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Puzzling, powering, profiting: the politics of sustainable finance in the European Union

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ABSTRACT
Broadly associated with environmental, social and governance (ESG) principles in financial markets, sustainable finance has sprawled into an array of European rule-making, fund disbursement and economic oversight. Much sustainable finance scholarship, however, has been of a technical nature, assessing the impact and viability of instruments for climate neutrality, without studying associated political dynamics and policy processes. This Special Issue opens up the realm of European sustainable finance for political and policy analysis. In this introduction, we discuss the definitional features of EU sustainable finance and its importance for debates on European integration and governance. First, we propose to understand the regulatory and fiscal attempts to 'make finance sustainable' as both an emergent policy regime and a contested political project. Second, we introduce a threefold analytical approach inspired by Hugh Heclo's classic distinction between puzzling and powering, adding a third category of profiting to underline the politico-economic dimension. Third, we place EU sustainable finance within debates over the kind of state-market relations that supranational policy-making processes are facilitating. We argue that the ambiguity of EU sustainable finance consists of its reinforcement of a longer tradition of governance through financial markets, combined with new forms of state intervention in the financial marketplace.

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Introduction

Achieving the EU's goal to reach climate neutrality by 2050 is not only a major policy challenge, it is also an expensive roadmap. According to one of the European Commission's own estimates, a low-carbon transition in the EU alone requires additional investment of around €620bn annually (European Commission, 2023). Such estimates have been increasing every time they

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get published, while they continue to pale the size of the European budget, which totaled only €189bn in 2024, and remain at odds with the politics of budgetary austerity persistently haunting European states. Decarbonizing energy and transport infrastructure, speeding-up industrial transformation and the diffusion of green technologies, and adjusting systems of social and health provision to the effects of climate change are controversial policy issues, where current funding lags dramatically behind both scientific and political assessments. This so-called financing gap is a core challenge addressed in the European Green Deal (EGD), which, among other things, seeks to transform European financial systems to bolster investment in the green transition.

However, most political science scholarship illuminating the EGD and European climate governance has yet to engage comprehensively with the financial side of this new 'great transformation' in Europe and the politics that surround it (see e.g., Boasson & Tatham, 2023; Oberthür et al., 2021). This lack of engagement is surprising, because recent years have seen a surge of legislative packages, expert groups and initiatives at the EU level to mobilize market actors and budgetary resources in support of what has been called *sustainable finance*. Between 2018 and 2022 alone, twenty pieces of supranational legislation were adopted in the EU, through which sustainable investment principles have moved from the fringes of private governance to the heart of legislative action (Ahlström & Monciardini, 2022; Smoleńska, 2025, this issue). Broadly associated with environmental, social and governance (ESG) principles in financial markets, sustainable finance has sprawled into an array of European rule-making, fund disbursement and economic oversight. And gradually, this process has come to raise issues of policy implementation, distributional conflict and institutional transformation. That the development of EU sustainable finance is by no means a technical exercise is equally evidenced by its more recent politicization, informed by an 'anti-ESG' movement stemming mostly from the United States and by the second Von der Leyen Commission's deregulatory efforts through its 'Simplification Omnibus package' (COM(2025) 80). And still, as of yet, much scholarly engagement with sustainable finance has been of a technical nature, usefully assessing the impact and viability of instruments for climate neutrality, but neglecting the associated political dynamics and policy processes (see e.g., Schütze & Stede, 2024).

To be sure, the EU is not the only transnational actor active in the regulatory space for sustainable finance. From the 1990s onwards, the United Nations has spearheaded several initiatives to mobilize global financial firms around sustainability considerations, commonly within the context of its UN Environment Programme Finance Initiative (UNEP FI). Case in point are the influential Principles of Responsible Investment (PRI), signed by more than 5000 financial firms (Pollman, 2022). Since then, an extensive global architecture of transnational initiatives has emerged, consisting of professional associations (e.g., PRI), standard-setting bodies (e.g., Taskforce for Climate-Related Financial Disclosures), advocacy groups (Climate Action 100+) and other types of commitments to sustainable finance (e.g., the Finance for Biodiversity Pledge) (Van der Zwan & van der Heide, 2024). These initiatives are joined by transnational networks of distinct professional groups and institutions, such as the Partnership for Biodiversity Accounting Professionals and the Network for Greening the Financial System including central banks and financial supervision authorities. Where these initiatives tread on similar terrain as – and, for that reason, compete with – the EU's own regulatory agenda, they directly challenge the EU's desired status as global standard-setter for sustainable finance.

