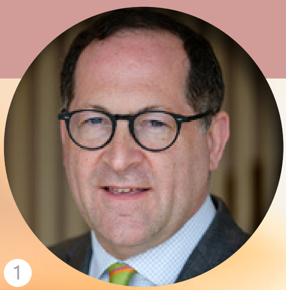
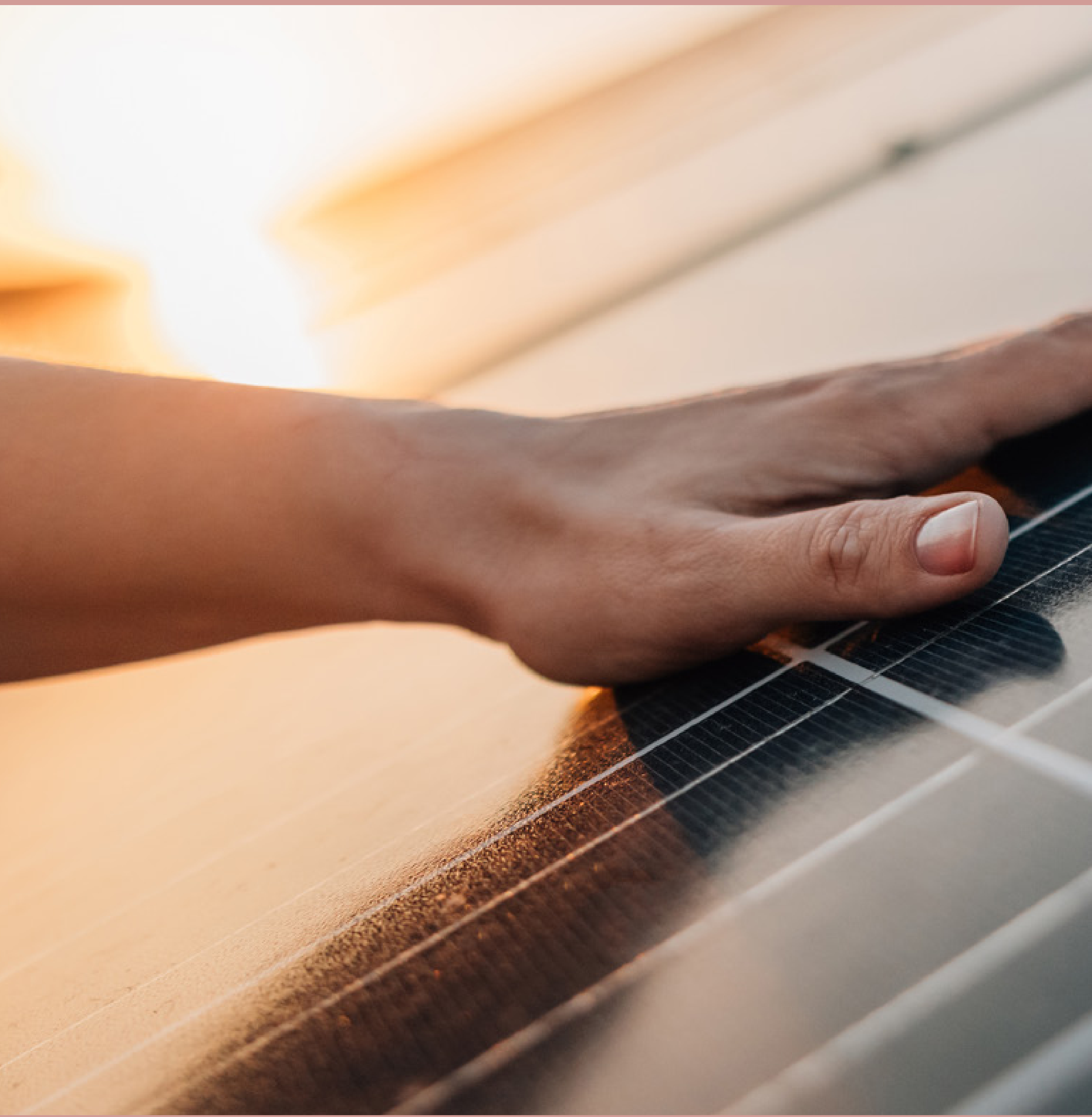
GOVERNING THE TRANSITION: REDEFINING CLIMATE AND SUSTAINABILITY FOR A JUST AND RESILIENT FUTURE



