

GREEN FINANCE: CATALYSING THE NET-ZERO TRANSITION – THE IMPERATIVE FOR FINANCE PROFESSIONALS

Abstract

Achieving a net-zero global economy requires a massive shift in how capital is allocated. Green finance lies at the heart of this transformation, directing funds to environmentally sustainable projects. This article explains what green finance is, how it has evolved, and why it is becoming essential—especially in emerging markets like India.

Government policies and financial regulations are driving this momentum, helping private capital enter the green transition with lower risk. Finance professionals now play a crucial role in designing, managing, and reporting sustainable financial instruments. Understanding Environmental, Social, and Governance (ESG) factors is no longer optional—it is a fundamental skill for anyone shaping the future of finance.

“**G**reen finance is transforming global capital flows to drive the net-zero transition. Finance professionals now play a pivotal role in shaping this sustainable future.”

The Global and National Imperative for Green Finance

Green finance included the financial products and services that facilitate the flow of capital toward environmental objectives, such as climate change mitigation, adaptation, biodiversity conservation, and pollution control. It is an operational necessity driven by both **climate**



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urgency and economic opportunity.

The global commitment to the Paris Agreement and national pledges for a net-zero future require trillions of dollars of funding. Because governments alone cannot meet this need, private finance has become the main driver of the transition. The sheer scale of this challenge—estimated to require massive annual funding—has firmly cemented the financial sector’s role as a primary catalyst for transformation.

Green Finance vs. Sustainable Finance

It is crucial for professionals to distinguish between terms:

- ⊙ **Green Finance** specifically targets **environmental** outcomes (e.g., funding a solar park).
- ⊙ **Sustainable Finance** is the broader umbrella, incorporating **Environmental, Social, and Governance (ESG)** factors into investment decisions to achieve long-term sustainability and resilience. While all green finance is sustainable, not all sustainable finance is strictly “green” (e.g., a social bond for affordable housing).

Government Schemes and the Policy Push

Governments, central banks, and financial regulators play a dual role: creating a stable regulatory environment and directly incentivizing green investment. This policy push is vital, as it lowers risk perception for private investors and standardizes the definition of “green,” combating the risk of “greenwashing” (false sustainability claims).

Key Policy and Regulatory Mechanisms

☉ Green Taxonomy and Disclosure Rules:

A “green taxonomy” defines what counts as an environmentally sustainable activity. SEBI’s Business Responsibility and Sustainability Reporting (BRSR) requires listed companies in India to disclose ESG

metrics, helping investors assess climate risks.

- ☉ **Central Bank Initiatives:** The Reserve Bank of India (RBI) is studying how climate risks affect banks and may soon adjust lending rules to promote green assets or integrate climate factors into monetary policy.

Illustrative Government Schemes (Focus on an Emerging Market Example)

In high-growth, high-emissions economies, government schemes are critical for risk mitigation and providing concessional finance to small and medium enterprises (SMEs) that lack the capital for green transition. Examples from India highlight this:

Scheme/Initiative	Administering Body	Purpose & Financial Mechanism
Green Business Scheme (GBS)	National Safai Karamcharis Finance and Development Corporation (NSFDC)	Provides concessional loans for income-generating, climate-friendly activities (e.g., e-rickshaws, solar gadgets) to marginalized sections.
Green Investment Financing for Transformation (MSE-GIFT)	Small Industries Development Bank of India (SIDBI)	A sub-scheme under the RAMP program providing concessional institutional finance to Micro and Small Enterprises (MSEs) for adopting clean/green technologies and energy-efficient practices.
Green Finance Scheme (GFS) & 4E Scheme	Small Industries Development Bank of India (SIDBI)	Offers term loans (Rupee or Foreign Currency) up to a significant portion of the project cost for manufacturing and service MSMEs in the green value chain (Renewable Energy, Water Management, E-Mobility).
Faster Adoption and Manufacturing of Hybrid and Electric Vehicles (FAME)	Department of Heavy Industry	Provides financial incentives and subsidies to promote the adoption and manufacture of Electric Vehicles (EVs), indirectly driving financing demand for EV infrastructure and loans.

Scheme/Initiative	Administering Body	Purpose & Financial Mechanism
IFSCA Sustainable Finance Framework	International Financial Services Centres Authority (IFSCA)	Mandates banking and finance units in the IFSC to allocate a minimum percentage of new loans to green, social, or sustainable projects, establishing a crucial financing gateway for India's green transition.

These schemes demonstrate a targeted use of **blended finance**, using public capital to reduce risk and attract significantly larger private investment into areas like SME efficiency and social equity in the green transition.