Against this background, this Special Issue seeks to open up the realm of European sustainable finance for analysis by political scientists. Which actors and processes drive the EU's turn towards sustainable finance? How do distributional conflict, institutional capacity and public-private collaboration shape sustainable finance and the backlash against it? And what are the implications for policy-making and the green transition in the European Union? Specifically, in this introduction, we propose a non-exclusive set of analytical lenses to advance political science and policy scholarship on EU sustainable finance. We do so by unpacking the intersection of financial and climate governance in the European Union through three interlinked contributions. First, we propose to understand the regulatory and fiscal attempts to 'make finance sustainable' as both an emergent *policy regime* and a *political project*. Such a framing allows us to emphasize the institutional and ideational properties as well as the strategic and interest-based logics that come to define this new domain of European policy-making. Second, we introduce a threefold analytical approach that takes inspiration from classical policy analysis to make sense of sustainable finance's political attributes. Here, we build on Heclo's (1974) distinction between *puzzling* and *powering*, and add a third category of *profiting* to underline the political economy dimension. Third, and relatedly, we place sustainable finance in the European Union within debates over the kind of *state-market relations* that supranational policy-making processes are facilitating. The ambiguity of EU sustainable finance consists of its apparent reinforcement of a longer tradition of governance through financial markets, in combination with new forms of state intervention in the financial marketplace. The contributions to this Special Issue, which highlight one or more of these analytical lenses, offer different and sometimes surprising assessments of EU sustainable finance in the current context.

Sustainable finance in the EU: what it is and why it matters

Sustainable finance is a contested concept that has, however, achieved an authoritative status in policy discourse. Its ambiguous use spans from regulatory initiatives at the level of global governance to an ecosystem of environmental and financial NGOs as well as business associations to a multi-trillion-dollar segment of international financial markets (Dimmelmeier, 2023). The European Commission (n.d.) presents sustainable finance as referring 'to the process of taking environmental, social and governance (ESG) considerations into account when making investment decisions in the financial sector, leading to more long-term investments in sustainable economic activities and projects'. While indeed ESG has become the buzzword in financial markets, the Commission is clear about ranking these considerations:

> In the EU's policy context, sustainable finance is understood as finance to support economic growth while reducing pressures on the environment to help reach the climate- and environmental objectives of the European Green Deal, taking into account social and governance aspects. (European Commission n.d., also see European Commission, 2018)

Hence, sustainable finance in the EU is – as of yet – both tilted towards 'green' objectives and linked with the EGD being understood as a new economic growth strategy (Eckert, 2021).

While the European Commission has reserved the adjective 'sustainable' for the realization of specific goals related to the EGD,[1] the term 'finance' arguably refers to a much broader set of dimensions related to the question of how the Green Deal and its objectives will be funded. Here, a typical distinction refers to the differences between *public finance* and *private finance*. Public funding sources stem from the EU itself, its member states or other public institutions (e.g., the European Investment Bank), while private funding stems from the commercial financial sector in its various forms (e.g., banks, insurance companies, pension funds, asset managers). It is important to note that even though general parlance of the term 'sustainable finance' gives priority to the investment decisions and financial products of (private) market actors, public budgetary instruments and funding tools such as subsidies, grants or concessional loans are just as much an integral part of the sustainable finance landscape and often are entangled with 'private' forms of finance (CPI, 2023; Golka et al., 2024). Furthermore, sustainable finance may denote specific regulatory strategies to either mitigate climate risks for banks' balance sheets and the financial system at large (*prudential*) or to expand sustainable or environmentally-friendly business activities (*promotional*).

This Special Issue, however, seeks to go beyond the analysis of sustainable finance as a set of financial practices or strategies and, instead, open up this field to political analysis (Hay, 2002). Hence, our first proposition is to conceptualize sustainable finance in the European Union as both an emergent *policy regime* and a *political project* that is constitutive of the EU's dominant approach to achieve climate neutrality by 2050. As for the notion of policy regime, we follow Wilson (2000, pp. 257–258) in conceptualizing it along four dimensions. First, a policy regime encompasses multiple *policies*, including policy goals and policy tools, within a specific issue area. Second, policy regimes consist of *institutional arrangements*, both for making the policies as well as for implementing them. In addition, policy regimes are supported by *power arrangements*, either state actors or interest groups that operate as major actors within the policy domain. Fourth and finally, policy regimes are characterized by a *policy paradigm*, or an ideational lens through which the problems that the regime seeks to solve, their underlying causes as well as appropriate solutions are viewed. Policy regimes are embedded within the broader context of the modes of governance that typify the policy-making process, such as corporatism or market-based governance (Howlett, 2009; Howlett & Tosun, 2018).

