

From ESG Commitments to Climate Investments: Where Does the Money Come From?

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Synopsis

A net-zero target is, at its core, a capital-allocation question. This article traces the full path from an ESG commitment on a boardroom slide to a financed, measured climate project on the ground — what makes a project bankable, where the capital comes from, who structures and de-risks it, and how India's regulatory architecture is reshaping the answer.

As sustainability reporting shifts from a disclosure exercise to a financially material input, climate strategy and capital strategy are converging. This piece maps that convergence for finance and sustainability professionals who need to move from ambition to execution.

Key Themes and Takeaways:

Why It Matters	Climate commitments only become real when they clear an investment committee — bankability is as important as ambition.
The Financing Gap	Global climate finance reached \$1.46T in 2022 but needs to reach ~\$7.4T a year by 2030 — closing that gap is a capital-allocation problem, not just a fundraising one.
The India Signal	SEBI's BRSR Core, the RBI's new climate finance directions, and a maturing green bond market are turning climate disclosure into a financing discipline.

From ESG Commitments to an Investment Decision

A company announces a net-zero target. It commits to cutting greenhouse-gas emissions, scaling up renewable energy, improving resource efficiency and making its operations more resilient to a changing climate. Its sustainability report may list ambitious targets, a detailed transition plan and a long roster of ESG initiatives. What receives far less attention is a more basic question: where does the money actually come from to deliver on these commitments?

Strip away the language of sustainability, and a net-zero target is, at its core, a capital-allocation question. Installing renewable-energy capacity, electrifying vehicle fleets, replacing high-emission equipment, developing green buildings, improving water resilience or making supply chains climate-resilient all require capital. Some of these projects generate direct financial returns; others primarily reduce future risk or satisfy emerging regulation. Some have predictable cash flows; others depend on technologies and markets that are still maturing.

This is the point where ESG stops being a disclosure exercise and starts becoming a finance function.

The Disclosure-to-Finance Shift

The evolution of sustainability reporting is making this connection explicit. The International Sustainability Standards Board's IFRS S1 and IFRS S2 direct companies to disclose sustainability- and climate-related risks and

opportunities that could reasonably be expected to affect their cash flows, access to finance, or cost of capital.¹ Sustainability information, in other words, is increasingly read through a financial lens: which environmental and social issues could move the economic needle for a business, and how should capital respond?

That reframes the role of ESG inside an organisation. Instead of sitting beside finance and strategy, climate considerations increasingly need to feed directly into capital-expenditure decisions, risk management, treasury strategy and investment planning.

Where Climate Finance begins turning an ESG commitment into an Investment Decision

The journey from an ESG commitment to a financed climate project can be seen as a process, each unit narrowing the field until only bankable projects remain:

Figure 1: The process that turns an ESG commitment into a funded climate project



Crucially, a positive environmental outcome alone does not guarantee funding. A project generally must clear two tests at once: does it meaningfully advance the organisation's climate or sustainability objectives, and can it be financed on acceptable financial and risk terms? That intersection — where ambition meets bankability — is where climate finance begins.

What Makes a Climate Project “Investment-Worthy”?

From material issue to investment priority

The first step is working out which climate issues genuinely matter to a given business — and that answer varies enormously by sector. A manufacturer exposed to rising power prices may flag energy efficiency and renewable energy as financially material. A mining company in a water-stressed region may prioritise water recycling and resilient infrastructure. A bank may identify financed emissions and exposure to carbon-intensive sectors as its material issue. An agribusiness may be more concerned with shifting rainfall and heat stress.

This is consistent with the ISSB's framing: IFRS S1 asks companies to identify sustainability risks and opportunities that could reasonably affect their prospects — including cash flow, access to finance and cost of capital — while IFRS S2 applies that lens specifically to climate transition and physical risk.²

¹ International Sustainability Standards Board. IFRS S1 — General Requirements for Disclosure of Sustainability-related Financial Information; IFRS S2 — Climate-related Disclosures. [ifrs.org](https://www.ifrs.org)

² International Sustainability Standards Board. IFRS S1 and IFRS S2. [ifrs.org](https://www.ifrs.org)

A materiality assessment, however, should not stop at a list of risks. It needs to answer a sharper question: what should the company do about them, and how much capital should it commit? A company facing rising carbon prices, for instance, could respond through renewable power purchase agreements, energy-efficiency retrofits, fuel switching or carbon credits — and the right answer depends on expected emissions reduction, capex, payback period, technology maturity and financing cost, not emissions reduction alone.

