

EMS Conference 2026 : “Bright Ideas, Lasting Impact”

DBA Extended Abstract:

“Main factors that explain the slowdown of Sustainable Investing in Iberia, a practitioner approach”

Over the past decade, sustainable investing has experienced a rapid expansion across global and European financial markets, driven by heightened awareness of Environmental, Social, and Governance risks, and the different initiatives associated to mitigate them (like the Paris Agreement and the Sustainable Development Goals (2015) and the European Green Deal (2019)). However, recent evidence suggests that this growth phase has entered a more complex and uncertain stage, with ESG fund flows showing signs of stagnation and heightened concerns about greenwashing. These dynamics are also visible in the Iberian Peninsula—Spain, Portugal, and Andorra—where sustainable finance has grown significantly (Inverco, 2025).

Looking at this recent market developments, the research question guiding this study is:

Which factors explain the slowdown of the market for sustainable investments in Spain, Portugal, and Andorra?

To answer this overarching question, the research examines several sub questions: first, the confirmation of whether sustainable investing in Iberia is actually experiencing stagnation; second, whether misalignments exist between the objectives of investors, borrowers and regulators; third, how recent EU and national regulations have affected product supply, investor behaviour, and market confidence; and finally, which policy, supervisory, or product level levers could support renewed growth in the near future.

The insights gained through this research are relevant for three main groups of stakeholders:

- Market practitioners—issuers, arrangers, asset managers, and investors—which face increasing complexity of ESG regulation, disclosure requirements, and supervisory scrutiny (ESMA, 2025; ESMA, 2024)
- Policymakers and supervisors, as sustainable finance plays a central role in mobilising private capital to meet climate and sustainability objectives (CNMV, 2025).
- Overall society: Spain and Portugal face ambitious decarbonisation targets and significant climate related risks. Therefore, sustainable finance is critical for funding the energy transition and broader sustainability objectives (EEA,2025).

The theoretical foundation of this research draws on established frameworks from economics, finance, and management that explain why ESG considerations influence financial decision-making and market outcomes. Reviewing the literature we can find:

- Stakeholder theory (Freeman, 1984), posits that firms managing relationships with a broad set of stakeholders achieve more resilient long-term performance. Therefore, ESG-oriented firms may attract capital and reduce risk (Chen, Song & Gao, 2023; Eliwa, Aboud & Saleh 2021).
- Agency theory (Jensen & Meckling, 1976) provides insight into governance and transparency. ESG contemporary interpretations highlight governance mechanisms as tools for aligning managerial actions with investor interests (Pulino et al.,2022).
- Legitimacy theory (Dowling & Pfeffer, 1975) and Institutional theory (Zucker, 1977; Meyer & Rowan, 1977; DiMaggio & Powell, 1983; Jepperson & Meyer, 2021) are also central, as they can help explaining how regulatory pressure, social expectations, and normative standards drive the adoption of ESG practices.

Additionally, Resource-Based View theory (Wernerfelt, 1984) , Modern Portfolio theory (Markowitz, 1952) and emerging models of Non-pecuniary Utility (Barber, Morse & Yasuda, 2020) help explain why some investors accept trade-offs between financial returns and social or environmental impact.

Finally, information asymmetry and signalling theory (Akerlof, 1970. Spence, 1973) underpin the importance of credible ESG disclosures as signals of management quality and long-term orientation.

Together, these theories provide a coherent framework for analysing how regulatory alignment, market structure, and investor preferences interact to shape sustainable investment outcomes, focusing in this case on those based in the Iberian Peninsula.

The design of the research adopts a mixed-methods approach, combining:

Quantitative analysis: time-series data on sustainable investments and ESG fund flows in Spain, Portugal, and Andorra, benchmarked against broader EU trends. The data sample includes publicly available issuance and fund flow datasets, complemented by proprietary insights from market participants.

Qualitative analysis: the core method for the research is Qualitative Comparative Analysis (QCA), based on semi-structured interviews with practitioners from corporates, financial institutions, asset managers, public sector entities, regulators, etc. Documentary analysis of supervisory communications and EU regulatory texts complements the interviews.

Presentation of findings (Preliminary Stage):

At this stage, the research is still in the design phase of the model, prior to data gathering. Some preliminary insights are drawn from the literature review. It appears that three interacting dimensions are shaping sustainable investing outcomes in Iberia, linking: Regulatory factors (including SFDR implementation, ESG ratings regulation, and supervisory enforcement) with Market microstructure (issuance pipelines, data availability, product design etc.) and Investor behaviour (risk-return perceptions, greenwashing concerns etc.).

The QCA framework allows the identification of specific combinations of factors associated with either market growth or stagnation, moving beyond single-factor explanations, and providing actionable recommendations to Sustainable Investment market stakeholders.

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