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In search of a global ESG risk and reporting framework.

"Development banks no longer need another high-level ESG narrative. They need a flexible, audit-ready, forward-looking framework that connects disclosure, climate-risk assessment, data governance, and capital allocation."

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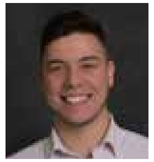
About the author



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Introduction

Why ESG frameworks still matter in 2026.

Sustainability has not disappeared from the strategic agenda in 2026. What has changed is the rationale behind it. Across financial markets, the conversation has shifted away from broad, values-led narratives toward a more pragmatic focus on financial materiality, resilience, transition economics, and the pricing of climate-related risk. Investors and executives are asking tougher questions, and institutions are being pushed to show how sustainability factors affect performance, capital allocation, and long-term risk exposure. In that context, ESG frameworks still matter, but they matter less as signaling tools and more as decision infrastructure.[i]

Recent evidence supports that shift. Deloitte's 2025 C-suite Sustainability Report found that sustainability remains a top-three priority for senior executives globally and that 83% of respondents increased sustainability investments over the past year. BCG reported that private-market general partners estimate sustainability initiatives improve realized EBITDA by 4% to 7% over the hold period of portfolio companies. Taken together, these findings suggest that sustainability continues to attract capital, but increasingly because it is being linked to revenue opportunities, operational efficiency, and stronger risk-adjusted outcomes, not simply because of stakeholder pressure.[ii]

This is especially important in a more fragmented policy environment. LSEG's outlook for 2026 argues that the sustainable investment market went through a "language shift" during 2025, with the investment case increasingly judged on long-term materiality, robust data, and the quality of analysis. Their broader asset owner survey also found that 73% of asset owners still take sustainability considerations into account in their investments, despite political and regulatory headwinds. That raises the bar for institutions. It is no longer enough to produce broad sustainability statements or high-level ESG commitments. Institutions now need stronger governance, better data, and a clearer ability to connect sustainability indicators with actual financial consequences, including transition risk, physical risk, and portfolio resilience.[iii]

For development banks, the stakes are even higher. These institutions sit at the intersection of public purpose, long-horizon investment, and market mobilization. They are expected not only to finance sustainable growth, but also to demonstrate that sustainability risks are identified, governed, and reflected in financing decisions. ADB's Environmental and Social Framework, approved on 22 November 2024 and effective from 1 January 2026, reflects this broader shift toward implementation, accountability, and more structured management of environmental and social impacts. That makes the case for a more operational ESG framework even stronger: one that supports better project selection, better risk visibility, and more credible engagement with public and private stakeholders alike.[iv]

In this context, 2026 reflects the continued maturation of ESG practices.. The institutions best positioned for this next phase will be those that treat sustainability as part of their operating model rather than as a parallel reporting exercise. For development banks, that means building a framework that can do more than satisfy disclosure expectations. It must help translate sustainability priorities into measurable exposures, defensible governance, and better capital allocation decisions in a world shaped by climate transition, policy fragmentation, and rising demand for resilience.[v]

83%

of C-Suite leaders increased their sustainability investments over the past year

Methodologies

From ratings fragmentation to disclosure architecture.

For years, the ESG debate was dominated by one familiar problem: fragmentation. Different rating agencies used different methodologies, different weightings, and different definitions of what "good" looked like. That made ESG scores difficult to compare and often difficult to trust. The result was a market in which the same institution, issuer, or project could appear relatively strong under one framework and materially weaker under another. For development banks, that inconsistency was more than a technical inconvenience. It complicated investment screening, weakened comparability across jurisdictions, and made it harder to link sustainability assessments to real portfolio and project decisions. This concern has not disappeared, but by 2026 it is no longer the whole story.[vi]

The more important shift is that sustainability disclosure is moving from a fragmented ratings conversation toward a more structured reporting architecture. In other words, the market is becoming less focused on how an institution is scored by third parties and more focused on whether it can produce decision-useful, governance-backed information on sustainability-related risks and opportunities. Ratings may remain useful as external signals, but they are not sufficient as the backbone of institutional risk management. Development banks increasingly need data that is traceable, comparable, and capable of supporting financial, regulatory, and strategic decisions at the same time.[vii]

A major driver of this shift has been the emergence of the IFRS Sustainability Disclosure Standards. IFRS S1 establishes general requirements for the disclosure of sustainability-related financial information, while IFRS S2 focuses specifically on climate-related disclosures. Both are effective for annual reporting periods beginning on or after 1 January 2024. Their importance lies not only in the detail of the requirements, but in the signal they send: sustainability reporting is no longer evolving purely through voluntary convention. It is being shaped through a more formal, investor-oriented architecture designed to support capital allocation decisions. Even where jurisdictions do not adopt the standards at the same pace, IFRS S1 and S2 provide a clearer global reference point than the market had only a few years ago.[viii]