Where Climate Impact meets Financial Viability

Consider a rooftop solar installation. From an ESG lens, it cuts Scope 2 emissions and lifts renewable-energy share. From a finance lens, what matters is capital cost, expected generation, avoided electricity spend, maintenance cost, useful life and the resulting internal rate of return. The two lenses are not competing views of the same project — they reinforce each other. The same logic holds for fleet electrification (lower emissions and lower exposure to volatile fuel prices) and climate-resilient infrastructure (higher upfront cost but avoided future business interruption).

This is an important mental shift: climate investment does not automatically mean trading away financial return for environmental benefit. Increasingly, it is also a form of risk management, cost reduction or long-term competitiveness. The IEA's World Energy Investment 2025 estimated global energy investment would reach roughly \$3.3 trillion in 2025, with about \$2.2 trillion directed to clean-energy technologies — renewables, grids, storage, low-emission fuels and efficiency — around twice the amount expected to flow to fossil fuels.³

But an attractive opportunity does not guarantee funding: climate projects compete for capital against every other claim on a company's balance sheet — new plants, acquisitions, digital transformation. The quality of the investment case matters as much as the ambition behind it.

Not Every Climate Project Has the Same Financial DNA

"Climate investment" spans a very wide range of risk-return profiles. A mature wind or solar project backed by a long-term power purchase agreement can have predictable revenue. An early-stage carbon-capture technology carries far more technical and market uncertainty. A flood-protection project may generate little direct revenue, even though it prevents significant future losses. This creates three broad categories:

Table 1: Three broad categories of climate investment, by financial profile.

Category	Characteristics	Typical financing
Commercially attractive	Predictable cash flows; climate benefit is a co-benefit, not the sole driver	Conventional bank debt, corporate bonds, equity
Economically attractive, financially difficult	Strong wider benefits, but project cash flow alone doesn't compensate investors for risk.	Guarantees, concessional capital, blended structures
High climate/social value, low direct return	Adaptation and resilience projects in vulnerable geographies	Grants, development finance, blended/philanthropic capital

The distinction matters because it determines who is willing to fund a project, and on what terms. The Climate Policy Initiative's Global Landscape of Climate Finance 2024 shows the scale of the challenge this creates: global climate finance reached approximately \$1.46 trillion in 2022 — more than double the \$674 billion recorded in 2018

³ International Energy Agency (2025). World Energy Investment 2025. [iea.org](https://www.iea.org)

— yet needs to rise roughly fivefold, to around \$7.4 trillion a year, to stay on a 1.5°C-aligned pathway through 2030.⁴

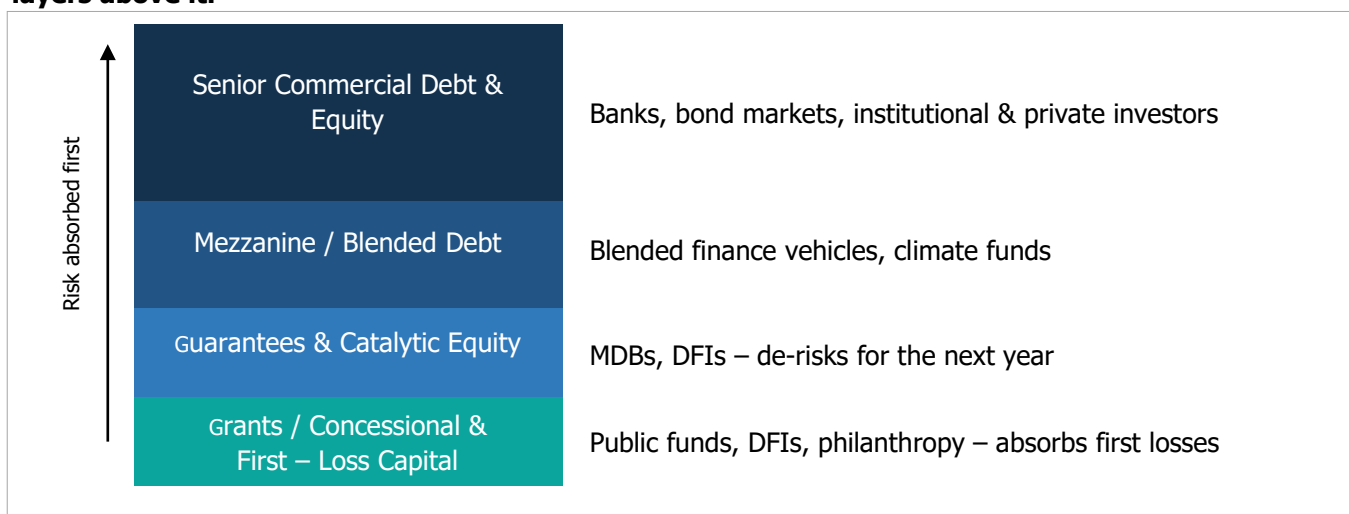
Why Climate Projects Need Different Forms of Finance — and Where the Money Comes From