1

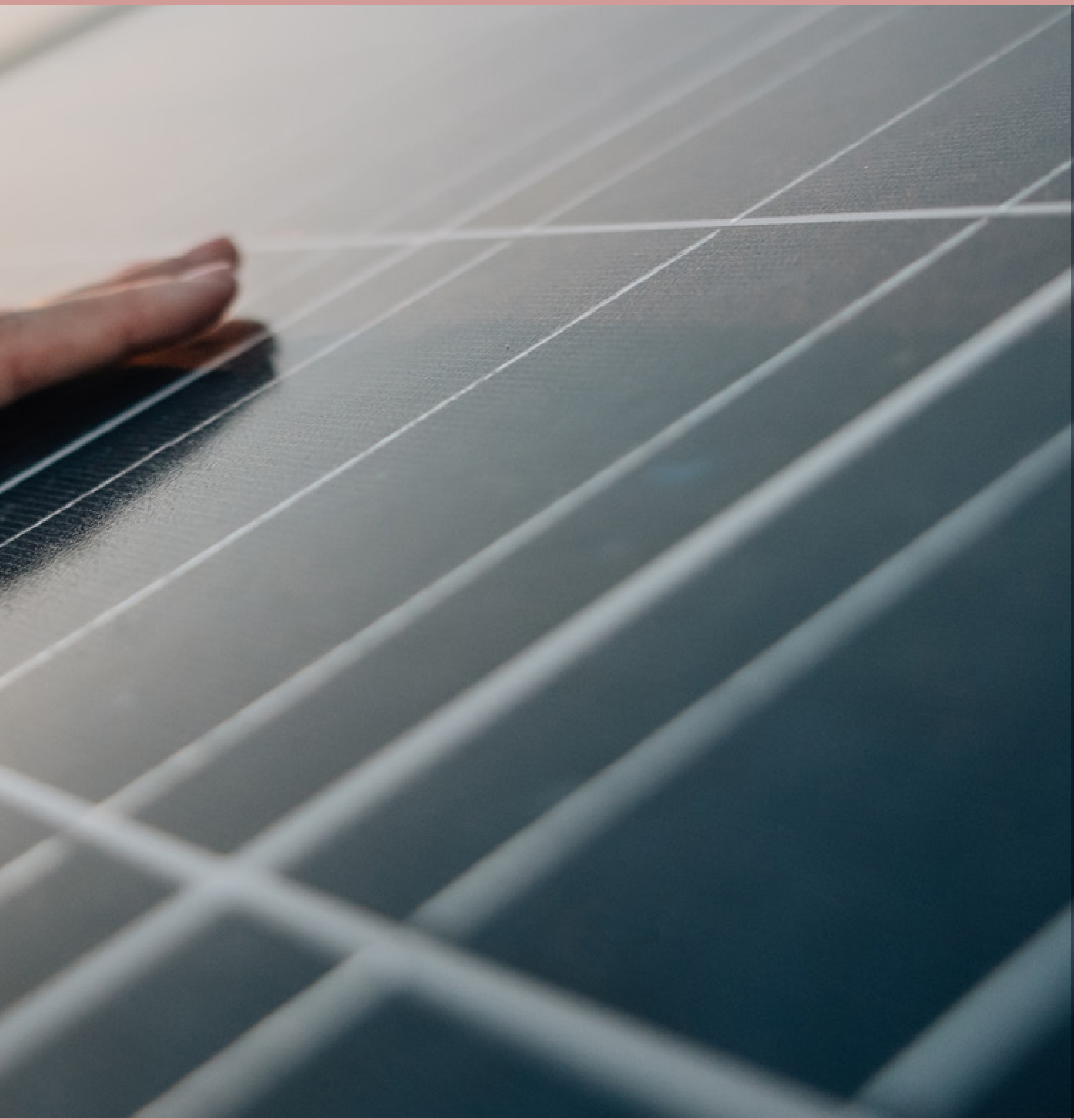
2



3

4

“The climate transition is shaped not only by corporate strategies and national policies but also by the global architecture of law, trade and investment.”



1
MICHAEL STRAUSS
GENERAL COUNSEL, EBRD
straussm@ebrd.com

2
VESSELINA HARALAMPIEVA
HEAD OF SUSTAINABLE FINANCE GOVERNANCE AND REGULATION UNIT, EBRD
haralamv@ebrd.com

3
PROF. MARIE-CLAIRE CORDONIER SEGGER
CHAIR IN SUSTAINABLE DEVELOPMENT LAW AND POLICY, UNIVERSITY OF CAMBRIDGE; SENIOR DIRECTOR, CENTRE FOR INTERNATIONAL SUSTAINABLE DEVELOPMENT LAW
mccs2@cam.ac.uk

4
PROF. DR MARKUS GEHRING
FACULTY OF LAW, UNIVERSITY OF CAMBRIDGE
mwg24@cam.ac.uk

In today's rapidly changing world, firms face mounting pressure from geopolitical instability, climate risks and regulatory changes. Stakeholders are increasingly demanding measurable progress on green matters, while new regulations signal an emerging consensus that sustainability – far from being optional – is now essential for market access. Despite resistance in some regions, climate governance is becoming a vital transformation tool. Progress here requires broad, multi-stakeholder collaboration, so institutions like the EBRD are working closely with public and private actors to improve governance as a foundation for economic resilience, energy security, credible transition planning and systemic innovation.

STEERING THROUGH DISRUPTION: THE GOVERNANCE IMPERATIVE FOR A SHIFTING WORLD[1]

In today's volatile and environmentally constrained global economy, company directors and senior executives face a convergence of pressures. Geopolitical instability, climate-related risks and regulatory disruption are redrawing the corporate risk landscape. The World Economic Forum's *Global Risks Report 2025* put environmental risks, worsening in intensity and frequency, at the top of the 10-year risk list.[2] Against this backdrop, investors, regulators, trading partners, employees and civil society are increasingly demanding that organisations go beyond commitments and demonstrate credible, measurable progress on climate and sustainability.

Financial institutions, utilities and other large companies – particularly in sectors such as energy, transport, real estate and manufacturing – occupy a critical position in this evolving landscape. As stewards of capital and drivers of infrastructure investment, they are at the heart of the economic transition and under growing scrutiny to align fiduciary responsibilities with long-term sustainability risks and broader stakeholder interests. Recent policy shifts (including the European Union (EU) Carbon Border Adjustment Mechanism, which prices carbon in imports; contract and supply-chain restrictions related to gender-based violence or net-zero ambitions; and global import restrictions in response to forced and child labour) reflect a growing trend – that is to say, the enforcement of sustainability through trade. Measures introduced by the United States of America, Canada and Australia have reinforced this trend, signalling an emerging international consensus that sustainability performance is no longer optional but integral to market access and competitiveness.

Yet such momentum is not without resistance. In some jurisdictions, transition measures have faced political pushback, often on the basis of short-term economic concerns. These headwinds reveal a more complex picture – one in which sustainability governance is not universally accepted, but rather increasingly contested. Nonetheless, such divergence should not obscure sustainability's long-term trajectory towards becoming a foundation for economic resilience, energy security and systemic innovation, as explored in the sections that follow.