Although not yet as long-lasting as other policy regimes identified by scholars of public policy, EU sustainable finance covers all four dimensions mentioned above. The Sustainable Finance Action Plan from 2018 can be seen as the ideational foundation for EU sustainable finance, a 'roadmap to boost the role of finance in achieving a well-performing economy that delivers on environmental and social goals as well' (European Commission, 2018). Situating the Action Plan within the broader EU Capital Markets Union, the European Commission identifies several priority issues to be tackled by the Action Plan. Among the six priority issues are: (1) establishing a common language for sustainable finance; (2) creating an EU label for green financial products; and (3) enhancing transparency in corporate reporting (European Commission, 2018).[2] According to then European Commission First Vice-President Frans Timmermans: 'Moving to a greener and more sustainable economy is good for job creation, good for people and good for the planet. Today we are making sure that the financial system works towards this goal' (European Commission, 2018).

The EU's policy regime on sustainable finance is further supported by an extensive institutional architecture, consisting of three pillars: regulation, institutions and fora and budgetary instruments (for a non-exhaustive overview, see Table 1). At the heart of EU sustainable finance sits a regulatory triad consisting of the EU Taxonomy for Sustainable Activities, the Corporate Sustainability Reporting Directive (CSRD) and the Sustainable Finance Disclosure Regulation (SFDR). While the Taxonomy offers a formal classification of what counts as a sustainable financial asset contributing to environmental objectives, the CSRD and SFDR are so-called disclosure regulations. The CSRD imposes new reporting requirements on corporations, intended to allow investors to identify taxonomy-aligned business activities. The SFDR, meanwhile, imposes reporting requirements on financial institutions, thereby allowing regulatory intervention over concerns of climate-related financial

Table 1. Pillars of the EU's sustainable finance architecture with selected examples.

Regulatory initiatives	Institutions and fora	Budgetary instruments
EU Taxonomy for Sustainable Activities (2020/852/EU)	European Central Bank	Sustainable Europe Investment Plan (including the Just Transition Mechanism)
Corporate Sustainability Reporting Directive (CSRD) (2022/2464/EU)	European Investment Bank	NextGenerationEU/Recovery and Resilience Facility
Sustainable Finance Disclosure Regulation (SFDR) (2019/2088/EU) and successive amendments	Financial regulation institutions (EBA, ESMA, EIOPA)	InvestEU
European Green Bond Standard (2023/2631/EU)	Expert Group Platform on Sustainable Finance (2020-2024)	Cohesion Funds
EU Climate Benchmark Regulations	Technical Expert Group on Sustainable Finance (2018-2020)	European Fund for Sustainable Development Plus (EFSD+)
Regulation on the transparency and integrity of Environmental, Social and Governance (ESG) rating activities (ESGR)	High-level Expert Group on Sustainable Finance (2016-2018)	
	EFRAG (European financial reporting advisory group)	

stability risks. Together, this regulatory triad aims at making markets work for sustainable economic activities. It is further complemented by other standard-setting regulatory tools such as the European Green Bond Standard through which public and private bond emissions that are used to finance activities with environmental objectives are becoming harmonized.

Beyond this regulatory heartland, the field of sustainable finance in the EU is expanding thanks to its spillover effects into other institutions and agencies. This is most obviously the case for the EU's institutional architecture in financial market regulation that was built in the early 2010s after the Great Financial Crisis. Institutions such as the European Banking Authority (EBA), the European Securities Markets Agency (ESMA) and the European Insurance and Occupational Pensions Authority (EIOPA) increasingly take climate risks into account for their mandate to ensure financial stability and supervise financial institutions (De Arriba-Salier, 2021; Smoleńska & van 't Klooster, 2022). Importantly, these institutions have begun to address the salient issue of 'greenwashing', which ESMA defines as:

> a practice where sustainability-related statements, declarations, actions, or communications do not clearly and fairly reflect the underlying sustainability profile of an entity, a financial product or financial service. This practice may be misleading to consumers, investors, or other market participants. (ESMA, 2024)

Similarly, member states' own multilateral financial institution, the European Investment Bank (EIB) and self-proclaimed 'godmother of green bonds', has announced to become the EU's climate bank (Mertens & Thiemann, 2023; Spielberger, 2024). Likewise, the European Central Bank (ECB) has issued several action plans, prudential guidelines and roadmaps since 2020 to lay out, 'within its mandate', its climate- and nature-related financial policies, and adopt a 'pro-climate narrative' in coalition with the European Parliament (ECB, 2024; Massoc, 2025). To date, central banks and the ECB have received most scholarly (and activists') attention exploring the extent to which it devises and legitimizes 'green monetary policies' (e.g., Aguila & Wullweber, 2025; Siderius, 2023).

