic position between the traditional fossil-based economy, and emerging post-fossil systems. SWFs can therefore act as active participants in a just transition through mandates that prioritise diversification, fossil-free portfolios, and domestic sustainable development. SWFs, specifically SIFs, will be central to managing a rapid, fair, and fiscally viable phase-down of fossil production in producer countries.

2.1. Growing SWF integration of climate considerations

Recent analysis from the International Forum of Sovereign Wealth Funds (IFSWF) Review 2024 shows that SWFs have begun to diversify, carrying out 79 climate-related transactions in 2024, with USD 11 billion invested in adaptation and USD 8 billion into 55 mitigation projects. Low-carbon energy generation accounted for USD 4.6 billion across 21 mitigation transactions, while USD 8.8 billion across 18 deals was directed towards resilient infrastructure, such as flood-resistant urban systems and climate-adapted transport (IFSWF, 2024).

The most recent IFSWF–OPSWF (2024) climate survey indicates that sovereign wealth funds are increasingly treating climate not as a marginal issue but as a central financial risk and opportunity. Three-quarters of respondents report incorporating climate change into investment decisions primarily to reduce risk (up from 62% the previous year), and 69% believe this improves long-term returns. This shift is accompanied by more in-depth portfolio analysis: 32% of funds have assessed transition risks (up from 11% in 2023), and 29% have assessed physical risks (up from 24%), reflecting a growing effort to understand how policy changes and extreme climate events may affect asset values. Although poor data quality remains the main

constraint, the share of funds identifying this as a key challenge has declined from 73% to 62%, indicating gradual improvements in information and analytical tools.

SWFs are also moving beyond risk analysis towards a more active role in capital allocation and management. A majority now engage with asset managers and investee companies on climate-related issues: 53% report engaging with managers to align strategies, and around 60% interact directly with portfolio companies. Approximately one quarter of respondents have already invested in blended finance structures for climate solutions, while more than one third are in the process of doing so or considering it, signalling increased familiarity with partnership models that mobilise additional capital in challenging markets.

Renewable energy stands out as the most attractive sector, with 92% of funds assigning it the highest or near-highest ratings. Over the past three years, SWFs have completed more than 100 transactions in this sector, accounting for around 90% of total capital invested in renewable energy. Regionally, 70% of respondents consider the Americas highly attractive—particularly the United States—reflecting the influence of industrial policies and market depth on transition strategies (IFSWF-OPSWF, 2024).

2.2. Latin America: resource mobilisation constraints versus emerging opportunities

According to the Economic Commission for Latin America and the Caribbean (ECLAC, 2025), meeting climate action commitments in Latin America would require approximately USD 2.8 trillion by 2030, equivalent to an average annual investment of between 3.7% and 4.9% of the region's GDP. Financing such investments is far from straightforward. It depends on the availability of sound projects and on the provision of financial resources with maturities and conditions aligned with the characteristics of the assets, with a view to improving living conditions across the population.

International financial flows have historically been limited, and the region appears increasingly sidelined in the global landscape, even among its Global South peers. Data from the Climate Policy Initiative (2025) indicate that only 5.5% (USD 104 billion) of global climate finance flows in 2023 were directed to Latin America and the Caribbean. Of this total, 88% was allocated to emission-reduction projects, while only 12% supported adaptation and mixed initiatives. Moreover, 57% originated from private sources and 43% from public sources. On the public side, development finance institutions (multilateral, bilateral, and national) played a leading role (ECLAC, 2025). This effort, however, has proven insufficient.

The limited mobilisation of resources reflects a well-known structural problem: developing countries face higher interest rates and have more restricted access to long-term capital for transformative investments. In the context of accelerating climate change, financing and investment gaps in transformative sectors are associated with the so-called "debt–climate–development trap". External debt servicing has increased significantly in several Latin American countries, while climate finance is often provided through debt instruments, exacerbating fiscal vulnerability. Additionally, many countries are encouraged to expand fossil fuel projects in order to generate foreign exchange, reinforcing dependency and transition risks.

