



# The Financialisation of Climate Governance: How Markets Regulate Sustainability in the Global South

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**Abstract.** The decades since the 1992 Earth Summit have witnessed a silent yet profound shift in the arena of climate governance. What began as a predominantly political project has gradually come to intersect with the institutions, practices, and logics of global finance. Carbon markets, green bonds, sustainability disclosures, and ESG frameworks are no longer peripheral instruments of climate action; they have become an integral part of the very architecture that shapes the way in which climate action is defined and worked towards. This paper engages with the concept of financialisation to theorise this shift. Further, the paper argues that financialisation operationalises itself through two interconnected modalities—epistemic authority and regulatory authority. Finally, by adopting an interpretive comparative political economy approach, the paper identifies three pathways along which financialisation gets institutionalised across varied contexts. The cases selected for the multi-case design include three economies of the Global South (India, Nigeria, Brazil), all of which are being increasingly integrated in global climate finance infrastructure but via varied means. Despite their institutional differences, the three cases reveal a broader convergence in which the authority to define and regulate sustainability is increasingly exercised through financial logics.

**Keywords:** Climate Governance, Financialisation, Global South, Climate Finance, Epistemic Authority, Regulatory Authority, ESG

## 1. Introduction

The governance of climate change is no longer limited to conference rooms and treaty negotiations. It has percolated across financial terrains like trading floors, rating reports and investment portfolios. From carbon credits traded across continents to sovereign green bonds issued in the name of sustainability, climate action now moves through the circuits of global finance (Bracking, 2019). Today, forest conservation projects in the Amazon are deeply linked to corporate offset agendas. Firm valuations in the globalised economy are shaped by climate risk disclosures and offset schemes (Folkers, 2024).

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This shift can be characterised as a gradual reconfiguration. Beginning from the 1992 Earth Summit, corporations and NGOs were an integral part of conversations surrounding sustainability. However, States remained at the centre of climate-based negotiations. Through the year, the instruments and mechanisms of climate action have expanded both in terms of structure and scope. Carbon markets have multiplied across jurisdictions, green bonds have become a preferred tool for financing climate-linked expenditure, and disclosure frameworks have transformed how environmental performance is recorded and communicated (Bracking, 2019; Ameli et al., 2020). What were once supplementary mechanisms have, in many cases, become central to how climate action is organised. Alongside this institutional shift, there has been a more subtle transformation in how climate change itself is understood. In other words, it is framed along financial categories of risks and opportunities. The manifestations are many. Natural disasters like floods and wildfires are assessed based on their impact on assets and infrastructure. Policy change is evaluated along the lines of investment and valuation. Long term ecological transitions become scenarios for financial planning. Mountains, Forests, coastlines and energy systems are converted into metrics that can be compared across firms and jurisdictions. Sustainability essentially becomes legible to markets by turning into a standardisable and comparable entity.

The concept of financialisation provides a useful lens to analyse this transformation. It refers to the growing influence of financial logics, instruments, and actors in domains previously governed by social and political considerations (Krippner, 2005; Epstein, 2005). It essentially implies a shift in authority away from political contestation. More so, it leads to a dehumanisation of the definition of sustainability in favour of a more monetised one. Financial instruments become a prism through which the definition and implementation of sustainability and climate action are diffracted into standardised data. The knowledge-power nexus in terms of climate governance ends up becoming conflated with global finance.

The implications of this shift are particularly pronounced in the Global South. In the context of developing economies, climate governance unfolds at the intersection of developmental imperatives and environmental vulnerabilities. In an already strained economy where a range of socio-economic aspirations compete for financial resources, access to global finance becomes an important consideration. However, under conditions of financialisation, access to climate finance and positioning in the global finance infrastructure becomes conditional on alignment with sustainability frameworks (OECD, 2023). One of the central claims this paper builds upon is that the process of financialisation taking place in the broader realm of global climate action is differently adapted and institutionalised in domestic contexts (Lapavistas & Soydan, 2022). However, in whatever way it may choose to project itself, it has consequences for domestic policy priorities and decision making. Methodologically, the paper adopts an interpretive comparative political economy approach to examine how financialisation is institutionalised across different contexts. It focuses on India, Nigeria, and Brazil as illustrative cases that represent distinct pathways of integration. In particular, state-led regulatory reform, external financial dependence, and market-driven consolidation, respectively. This analysis is undertaken across a broader terrain of financialisation defined in terms of transformations in epistemic and regulatory authority.