Finally, sustainable finance remains linked to the EU's plethora of budgetary instruments, both old and new. This is because, first, public funds themselves become subsumed under the 'green growth' paradigm of the EGD by supporting sustainable economic activities and, second, public funds become redesigned to mobilize private investment for the objectives of the EGD. The Recovery and Resilience Facility of NextGen EU is paradigmatic for the former with its prescribed 37 per cent share of targeting green activities and use of green bonds (Hodson et al., 2024), while the Sustainable Europe Investment Plan – seeking to mobilize €1tn until 2030 from both public and private sources – is a key example of the latter. More generally, however, sustainable finance is expected to impact the EU's fiscal governance regime across the board as current spending restrictions prevail and green budgeting rules are set to proliferate (Darvas & Wolff, 2023).

As EU institutions and policy makers are increasingly concerned with sustainable or green finance, organized interests follow in their wake. Some of these organized interests, such as the Association for Financial Markets in Europe (AFME), count among the most influential interest groups for the financial sector and are active across various domains of financial policy-making. Others, like the European Sustainable Investment Forum (EUROSIF), are specifically dedicated to sustainable finance. Moreover, sustainable finance has also meant the inclusion of non-financial organized interests in financial policy-making, most notably environmental groups and experts, that have expanded and institutionalized their expertise on the matter and that have been instrumental in drafting the technical rules that undergird the policy regime. Here, several expert groups and public-private governance fora have emerged in the field, which have been populated by corporate and civil society actors, among which the Platform on Sustainable Finance and the European financial reporting agency (EFRAG) are the most important (Seabrooke & Stenström, 2023). EU sustainable finance is therefore supported by a power arrangement, that includes both traditional and new political interests in the area of financial regulation.

Still, we purposively employ the adjective 'emergent' in the sense of Williams (1977) to signal that the creation of this sustainable finance policy regime is by no means complete and can – at least in part – also be dismantled. The Omnibus Legislation proposed by the second Von der Leyen Commission in early 2025 is a case in point, as it waters down important parts of previous EU sustainable finance regulation, most notably the EU Taxonomy for Sustainable Activities and the CSRD. The Commission's deregulatory efforts in this domain coincide with a more profound global backlash against sustainable finance, stemming predominantly from the United States. In the United States, conservative and radical-right politicians have accused banks and fund managers of being hostile to fossil fuels and taken regulatory action *against* ESG practices (Masters & Temple-West, 2023). Legal challenges brought on by Republican administrations at state and federal levels have incentivized large U.S. financial institutions to publicly distance themselves from sustainable finance and to withdraw from global initiatives like the Glasgow Financial Alliance for Net Zero. Whereas it is unlikely that large investors will completely abandon sustainable financial practices – after all, climate change poses grave financial risks with substantial financial repercussions – sustainable finance may temporarily move underground and outside of public scrutiny until it re-emerges under more favorable political conditions.

This leads us to highlight our conceptualization of EU sustainable finance also as a *political project*. By political project, we mean first of all that EU sustainable finance emerges as a programmatic initiative that reshapes governance structures and social relations in specific ways. In particular, it seeks to unite heterogenous public and private *interests in the name of the common good* (Abels, 2024; Amable, 2017; see also Baioni et al., 2025, this issue). In this case, the common good is defined as a positive-sum game between environmental sustainability of European societies, the long-term growth of European economic and financial sectors, and the global competitiveness and geopolitical importance of the EU and its member states versus other countries and regions. After all, the sequential crises of the 2010s and early 2020s had left European economies in a dire state vis-à-vis other economic blocs while climate and environmental policies needed to become more ambitious to achieve agreed-upon targets. However, given the small size of the EU budget and member-states' own limited means in light of spending restrictions stemming from fiscal rules, serving the associated investment needs became a significant conundrum for European politics. Stressing the contribution of private capital and market actors to reach climate neutrality as is dominant in EU sustainable finance discourse (Golka et al., 2024) offers a way out of this conundrum and reinforces what Braun et al. (2018) have termed the EU's tendency to 'govern through financial markets' in light of fiscal incapacity.

In line with the epistemological and methodological pluralism of European studies (see Lynggaard et al., 2015), we combine a more constructivist perspective on sustainable finance as a political project with an appreciation of its material conditions. After all, opening up sustainability considerations to the logics and interests of financial markets is, first and foremost, instrumental for the financial sector itself. Confronted with decreasing competitiveness in global markets and crumbling legitimacy with European publics, sustainable finance would help rehabilitating financial actors and instruments by exhibiting their contribution to solving societal challenges (Ahlström & Monciardini, 2022). In this sense, putting the financial sector in the driving seat of transformation reflects what researchers have termed 'financialization', which involves the growing importance of financial actors and motives in contemporary capitalism (Mader et al., 2020). As some have pointed specifically to the 'financialization of climate policy' (Bigger & Carton, 2021), sustainable finance appears to its critics as an oxymoron, since dominant return-seeking practices on global financial markets and recurrent crises may be anything but sustainable (Dimmelmeier, 2023).