This trap constrains access to finance. Overcoming it requires strategies such as external debt relief, increased access to grants and concessional finance, and the mobilisation of long-term patient capital. In this context, the use of revenues from extractive activities for climate finance becomes a key issue, and sovereign wealth funds, alongside other long-term-oriented institutions, have significant potential to unlock investment.

In Latin America, existing SWFs tend to have mandates that are only weakly linked to development objectives or operate below their full potential (Barbary & Schena, 2024). Nevertheless, there is a growing movement towards the creation of such funds in Brazil, as illustrated by the Espírito Santo Sovereign Fund (FUNSES), which combines savings and productive investment through the Espírito Santo Development Bank (Bandes), supporting innovation and sustainable projects (Box 2). Taken together, these experiences demonstrate how SIFs can function as vehicles for both domestic and regional transition, combining public resources, private capital, and development mandates to deliver both financial and climate outcomes simultaneously (Teixeira et al., 2024).

An active and strategic role for SWFs and DFIs at regional, national, and subnational levels is not only desirable but necessary and feasible. The region hosts at least 110 DFIs at national or subnational level and around 20 SWFs, in addition to regional institutions such as the Inter-American Development Bank (IDB), Confederacion Andina de Fomento (CAF), Fondo para la Convergencia Estructural del Mercosur (Focem) and Financial Fund for Bacia del Prata Development (FONPLATA). Together, these institutions manage between USD 700 and USD 800 billion in assets and have strong catalytic potential.

3. Rethinking the relationship between SWFs and DFIs: illustrative cases

SWFs and DFIs are integral components of what is often referred to as "patient capital". They are institutions capable of committing to longer time

horizons, which are typical of large-scale, transformative projects. Transition strategies that rely on institutions with such mandates tend to be more effective, particularly in contexts of heightened uncertainty, such as those associated with accelerating climate change.

As instruments of the state's indirect administration, these institutions enjoy greater flexibility to participate in the co-creation of an investment ecosystem oriented towards green and sustainable sectors. Their ability to provide appropriate incentives allows them to establish favourable conditions and accommodate different investment maturities through a range of distinct and sophisticated financial instruments.

There are multiple potential synergies and complementarities that can be explored, while respecting the mandates and obligations of these institutions. Recognising the need for risk-sharing, DFIs and SWFs can play supportive roles in structuring investments and participate in blended finance arrangements, co-financing, hybrid financing, and co-investment structures, among others, thereby creating a favourable environment with well-calibrated incentives. Their market knowledge and responsiveness to societal needs are additional strengths, enabling them to foster greater private sector participation in transformative projects. Supporting the implementation of public policies by extending financial outreach to areas most affected by climate change is another key dimension to be further explored.

Leading SWF examples in Africa include the Nigeria Sovereign Investment Authority (NSIA) and Fonds Souverain d'Investissements Stratégiques FONSIS (Senegal). The NSIA exemplifies the sovereign development model: its Nigeria Infrastructure Fund (NIF, NSIA's SIF) invests across energy, transport, healthcare, and agriculture, supporting economic diversification and resilience.

It has also developed risk mitigation instruments which mobilise private and pension fund capital for infrastructure through InfraCredit. Established with GuarantCo/PIDG and later African Development Bank (AfDB) support, InfraCredit provides long-tenor, local-currency guarantees on infrastructure bonds. Since 2017 it has enabled over USD 445 million equivalent in local-currency finance for 20 projects and Nigeria's first 15-year green infrastructure bond, directly de-risking climate-relevant infrastructure and crowding in pension funds and insurers. The Green Guarantee Company, created with the Green Climate Fund, UK FCDO, and USAID, is a dedicated climate-focused guarantee company designed to mobilise up to USD 1 billion of low-carbon, climate-resilient infrastructure finance in Nigeria and other

EMDEs, using investment-grade guarantees on bonds and loans of up to 20 years. By combining long-term capital with a close link to the state, these funds signal government commitment, reduce perceived risks, and attract private investment.