## 2. Age of Finance in Climate Governance

Contemporary climate governance is marked by an intersection of political mechanisms with those of global finance. While the architecture of climate governance initially took shape through international agreements and state commitments, it soon came to incorporate financial logics of measurement and audit within its fold. Testimony to these tendencies are the celebrated Kyoto Protocol and Paris Agreement which were accompanied by novel mechanisms in climate change governance including carbon trading, emissions offset markets and so on (Paterson, 2010). Soon enough questions of finance, investment and capital flows became some of the central elements in climate action debates. What follows from this is not simply a greater role for finance, but a more subtle shift in how climate change is made intelligible. This shift is precisely what this paper conceptualises as “financialisation”. The concept of financialisation indicates the increasing penetration of financial logics, rationalities, and instruments into domains previously governed by social, political and ecological considerations.

One of the important manifestations of the permeation of financial logics in climate governance is the reframing of climate change as a financial risk. This is evident in the ways major financial actors, including Task Force on Climate-related Financial Disclosures (TCFD), central banks and asset managers, classify climate change into three types of financial risks. One, physical risk, associated with climate-induced damages to assets and infrastructure. Two, transition risk, linked to policy changes, technological shifts, and market revaluations. Three, liability risk, concerning legal and reputational exposure. This framework, widely institutionalised across financial markets, translates climate change into an object of financial calculation. The implications of this re-articulation are partly theorised by Sullivan (2018). Accordingly, the reduction of ecological uncertainty into calculable risk categories allows financial actors to govern environmental issues through the management of portfolios rather than the pursuit of ecological integrity. This subtle transformation of power dynamics has the potential to create a new hierarchy of expertise such that actors like ESG analysts, rating agencies, financial auditors and sustainability consultants gain authority as arbiters of environmental credibility. Eventually, what we see is an epistemic reordering wherein financial knowledge becomes the dominant means of understanding climate performance. Scholars like Fourcade and Healy (2017) have shown how these systems do not stop at describing and measuring reality. Rather, they actively shape it by determining which actions are deemed responsible, investible and legitimate.

A further consequence of financialisation is the conversion of sustainability into an asset class. Green bonds, sustainability-linked loans, ESG-screened portfolios and climate indices all treat environmental performance as an investment signal. This transformation has material consequences: the availability and cost of capital become conditional on alignment with ESG metrics. As Flammer (2021) shows, green bonds and sustainability-linked instruments reward compliance with certain environmental behaviours and penalise deviation. For many Global South countries, this transformation intersects with structural conditions of debt, dependency, and financial hierarchy (Gallagher & Kozul-Wright, 2019). States are pressured to demonstrate climate credibility

through financial indicators, creating a form of competitive compliance. This is especially prevalent where development banks, donors, and investors link climate finance to ESG alignment, reinforcing what Seabrooke and Wigan (2022) term the ‘authority of transnational professional networks’.

At last, the evolution of climate governance into a financialised regime represents a shift in both the actors that wield power and the logics through which authority is exercised. What began as a technical shift in funding has become a political restructuring of environmental governance. Finance is no longer merely a tool of implementation; it is increasingly the arena in which climate governance is defined and legitimised.

### **3. Modalities of Financialisation**

The paper contends that financialisation is operationalised via two interconnected modalities - epistemic authority and regulatory authority. Epistemic, because it moulds the knowledge systems through which legitimate climate action is defined; and Regulatory, because these knowledge systems then shape behaviour via conditionalities, incentives and sanctions.

In operational terms, epistemic authority is identified in this paper wherever a domestic framework adopts an externally produced classification system, such as TCFD’s risk categories or the IFRS S2 disclosure architecture, as the basis on which environmental performance is defined and reported. Regulatory authority is identified wherever compliance with such metrics is tied to a material consequence: cost of capital, listing status, loan conditionalities, or index inclusion. The two are treated as distinct but connected: epistemic authority establishes what counts as legitimate environmental knowledge, and regulatory authority attaches consequences to that knowledge.