Understanding sustainable finance as a political project shall not, however, stop with conjunctural analysis. The common interplay between different special interests, the range of power resources and persuasive tools used across the policy cycle, and the balancing of technocratic and democratic governance in different institutional settings have been largely omitted by existing analyses of sustainable finance in the EU. '[M]aking finance flows consistent with a pathway towards low greenhouse gas (GHG) emissions and climate-resilient development', as Article 2.1(c) of the Paris agreement has specified this project, thus requires critical interrogation from several subfields of political science. For instance, in the landscape of sustainable finance actors search for meaning, instruments, data and metrics to deal with sustainability concerns in line with their position in the policy process. While largely formed within highly specialized policy communities, it is occasionally disrupted by moments of 'noisy politics', as in the case of the EU Taxonomy (see below). At the same time, the above-mentioned backlash politics which have in part traveled from the United States to the EU via transatlantic initiatives such as the (now disbanded) Net Zero Insurance Alliance, increasingly challenge the regulatory core of the policy regime. In the EU context, this has added to the classic struggles around regulatory burdens and bureaucracy, mobilizing different economic and state interests in the consultation and negotiation processes around sustainable finance. In deviation from such classic struggles, however, EU sustainable finance has also seen the formation of 'unlikely coalitions' (Tischer & Ferrando, 2024), as evidenced by the mobilization of around 200 multinational corporations, investors and civil society organization *against* the watering down of EU sustainable finance regulation through Omnibus I (Eurosif et al., 2025).

Importantly, therefore, while the EU is at the center of sustainable finance as a political project, it does not possess the complete control and capacity to coordinate these developments from above. The outcome of these political activities rather is a multi-scalar policy landscape, as sustainable finance in the EU is situated in multiple policy domains and across different levels of governance, populated by the various EU institutions, member states but also interest organizations tied to specific producer groups, financial firms and civil society. A special role in this landscape is reserved for expert groups like the Platform on Sustainable Finance, that partially overlap with these organized interests (see Fontan, 2025, this issue). In other words, sustainable finance speaks to fundamental questions about what and whose expertise matters; the role of vested interests and the types of power they wield; as well as the multi-level politics of large-scale transformation in the European Union. And only considering the timeframe until 2030, it is a baffling multi-trillion-Euro endeavor, seeking to redirect financial resources many times over the usual European budget. For these reasons, we believe that EU sustainable finance is not just an economic phenomenon to be explained, but a core feature of contemporary EU politics to which the analytical tools of political economy and policy analysis should be applied. In the following section, we therefore outline one analytical framework that is guiding this special issue, which draws on Heclo's seminal distinction between puzzling and powering, to which we add the third category of profiting.

Puzzling, powering, profiting in sustainable finance

Our dual perspective on EU sustainable finance as a policy regime and political project allows us to move away from a notion of sustainable finance as the *outcome* of different kinds of public policies and/or market practices, seeking to empirically distinguish between 'truly' sustainable outcomes and greenwashing practices. Instead, our policy-oriented approach seeks to shed light on the myriad ways in which sustainable finance is a politically constructed policy innovation and market phenomenon. It thereby draws on Hugh Heclo's (1974, p. 305) distinction between *powering* and *puzzling* in the policy process: the conflicts over who gets what, when and how versus problem-solving processes related to issues of knowing and uncertainty. Or, in Heclo's classic formulation, 'policy-making is a form of collective puzzlement on society's behalf; it entails both deciding and knowing' (1974, p. 305). The concept of puzzling offers an important addition to traditional political science analyses in which policy outcomes are explained in terms of interests and power. Instead, puzzling highlights processes of learning, whereby policymakers adjust policies based on prior experiences. Such learning can take place internal to the policy process (policy learning) or be informed by external sources of information (e.g., media, public opinion, political debate), also known as social learning. Both types of learning have been extensively studied by policy scholars and political scientists (on policy learning, Bennett & Howlett, 1992; on social learning, see Hall, 1993).

As a policy field, sustainable finance involves both powering and puzzling. On the one hand, numerous studies of financial regulation have shown how the financial sector has a stronghold over the policy-making process, wielding both instrumental and structural forms of power as well as through the control of market infrastructures (Braun, 2020). While the dominant position of the financial sector is by no means absolute (see, for instance, Kastner, 2018), its sheer size, lobbying resources and revolving door mechanisms have given it leverage over problem formulation and policy design (Pagliari & Young, 2014). On the other hand, sustainable finance is confronted by a number of pervasive knowledge gaps, creating high degrees of uncertainty for both policy-makers and market actors alike. Such knowledge gaps pertain to fundamental questions, such as what can be considered sustainable and what cannot, to more technical complexities regarding the quantification of environmental or social criteria into financial data or the legal ramifications of sustainable finance for investors' fiduciary duties (Migliorelli, 2021).