In this evolving context, governance is emerging as a strategic lever for transformation. It is through the three tools of robust oversight, credible transition planning and accountability mechanisms that institutions can manage risk, unlock innovation and align with international standards. But no actor can deliver this transformation alone. Progress depends on decentralised, multi-stakeholder collaboration,

1 Special thanks and acknowledgements are due to Vicki Boey, University of Cambridge, for her excellent sustainability policy and financial research and drafting contributions, as well as her substantive insights.

2 See WEF (2025).

bringing institutions like the EBRD – with its investment, legal and market expertise – together with private- and public-sector investors, national authorities, academia and regional partnerships.

The EBRD's new Strategic and Capital Framework (SCF)[3] exemplifies this collaborative model. Designed to mobilise sustainable investment and accelerate the transition in emerging economies, the SCF provides a flexible platform for scaling up public and private finance in support of climate resilience, decarbonisation and just transition goals. Importantly, the SCF recognises that capital alone is not enough: it links finance to improved governance, effective transition planning, alignment with international sustainability standards and enhanced decision-making – particularly within state-owned enterprises and other key actors in the energy, industrial and financial service sectors. By supporting reforms that advance both economic and social sustainability, the SCF reflects a growing consensus that the path to a climate-resilient future must be built on strong institutions, inclusive policies and shared responsibility across the public and private sectors.

3 See EBRD (2025).

This article explores how climate and sustainability governance is becoming a driver of business value, innovation and equity. It examines how institutions can support real-economy transformation in line with the United Nations Sustainable Development Goals (SDGs), and how governance systems must evolve to match the scale and urgency of the climate challenge. The article draws on the EBRD's new SCF, which sets out the Bank's strategic aspirations over a five-year period, including support for the transition to green and low-carbon economies and the enhancement of economic governance and inclusion.

GOVERNANCE FOR SUSTAINABILITY IN A GLOBAL CONTEXT

The climate transition is shaped not only by corporate strategies and national policies but also by the global architecture of law, trade and investment. Governance, in this broader sense, includes the legal norms, institutional arrangements, procedural innovations and stakeholder engagement measures that influence how economies develop, how markets operate and how sustainable development objectives are pursued across borders.

International economic law is gradually internalising sustainability imperatives, as seen in a growing body of bilateral and regional agreements that incorporate environmental and social provisions. The principles underpinning this evolution, such as integration, precaution, equity or public participation supported by access to information and justice, are increasingly reflected in legal texts, though with varying degrees of enforceability.[4] Together, these norms point to an emerging paradigm in which environmental and social goals are no longer external to economic decision-making but integral to it.

Trade and investment accords are central to this shift. As articulated by legal scholars,[5] a new generation of "Athena's Treaties" is taking shape (referring to agreements that embed sustainability through general commitments; exceptions; cooperation agendas in the areas of labour, the environment and sustainability; and specific provisions enhancing trade and investment in key areas such as sustainably managed forest products, health innovations, renewable energy and other low-carbon technology). These treaties respond to normative tensions identified in sustainability impact assessments (SIAs), along with environmental and human rights reviews, which highlight opportunities to enhance economic growth, environmental protection and social equity through trade.

Legal innovation is also emerging in both institutional and technological formats to support cross-border cooperation. Article 6 of the Paris Agreement[6] offers a foundational legal mechanism for countries to engage in cooperative approaches, including carbon credit market exchanges and results-based finance. While its implementation is still evolving, the mechanism reflects growing international recognition that collaboration – particularly through market-based instruments – can enhance ambition, reduce costs and accelerate mitigation outcomes. Building on this, initiatives such as the World Bank's Climate Warehouse, a blockchain-based metadata platform, aim to foster greater transparency and credibility in international carbon markets.

Nevertheless, key gaps persist. A lack of harmonised green taxonomies, diverging environmental, social and governance (ESG) disclosure regimes, and uneven implementation of environmental safeguards limit the effectiveness of these governance mechanisms, particularly in developing and transition economies.

> "For governance to be truly enabling, it must be inclusive."

For governance to be truly enabling, it must be inclusive. Civil society organisations, indigenous leaders and communities affected by climate change have vital roles to play in shaping global norms, providing local knowledge and holding institutions accountable. Participatory mechanisms and procedural rights, such as consultation, transparency and access to justice, are essential not just to legitimacy but to practical outcomes. These dynamics are aligned with SDG 17, which emphasises the need for multi-stakeholder partnerships to strengthen institutional capacity and mobilise collective action for sustainable development.

4 See Cordonier Segger and Olawuyi (2025).

5 See Cordonier Segger (2021).

6 See https://unfccc.int/process-and-meetings/the-paris-agreement (last accessed 15 July 2025).

Development finance institutions such as the EBRD have a key role to play in translating these legal and normative advances into practical, real-economy outcomes. Through policy engagement, support for legal reform and alignment with international standards, the Bank seeks to build governance capacity where it is most needed. Collaboration with partners – including national authorities, academic institutions and local communities – can further support the design of treaty-compatible frameworks and innovative governance models. The EBRD's support for the Extractive Industries Transparency Initiative (EITI) in Mongolia and Kazakhstan exemplifies efforts to enhance governance in the extractive sector. This initiative focuses on comprehensive disclosure of beneficial ownership and transparency of extractives contracts, enhancing governance through capacity-building workshops and policy dialogue. By promoting transparency and accountability, the EITI strengthens governance frameworks and supports sustainable development in resource-rich regions.

Ultimately, multilayered global governance drives sustainable transition by shaping the environment in which countries plan, companies compete and capital flows. Well-designed, coherent and inclusive international legal frameworks can unlock cooperation, de-risk innovation and channel investment towards long-term resilience.