#### **3.1. Epistemic authority: how finance produces environmental knowledge**

Epistemic authority in climate governance refers to the capacity to define how environmental performance is evaluated. In recent years, this authority has shifted away from public regulatory institutions and scientific communities towards financial actors who specialise in producing classifications, metrics, and disclosure systems. Broome and Quirk (2015) have shed light on the role of indicators in structuring global governance by framing problems in ways that elevate specific actors or forms of expertise over other alternatives. ESG ratings and sustainability metrics exemplify this dynamic within climate governance. In contemporary climate governance, knowledge production appears to be fused with metrics creation. ESG scores, carbon intensity measurements, transition-risk ratings, and taxonomy-aligned revenue calculations convert complex ecological and social relationships into simplified numerical categories. This corresponds with the perspectives presented by scholars like Espeland and Stevens (1998). Accordingly, metrics and indicators are far from neutral. When qualitative, multifaceted realities are transformed into quantifiable metrics, there occurs a significant change in the normative assumptions such that what is measurable becomes what matters. This results in a hollowed out understanding of climate governance based on a financial-centric view of sustainability which rests on materiality and standardisation.

This knowledge-making power is concentrated in a privy of private data providers. They have their own set of proprietary methodologies which are opaque and often inconsistent across providers (Berg, Kölbel, & Rigobon, 2022). Nevertheless, their ESG scores and ratings function as authoritative signals. Sinclair (2005), while focusing on credit ratings, has articulated how agencies and private evaluators derive influence not from perfect accuracy but from the perception that their assessments are objective and expertise-based. A second, equally important dimension of epistemic authority emerges through disclosure regimes. Over the past decade, reporting frameworks such as TCFD, IFRS S2, GRI, SASB, and CDP have created an expansive architecture through which firms and states must disclose climate-related information (International Sustainability Standards Board [ISSB], 2023). While they may have originated as voluntary guidelines, they are widely being integrated into stock exchange listing rules and national regulations. It is important to note here that more often than not, these are developed by private bodies, headquartered in the Global North. This implies that their global diffusion carries embedded assumptions about environmental responsibility. Put otherwise, transnational professional networks play a central role in stabilising these frameworks and backing their legitimacy (Seabrooke and Wigan, 2022). In a nutshell, elements ranging from metrics construction and disclosure standardisation, aimed at making environmental performance comparable, metamorphose environmental uncertainty into calculable financial risks. This, in turn, makes it possible for finance to determine what environmental actions are credible and investible, while ultimately reframing the epistemic foundations of climate governance.

### **3.2. Regulatory authority: finance as a mechanism of rule**

If epistemic authority allows financial actors to define what sustainability means, regulatory authority enables them to shape how environmental behaviour is disciplined. Authority, in the era of financialised climate governance, appears to operate through the conditionalities embedded in capital allocation. In practice, financial actors (like asset managers, stock exchanges, credit rating agencies, and development banks) govern by using market incentives and sanctions to steer corporate and sovereign behaviour. For instance, major investors including the “Big Three” asset managers (BlackRock, Vanguard, State Street) now integrate ESG assessments into portfolio decisions and engagement strategies. As a result, firms are rewarded and penalised in terms of investment based on alignment with climate-related expectations.

Instruments such as Green Bonds and Sustainability-linked loans take shape through similar processes of interplay between financial logic and climate imperatives. Performance targets related to emission reduction or renewable energy thresholds are often an explicit part of their terms. Interest rates and coupon payments are determined based on success in meeting targets. In this way, these instruments create strong financial incentives for companies and governments to comply with investor-defined environmental metrics (Flammer, 2021). Similar sustainability requirements find space in Stock exchange listing rules. Exchanges such as Brazil’s B3, India’s NSE and BSE, and South Africa’s JSE have integrated ESG disclosure obligations into corporate governance frameworks, forcing listed firms to adopt global reporting standards regardless of