That said, the puzzling and powering distinction also has its limitations. In particular, the distinction has been criticized for relegating the exercise of power to the interest articulation aspect of the policy process, while depicting puzzling as a largely technocratic affair. A common criticism of Heclo's conceptual framework is therefore that puzzling and powering cannot be so neatly distinguished within the policy process (e.g., Dunlop et al., 2024). The dichotomous understanding of puzzling and powering overlooks, for instance, the 'political learning' done by experts to have their expertise count in the policy process (Zaki & Dunlop, 2024). At the same time, actors' attempts to bring forward their own interpretation of the problem at hand may contribute to processes of politicization and depoliticization, limiting the repertoire of possible policy solutions (Blyth, 2007; Wood, 2015). Altogether, the ideational dimensions of the policy process thus shape actors' attempts at puzzling and powering, as both interests and expertise will be redefined in light of the dominant understanding of the policy problem as well as the mode of governance in which it should be solved.

The criticism of puzzling and powering also applies to sustainable finance, as the emergent regime does not allow for such a neat distinction between policy-makers and experts on the one hand and organized interests on the other hand. Sustainable finance is characterized by the involvement of both public and private actors in policy-making. Such private actors include experts, civil society organizations, but most importantly business actors from the financial sector itself. Such involvement of private actors is typical for financial policy-making, a policy field that is regarded as very technical and complex as well as having deep national fault lines. For this reason, policy-makers often delegate puzzling to stakeholder fora such as technical expert groups (cf. Grossman & Leblond, 2012; Quaglia, 2012). Vink et al.

(2013) therefore argue that puzzling and powering can offer a useful corrective to the view of climate policy-making as a technical exercise. Despite the authors' focus on climate change adaptation, we believe their insights also ring true for sustainable finance policy-making, especially where the concepts allow for a consideration of 'unorganized' forms of power, by which the authors mean the contestations or collaborations that take place between actor coalitions prior to the institutionalization of the prevailing power structure through regulation (Vink et al., 2013). Meanwhile, regulatory processes may also be incomplete, leaving unaddressed important areas required for implementation. In those cases, policy experts but also private actors may coordinate their own collective efforts at puzzling, creating new policy platforms for sustainable finance in their wake.[3]

Sustainable finance also complicates the distinction between puzzling and powering in a second respect. As the expansion of sustainable finance regulation directly affects the economic interests of EU member states, the policy-making process becomes infused with the power politics of opposing member-state interests. The EU taxonomy is one of the more notable cases in point. The taxonomy, after its development by technical expert groups, was noticeably watered down, after various member states objected to the exclusion of nuclear energy and natural gas from the regulation's list of sustainable activities. Much to the chagrin of environmental groups, who considered these environmentally harmful, no less than ten EU member states wielded their vote. In response to the perceived greenwashing of natural gas and bioenergy, environmental groups such as the WWF left the EU's Platform on Sustainable Finance (for systematic analysis see Fontan, 2025, this issue). The EU's green reporting rules for corporations have similarly evoked member-state protest. Germany, for instance, has made efforts to exclude the small- and medium-sized enterprises of its *Mittelstand* from EU rules (Hancock et al., 2023) – revealing sustainable finance's linkage with another contested initiative, the Corporate Sustainability Due Diligence Directive (CSDDD) – and has continued to lobby the second Von der Leyen Commission to roll back on the CSRD among other climate-related policies (McNally, 2025), feeding into above mentioned omnibus legislation on sustainability rules.

Against this background, we add a third dimension to the classic distinction between puzzling and powering: *profiting*, which we define as the creation of new opportunities to gain financial profits or non-financial gains. We argue that neither puzzling nor powering can be fully understood without considering how sustainable finance affects competitive positions. For market actors, sustainable finance as a policy regime provides opportunities, and applies pressure, to locate new sources of profitability from (and under the guise of) sustainability and for state actors to navigate concerns over legitimacy and international competitiveness. In this sense, profiting is either a motivation for or desired outcome of the distributional struggles associated with powering. In particular, the emergent policy regime is about the creation of market infrastructures that both incentivize and allow for greater profit extraction from sustainable economic activities through the linkage of public and private finance (Bryant & Webber, 2024; Christophers, 2024).

Table 2. Puzzling, powering, and profiting in EU sustainable finance.