“Strong internal governance is no longer a competitive advantage but a precondition for long-term value creation and global relevance.”

The implications for companies are increasingly clear. As sustainability provisions become embedded in trade agreements and disclosure frameworks, companies are increasingly expected to align their supply chains, risk management and compliance systems with international norms. Legal and regulatory convergence has now led to a scenario where strong internal governance is no longer a competitive advantage but a precondition for long-term value creation and global relevance.

SUSTAINABILITY AS BUSINESS VALUE AND A STRATEGIC IMPERATIVE

The incorporation of sustainability considerations into corporate strategy has become a defining marker of long-term competitiveness. As climate risks intensify and stakeholder expectations evolve, sustainability performance is increasingly being regarded as financially material. The impacts are not limited to risk exposure but also affect access to capital, market position and corporate reputation. For companies’ directors and boards, sustainability considerations have become integral to discharging fiduciary responsibilities and ensuring enterprise resilience in line with the SDGs, including SDG 13 on climate action.

Both physical and transition risks are reshaping investment frameworks and consumer behaviour. The result is a fundamental shift in how business value is defined and protected. Fiduciary duty, once understood primarily in financial terms, now encompasses active oversight of climate and sustainability risks as a matter of prudence, care and due diligence. Regulatory initiatives such as the EU's Corporate Sustainability Due Diligence Directive (Directive 2024/1760) and the growing emphasis on double materiality underscore this shift. Boards are expected to anticipate and address sustainability risks as part of their core governance obligations.

Several converging forces are driving this shift. First, the incorporation of sustainability considerations is rapidly becoming standard practice in investment decision-making. Second, a growing body of evidence confirms the financial materiality of sustainability-related risks.[7] Third, policy and regulatory frameworks increasingly require companies to disclose and govern these risks.

Collectively, these dynamics are redefining market expectations – particularly for companies operating in the sectors and regions that are most vulnerable to climate change. However, this momentum is not without risk. Recent developments, such as the EU's omnibus package aimed at cutting red tape,[8] could dilute key sustainability requirements by simplifying reporting and due diligence obligations. While regulatory streamlining may reduce administrative burdens, ideally it would not undermine the ambition, transparency and accountability that are essential for companies to remain competitive, credible and resilient in a rapidly changing environment.

Despite some regulatory backsliding, financial markets continue to reaffirm the importance of sustainability as a driver of business value. ESG-related investments were estimated at US$ 30 trillion in 2022 and are projected to reach US$ 40 trillion by 2030 – equivalent to a quarter of global assets under management.[9] Firms with strong ESG profiles often outperform their peers across key financial indicators – particularly in emerging markets, where research shows a growing correlation between ESG ratings and total shareholder returns. For instance, in 2021 the MSCI Emerging Markets ESG Leaders Index outperformed MSCI's broader Emerging Markets Index by 54 per cent.[10] Rather than constraining profitability, sustainability underpins innovation, access to capital and market differentiation, and increasingly appears essential in the face of escalating climate risks.

Case studies of corporate sustainability transformation reflect the growing convergence between business strategy and national climate commitments, particularly in emerging markets.[11] In Brazil, the cosmetics firm Natura has maintained carbon neutrality since 2007, while expanding its biodiversity-linked Amazonia programme. In China, Geely

Global ESG investment was estimated to total **US$ 30 trillion** in 2022 and is projected to reach **US$ 40 trillion** by 2030

7 See UNEP FI and PRI (2019).
8 See European Commission (2025).
9 See Bloomberg (2024).
10 See BCG (2023).
11 See BCG (2023).

is expanding electric mobility at scale, while technology giants and investors Alibaba and Tencent have committed to achieving net-zero emissions by 2030. South Africa's Sasol, a major energy and chemical company, aims to achieve net-zero by 2050. These developments mirror broader policy trajectories, such as the Paris Agreement, under which nearly 200 countries have pledged to reach net-zero emissions by the middle of this century, and signal an increasing alignment between the integration of sustainability and long-term market leadership.

The governance implications of these trends are significant. Board-level oversight must now encompass the identification, assessment and mitigation of sustainability risks as part of corporate strategy. This includes aligning executive incentives with decarbonisation targets, incorporating climate metrics into risk management systems and ensuring that sustainability objectives are embedded across organisational decision-making structures.

The EBRD, in line with its SCF and its Green Economy Transition (GET) approach, aims to support clients in navigating the complex shifts required for a low-carbon and resilient future. Through targeted technical assistance, board-level and senior management training, and tailored climate governance enhancements, the Bank helps companies strengthen climate oversight, align with international standards and develop credible transition plans through its donor-funded Corporate Climate Governance (CCG) Facility. This includes the development of climate-related tools and methodologies, incorporation of climate risk into strategic planning, scenario analysis, and materiality and supply-chain assessments. With a strong focus on emerging markets – where climate vulnerability, capital constraints and systemic shocks are often more acute – the CCG Facility aims not only to enhance resilience and competitiveness but also to unlock access to green finance and enable a just, innovative transition across the EBRD regions.[12]

12 For more information, see Tassis and Kertis (2025).

13 See WEF (2025).

Nearly **200** countries have pledged to reach net-zero emissions by the middle of the century

POLICY AND REGULATORY INNOVATIONS ENABLING LEADERSHIP

As the climate transition gathers momentum, regulatory and policy frameworks are not only accelerating sustainable market practices but also redefining the role of governance in corporate and financial institutions. Across jurisdictions, legal instruments are increasingly positioning sustainability factors as material to corporate strategy and fiduciary oversight. More than 700 policy reforms globally now require or encourage the incorporation of long-term value drivers, including material ESG issues, into financial and investment decision-making.[13] Embedding transparency and accountability in governance systems advances the aims of SDG 16 on peace, justice and strong institutions. These efforts also support SDG 12 on responsible consumption and production (by promoting responsible corporate practices and transparent value chains) and SDG 13 on climate action (by improving the quality and credibility of climate-related information used in decision-making). In facilitating informed stakeholder engagement and cross-sector collaboration, such disclosures also contribute to SDG 17 on partnerships for the SDGs.