domestic regulatory mandates. In effect, the centre of authority which earlier resided with environmental ministries is more dispersed across market actors. An equally significant role is played by credit rating agencies. Climate risks have long started to become a part of corporate and sovereign credit ratings (Monnin, 2018). The assessments of rating agencies have both direct and indirect influence on borrowing costs. When these ratings take a dip, be it due to physical climate risks, energy transition exposures, or governance weaknesses, it can raise the cost of capital for states already facing fiscal constraints. This dynamic is exemplified in what Kerwer (2005) describes as “governance through creditworthiness,” where private evaluators serve as *de facto* regulators by determining who is deemed financially credible.

One of the most important financial actors that help entrench this regulatory role of finance is international financial institutions. Financial logics, similar to the ones described above, have become part of dealings with development banks ranging from World Bank to regional counterparts like African Development Bank and Asian Development Bank. Conditions of loans, concessional finance and project approval now include conditions of compliance with ESG standards. Often the safeguard frameworks and due diligence processes of these institutions are developed with inputs from global consulting firms with the effect of imposition of private ESG norms on public lending practices. This has immense consequences for developing states who must demonstrate alignment with investor expectations to secure development finance.

When viewed from this lens, markets are no longer passive recipients of environmental policy. Rather, it is market actors and mechanisms that are active shapers of how sustainability is defined and regulated. States increasingly adopt global private standards not because they reflect domestic ecological needs but because they enable continued access to capital. As a consequence, the governance of environmental conduct is tilted in favour of market forces and away from democratic decision making.

#### **4. Three Pathways of Financialised Climate Governance: India, Nigeria, Brazil**

This paper seeks to extend the empirical argument about the financialisation of climate governance by situating it within the institutional realities of selected Global South economies through a multi-case analysis. The selection of India, Nigeria, and Brazil follows a logic of paradigmatic case selection (Flyvbjerg, 2006), consistent with a broader tradition in comparative politics of selecting cases for their analytical purchase on a mechanism rather than for their representativeness of a wider population (Landman, 2008). Each case is chosen not because it is untouched by other forms of conditionality. What we often see is that market pressure, donor influence, and domestic regulatory mandate all operate to some degree in every setting, but one mechanism visibly leads (George & Bennett, 2005). In India, that mechanism is regulatory: SEBI mandates BRSR directly, and investor pressure operates through that statutory channel rather than around it. In Nigeria, it is external finance: the green bond programme is structured and certified substantially by the World Bank and ICMA, with domestic institutions administering rather than authoring the standard. In Brazil, it is the market

itself: B3 sets and enforces the terms of ISE inclusion through voluntary listing rather than statute or donor conditionality.

**Research design and sources.** The analysis draws on an interpretive comparative reading of primary regulatory and market documents, supplemented by secondary scholarship on financialisation and climate governance. For India, this includes SEBI's BRSR and BRSR Core circulars (2021–2024) and the Sovereign Green Bond Framework (2022). For Nigeria, this includes the Federal Government's Green Bond Framework (2017, revised 2020) and associated project documentation issued with the Debt Management Office. For Brazil, this includes B3's ISE methodology documents and index composition records. The period under review runs from 2015, marking the Paris Agreement and the subsequent wave of market-based climate governance instruments, to 2024. These documents were read not for their stated environmental intent but for what they reveal about where authority to define and enforce sustainability actually sits, who produces the metrics being adopted, and what consequences attach to compliance or non-compliance. Given the paper's aim of tracing institutional logics rather than measuring policy outcomes, regulatory and market documents are treated as adequate evidence because they are themselves the sites where epistemic and regulatory authority get codified.