	General Concept	Examples from Sustainable Finance
Puzzling	Use of problem-solving and learning	The involvement of high-level and technical expert groups in the development of the EU taxonomy
Powering	Mobilization of power resources and political interests	Interest group lobbying over in- or exclusion of economic activities from the EU taxonomy; member-state disagreements over scope of CSRD
Profiting	Creation of new opportunities to gain financial profits or non-financial gains	New sustainable business opportunities for investors; EU status as global frontrunner in sustainable finance

While perhaps less obvious, profiting is also connected to puzzling. Especially in a policy domain that is considered technical and complex, problem-solving can also be geared towards – and sometimes acts as a guise of – the creation of new profitable opportunities. To be sure, this does not only apply to financial actors and their business interests. For environmental groups such as the World Wildlife Fund, sustainable finance also offers a new sphere of influence through which to expand their activities (Tischer & Ferrando, 2024). Yet, where policy processes become characterized by a close intermingling of different political mechanisms (powering, puzzling, profiting), such groups may be caught in a bind between their need for organizational self-preservation and their willingness to criticize other actors' pursuit of narrow self-interests. Greenwashing and other concerns regarding the extractive nature of the financial system therefore raise important questions about private actors' intrinsic ability to sustainably transform economic activities. For this reason, the Special Issue complements a focus on policy-making with political economists' deep knowledge of the financial sector (see Hassel & Wiß, 2019 for a similar approach in welfare state research), to fully grasp the real-world implications of sustainable finance.

Notably, public actors may also profit from the EU's sustainable finance initiatives. The EU's Green Industrial Plan (2023), for instance, uses off-balance-sheet financing to fund initiatives such as REPowerEU (Schramm & Terranova, 2024) and hardwires de-risking into its renewables funding policy (see Willems, 2025, this issue). Thus, these large-scale industrial policy initiatives are not financed through plain fiscal policy, as is the case for the US' Inflation Reduction Act, effectively empowering the Commission and Council at the expense of the European Parliament, as the latter's co-decision powers apply to the formal annual budget only (Wigger, 2024).[4] The *cui bono?* of sustainable finance does also apply to the EU in the global race for standard-setting and geopolitical positionality. The EU has actively pursued a vanguard position in sustainable finance, both through the Taxonomy and disclosure regulation, showing how the 'Brussels effect' is sought at this intersection of economic regulation and sustainability (Bradford, 2020; Larsen, 2022). Moreover, within its external action and geoeconomic signature project Global Gateway, the European Commission has explored levers 'to scale up sustainable finance in low- and middle-income countries' via mobilizing private capital by assetizing local infrastructure or expanding 'natural capital' associated with biodiversity (HLEG, 2024).

Taken together, the application of the puzzling, powering, profiting framework to EU sustainable finance as both a policy regime and a political project help us better understand the – sometimes complementary, sometimes contradictory – developments within the multi-scalar policy landscape described above (see Table 2). As such, it offers an analytical lens that helps disentangle the different political dimensions of sustainable finance and that, for this reason, may guide future sustainable finance research in political science or public administration. The co-existence of a political countermovement aimed at decoupling sustainability considerations from financial activities through either deregulation (EU) or outward banning of ESG (United States), does in our view not reduce the usefulness of such an approach. In fact, that the many efforts to establish the EU as a global frontrunner on sustainable finance have consequences beyond the mere regulation of the financial system will be discussed in the next section, where we reflect on how EU sustainable finance might involve a re-ordering of state-market relations within the European Union.

Sustainable finance as a re-ordering of state-market relations in the EU?

In line with above observations, a central contention guiding the Special Issue is that the emergence of sustainable finance as a policy regime should also have consequences for state-market relations in the European Union. Crucially, the EU's dominant mode of supranational market-making, especially in financial services, has largely been aimed at fostering market competition and efficiency through light-touch, often principle-based regulation, coupled with extensive private regulation (Quaglia, 2012). Market-based governance has also been a long-standing trait of the EU's climate policies, such as in the Emissions Trading System (Meckling & Jenner, 2016). Kathleen McNamara argues, however, that this particular market-making approach rooted in neoliberalism is seemingly shifting towards a more assertive stance of the

European Commission characterized by 'a set of overt, activist government interventions' (2024, p. 2732). A case in point, according to McNamara, is the EU's green industrial policy. McNamara's observations raise the question of how sustainable finance can be situated within that shift, without falling prey to simplistic state-market dichotomies.

Consistent with our understanding of EU sustainable finance as a policy regime in emergence, the political implications of sustainable finance are still shrouded in indeterminacy. On the one hand, EU sustainable finance may be seen as a further instance of market-making and market-crafting through EU institutions. By focusing on transparency through disclosures and classifications, it seeks to shape markets for sustainable investments through regulatory frameworks. Indeed, several contributions to this Special Issue show how sustainable finance is reinforcing established features of market-based governance. For instance, the dominant assumption in sustainable finance that achieving environmental goals and climate neutrality requires the mobilization of private capital is a manifest feature of market-making efforts in energy policy (Willems, 2025, this issue). Moreover, both the ECB and the Commission have employed sustainable finance to build legitimacy around a ('green') Capital Markets Union or Savings and Investments Union and a new impetus for financial market integration (Baioni et al., 2025, this issue). In both cases, the mechanisms of powering and profiting span across private and public actors' involvement with sustainable finance.