Because climate projects sit across such different risk-return profiles, no single type of capital can fund all of them. A senior lender wants predictable cash flow and collateral. A pension fund wants scale and a liquid exit. A DFI can tolerate first losses that a commercial bank cannot. A philanthropic funder may accept no financial return at all, provided the climate or social outcome is credible. Matching the right capital to the right risk profile is, in many ways, the central engineering problem of climate finance.

This is best visualised as a capital stack: layers of capital with different risk appetites, stacked so that the riskiest layer absorbs losses first and shields the layers above it. A small amount of concessional or guarantee capital at the bottom of the stack can “crowd in” a much larger amount of commercial capital above it — which is precisely how blended finance is designed to work.⁵

The Climate Capital Stack: How Public Capital crowds in Private Money

Figure 2: A simplified climate capital stack — how a thin layer of concessional capital de-risks the layers above it.



So, where does the money actually come from?

In practice, climate capital flows from six broad pools:

- **Corporate balance sheets** — internal cash, retained earnings and capex budgets, used for projects that clear a company's own hurdle rate.
- **Commercial banks and green lending** — term loans, green loans and project finance, increasingly shaped by regulator-defined green-lending frameworks.
- **Capital markets** — green, social, sustainability and sustainability-linked (GSS+) bonds and loans that let issuers raise funds explicitly earmarked for climate or ESG-aligned use.

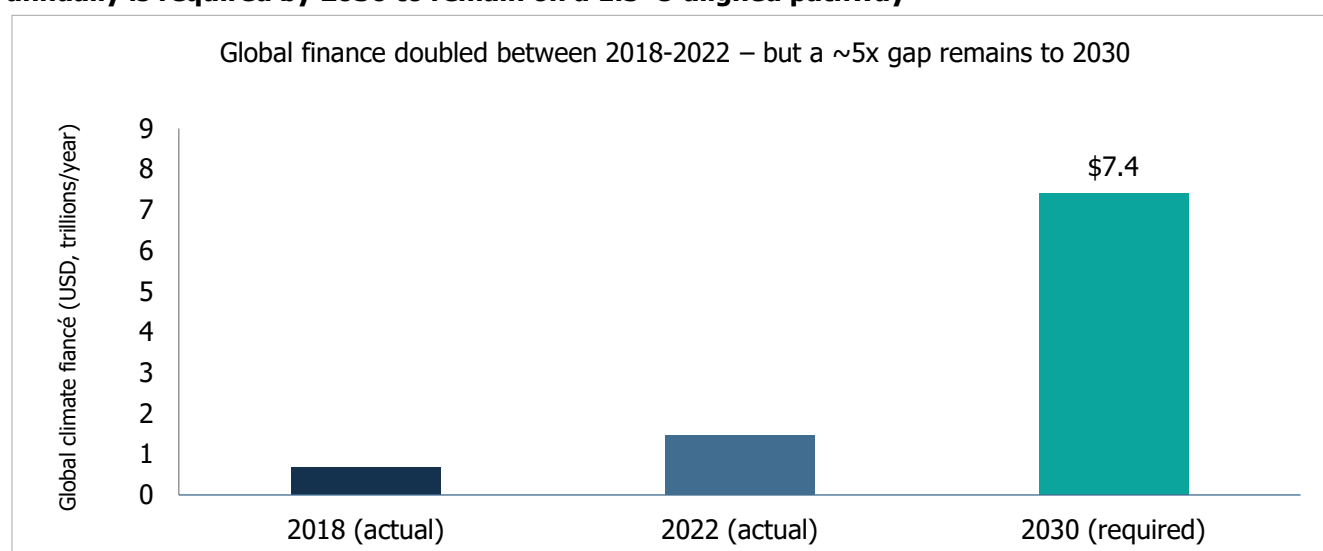
⁴ Climate Policy Initiative (2024). Global Landscape of Climate Finance 2024: Insights for COP29. climatepolicyinitiative.org

