



EMPOWERING FINANCIAL INSTITUTIONS: THE EBRD'S CLIMATE TRANSITION PROGRAMME



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As the global financial sector confronts the challenges of climate change, transition plans have become a key strategic tool for aligning business activities with the goals of the Paris Agreement. This article examines the evolving voluntary frameworks and regulatory landscape, highlighting how financial institutions can use transition planning to manage climate risks, attract green investment and strengthen long-term resilience. Drawing on the EBRD's Climate Transition Programme and insights from a recent survey of its partner banks, the authors explore the unique challenges in emerging markets and outline practical considerations for building a resilient, climate-aligned financial system.



INTRODUCTION

The Paris Agreement¹ commits signatories to aligning financial flows with a pathway that promotes low greenhouse gas (GHG) emissions and climate-resilient development. This means that countries – and by extension, the real economy and financial institutions – must make targeted efforts to support systemic transformation on a global scale by directing funds towards projects, activities and operations that support the climate mitigation and adaptation goals of the Paris Agreement. Financial institutions, as key facilitators of capital, are in a position to play a pivotal role in advancing the decarbonisation of the real economy. By incorporating climate-related considerations into investment and lending decisions, these institutions can redirect financial flows towards green and sustainable investments.

Climate-related risks relevant for financial stability can be categorised as: (i) physical risks, linked to extreme weather events; and (ii) transition risks, derived from changes in policy, regulation, availability of new technologies and changing consumer preferences in the context of climate change. For financial institutions, the impact of physical and transition climate risks can manifest in exposures to borrowers and guarantors who experience physical climate

shocks (such as floods) or who are subject to transition impact (such as the imposition of a pollution “tax”). Litigation risk is a sub-set of physical and transition risk, depending on the circumstance, and can arise as a result of both action and inaction on the part of the relevant financial institution.

Ultimately, both physical and transition climate risks can lead to a range of adverse financial outcomes, such as increased loan defaults, declining asset values (including devaluation of collateral and stranded assets), reduced equity performance, higher risk premiums and broader market volatility. Given these potential impacts, it is imperative that financial institutions proactively assess and manage climate-related risks and incorporate them into their risk management frameworks and strategic planning processes to safeguard financial resilience. In recent years “transition plans” have emerged as a key feature of climate-related disclosure and due diligence frameworks, both voluntary and regulatory, essentially to guide action on climate risk management and strategy. Transition plans are time-bound action plans that establish how an entity will pivot its operations, assets and business model towards a particular climate goal, such as net-zero emissions or a specific reduced-emissions target, and detail the steps, timelines and financial investment necessary to achieve that goal. For financial institutions in particular, transition plans serve as a roadmap for shifting investment portfolios away from carbon-intensive assets towards sustainable, low-emission alternatives.

¹ See <https://unfccc.int/process-and-meetings/the-paris-agreement> (last accessed 15 June 2025).



This article explores the importance of transition plans for the financial sector through an assessment of key regulatory and voluntary frameworks that incorporate requirements for transition plans. It elaborates on the technical assistance offered by the EBRD, highlighting key findings from a recent survey conducted by the Bank to understand how partner banks in its regions are progressing towards the preparation, adoption and implementation of transition plans.

TRANSITION PLANS FOR PARIS ALIGNMENT: FROM POLICY TO PRACTICE

“Paris alignment” is an overarching term that refers to the process needed to make business activities and decisions consistent with the goals of the Paris Agreement. Regulatory and policy approaches that support Paris alignment take the form of (i) government or regulator-led approaches, such as sustainable finance taxonomies and mandatory disclosure regulations; and (ii) voluntary

recommendations, guidance and standards that are market- or industry-driven. As a direct consequence of such developments, financial institutions face growing pressure to align with international climate standards and requirements, some of which pertain to transition plans.

Voluntary measures advanced primarily through market-driven initiatives were deployed by early adopters of climate action in the financial sector. Such measures encompass purely voluntary initiatives, as well as those designed to develop into mandatory requirements at the jurisdictional level. An example of the former is the Glasgow Financial Alliance for Net Zero (GFANZ), a coalition of financial institutions that have made net-zero commitments and are developing tools and methodologies to turn such commitments into action. Regarding the latter, the International Financial Reporting Standards (IFRS) Foundation established the International Sustainability Standards Board (ISSB) to develop a “global baseline” for sustainability

disclosure standards. These are not mandatory but are designed to be formally adopted by jurisdictions and incorporated into national legal frameworks. The ISSB's climate-related standard, IFRS S2, prompts companies, including financial institutions, to report any climate-related transition plan they have, sharing the key assumptions used in developing the plan and the dependencies upon which it relies. GFANZ has developed comprehensive guidance to assist financial institutions in formulating credible net-zero transition plans by (i) setting a clear science-based emissions reduction target; (ii) outlining specific actions, such as financing the development and scaling-up of net-zero technologies, supporting companies already aligned with 1.5°C pathways and facilitating the managed phasing-out of high-emitting assets; and (iii) establishing clear governance structures and reporting practices.