Europe illustrates both the momentum and the complexity of this transition. The European Commission states that the first companies subject to CSRD applied the new rules for financial year 2024, with reports published in 2025. At the same time, the EU's 2025 "stop-the-clock" measures postponed by two years the reporting requirements for companies that had been due to report from 2026 or 2027, while a 2025 "quick fix" also temporarily eased some disclosure burdens for companies already reporting. This combination does not suggest that sustainability disclosure is being abandoned. It suggests regulators are trying to balance ambition with implementation reality, simplifying timelines and obligations while preserving the broader direction of travel toward more structured reporting.[ix]

For development banks, this creates a more demanding operating environment than the earlier ESG debate implied. The challenge is no longer simply to choose among competing labels or explain why one rating differs from another. The challenge is to build an internal framework that can function across multiple regimes, absorb evolving reporting expectations, and still produce a coherent view of sustainability-related risk. That means moving beyond a narrow compliance mindset. A development bank may need to consider global baseline standards, jurisdiction-specific requirements, project-level safeguards, and portfolio-level climate exposures all at once. In that context, the quality of the internal architecture matters more than the neatness of any single external label.[x]

> "Even in countries that have not yet fully adopted these standards, IFRS S1 and S2 still act as a global reference point".

Framework

What a credible 2026 ESG framework for development banks should include.

A credible ESG framework for development banks in 2026 must do far more than organize disclosures or demonstrate broad policy alignment. It must create a practical bridge between sustainability commitments and institutional decision-making. That means linking governance, materiality, data quality, climate-risk analysis, and capital allocation into a single operating model rather than treating ESG as a parallel reporting exercise. This is especially important for development banks, which operate across multiple jurisdictions, finance long-duration projects, and are expected to balance public-purpose objectives with financial discipline. ADB's 2024 Environmental and Social Framework and the broader 2025–2026 policy environment both point toward this more integrated model.[xi]

The first building block is governance anchored in materiality. A framework cannot be credible if it treats all ESG topics as equally relevant across all portfolios, sectors, and geographies. Development banks need a structured way to determine which sustainability issues are genuinely material to investment performance, project outcomes, counterparty resilience, and institutional credibility. In practice, that means clarifying who owns sustainability decisions, how materiality is assessed, and how those assessments influence approvals, portfolio reviews, and escalation processes. IFRS S1 and S2 reinforce this direction by focusing on sustainability-related and climate-related risks and opportunities that are useful to providers of capital. The framework must therefore be selective, evidence-based, and tied to decisions rather than comprehensive for its own sake.[xii]

The second building block is multi-jurisdiction readiness. Development banks rarely operate within a single regulatory environment. They may face global baseline standards, host-country safeguards, local disclosure rules, and institution-specific policy commitments at the same time. SBFN's 2025 Global Progress Report underscores this reality by showing how sustainable finance frameworks are advancing across 72 countries and 101 member institutions, with different degrees of maturity and different regulatory pathways. A robust ESG framework should therefore be flexible enough to absorb different reporting timelines, support proportionality in data gathering, and remain usable even when external standards evolve at different speeds. It should not depend on the assumption that global convergence will arrive quickly or cleanly.[xiii]

The third building block is climate-risk quantification. In 2026, climate risk cannot be treated as a disclosure-only topic. It increasingly sits inside the core risk conversation. For development banks, that means combining transition-risk assessment with physical-risk analysis and scenario capability. A credible framework should support the translation of climate pathways into measurable exposures: which sectors are vulnerable to carbon transition, which assets are sensitive to extreme weather or chronic environmental stress, and how those risks could affect project viability, counterparty performance, or portfolio resilience over time. In practical terms, institutions need the ability to connect climate pathways to measurable decisions rather than stopping at narrative reporting.[xiv]

The fourth building block is data governance and assurance readiness. As sustainability disclosure becomes more structured, institutions are being asked not simply to report more data, but to report data that is traceable, controlled, and defensible. That requires clear ownership of ESG data, documented methodologies, evidence trails, and systems capable of supporting assurance, internal review, or investment committee challenge. The market trend toward more standardized, auditable reporting reinforces this requirement. Without those capabilities, even a strong sustainability narrative remains hard to validate and difficult to connect to formal decision processes.[xv]

The fifth building block is taxonomy-aligned capital allocation. In a more mature ESG environment, the framework must help the institution do something practical with sustainability information. It should support classification, prioritization, and comparison across different forms of sustainable activity, including green finance, transition finance, adaptation, and resilience. The IEA's work on transition finance is particularly relevant here, because it emphasizes that transition finance supports emissions reductions in hard-to-abate sectors and in emerging markets where green finance alone may be insufficient, provided those investments are grounded in transition plans and tracking mechanisms. Development banks are especially important in this context because they do not merely disclose against sustainability priorities; they shape markets through where they deploy capital and how they mobilize private finance alongside public objectives. [xvi]

Finally, a credible framework for development banks must preserve the broader environmental and social implementation discipline that distinguishes public-purpose finance from narrower corporate reporting models. ADB's Environmental and Social Framework is relevant not only because it is current, but because it emphasizes the protection of people and the environment in project design and execution. That broadens the conversation beyond climate disclosure alone. It reminds us that a development-bank framework must remain grounded in project impacts, stakeholder outcomes, and implementation quality, not just in portfolio metrics. The strongest ESG frameworks in 2026 are therefore not the ones that produce the most reporting. They are the ones that combine governance, risk visibility, data discipline, and real-world project accountability into a coherent basis for better decisions.[xvii]

> "Without governed data and execution capability, ESG reporting remains descriptive. With them, it becomes decision infrastructure."