⁵ Glasgow Financial Alliance for Net Zero, British International Investment & Boston Consulting Group (2026). Scaling Blended Finance II. bcg.com / gfanzero.com

- **Development finance institutions and multilateral development banks (DFIs/ MDBs)** — concessional loans, guarantees and technical assistance, often at the base of the capital stack.
- **Private equity, venture capital and dedicated climate funds** — equity capital for higher-growth or higher-risk technologies and business models.
- **Public, sovereign and blended/philanthropic capital** — government budgets, sovereign green bonds, carbon markets and catalytic capital designed to mobilise the pools above.

The scale problem is not the absence of any one of these pools — it is that they are unevenly distributed. CPI's analysis found that between 2018 and 2022, private finance supplied over half of mitigation finance in several emerging-market regions (Latin America and the Caribbean, South Asia, Central Asia and Eastern Europe, and MENA), while public finance still accounted for roughly 60% of climate finance flowing to emerging and developing economies excluding China and the least-developed countries. In the least-developed countries specifically, private finance contributed less than 10% of the total in almost every year between 2018 and 2022 — underlining how much adaptation and resilience investment still depends on public and concessional sources.⁶

Figure 3: Global climate finance reached \$1.46 trillion in 2022, but approximately \$7.4 trillion annually is required by 2030 to remain on a 1.5°C-aligned pathway



Source: Climate Policy Initiative, Global Landscape of Climate Finance 2024

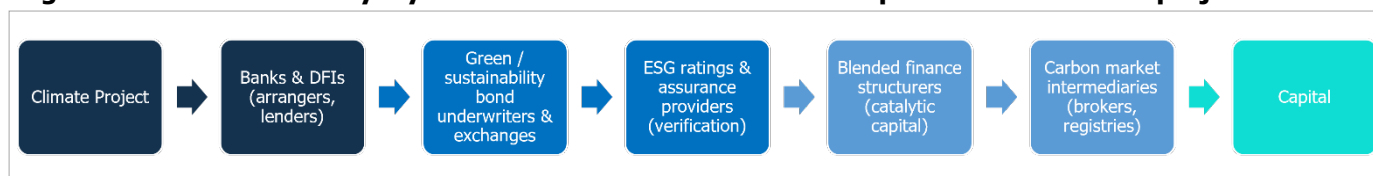
This gap is exactly why the instruments and intermediaries discussed in the next two sections matter so much: closing a \$5-6 trillion annual shortfall is less about finding new pools of capital and more about connecting existing pools to bankable projects more efficiently.

Who Sits Between the Project and the Money

Capital rarely moves directly from an investor's balance sheet to a project site. A layer of intermediary structures verifies, de-risks, and distributes that capital—and understanding their roles explains much of why climate finance can feel slow or complex.

⁶ Climate Policy Initiative (2024). Global Landscape of Climate Finance 2024; see also weADAPT summary. climatepolicyinitiative.org

Figure 4: The intermediary layer that structures and channels capital toward climate projects.



- Banks and DFIs act as arrangers and lenders, underwriting project risk, syndicating loans and, in the case of DFIs, providing the concessional or guarantee capital that anchors a blended structure.
- Green and sustainability bond underwriters and exchanges structure and list debt instruments, define eligible-use-of-proceeds frameworks and connect issuers to fixed-income investors.
- ESG rating and assurance providers — including the Big Four accounting networks and specialist verifiers — assess and independently assure emissions data, use-of-proceeds reporting and impact claims, a role that is becoming mandatory rather than optional under frameworks like SEBI's BRSR Core.⁷
- Blended-finance structurers design the capital stack itself: deciding how much concessional or guarantee capital is needed, and where, to mobilise commercial investors who would not otherwise participate.
- Carbon-market intermediaries — brokers, registries and standards bodies — originate, verify and trade carbon credits, an increasingly scrutinised instrument within the broader climate-finance toolkit.