While voluntary initiatives support initial change at market level, supervisory and regulatory action is essential to effect lasting change. This evolution from voluntary to mandatory disclosure frameworks and regulatory expectations is now under way in several jurisdictions. For example, numerous jurisdictions are consulting on proposals to incorporate the ISSB standards into their regulatory frameworks, while regulators and national governments of non-EU countries in the EBRD regions are progressively moving towards introducing mandatory climate disclosure requirements. As of March 2025, 36 jurisdictions have progressed towards introducing the ISSB standards in their regulatory frameworks, while many more are consulting on proposals to do so. In 2024 Türkiye emerged as a frontrunner with the pioneering Turkish Sustainability Reporting Standards, which are based on the ISSB standards, while new EBRD members Nigeria and Kenya adopted the ISSB standards in 2024.²

As of March 2025,
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jurisdictions have progressed towards introducing the International Sustainability Standards Board standards in their regulatory frameworks

The EU is the leading example of a jurisdiction where regulations are now the primary driver of climate action in the financial sector. The EU has been regulating the financial sector's transition to sustainability, with a growing body of regulations requiring financial institutions to develop and disclose transition plans. The Corporate Sustainability Reporting Directive (CSRD) and the corresponding European Sustainability Reporting Standards (ESRS) provide detailed reporting requirements for financial (and non-financial) institutions that have climate change mitigation transition plans. Specifically, ESRS E1-1 requires that financial institutions explain how their business model and strategy are compatible with limiting the global temperature increase to 1.5°C, in line with the Paris Agreement and the EU's objective of achieving climate neutrality by 2050. For those institutions that have not yet developed a transition plan, there is a requirement to indicate whether one will be adopted and, if so, by when.

Since the CSRD is primarily a disclosure instrument, the substantive legal obligation to prepare and adopt a transition plan, as well as ensure the plan's implementation through concrete actions and investments, derives from

² See IFRS (2024).

Article 22 of the Corporate Sustainability Due Diligence Directive (CSDDD).³ Article 22 also sets out the specific contents of a credible transition plan, which includes (i) science-based and time-bound GHG emissions reduction targets for 2030, and in five-year steps up to 2050; (ii) key levers and actions to reach the defined targets; (iii) investments and funding supporting the plan; and (iv) governance of the plan. However, the recently adopted Stop the Clock Directive has delayed the timeline for entry into force of the CSRD and CSDDD obligations. Furthermore, the wider Omnibus package of proposals⁴ that is currently under consideration is expected to introduce significant legislative amendments. The extent to which amendments to provisions relating to transition plans will be adopted is unclear at this time. Transition plans are also recognised as a critical feature of prudential regulation in the EU. The recently amended Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD)⁵ require national supervisory authorities to mandate that EU credit institutions incorporate climate risk into governance, risk assessments and capital adequacy. While the provisions of the CRD and CRR do not explicitly refer to transition plans, the requirement to incorporate climate-related considerations is designed to ensure that financial institutions are resilient to the economic and financial impacts of the climate transition, so it serves a similar purpose to climate transition plans.

Despite the evolving nature of climate regulations and voluntary frameworks, climate transition planning has emerged as a key mechanism for embedding climate action in business models. It helps banks assess current climate practices, identify material climate risks, set climate-related goals and targets, and

establish accountability and governance. As a strategic tool, climate transition planning also enables banks to incorporate climate considerations into their wider business strategy, thereby strengthening the financial sector's ability to address emerging climate-related challenges.

CHALLENGES ASSOCIATED WITH TRANSITION PLANS

Despite growing recognition of the importance of transition plans, many financial institutions – particularly in emerging markets – face institutional, regulatory and capacity-related barriers to preparing and implementing credible transition plans. Global transition planning frameworks continue to overlook the challenges of emerging economies, which may negatively affect access to finance for climate action in those markets. The misalignment between transition plan requirements and emerging market realities can impact cross-border financial flows that are necessary to support the climate transition. In addition, the Network for Greening the Financial System (NGFS) warns that global financial institutions may hesitate to operate in regions with limited data availability or in sectors that are highly exposed to climate risks, constraining critical financing for sustainable development and climate action.⁶

The pace of the adoption and implementation of frameworks governing transition plans is also uneven across jurisdictions. Despite the common goal of Paris alignment, there is a high degree of market fragmentation when it comes to national standards and regulations applicable to financial institutions. As noted in the previous section, while certain jurisdictions have established comprehensive climate-related regulations, many are still in the process of developing clear national frameworks. In addition, there is considerable variation in how national standards or regulations are enforced and understood at the institutional level. While standard-setters such as the ISSB are attempting to harmonise disclosure frameworks for precisely this reason, the results of these efforts will only materialise in due course.