Disclosure has been the starting point for many of these reforms. The recommendations of the Task Force on Climate-related Financial

Disclosures (TCFD), established in 2015 by the Financial Stability Board, have served as a foundation for subsequent regulatory developments. By emphasising board-level oversight of climate risks, the TCFD introduced governance as a core element of sustainability reporting. Its principles have shaped the architecture of newer frameworks, including the IFRS S1 and S2 standards established by the International Sustainability Standards Board (ISSB), which set out general sustainability and climate-related disclosure requirements with the aim of establishing a global baseline for ESG reporting.

On a regional level, in the European Union, the Corporate Sustainability Reporting Directive (CSRD) requires large companies[14] to disclose their governance arrangements for managing environmental and social impacts. This is supported by the European Sustainability Reporting Standards (ESRS), which include provisions relating to business conduct, anti-corruption and whistleblower protections. These frameworks underpin the EU's Green Deal and reflect the growing legal convergence between sustainability and corporate accountability.

In parallel, more and more jurisdictions are adopting national and regional green taxonomies and sustainable finance regulations. China has developed environment- and sustainability-related reporting frameworks that incorporate double materiality.[15] Japan[16] and Türkiye[17] have committed to adopting the ISSB framework to guide sustainability disclosures. In the EBRD's newer regions of operation, such as sub-Saharan Africa, sustainability is gaining prominence as a business and investment priority. However, despite such promising developments, the costs of sustainable transition can be high.

14 Large companies are defined as those that meet two of the following three criteria: 250 employees or more; net revenue of at least €50 million; and total assets of €25 million or more. Under the EU's new omnibus regulation, only large companies with more than 1,000 employees are subject to the CSRD.

15 See UNEP (2025).

16 See PwC (2025).

17 See Deloitte (2023).

18 See CBI (2024).

Multilateral development banks (MDBs) are uniquely positioned to overcome these barriers and translate regulatory ambition into real-economy outcomes. By supporting governance reform, building institutional capacity and bridging investment gaps, MDBs serve as key enablers of sustainable transitions, particularly in emerging markets. In sectors where investment risk remains high (including sustainable infrastructure), MDBs help catalyse private capital through concessional finance, risk-sharing instruments and policy engagement.[18] Their role is particularly important in emerging markets, where access to affordable capital and institutional support can accelerate the implementation of governance reforms.

> “By supporting governance reform, building institutional capacity and bridging investment gaps, multilateral development banks serve as key enablers of sustainable transitions, particularly in emerging markets.”

Financial institutions are increasingly aligning governance with sustainability commitments, and such shifts are rooted in the growing recognition that unmanaged climate-related risks pose systemic threats to financial stability. Central banks and other financial authorities, such as the Bank of England, the European Central Bank (ECB) and the European Banking Authority (EBA), are requiring financial institutions to embed climate risk in their governance, capital planning and strategy frameworks. This includes clear expectations for climate-related transition planning at both portfolio and institutional levels. Scenario analysis has emerged as a critical tool in this transition. The Bank of England, for example, recognises scenario analysis as an essential method for evaluating climate-related financial risks and applies it to assess the exposure of its own financial activities to those risks.[19] Similarly, the ECB[20] has issued guidelines on ESG scenario analysis to support risk identification and transition planning, while the EBA[21] has begun drafting guidelines on ESG scenario analysis and expectations for institutions to adopt these approaches in financial risk management. The Network for Greening the Financial System (NGFS), a coalition of more than 120 central banks and supervisors, has also released updated short-term climate scenarios that model the financial implications of delayed policy action and rising transition risk.[22]

Within this regulatory landscape, financial institutions are emerging as key levers of change. Globally, more than 550 institutions[23] have joined the Glasgow Financial Alliance for Net Zero (GFANZ), committing to align portfolios with a net-zero future by mobilising private capital, supporting capacity building and financing credible transition plans. In parallel, state-owned banks, particularly in emerging economies, are expanding their role in backing early-stage clean technologies,[24] while private financial institutions are scaling up green finance instruments, such as sustainability-linked loans and green bonds. Despite this momentum, significant challenges remain in ensuring transparency, aligning with credible climate scenarios and establishing governance mechanisms that drive meaningful progress towards net-zero.

The Network for Greening the Financial System brings together more than **120** central banks and supervisors

Against this backdrop, the EBRD's CCG Facility aims to play a pivotal role in strengthening institutional readiness through the Bank's Climate Transition Programme. This dedicated capacity-building initiative seeks to support partner financial institutions – especially in emerging markets – on their climate and nature-related transition journey. The programme provides practical knowledge, tools and tailored guidance to enhance climate-risk management, climate governance, strategy, target-setting and disclosures. By promoting these practices, the programme aims to enhance institutional resilience, improve competitiveness and ensure that sustainability commitments translate into credible action.[25]

Together, these developments in policy, regulation, sustainable finance and capacity building are reshaping the architecture of climate leadership. As financial institutions clarify governance responsibilities and engage with evolving legal and regulatory frameworks, they are laying the foundations for stronger institutional governance and a more ambitious sustainability agenda.

19 See Bank of England (2024).

20 See ECB (2025).

21 See EBA (2025).

22 See https://www.ngfs.net/ngfs-scenarios-portal/ (last accessed 15 July 2025). The EBRD is a member of the Steering Committee and has contributed to many working groups on climate transition, nature-related risks and legal risks caused by climate change.