A 2025/26 framework jointly developed by the Glasgow Financial Alliance for Net Zero (GFANZ), British International Investment and Boston Consulting Group, drawing on more than 40 real-world blended-finance transactions, sets out how fund managers should calibrate exactly how much concessional capital a deal needs — no more, no less — to unlock commercial investment.⁸ As the report notes, catalytic capital is scarce, and effective structuring means using only enough to resolve the specific constraint — risk, return, liquidity, or volatility — that is keeping private investors out.

The Financing Instruments That Are Changing the Equation

Alongside conventional loans and equity, a widening toolkit of climate-specific instruments is reshaping how projects get funded:

Table 2: A working taxonomy of climate-finance instruments.

Instrument	How it works	Best suited for
Green / sustainability-linked bonds & loans	Proceeds ring-fenced for eligible green use, or pricing linked to sustainability KPIs	Established issuers with a pipeline of eligible green assets
Transition bonds	Finance decarbonisation of hard-to-abate sectors not yet “green”	Steel, cement, aviation and other high-emission sectors in transition
Blended finance / first-loss capital	Concessional or guarantee capital absorbs early losses to de-risk commercial capital	Higher-risk EMDE projects and early-stage technologies

⁷ Securities and Exchange Board of India. Circulars on BRSR and BRSR Core, including the circular dated 12 July 2023 and the amendment dated 28 March 2025. sebi.gov.in

⁸ GFANZ, BII & BCG (2026). Scaling Blended Finance II: Optimising Catalytic Capital in Blended Finance Funds.

Carbon credits/compliance & voluntary markets	Monetises verified emissions reductions or removals	Projects with a measurable, verifiable abatement outcome
Power purchase agreements (PPAs)	Long-term offtake contract underpins predictable project revenue	Utility-scale renewable generation
Green deposits	Bank/NBFC deposits ring-fenced for lending to eligible green activities under a board-approved financing framework	Retail and institutional savers seeking a green-labelled deposit product
Results-based / outcome finance	Disbursement tied to independently verified outcomes rather than inputs	Adaptation and resilience programmes with measurable outcomes

Illustrative Example: Layering Instruments in Practice

A composite example helps show how these instruments combine in practice. Consider a mid-sized independent power producer in India building a 150 MW solar-plus-storage project. On its own, the storage component is too new, and the counterparty credit risk of its offtaker too uncertain, for a commercial bank to finance the full project on standard terms.

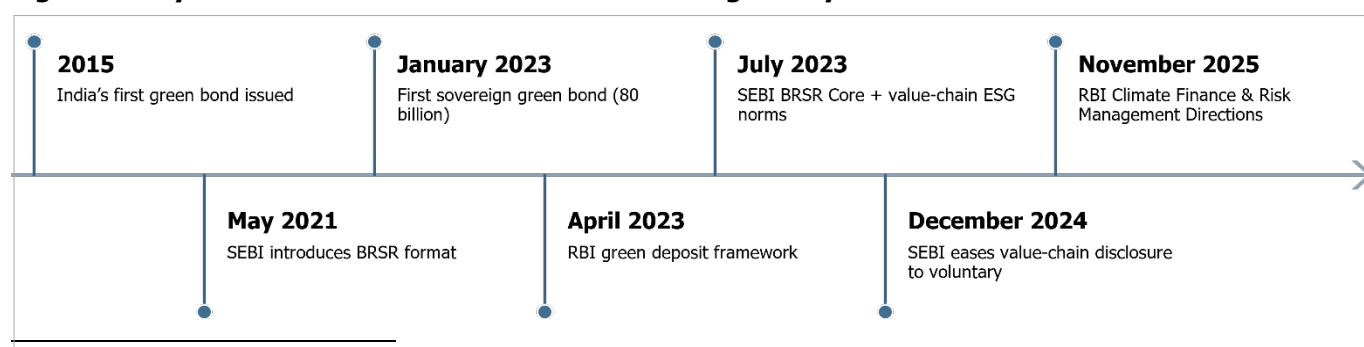
A blended structure might combine: a long-term PPA with a creditworthy offtaker to anchor predictable revenue; a concessional loan from a DFI covering roughly 15-20% of project cost, positioned to absorb early losses; a partial credit guarantee from a multilateral institution that lowers the perceived risk for commercial lenders; and senior debt from a domestic bank or a green bond raised in the local market, priced against that de-risked profile. Independent assurance over emissions-avoidance calculations, required for the green-bond's use-of-proceeds reporting, closes the loop back to measurable climate impact.