Execution

Technology, data governance and AI as the execution layer.

If ESG frameworks in 2026 are expected to be decision-ready, technology cannot be treated as a side topic. It is the execution layer that determines whether sustainability data can actually be captured, governed, validated, and used in time to support risk management and capital allocation. This is where many institutions still fall short. The challenge is no longer simply to produce more ESG information, but to build an operating environment in which that information is traceable, comparable, and connected to real decisions. In practice, that means moving beyond isolated reporting tools toward a governed architecture that can integrate internal systems, external datasets, portfolio analytics, and control processes.[xviii]

Market expectations are rising around the quality of sustainability information, not just its volume. LSEG argues that sustainable investment is now being judged more rigorously on the basis of robust data, clearer evidence, and stronger analytical discipline. Morningstar's 2026 trends point in a similar direction, highlighting climate transition, rising renewables investment, sustainable bonds, biodiversity, and AI risk as defining themes. Taken together, these signals suggest that institutions need technology stacks capable of doing more than producing dashboards. They need systems that support granular analysis, connect sustainability information to project and portfolio exposures, and withstand greater scrutiny from regulators, investors, and counterparties.[xix]

For development banks, this means designing ESG infrastructure around governed interoperability. Open platforms and APIs still matter, but only if they sit inside a framework with clear ownership, controls, and evidence trails. Institutions need to know where sustainability data comes from, how it has been transformed, which methodologies have been applied, and whether the resulting outputs are consistent enough to support assurance or formal challenge. Supplier data, project-level operational data, emissions estimates, climate scenarios, and counterparty information all need to be linked in a way that preserves traceability rather than creating new black boxes.[xx]

AI adds another layer of opportunity and complexity. Used well, AI can help automate data collection, identify gaps, flag anomalies, and improve the speed of ESG monitoring across large portfolios and fragmented supply chains. But the governance burden rises at the same time. A 2026 regulatory update from Norton Rose Fulbright notes that growing use of AI in ESG data management and analysis introduces governance risks that compliance teams need to address. For development banks, that means AI cannot be added as a convenience feature on top of weak data foundations. It must be introduced within a governed environment, with clear controls over model use, accountability for outputs, explainability where needed, and human oversight over decision-relevant results.[xxi]

This execution challenge also has a system-wide dimension. ESG execution is no longer a niche capability for a small group of frontrunners. It is becoming part of the baseline institutional capability expected across public and private financial systems. For development banks, the implication is clear. Reporting capability, risk capability, and technology capability must converge. Without governed data and scalable execution, ESG remains descriptive. With them, it becomes part of the institution's decision infrastructure.[xxii]

> "The challenge is no longer simply to produce more ESG information, but to build an operating environment in which that information is traceable, comparable, and connected to real decisions."

Conclusion

From compliance burden to capital allocation advantage.

For development banks, the value of an ESG framework in 2026 should not be measured only by whether it satisfies disclosure expectations. Its real value lies in whether it improves decision-making. A well-designed framework helps an institution identify material risks earlier, compare projects more consistently, strengthen the discipline behind investment approvals, and direct capital toward activities that are more resilient under transition and physical climate pressures. In that sense, ESG is no longer just a reporting burden. It is becoming part of the institutional toolkit for allocating capital with greater confidence in a more complex operating environment.[xxiii]

Transition finance is one area where this shift becomes especially clear. The IEA defines transition finance as financial activity that can contribute to emissions reductions, particularly in hard-to-abate sectors and in emerging market and developing economies where green finance alone may not be sufficient. It also stresses that such finance should be grounded in transition plans or equivalent mechanisms that enable tracking and follow-up. This matters for development banks, which are often expected to finance activities that do not fit neatly into a narrow green category but are still essential to a credible low-carbon transition, including industrial decarbonization, grid upgrades, adaptation, and resilience. A stronger ESG framework helps institutions distinguish between activity that is merely labeled as sustainable and activity that is strategically relevant to real-economy transition.[xxiv]

The same logic applies across emerging markets, where development banks often play a catalytic role. SBFN's 2025 findings show that sustainable finance frameworks are advancing across a broad base of emerging-market systems, underscoring that ESG frameworks are not just internal governance tools. They are also part of the architecture through which development banks can crowd in private capital, align with national and regional policy evolution, and improve credibility with regulators, investors, and project stakeholders. A framework that is clearer, more auditable, and more decision-oriented can therefore become an institutional advantage, not only a compliance mechanism.[xxv]

In 2026, the question is no longer whether development banks need an ESG framework. The question is whether their framework is robust enough to support better decisions in a more demanding, more fragmented, and more climate-exposed world.[xxvi]

Resources

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