#### 4.1. India: State-led integration

In India, financialisation is articulated through a regulatory route, wherein state institutions actively internalise and operationalise global ESG norms. The adaptation of global sustainability norms within domestic regulatory architecture is visible in the introduction of the Business Responsibility and Sustainability Reporting (BRSR) framework by the Securities and Exchange Board of India (SEBI), alongside the Sovereign Green Bond Framework (2022) (Securities and Exchange Board of India [SEBI], 2023; Government of India, 2022). BRSR Core, introduced in 2023, requires the disclosure of 49 key performance indicators covering Scope 1 and 2 greenhouse gas emissions, energy and water intensity, and workforce composition, with third-party assessment mandated first for India's 150 largest listed firms and extending to the top 1,000 by 2027 (SEBI, 2023). While these initiatives can be applauded as efforts at standardising disclosure and aligning domestic governance with international best practice, they often come with embedded financial rationalities. Disclosure templates, materiality assessments, and reporting metrics draw heavily on transnational standards such as TCFD and IFRS. By this, they end up importing an epistemic framing of climate change as quantifiable risk (Espeland & Stevens, 1998; Broome & Quirk, 2015).

This brings with itself its own practical implications. When environmental governance begins to be organised around the production of comparable, investor-relevant information, the pursuit of substantive ecological considerations gets sidelined. In this case, the state is instrumental in the institutionalisation of financial authority. As Acharya (2004) notes, processes of norm localisation often preserve the underlying rationalities of global standards even as they are adapted to domestic contexts. In India's case, this produces a hybrid arrangement in which regulatory authority is exercised

through disclosure mandates, while epistemic authority remains anchored in globally circulating financial metrics. While on one hand, it makes climate action legible, on the other, it creates a tension between development priorities and investor-defined materiality. In the process, social and ecological concerns that resist standardisation or quantification are often rendered less visible within governance frameworks (Espeland & Stevens, 1998).

#### **4.2. Nigeria: Global finance-led integration**

In the case of Nigeria, financialisation of climate governance is mediated through the mechanisms of global climate finance such that international actors play a constitutive role in shaping domestic climate governance. The issuance of sovereign green bonds (2017, 2019), supported by institutions such as the World Bank and UNDP, exemplifies how access to climate finance is contingent upon alignment with globally recognised standards, including the ICMA Green Bond Principles (Bracking, 2021; Federal Republic of Nigeria, 2017). The 2017 debut issuance, developed with technical support from the World Bank and certified against the Climate Bonds Standard, financed a narrow set of projects, principally rooftop solar and afforestation, chosen for their legibility as green rather than for their weight in Nigeria's broader development priorities (Federal Republic of Nigeria, 2017). Eligibility and reporting are governed by a project evaluation and selection framework external to Nigeria's own environmental ministry in origin, even where the ministry administers it domestically. Here, ESG frameworks are not primarily internalised through domestic regulation but introduced as part of a broader assemblage of financial conditionalities tied to global capital flows.

This has deep political-economic ramifications. For states that are heavily dependent on external climate finance, climate governance becomes entangled with the imperatives of securing and maintaining financial credibility within international markets. Epistemically, financialisation operates via the institutionalisation of externally defined metrics which prioritise measurability and comparability. Regulatory authority, in turn, is exercised through the conditionalities embedded in financial instruments, where access to capital is linked to compliance with ESG benchmarks (Flammer, 2021). There appears a visible convergence with the Indian case in the governing rationality such that environmental legitimacy is once again mediated through standardised metrics and investor-oriented evaluation. However, the constraints are more acute in cases like these. The privileging of quantifiable interventions narrows the policy field, favouring projects that can generate verifiable outputs while sidelining more complex, socially embedded forms of environmental governance.

#### **4.3. Brazil: Market-led integration**

Brazil presents a third pathway, in which financialisation is consolidated through the functioning of domestic capital markets. Particularly, the role of B3 (Brasil Bolsa Balcão) and its Corporate Sustainability Index (ISE) projects how investor pressure and market mechanisms can influence corporate environmental behaviour (B3, 2024; Hochstetler, 2020). Inclusion in the ISE is determined through a questionnaire-based assessment of the 200 most liquid stocks on B3, developed and administered in part-

nership with the Getúlio Vargas Foundation and audited by KPMG, with a final portfolio capped at around 40 firms (B3, 2024). Participation is voluntary, and only a small share of eligible firms opt in, which means the index disciplines behaviour not through legal mandate but through the reputational and capital-access premium attached to inclusion. In contrast to India's state-mediated pathway and Nigeria's externally driven integration, the Brazilian case is characterised by the relative autonomy of market institutions in defining and enforcing sustainability standards.