In a similar vein, we know from existing research that market-based governance strengthens financial logics as well as the powerful position of financial actors in the policy and standard-setting process (e.g., Elliott et al., 2024). This, in turn, raises important questions about democratic accountability and governing. After all, the EU Sustainable Finance Action Plan delegates the responsibility to solve environmental (and less so, societal) crises to financial markets, in lieu of a political consensus on decisive action against a fossil-based mode of production. To succeed in terms of climate action, this requires both expansive rule-making and cooperative rule-taking. Yet, as Fontan (2025, this issue) shows, the inclusion of financial interests in rule-making processes can lead to a downplaying of environmental actors and their goals. And, importantly, if specific economic activities are basically treated as non-sustainable, why go via the detour of financial markets instead of regulating them directly? Besides the vested interests of business actors, the idea of 'governing through financial markets' when neither political consensus nor fiscal capacity are easily available remains persuasive (Braun et al., 2018).

Nevertheless, the contemporary politics of sustainable finance also inspire a different assessment. The European Investment Bank, a couple of years after publishing its climate bank roadmap, might indeed begin to exhibit a fundamental shift in its business model reflective of environmental and social challenges (Mocanu & Thiemann, 2025, this issue). Certainly, the rule-making process within the EU's emergent sustainable finance policy regime suggests that there is no smooth reproduction of a neoliberal model of market-making, but rather an ongoing struggle over the instruments and purpose of sustainable finance. However, the success of this approach to achieve a just and green transition is, as in many other instances, refracted by uneven policy capacities and path dependencies within individual member states, sectors and regions, as Raudla et al. (2025, this issue) reveal for the green share of the Recovery and Resilience Facility, and Siderius (2025, this issue) for the dedicated instrument of the Just Transition Mechanism. These contributions draw attention to how puzzling and powering operates in the multi-level governance of the EU's budgetary instruments for sustainable finance, highlighting the distributional implications of the EGD's financial side.

Indeed, where large-scale regulatory intervention coincides with this unevenness, it raises fundamental questions about the distributive politics of sustainable finance. Carbon-intensive sectors and regions may struggle for financing and compensation, various financial market actors may seek to exploit sustainable finance as a superficial business model, and member states may face very different challenges in both implementing and leveraging the new rule-system in their jurisdictions. Here, additional fragmentation may arise from the spread of 'woke capitalism' rhetoric also to EU member states. In June 2024, for instance, a parliamentary majority in the Netherlands supported a motion proposed by liberal party and coalition partner VVD that explicitly rejected the investment of pension assets for the green transition. As the electoral landscape within EU member states is shifting towards the populist far-right, it is not unlikely that criticism of sustainable finance will be more vocal in coming years. Still, as the current moment also shows, such opposition might in turn feed new coalitions in defense of integrating sustainability considerations within the financial system.

In this context, EU sustainable finance may also give rise to a comparative research agenda about state-market relations and its associated multi-level dynamics. In her review of the EU's growing landscape of sustainable finance regulation and the diffusion of 'green bonds', Smoleńska (2025, this issue) pinpoints new tensions that have emerged between the EU's harmonization agenda and member-states' institutional configuration. Here, traditional questions around implementation and misfit in a heterogenous European political economy come to the fore, showcasing once more how sustainable finance is not only important in and for itself because of the environmental and financial challenges ahead, but also for the study of European integration and economic coordination more generally.

By all means, sustainable finance is work-in-progress across the multiscalar policy landscape of the EU. Perhaps, with the optimism of the will, EU sustainable finance may best be understood as an unrealized promise of what public and private finance can contribute to solve the central challenges of climate change mitigation and adaption, but also social inequality and corporate misconduct. If our contention is correct, then readers should find in this Special Issue a multi-faceted, but strong call for scrutinizing sustainable finance by public policy and political economy scholars.

Notes

1. To be sure, 'sustainability' and 'sustainable development' have their own histories of definitional contestation (Hopwood et al., 2005). For a more general reflection on sustainable development in European integration, see Lenschow and Pollex (2022).
2. The other three priority issues are: (1) clarifying the duty of asset managers and institutional investors to incorporate sustainability considerations in the investment process; (2) requiring insurance and investment firms to advise clients on the basis of their preferences on sustainability; (3) incorporating sustainability in prudential requirements for banks (European Commission, 2018).
3. We thank Agnieszka Smolenska for bringing this important point to our attention.
4. For an instructive overview of the EU's financial architecture in this regard, see European Court of Auditors (2023). We thank an anonymous reviewer for pointing this out to us.

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