³ Note that the application and phasing-in of the CSRD/ESRS and the CSDDD are subject to certain size thresholds.

⁴ See https://commission.europa.eu/publications/omnibus-i_en (last accessed 15 June 2025).

⁵ See https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CONSIL:ST_8854_2023_INIT (last accessed 15 June 2025).

⁶ See NGFS (2024).

An EBRD survey of partner banks in 2024 looked at perceptions of national climate frameworks and found that a majority of banks have either already incorporated national climate-change management standards and frameworks or are in the process of doing so.⁷ However, 18 per cent of respondent banks indicated that there were no relevant climate regulations in their countries, despite national peers reporting their existence. These contradictory survey responses were noted in 13 economies, illustrating the widespread challenges in regulation awareness.

THE EBRD'S CLIMATE TRANSITION PROGRAMME FOR FINANCIAL INSTITUTIONS

Recognising the challenges faced by financial institutions in its regions when it comes to developing transition plans, the Bank launched the Climate Transition Programme (the "Programme") in 2023. The Programme is part of the EBRD's wider technical assistance for climate-related processes that has been offered to clients under the EBRD's Corporate Climate Governance Facility since 2022. The Programme is specifically designed to help partner financial institutions in the EBRD regions to build capacity with a view to developing credible and effective climate transition plans tailored to their unique circumstances.

The Programme is designed to be practical and applicable across diverse economies, ensuring that high standards and necessary climate ambitions are promoted. It equips participants with the knowledge and skills needed for transition planning, including in relation to climate risk management, climate governance, climate strategy, metrics and targets, and climate disclosures. The Programme materials reference the EBRD's Paris Agreement alignment methodology and global standards such as those introduced by the ISSB.

18% of respondent banks reported that there were no relevant climate regulations in their countries

The Programme has three main objectives:

1. **Strengthening individual capacity** in transition planning through comprehensive educational activities.
2. **Fostering institutional change** within the participating banks through collaborative work and initiating transition planning for early-stage partner banks or enhancing and reviewing existing plans for advanced banks.
3. **Encouraging systemic change** through networking, peer learning, climate leadership and sector-wide awareness raising to facilitate broader financial sector transformation.

The Climate Transition Programme is delivered to cohorts of seven to ten partner banks from selected geographic regions. Each institution joins the Programme as a small team (three to five people). This allows the participants to engage as a group in the structured learning process, which includes self-paced study and collaborative group work led by international and local experts. Each cohort's curriculum is localised based on the region's climate transition maturity, offering early-stage or advanced content tailored to local market specifics. Participants focus on practical implementation, including simulating real-life applications of climate practices within their

⁷ See EBRD (2025).

institutions. While an institution may take years to develop a complete transition plan, the Programme provides a solid foundation in climate transition planning, enabling participants to identify priorities, plan next steps, support management and colleagues, and secure necessary resources for their institutions.

As of March 2025, the Programme has been delivered in six countries – Armenia, the Kyrgyz Republic, Morocco, Serbia, Tajikistan and Türkiye – reaching more than 250 participants from 55 partner financial institutions. It became clear at an early stage that senior leadership involvement in transition planning was important to enhance accountability and strengthen necessary commitments. Another lesson related to the importance and challenge of banks' engagement with their clients to address climate risks, opportunities and data collection. In response, the Programme developed practical guidance and tools on board- and client-level engagement, helping banks navigate these aspects more effectively. The Programme recently piloted a senior leadership initiative in Serbia to promote understanding of and support for the role of climate leadership in transition planning, as it is evident that transforming banks' operations requires effective decision-making on climate strategy, resource allocation and business relations.

The EBRD has also worked with central banks on climate issues and transition planning. For example, in Morocco it signed a memorandum of understanding with the Bank Al-Maghrib (the country's central bank) and the Groupement Professionnel des Banques du Maroc in 2022 to support climate and environmental risk management in Morocco's financial sector. A market survey of prevailing climate and environmental risk management practices and a review of the Moroccan financial sector's regulatory framework were subsequently undertaken. In 2024 and 2025 this collaboration delivered capacity building for financial institutions on climate risk and transition planning.