Similar models with SWF participation exist, such as the Africa50[3] platform, which brings together public and private capital for infrastructure investment. Nigeria's SWF has been a key anchor investor in Africa50 alongside the African Development Bank, committing to its USD 500 million Infrastructure Acceleration Fund in 2022 to support pan-African infrastructure investments like energy, transport, and digital projects. Further, in March 2025, NSIA partnered with Africa50, SEforALL, and the International Solar Alliance to launch the USD 500 million DRE Nigeria Fund targeting distributed renewables like mini-grids and solar home systems to connect millions to power under Mission 300.

3.1. What is going on in Latin America

In Latin America, where SWFs remain stabilisation-focused, state-sponsored vehicles like Mexico's Fideicomiso Fondo Nacional de Infraestructura (FONADIN), provides an analogous example to the Nigeria Infrastructure Fund (Nigeria's SIF). FONADIN, decreed in 2008 as a federal public trust managed by BANOBRAS (a Mexican development bank), coordinates Mexico's infrastructure investment in communications and transport including highways, rail, and airports, hydraulics and water, environment, and tourism. Though not a SWF or SIF, FONADIN is a state-sponsored investment vehicle that deploys subordinated and convertible credits, guarantees, equity contributions, non-recoverable grants, PPP concessions and permits, and credit issuance to lower market risks and increase the bankability of low-return projects. It manages a MXN 200bn (USD 10bn) portfolio that aims to leverage 3-5x in private capital through its derisking mechanisms. Akin to NSIA's InfraCredit platform, FONADIN's newly created Credit Enhancement Platform (CEP) was approved in December 2025 with a US$500m World Bank guarantee (Local Currency Mobilization Facility), which scales guarantees to unlock roughly USD 1bn private investment for sustainable and resilient transport under Plan México (World Bank, 2025).

[3]Africa50 is a leading Pan-African infrastructure investment platform with all African governments as shareholders. It accelerates delivery of critical private projects and Public Private Partnerships and mobilizes significant capital globally (Africa50, n.d.)

BOX 1 – Facilitating a just transition: Guyana's Natural Resource Fund

Guyana's Natural Resource Fund, although young and small by SWF standards (USD 3.6 billion as of September 2025)[4], enacted a mandate in 2021 that tasks the fund to protect the wealth of future generations through investments in sustainable development via national priorities. In the Natural Resource Fund Act of 2021, its opening statement declares the purpose of the fund: *"to establish the Natural Resource Fund to manage the natural resource wealth of Guyana for the present and future benefit of the people and for the sustainable development of the country, and for connected matters."* Further, all withdrawals from the fund shall only be used for: *1) national development priorities including any initiative aimed at realising an inclusive green economy, and 2) essential projects that are directly related to ameliorating the effect of a major natural disaster* (Parliament of Guyana, 2021).

Like many of Latin America's SWFs, Guyana's NRF currently functions as a fiscal stabilisation fund. It conservatively invests in low-risk foreign deposits, with withdrawals feeding the government budget (the Consolidated Fund) for varying priorities. Transfers from the NRF in any given year are capped as a percentage of petroleum revenues deposited in the NRF during the preceding year. The withdrawal rate increases as the size of the fund grows, allowing access to more resources over time while still retaining savings for the future.

The withdrawals are intended to align with Guyana's Low Carbon Development Strategy (LCDS) 2030[5], but currently channel hydrocarbon revenues indirectly through a general government budget. Though not yet operating as a SIF, the NRF's mandate may allow for further development to achieve more strategic domestic goals. To maximise the potential of investing Guyana's hydrocarbon revenues over the long-term, it could play a more active role in financing its country's sustainable development. As SWF's continue to evolve and shape domestic investments in sustainable development, it is critical to facilitate cross-country learning and partnerships to promote best practices.