In this case, governance takes place at the site of routine operations of financial markets. These range from portfolio allocation and index inclusion to shareholder engagement. These market-based mechanisms may not replace regulatory oversight, but they can be effective in enforcing ESG integration. Epistemically, investor-oriented ESG metrics take the lead. In the regulatory sense, it is the incentives and sanctions generated by market participation that discipline behaviour (Fourcade & Healy, 2017). However, the limitations of this approach become particularly visible in relation to issues such as deforestation and land conflict, which resist reduction to quantifiable indicators (Rajão et al., 2020). The gap between what is measurable and what is politically and ecologically salient underscores a central constraint of financialised governance.

## 5. Conclusion

This paper has argued that the financialisation of climate governance goes beyond the expansion of climate finance. On the contrary, it constitutes a structural transformation. Through intertwined forms of epistemic and regulatory authority, financial actors shape what is recognised as credible environmental action, while disciplining behaviour through asymmetrical access to capital. What appears as technical innovation, therefore, is more accurately understood as a reconfiguration of power.

It is worth situating this argument against explanations that would locate these outcomes in domestic politics, donor influence, or ordinary market behaviour more generally, since all three are plausible alternative readings of the same evidence. Nigeria's case, for instance, could be read simply as an instance of donor conditionality, a pattern long documented in Nigerian development finance independent of climate governance. What the financialisation lens adds is specificity about the mechanism: the conditionality in question is not a general donor preference but the ICMA Green Bond Principles operating as an epistemic standard, one that determines which projects are legible as eligible regardless of their domestic developmental salience. Similarly, India's adoption of BRSR could be attributed to domestic regulatory ambition rather than financialisation as such. Yet the content of that ambition, disclosure architecture built on TCFD and IFRS categories rather than domestically generated indicators, is itself evidence of the process this paper describes: the state's authority is exercised in the service of a metric system it did not originate. Brazil's case admits a comparable alternative: ISE participation could be read as ordinary reputational self-interest, since firms often seek index inclusion regardless of its climate content. What financialisation adds here is that the terms of that reputational competition are not set by firms or the state but by an

external methodology. Domestic politics, donor influence, and market self-interest are not competing explanations so much as the terrain on which financialisation operates.

By tracing these dynamics across three economies of the Global South: India, Nigeria and Brazil, this paper claims that financialisation takes shape through context-specific pathways. It is important to reiterate here that these pathways do not operate as isolated tendencies, but are accompanied by an amalgamation of factors. This paper, however, identifies and analyses the most dominant and analytically representative mechanism. In the three cases covered, these pathways are state-led regulatory integration, external climate finance influence and market-oriented consolidation respectively. However, these variations coexist with a broader convergence. Across cases, sustainability is rendered legible through quantification, standardisation, and validation by financial markets. The consequences are deeply political and socio-economic in nature. The reduction of complex socio-ecological realities into standardised metrics produces systematic exclusions. Forms of knowledge that are locally embedded, historically situated, or resistant to quantification are frequently marginalised. In the Global South, where environmental vulnerability is closely tied to histories of extraction and uneven integration into global capitalism, these dynamics risk reproducing existing inequalities.

Within this context, what is at stake goes beyond how climate action is financed to who possesses the authority to define it. The issue, therefore, is not whether finance is necessary, but whether its expanding authority can be reconciled with the normative demands of justice, equity, and democratic accountability. This analytical engagement with financialisation is cautionary of both wholesale rejection and uncritical acceptance. The paper, instead, points towards a critical interrogation of its limits and implications. To what extent can financialised systems accommodate redistributive claims? How far can metric-driven governance capture the uneven and lived realities of climate vulnerability? And crucially, can climate governance retain its political and ethical grounding as it becomes increasingly mediated by financial logics? These questions are not merely theoretical. They are central to the trajectory of climate politics in the Global South, where the challenge is not limited to addressing environmental degradation, but to contest the terms on which sustainability itself is defined and governed.

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