23 See FCA (2023).

24 See EBRD (2020).

25 For more information about the EBRD's transition planning programme, see Chawla and Page (2025).

INNOVATION AND INTERNAL TRANSFORMATION: BUILDING CLIMATE LEADERS

Climate leadership is shaped not only by policy and capital but also through the internal structures that govern corporate decision-making. As the climate transition accelerates, companies must adapt their governance and operational systems to remain resilient, competitive and aligned with evolving regulatory and stakeholder expectations. This includes embedding climate considerations across risk management, strategic planning and innovation functions.

> “Climate leadership is shaped not only by policy and capital but also through the internal structures that govern corporate decision-making.”

Effective oversight of climate-related risks and opportunities begins at the board level. Governance frameworks must incorporate sustainability into core processes, including risk assessment, executive remuneration and performance incentives. Linking pay to sustainability outcomes is increasingly being used[26] as a tool to promote long-term value creation and align corporate behaviour with environmental and social objectives. Board independence, transparency and diversity also enhance the quality of governance. Research shows that diverse boards, particularly those with a gender-balanced membership from a variety of professional backgrounds, are linked to stronger ESG performance.

Beyond governance structures, effective governance also depends on internal transformation approaches that embed climate considerations in daily operations and decision-making. These include incorporating climate risk into enterprise risk management systems, updating internal policies to reflect sustainability priorities and aligning capital allocation with transition plans. Companies are increasingly applying scenario analysis, materiality assessments and climate-related metrics to guide strategic planning and performance evaluation. These instruments translate high-level board commitments into operational outcomes, ensuring that sustainability is not confined to disclosure but embedded in business models, investment decisions and corporate culture.

Innovation remains one of the most effective strategies for mitigating climate risks. In recent decades significant progress has been made in scaling up low-carbon technologies, particularly in the renewable energy, manufacturing and transport sectors. Companies are increasingly investing in digital tools, data systems and circular-economy models to boost efficiency and reduce environmental impact.

Strategically, more companies are aligning their climate goals with science-based targets. These targets provide a structured pathway to reduce greenhouse gas emissions in line with the Paris Agreement and offer a credible benchmark for assessing progress.[27] Firms that adopt science-based targets can strengthen stakeholder confidence, improve regulatory preparedness and enhance long-term business continuity.

Legal and sustainability functions are central to enabling this shift. Legal counsels now proactively support governance reform, disclosure obligations and sustainability-linked risk management. Sustainability officers coordinate ESG implementation, regulatory alignment and stakeholder engagement. Together, these roles help ensure that climate governance is embedded at both strategic and operational levels.

26 See Simply Sustainable (n.d.).

27 See SBTi (n.d.).

In accordance with its GET approach,[28] the EBRD aims to support climate leadership by strengthening internal governance and catalysing innovation across its regions through a number of investment and policy initiatives, as well as technical assistance programmes. The Bank works with companies to embed sustainability in core decision-making and operational systems. For example, a €375 million framework[29] supported by an InvestEU first-loss guarantee provides targeted financing to infrastructure providers and other companies investing in the low-carbon transition in EU member states where the EBRD invests. This framework focuses on projects addressing systemic investment gaps in energy, transport, resource efficiency and the circular economy, and is designed to support innovation in areas essential to achieving SDG 7 (on affordable and clean energy) and SDG 12 (on responsible consumption and production) where market incentives alone are insufficient.

Case studies from across the EBRD regions show how governance and innovation intersect.[30] In Poland the EBRD is co-financing the Baltic Power offshore wind farm, which is projected to supply clean energy to more than 1.5 million households and is the first project of its kind in an EBRD economy of operation. In Morocco, meanwhile, a €150 million sovereign loan supported the expansion of the Saïss irrigation network, advancing water governance through efficient, climate-resilient infrastructure, with direct benefits for agricultural productivity and rural livelihoods.

Complementing investment with technical assistance, the EBRD has supported corporate governance improvements in hundreds of companies and financial institutions, contributing to more resilient, more transparent and better-managed businesses. The EBRD also works to build institutional capacity at board level through climate governance policy engagements in the Bank's regions, supported via the CCG Facility. Through targeted training for non-executive directors in climate-related risk oversight and strategic alignment with net-zero objectives, the Bank is working with partners to strengthen board accountability and equip corporate leaders with the tools to manage climate risks as part of their fiduciary duty.

28 See **https://www.ebrd.com/home/who-we-are/ebrd-values/ebrd-environmental-social-sustainability/EBRD-green/Green-Economy-Transition-Paris-alignment.html** (last accessed 15 July 2025).

29 See **https://www.ebrd.com/home/work-with-us/projects/psd/54197.html** (last accessed 15 July 2025).

30 See EBRD (2023).

CLIMATE JUSTICE, GLOBAL HEALTH AND INCLUSIVE GOVERNANCE

The transition to a low-carbon economy entails significant social implications beyond the environmental and economic challenges. Climate impacts are not distributed equally, with vulnerable populations – particularly in emerging markets – facing heightened exposure to environmental risks and having limited capacity to respond. Ensuring that the green transition is inclusive and equitable is essential to its effectiveness and long-term credibility.

The links between climate vulnerability and inequality are increasingly evident. Climate shocks are already disrupting health, food systems and essential services, with disproportionate impacts on vulnerable populations.[31] These realities underscore the critical intersection between climate governance, SDG 3 on good health and well-being (which calls for substantial increases in financing for and research into communicable and non-communicable diseases, and the strengthening of resilience to health-related climate risks) and SDG 9 on industry, innovation and infrastructure (which prioritises investment and finance for cutting-edge sustainability innovations).[32]

> “A just transition requires more than just emissions reductions.”