[4] (Department of Public Information, Guyana, 2025)

[5] (UNEP, 2024)

Take for instance the structure of Nigeria's Sovereign Investment Authority (NSIA). Its three ringfenced funds have distinct mandates and operating strategies: first is the Stabilisation Fund (20% allocation, serving as a source of economic stability in times of fiscal shortfalls, a comparable mandate to the NRF of Guyana), a Future Generations Fund (30% allocation, which invests in growth investments to provide future generations of Nigerians a stable savings base for a future beyond hydrocarbon revenues, similarly comparable to the NRF's stated aims), and lastly the Nigeria Infrastructure Fund (NIF) (50% allocation, which acts as the SIF of the NSIA). The NIF focuses on investments in domestic development through various infrastructure investments across sectors like agriculture, healthcare, power, and technology. Unlike the first two funds which are externally managed, the NIF is managed by an in-house team of investment professionals which aim to stimulate growth and diversification in the domestic economy, while also attracting foreign investments.

For Guyana to support a just transition through its LCDS 2030, it will do so with an inclusive phase out of fossil fuel investments with bottom-up, community based investments. Indigenous communities represent a significant percentage of the population in Guyana, making the just transition a central issue. The Amerindian community, for example, makes up about 10% of Guyana's population, and protects a vast carbon sink via Guyana's forests. Forests cover 85% of Guyana's land mass and store roughly 20 gigatonnes of carbon, house critical biodiversity, and provide over 25,000 jobs to the Guyanese population. There have been recent initiatives by Guyana's government to channel funding into these communities through their Village Sustainability Projects (VSP)'s.

The government's VSP model intends to allow Indigenous Guyanase more community based models to develop 10-year sustainability plans. Recent financial support has funded technical assistance, planning facilitators, and a multi-year programme to strengthen implementation. This ambitious project has been developed under Guyana's REDD+ Investment Fund (GRIF), a multi-contributor trust fund established in 2010, which serves as a critical low-carbon development support mechanism in partnership with Norway (GRIF, 2026).

The tension in funding and enabling VSPs is that plans are currently financed through carbon-credit revenues, which have brought real

money but also controversy and grievances from local Indigenous communities. Communities have received billions, yet reporting has raised concerns about weak project quality and government support, knowledge and training gaps, and also highlighting well-known risks of developing credible carbon markets. Against this backdrop, there is a compelling case for Guyana's NRF to evolve from a conservative savings and pass-through fund into an active financier that complements, and partially de-risks the VSP funding model.

A next-generation NRF mandate may establish, for instance, a dedicated Low Carbon Development Fund (comparable to the NIF of Nigeria's SWF), that includes 'Just Transition Windows', allocating a fixed share of oil inflows to existing VSP channels like the GRIF, or opening new funding pockets. In practical terms, these financing windows could provide: (i) predictable, multi-year financing for VSPs, insulating further from the risks and contentions of carbon credits; (ii) finance more complex, multi-village or regional projects (e.g. resilient food systems, inter-village transport corridors, community-owned renewables), which could open to external financing sources.

The NRF could mandate a ringfenced fund that co-invests or delegates management externally, while also leveraging concessional capital from multilateral climate funds, philanthropy, and DFIs. Moving from reliance carbon credits to this dual-resource setup may scale low carbon and just-transition finance for local and Indigenous communities. It may provide a replicable blueprint for other oil-reliant nations to align SWFs with community-centered hydrocarbon phase-out strategies.

BOX 2 – Subnational Sovereign Wealth Funds in Brazil: a promising case

The monetary policy framework adopted in Brazil since stabilisation, combined with the existing public financial institutional architecture, makes the country a distinctive case in the use of public instruments within the sustainable finance ecosystem. According to data from the Climate Policy Initiative (CPI, 2025), the Brazilian Development Bank (BNDES) was the main source of climate finance, totalling USD 7.2 billion in 2023, while subnational development finance institutions contributed USD 1.2 billion over the same period.