The Indian government also plans to raise ₹6.77 lakh crore in H2 of FY 2025–26, including ₹10,000 crore through Sovereign Green Bonds, which shall be completed through 22 weekly auctions till March 6, 2026.

The Indispensable Role of the Finance Professional

The rise of green finance has transformed the required skill set for financial professionals. Success in this evolving landscape demands an integration of core financial expertise with specialized knowledge of environmental science, policy, and impact measurement.

A. Investment Management and Analysis

1. ESG Integration and Valuation:

Financial analysts and portfolio managers are at the forefront of integrating ESG factors into financial modelling and valuation. This involves:

- ⊙ **Stress Testing:** Evaluating a company's performance under various climate scenarios (e.g., a "hot house" world or a rapid 1.5°C transition).
- ⊙ **Materiality Assessment:** Identifying the most financially relevant ESG issues for a specific sector (e.g., water risk for a beverage company or carbon pricing for a utility).
- ⊙ **Data and Reporting:** Interpreting complex sustainability data (often unstructured) from

frameworks like the Task Force on Climate-related Financial Disclosures (TCFD) and the International Sustainability Standards Board (ISSB) for inclusion in investment theses.

2. Product Structuring and Innovation:

Product specialists are developing and bringing to market novel green instruments:

- ⊙ **Green, Social, and Sustainability (GSS) Bonds:** Ensuring adherence to globally recognized standards like the **Green Bond Principles (GBP)**, which demand rigorous reporting on the use of proceeds and environmental impact.
- ⊙ **Sustainability-Linked Instruments (SLB/ SLL):** Structuring bonds or loans where financial characteristics (e.g., coupon rate, interest rate) are tied to the issuer's achievement of ambitious, measurable **Sustainability Performance Targets (SPTs)**. This requires deep engagement with the borrower's sustainability strategy.

B. Corporate Finance and Risk Management

1. Strategic Capital Allocation:

Corporate finance teams now advise on how to align capital expenditure (CapEx) with net-zero commitments. This includes:

- ⊙ **Internal Carbon Pricing:** Assigning a shadow price to carbon emissions in project evaluation to favour low-carbon investments.
- ⊙ **Green CapEx Financing:** Utilizing green finance instruments to secure cheaper capital for transition projects, improving the Weighted Average Cost of Capital (WACC)

for green initiatives.

2. Climate Risk Analytics:

Risk managers are transitioning from purely financial risk to integrated climate risk management.

- ⊙ **Physical Risk:** Quantifying the potential financial losses from extreme weather events (e.g., flood damage to assets, supply chain disruption).
- ⊙ **Transition Risk:** Assessing the financial impact of policy, technology, and market shifts (e.g., devaluation of fossil fuel assets due to a carbon tax or new clean technology).
- ⊙ **Compliance:** Ensuring the firm's lending and investment portfolios comply with emerging green taxonomies and regulatory stress tests.

C. The Evolving Competency Model

To meet these demands, the finance professional must possess:

- ⊙ **Financial Acumen:** Core skills in financial modelling, valuation, and portfolio construction remain essential.
- ⊙ **ESG/Sustainability Expertise:** Formal certifications, such as the **CFA Institute's Sustainable Investing Certificate** or **GARP's Sustainability and Climate Risk (SCR) Certificate**, are becoming industry benchmarks.
- ⊙ **Regulatory Awareness:** Up-to-date knowledge of evolving national and international sustainable finance regulations.
- ⊙ **Data and Technology Skills:** Proficiency in leveraging Big Data and AI tools to manage, analyse, and report on diverse, non-financial ESG data.

Challenges and the Way Forward

While the momentum is strong, the green finance ecosystem faces challenges that finance professionals must address:

- ⊙ **Standardization and Interoperability:** A lack of globally harmonized green taxonomies and reporting standards creates complexity and market fragmentation. Finance experts must champion the adoption of global frameworks like the ISSB.
- ⊙ **Greenwashing Risk:** The risk of firms overstating their environmental credentials erodes investor trust. Professionals, particularly in audit and external review functions, must enforce robust governance and verification mechanisms.
- ⊙ **Bridging the Adaptation Gap:** Most green finance is currently directed towards mitigation (e.g., solar and wind). There is an urgent need to structure instruments that finance **climate adaptation** and resilience projects, often involving public-private blended finance structures to address higher inherent risks.

The finance professional is no longer just an allocator of capital; they are an **architect of the sustainable economy**. By integrating core financial expertise with a deep understanding of climate risk, policy, and impact, they will unlock the multi-trillion-dollar opportunity that green finance represents, delivering both financial returns and long-term societal value. MA

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