A just transition requires more than just emissions reductions. It also entails policies and investments that protect livelihoods, promote regional resilience, and ensure that the costs and benefits of the transition are shared fairly. Financial institutions and other companies play an important role in this process, alongside governments and civil society. Key actions include assessing the social impacts of transition plans, supporting workforce reskilling, and investing in inclusive infrastructure and local supply chains. An example of promoting SDG 5 (on gender equality) and economic empowerment is the EBRD initiative improving access to justice for women entrepreneurs in Jordan. This initiative aims to enhance legal frameworks and support women entrepreneurs in rural areas by providing them with better access to justice and resources. By addressing gender disparities and empowering women in the business sector, it seeks to contribute to a more inclusive and resilient economic transition.

The EBRD also aims to incorporate climate justice in its strategic direction by supplementing its GET approach with a focus on economic governance and inclusion, as underscored by its new SCF. The Bank supports investments that promote low-carbon development, while addressing regional disparities, labour-market transitions and access to services. This includes targeted support for communities affected by industrial restructuring and early-stage stakeholder engagement to identify risks and opportunities for inclusion.

More broadly, the EBRD's Environmental and Social Policy[33] provides an overarching framework for promoting inclusive and sustainable outcomes across all Bank-financed projects. All investments are subject to due diligence, with safeguards in place to mitigate social risks and maximise benefits for affected communities. The Bank also provides technical assistance and policy support to advance gender equality, economic inclusion and stakeholder accountability, at both project and institutional levels.

31 According to the World Bank, without sustained action, more than 130 million people could be pushed into poverty by 2030, owing to climate-related disruption, particularly in lower-income and transition economies; see WBCSD (2022).

32 Innovative firms such as UK-based cell engineering specialist bit.bio are implementing evidence-based corporate sustainability strategies and reporting frameworks to deliver on these imperatives; see **https://www.bit.bio/sustainability-and-environment** (last accessed 15 July 2025).

33 See EBRD (2024).

THE EMERGING MARKET OPPORTUNITY: GOVERNANCE AS A CATALYST

Emerging markets occupy a central position in the global climate and sustainability transition – as regions of heightened vulnerability and as potential centres of innovation and sustainable investment. While these economies face constraints such as limited institutional capacity, restricted access to capital and elevated exposure to climate risks, they also present unique opportunities for low-carbon development and economic transformation.

Emerging markets also have the opportunity to adopt climate-aligned technologies without the burden of legacy infrastructure. In Kenya, for example, the expansion of digital finance has facilitated rapid uptake of distributed solar-energy solutions. In Mexico, meanwhile, industrial capabilities are supporting the development of solar photovoltaic manufacturing, and Kazakhstan is using its existing energy expertise in oil and gas to move towards working with sustainable fuel technologies. These examples[34] show the potential for innovation where governance frameworks support institutional coordination, policy alignment and long-term planning.

The EBRD supports this transition by working with governments, financial institutions and other companies to strengthen climate governance and sector reform, enable decarbonisation and align with global standards. This support includes both policy and financial instruments, such as the Just Energy Transition Investment Platform in North Macedonia and Türkiye's Decarbonisation Platform, which help governments shape their low-carbon transition pathways while attracting private-sector investment and embedding equity considerations.

On the financing side, instruments such as the Green Economy Financing Facilities (GEFFs) and the GET approach offer funding and capacity building to assist private-sector institutions in incorporating green lending practices, climate risk assessments and disclosure standards into their core operations.

34 See IEA (2024).

For emerging markets, strong governance can shape the trajectory of the climate transition and foster an environment that unlocks climate finance, attracts foreign direct investment and drives the development of resilient, competitive and inclusive green economies. Strengthening governance at both the firm and system levels enhances institutional resilience, builds investor confidence and supports long-term value creation.

CONCLUSION

Good governance underpins the credibility, fairness and long-term success of climate and sustainability action. In managing escalating climate risks, attracting investment, driving innovation and supporting inclusive economic development, incorporating climate and sustainability considerations into governance structures becomes increasingly critical. Strong governance provides the institutional lens through which climate objectives are translated into business strategy and strategic plans are operationalised across corporate and financial systems. In emerging markets, where climate risks intersect with institutional and financial constraints, governance is key to delivering credible, investable and equitable transition pathways.

Achieving this requires collaboration across institutions and sectors. Legal advisers, board directors, regulators and investors all have distinct roles in shaping governance systems that support climate alignment and long-term value creation. Multi-stakeholder engagement, policy coherence and institutional capacity ensure that governance frameworks remain adaptive and effective as the transition progresses.

The EBRD supports this process through an integrated approach, combining finance, policy engagement and technical assistance. Through its CCG Facility, and as part of its broader GET approach, the Bank works with financial institutions, other companies and public stakeholders to strengthen governance practices, align with international standards and develop robust transition plans. Collaboration between the EBRD and academic institutions could further translate climate governance research into practical boardroom tools and policy frameworks, reinforcing the enabling environment for corporate climate leadership. As countries and companies navigate the complexities of decarbonisation, adaptation and economic transformation, governance will remain central to ensuring that the transition delivers not just climate alignment but long-term resilience, equity and impact.

References

Bank of England (2024), "Measuring climate-related financial risks using scenario analysis", *Bank of England Quarterly Bulletin*, 17 April. Available at: https://www.bankofengland.co.uk/quarterly-bulletin/2024/2024/measuring-climate-related-financial-risks-using-scenario-analysis (last accessed 15 July 2025).

BCG (2023), *The Sustainability Imperative in Emerging Markets*, Boston Consulting Group, March. Available at: https://www.bcg.com/publications/2023/the-importance-of-sustainability-in-business (last accessed 15 July 2025).

Bloomberg (2024), "Global ESG assets predicted to hit $40 trillion by 2030, despite challenging environment, forecasts Bloomberg Intelligence", news release, 8 February. Available at: https://www.bloomberg.com/company/press/global-esg-assets-predicted-to-hit-40-trillion-by-2030-despite-challenging-environment-forecasts-bloomberg-intelligence/ (last accessed 15 July 2025).