Brazil hosts five federal public banks, five public commercial banks with development portfolios, three development banks controlled by federative units, and sixteen development agencies, in addition to seven sovereign wealth funds operating at state and municipal levels—a number that is expected to grow significantly in the coming years. Taken together, these institutions possess both the financial resources and technical capacity to align impact investments with profitability.

Transforming funds whose funding structures are linked to extractive resources into mechanisms for inducing investment in the territory is not straightforward (TEIXEIRA et al., 2024). However, what has been taking place with the Espírito Santo Sovereign Fund (Funses) and the Niterói Revenue Equalisation Fund (FER)—a state and a municipality in the south-east region of Brazil—helps to illustrate what can be achieved.

In the case of the state of Espírito Santo, in particular, the combination of expertise and institutional capacity has already produced tangible results, effectively leveraging private capital around long-term development agendas. The Development Bank of Espírito Santo (Bandes) currently manages the resources of Funses and has strategically used royalties as a significant innovation by assigning a new purpose to these assets, aligning financial support with long-term plans. More recently, Bandes structured an industrial decarbonisation fund aligned with the state's sustainable development targets. A pipeline of projects was identified, focusing on emissions reduction among companies operating in Espírito Santo, and a public tender was launched to select a fund manager. With an initial allocation of US$100 million and structured as a blended finance mechanism, the so-called "Funses III" operates through a Receivables Investment Fund (FIDC). The selected manager has already committed an additional US$80 million, and the strategy and minimum investment thresholds for attracting new investors are currently being defined (Maia et al., 2025).

In the case of Niterói, a municipality in the state of Rio de Janeiro, the leveraging of public capital tends to take more direct and less intermediated forms—which does not reduce its territorial impact, but does delimit the model's possible scope. From 2022 onwards, the municipality structured financial vehicles directly with two concrete purposes: a subsidised credit line for local micro, small and medium-sized enterprises, and a real estate fund aimed at the regeneration of

the city centre, amounting to US$80 million. In this case, the transition has been accompanied by professionalised governance, a clear investment policy, and alignment with long-term territorial development strategies. The building of state capacity is fundamental to enabling this shift.

Strengthening coordination among these instruments is therefore essential, and in this regard BNDES plays a central role. The institutional leadership of development banks as BNDES—a bank with seven decades of experience, more than USD 150 billion in assets, extensive sectoral knowledge, and accumulated expertise—enables it not only to promote best practices but also to strengthen governance frameworks and support subnational entities in creating opportunities that encourage sustainable behaviour among investee companies and their local financial partners. DFIs can assist in assessing the quality of business plans, as well as in understanding how new economic and climate realities affect asset management and potential portfolio diversification needs. This capacity can significantly enhance credibility and increase the attractiveness of national and subnational priority agendas to large global sovereign wealth funds and other institutional investors.

This experience demonstrates how public and private innovation can work together to promote social well-being while ensuring environmental sustainability. It should serve as an inspiration for Brazil to make strategic and innovative use of its resources and capabilities, among which development banks and sovereign wealth funds are key components of the broader institutional architecture.

4. Redirecting capital towards a just transition: some recommendations

In contexts of fiscal constraints and high levels of debt, it is essential to transform fossil-based wealth into sustainable assets aligned with a post-fossil economy. In this sense, redirecting capital towards a 'just' transition implies first expanding investments in renewable energy, resilient and low-carbon infrastructure, and clean technologies, as many investors have already begun to do. While at the same time, just transition financing means that in parallel to these real-economy transition investments, there are necessary policies and resources at different levels to support social protection, indigenous communities, and future job seekers that will participate and facilitate the green transition.

A rapid transition away from fossil sectors requires support for just transition investments in regions and communities that depend on these industries. This includes programmes for training in clean energy and transport, higher education, as well as worker reskilling and acceleration initiatives. Capital released from fossil expansion should be reinvested in these regions and workers, rather than simply being redirected towards safer markets in the Global North.