The Climate Transition Programme has been delivered in **6 countries**

52% of the surveyed banks reported that they intended to develop transition plans in the next two years

EBRD SURVEY OF PARTNER BANKS' CLIMATE TRANSITION PLANS

In 2024, to better understand how its partner banks are incorporating climate considerations into their operations, the EBRD surveyed 96 such banks across 32 economies.⁸ As regards transition plans, the survey found the following:

1. Awareness of the need for transition planning is high, with only 3 per cent of surveyed banks not prioritising transition plans and only 4 per cent unaware of what transition plans are. However, challenges remain, with 67 per cent of the surveyed banks signalling that they require support to navigate this complex process.
2. The next two years will be a defining period, with 52 per cent of the surveyed banks indicating that they intend to develop transition plans.

⁸ See EBRD (2025).

3. Banks' progress on transition planning varies significantly by region, reflecting differences in regulatory environments, market pressures and institutional capacities. There are also clear differences between subsidiary and non-subsidiary banks. Subsidiaries of international banking groups allocate more resources to climate work and are among the first to incorporate aspects of international climate frameworks. These banks are also more likely to limit financing to clients in high-emitting sectors.
4. Data suggest that the process of transition planning is itself a driver of climate action. Banks that have received transition plans from their headquarters tend to have long-term ambitions and targets but less robust risk assessment.
5. Banks take different approaches to transition planning, including by engaging external experts and employing highly collaborative internal processes. Transition planning is an opportunity for banks to strengthen their climate capacities and skills.

The widespread awareness among EBRD partner banks of the need to take climate action and the anticipated acceleration of climate transition planning over the next two to three years present an opportunity to strengthen strategic and coordinated approaches to climate action. Therefore, in the next few years the Climate Transition Programme aims to support systemic change, fostering sustainable and climate-resilient financial sectors across all the EBRD's regions by supporting the acceleration of transition planning.

Recognising the iterative and ongoing nature of transition planning, and acknowledging that the climate benefits of such planning can only be realised if the plans are implemented, the EBRD aims to maintain its support for Programme alumni. The Bank will continue to provide access to information, tools and expert content to help its partner banks with both transition planning and implementation of their plans. By building institutional capacity and promoting leadership, the Programme lays a strong foundation for the

broader adoption of climate transition planning, ensuring financial institutions are well prepared for the challenges and opportunities ahead.

CONCLUSION

Transition planning is becoming a cornerstone of climate action in the financial sector, offering a structured path for aligning portfolios with the Paris Agreement. Awareness is growing – especially among EBRD partner banks – and the EBRD's Climate Transition Programme demonstrates that, with the right support, financial institutions can begin to embed climate considerations in their core strategies, governance and operations.

However, financial institutions cannot act in isolation. The success of transition planning hinges not only on institutional commitment, but also on the broader regulatory environment. Banks need reliable data from clients and clear, consistent regulatory guidance. While voluntary initiatives have driven early action, ultimately it is regulatory frameworks that will drive systemic change. The evolving landscape of climate-related disclosure – anchored by instruments such as the ISSB standards, the EU's CSRD and CSDDD, and national regulations – underscores the need for coherence, clarity and capacity building. Yet, the current disconnect between corporate and financial-sector disclosure obligations, particularly in jurisdictions where corporate reporting is lagging behind, risks



undermining the development and effectiveness of financial institutions' transition plans.

To accelerate climate action, regulation must evolve in tandem with market realities. While transforming the financial sector is essential, it can only finance the current real economy.⁹ Regulators have a vital role to play in harmonising standards, closing data gaps, and fostering an enabling environment for credible and actionable transition plans. At the same time, financial institutions must continue to promote climate leadership, build internal capacity, engage with clients and incorporate climate considerations into decision-making processes.

The next phase of climate action in the financial sector will require a significant shift, whereby ambition is balanced with practicality, and regulation with support. Through its Climate Transition Programme and ongoing engagement with partner banks and regulators, the EBRD is committed to advancing this agenda, helping build a resilient, climate-aligned financial system across its regions. The lessons learned from implementing the Climate Transition Programme are as follows:

1. **Harmonise regulatory frameworks:** Policymakers should align national regulations with international standards (such as the ISSB framework or the CSRD) to reduce fragmentation and support cross-border financial flows.

2. **Bridge the data gap:** Regulators and standard-setters must address the temporal disconnect between corporate and financial disclosure obligations, ensuring financial institutions have access to the data needed for credible transition planning.
3. **Invest in capacity building:** Continued support for training, peer learning and technical assistance – as provided by the EBRD's Climate Transition Programme, for example – is essential to empower institutions, especially in emerging markets.
4. **Promote leadership and accountability:** Building the capacity of senior management to lead on climate is critical. Regulators and institutions should embed climate governance in strategic decision-making.
5. **Support implementation, not just planning:** Transition plans must be actionable. Financial institutions should be supported not only in preparing plans but also in executing them, through investment, client engagement and internal transformation.

By aligning regulation, capacity and implementation support, the financial sector can become a powerful driver of climate resilience and sustainable development.

⁹ See CISL (2025), p. 10.



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