CBI (2024), *The Role of Development Finance Institutions in Accelerating the Mobilisation of Green Capital,* Climate Bonds Initiative, November. Available at: https://www.climatebonds.net/files/documents/publications/The-Role-of-DFIs-in-Accelerating-the-Mobilisation-of-Green-Capital.pdf (last accessed 15 July 2025).

D. Chawla and C. Page (2025), "Empowering financial institutions: the EBRD's Climate Transition Programme", *Law in Transition*, EBRD.

M.-C. Cordonier Segger (2021), "A future agenda for crafting 'Athena's Treaties' on trade and investment for sustainable development", in *Crafting Trade and Investment Accords for Sustainable Development: Athena's Treaties*, Oxford University Press, pp. 324-328. Available at: https://academic.oup.com/book/42118/chapter/356143107 (last accessed 15 July 2025).

M.-C. Cordonier Segger and D. Olawuyi (2025), *Sustainable Development Law: Principles, Practices and Prospects*, second edition, Oxford University Press. Available at: https://global.oup.com/academic/product/sustainable-development-law-9780198883210?cc=sg&lang=en&# (last accessed 15 July 2025).

Deloitte (2023), "Turkey implements mandatory sustainability reporting applying ISSB standards", Deloitte IASPlus, news release, 11 December. Available at: https://www.iasplus.com/en/news/2023/12/turkey-issb (last accessed 15 July 2025).

EBA (2025), "The EBA consults on guidelines on ESG scenario analysis", European Banking Authority, press release, 16 January. Available at: https://www.eba.europa.eu/publications-and-media/press-releases/eba-consults-guidelines-esg-scenario-analysis (last accessed 15 July 2025).

EBRD (2020), *Transition Report 2020-21 – The State Strikes Back*, November. Available at: https://www.ebrd.com/home/news-and-events/publications/economics/transition-reports/transition-report-2020-21.html (last accessed 15 July 2025).

EBRD (2023), *Energy Sector Strategy 2024-28*, December. Available at: https://www.ebrd.com/home/what-we-do/ebrd-sectors/energy/energy-sector-strategy.html (last accessed 15 July 2025).

EBRD (2024), *Environmental and Social Policy*, October. Available at: https://www.ebrd.com/home/news-and-events/publications/institutional-documents/environmental-and-social-policy-2024.html (last accessed 15 July 2025).

EBRD (2025), *Strategic and Capital Framework 2026-30*. Available at: https://www.ebrd.com/home/what-we-do/strategic-and-capital-framework.html#customtab-62a98b8d26-item-ba7a644d09-tab (last accessed 15 July 2025).

ECB (2025), "Exploring an uncertain future with the help of scenarios", European Central Bank, *The ECB Blog,* 15 January. Available at: https://www.ecb.europa.eu/press/blog/date/2025/html/ecb.blog.20250115~f016f263dd.en.html (last accessed 15 July 2025).

European Commission (2025), "Omnibus package", newsletter, Directorate-General for Financial Stability, Financial Services and Capital Markets Union, 1 April. Available at: https://finance.ec.europa.eu/news/omnibus-package-2025-04-01_en (last accessed 15 July 2025).

FCA (2023), "Finance for positive sustainable change: governance, incentives and competence in regulated firms", Financial Conduct Authority, Discussion Paper DP 23/1, February. Available at: https://www.fca.org.uk/publication/discussion/dp23-1_updated.pdf (last accessed 15 July 2025).

IEA (2024), *Clean Energy Innovation Policies in Emerging and Developing Economies*, International Energy Agency. Available at: https://www.iboardsem.com/post/clean-energy-innovation-policies-in-emerging-and-developing-economies (last accessed 15 July 2025).

PwC (2025), "Japan adopts sustainability statements based on ISSB standards", US news release, 5 March. Available at: https://sustainablefutures.linklaters.com/post/102k3dp/japan-issues-its-sustainability-disclosure-standards-which-incorporates-key-eleme (last accessed 15 July 2025).

SBTi (n.d.), "What are science-based targets?", Science Based Targets Initiative. Available at: https://sciencebasedtargets.org/how-it-works (last accessed 15 July 2025).

Simply Sustainable (n.d.), "The importance of governance within ESG", Simply Sustainable Insights. Available at: https://simplysustainable.com/insights/the-importance-of-governance-of-g-in-esg (last accessed 15 July 2025).

C. Tassis and H. Kertis (2025), "Financial and advisory support for climate governance in Türkiye", *Law in Transition*, EBRD.

UNEP (2025), "China embarks on a journey of ESG disclosure: 2024 progress and focus for 2025", United Nations Environment Programme, news release, 7 January. Available at: https://www.unepfi.org/industries/banking/china-embarks-on-a-journey-of-esg-disclosure/ (last accessed 15 July 2025).

UNEP FI and PRI (2019), *Fiduciary Duty in the 21st Century. Final Report*, United Nations Environment Programme Finance Initiative and Principles for Responsible Investment. Available at: https://www.unepfi.org/wordpress/wp-content/uploads/2019/10/Fiduciary-duty-21st-century-final-report.pdf (last accessed 15 July 2025).

WBCSD (2022), "Raising ambition around an equitable and inclusive net-zero transition", World Business Council for Sustainable Development Insights. Available at: https://www.wbcsd.org/news/raising-ambition-around-an-equitable-and-inclusive-net-zero-transition/ (last accessed 15 July 2025).

WEF (2025), *Global Risks Report 2025*, World Economic Forum, 15 January. Available at: https://www.weforum.org/publications/global-risks-report-2025/digest/ (last accessed 15 July 2025).