These initiatives can be coordinated with experienced financial institutions and other localized or multilateral organisations with expertise in social, environmental, and climate-related areas. An explicit commitment to exclude fossil fuel expansion such as the one initiated by the Fossil Fuel Treaty would reduce financing for new fossil projects, while redirecting resources for a rapid and just transition.

SWFs and SIFs can act as local partners and investors in platforms aligned with the Fossil Fuel Treaty, designed to finance just transition projects at scale. The Journey Fund[6] is one prime example of how SWFs, specifically SIFs, can become concretely involved in the just transition. Its core asset classes of clean energy and infrastructure, along with supplementary investments in transport, water, sanitation, education, and health infrastructure align well with SWF-sponsored vehicles like Africa50 and NSIA's SIF.

The Journey Fund is being piloted in Latin America, starting in Colombia, but aims to expand to other emerging markets in Africa and Asia. SWFs can plan an important role as "ecosystem enablers" and community partners at the government level given their status as state owned funds. SIFs in particular can play a critical de-risking role through catalytic capital (first loss equity, local currency guarantees), safeguard project development (including permitting and contract enforcement), create positive market signals to leverage private investment, and provide a credible pipeline of bankable projects given their deep local knowledge.

Finally, for DFIs, it is recommended to design and implement co-investment vehicles and blended finance platforms suitable for SWF participation; provide technical assistance for transition projects; integrate these funds into debt resolution and just transition mechanisms; co-develop operational

[6] The Journey Fund is a fund of funds model that blends catalytic and commercial capital to turn high-impact opportunities in communities working toward a just transition into scalable, investable assets. The fund helps political commitments become real investments in jurisdictions participating in the Fossil Fuel Treaty Initiative by financing projects that replace fossil fuel dependence with sustainable and regenerative alternatives. (Bridging Ventures, 2024).

standards and safeguards; and report on leverage effects, as well as on the development and climate outcomes resulting from these investments.

4.2 Setting standards and norms

SWFs are well positioned to shape market behaviour by setting higher standards for climate, governance, and social impact aligned with national priorities. Through the adoption of explicit fossil fuel exclusion policies, science-based transition targets, and enhanced transparency requirements, these institutions can influence not only their own portfolios but also the expectations placed on investee companies and local financial markets more broadly.

The New Zealand Super Fund, for example, uses the Santiago Principles[7]' self-assessment framework to describe how climate and broader ESG considerations are integrated into its mandate and governance, explicitly treating them as part of prudent, long-term investment practice rather than add-ons.

Building on this foundation, another industry recognized One Planet Sovereign Wealth Fund (OPSWF) Framework goes further by setting three climate-specific principles (Alignment, Ownership and Integration). The framework requests member funds to embed climate risks and opportunities in investment decision making, engage portfolio companies on governance and strategy, and integrate climate into portfolio construction. Norway's Norges Bank Investment Management, although not from the Global South, is a leading example. NBIM has a published climate action plan to drive its portfolio to net-zero by 2050, uses coal-exclusion criteria, and actively divests from firms with high climate-risk business models while engaging the largest emitters to adopt credible transition plans and TCFD-style disclosure.

Regarding sustainability disclosure standards, leading state investors are starting to align with the ISSB's IFRS S1 and S2[8] climate-related disclosure requirements, which build on the TCFD framework and require detailed reporting on governance, strategy, risk management, and metrics and targets for climate risks and opportunities. Temasek, Singaporean SWF,

[7] The Santiago Principles consist of 24 generally accepted principles and practices for SWFs voluntarily endorsed by IFSWF members. The Santiago Principles promote transparency, good governance, accountability and prudent investment practices whilst encouraging a more open dialogue and deeper understanding of SWF activities. (IFSWF, n.d.)

[8] The ISSB issued its inaugural IFRS Sustainability Disclosure Standards—IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures*—in June 2023. The ISSB Standards establish a high-quality global baseline of investor-focused sustainability-related disclosures (IFRS, n.d.)

reports that it is already aligning its sustainability reporting with IFRS S1 and S2, and plans to progressively expand disclosures to fully meet ISSB standards.

The NZ Super Fund has similarly set portfolio-level emissions-reduction targets (75% cut in emissions intensity and 80% cut in fossil-fuel reserve exposure by 2030) and reports against them in a dedicated climate report, using TCFD-style structure that is designed to be interoperable with ISSB's S2. Together, these cases show how SWFs can move from general principles to concrete tools such as fossil-fuel exclusions, science-based net-zero targets, and ISSB-aligned disclosure. This sets SWFs on track to become standard-setters for not only other peers but also their portfolio companies, asset managers, and local financial markets.

The Fossil Fuel Non-Proliferation Treaty further expands the scope of such standards to pressure further mandates for the phase-out of fossil fuel investments. These include commitments to absolute emissions reductions, comprehensive climate risk assessments, and respect for human rights and biodiversity. Embedding these principles into investment mandates requires robust implementation mechanisms, including standardised reporting frameworks, independent verification processes, and clear disclosure of environmental and social impacts. SWFs and SIFs can align themselves with the ambitions of the Fossil Fuel Treaty to set themselves as norm-setters within the evolving architecture of sustainable finance.

The broader significance of these standards lies in their potential to diffuse across the financial system. As large, long-term institutional investors adopt more stringent rules, they help redefine market expectations and lower the threshold for others to follow. A coordinated coalition of SWFs committed to advancing such principles could therefore send a powerful political and financial signal, accelerating the alignment of global capital with climate and development goals and contributing to a more rapid and orderly transformation of the international financial system.

5. Final remarks

This exploratory working paper has sought to examine the potential use of fossil-based resources to support sustainable development agendas in different countries. To this end, it explored the current state of play of some of these instruments, as well as their potential to attract investment to sustainable development agendas. In order to demonstrate that this is a viable agenda, the paper focused on developments in Latin America and in Africa, highlighting that promising solutions are already being developed. It is believed that this agenda remains underexplored at the Latin American

level and, for this very reason, further debate in this field is both necessary and timely.

Building on these findings, we argue that the strategic use of fossil fuel revenues through SWFs and DFIs can play a pivotal role in reshaping just transition pathways. Rather than reinforcing historical patterns of dependency, these resources can be repurposed to finance structural transformation, support economic diversification, and accelerate the transition towards low-carbon and resilient economies.

However, realising this potential will depend on political will, institutional capacity, and the ability to align financial instruments with long-term development strategies. The experiences discussed demonstrated that success is closely linked to the presence of clear mandates, professional governance, and strong coordination between national and subnational actors. In this regard, strengthening public institutions is not ancillary but central to enabling these funds to operate effectively as catalysts for change.

At the same time, ensuring that transition strategies are genuinely "just" requires that social and territorial dimensions be placed at the core of investment decisions. This includes prioritising the needs of workers, vulnerable populations, and traditional communities, as well as ensuring that benefits are equitably distributed. Without such considerations, there is a risk that new financial architectures may reproduce existing inequalities rather than address them.

Looking ahead, greater international cooperation and knowledge-sharing will be essential. Latin America can benefit from the experiences of its own countries and other regions such as Africa. The consolidation of partnerships between SWFs, DFIs, and multilateral institutions can help scale up investment, reduce risks, and create a more enabling environment for private capital to participate in transition efforts. In terms of opportunities, there is scope both for the creation of funds with specific mandates and for reviewing the mandates of existing ones. Developing governance frameworks to identify barriers to transition investment, conducting portfolio diagnostics on fossil fuel exposure and climate-aligned allocations are also both feasible and desirable.

Advancing this agenda will require sustained dialogue, experimentation, and institutional innovation. As this working paper has shown, the foundations are already being laid—what remains is to deepen, coordinate, and scale these efforts in order to meet the urgent challenges of development and climate transition.

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