No single instrument in this stack would have made the project bankable alone; the combination does. This is precisely the logic blended-finance practitioners describe as “catalytic” capital — small, carefully targeted amounts of concessional or guarantee capital, calibrated to the specific constraint (risk, return, liquidity) that is keeping commercial capital on the sidelines.⁹

The India Story

India's climate-finance need is enormous by any measure: reaching net zero by 2070 is estimated to require cumulative investment of roughly \$10.1 trillion.¹⁰ Meeting that number will require domestic capital markets, banking regulation and corporate disclosure to align far more tightly than they do today — and the last five years show that alignment beginning to take shape.

Figure 5: Key milestones in India's climate-finance regulatory architecture.



⁹ Convergence Blended Finance (2024). State of Blended Finance 2024: Climate Edition. convergence.finance

¹⁰ CEEW Centre for Energy Finance (2021). “India Will Require Investments worth over USD 10 Trillion to Achieve Net-Zero by 2070.” ceew.in

Disclosure: SEBI's BRSR Core

SEBI's Business Responsibility and Sustainability Reporting (BRSR) framework, introduced in 2021, was substantially strengthened in July 2023 with the BRSR Core — a set of over 40 KPIs across nine ESG attributes, including greenhouse-gas footprint, water and energy footprint, and gender diversity, with a phased assurance requirement extending from the largest listed companies down to the top 1,000 by FY26-27. In March 2025, SEBI eased the value-chain disclosure requirement — covering upstream and downstream partners contributing 2% or more of an entity's purchases or sales — from a comply-or-explain basis to fully voluntary for FY2025-26, giving companies more time to build the underlying data systems.¹¹

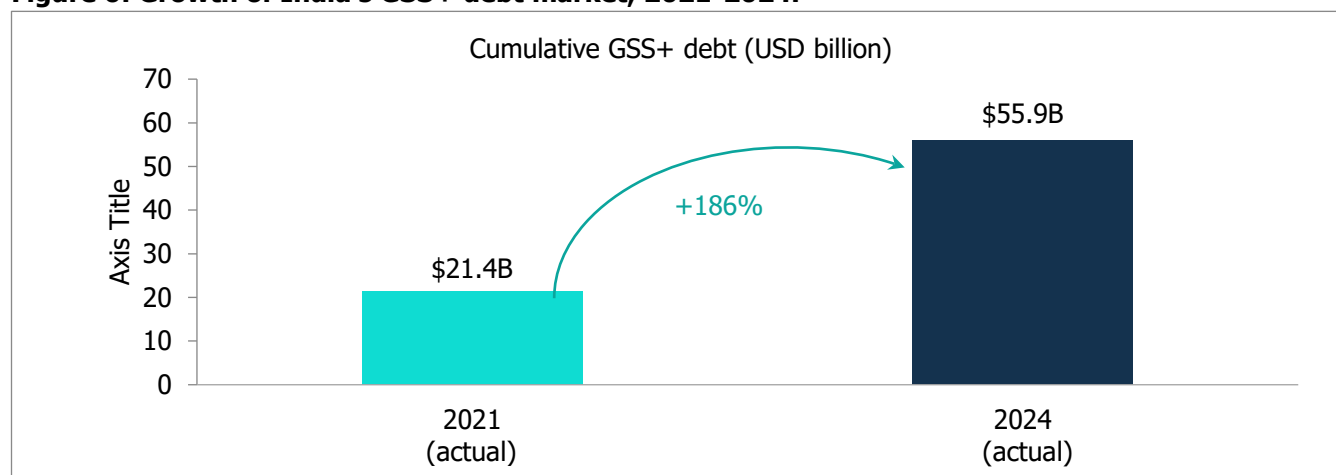
Credit: RBI's Climate Finance Directions

On the banking side, the RBI's original Framework for Acceptance of Green Deposits (2023) has now been superseded by a broader set of Climate Finance and Management of Climate Change Risks Directions, issued in November 2025 for commercial banks, and separately for NBFCs and small finance banks.¹² ¹³These directions require board-approved financing frameworks for green deposits, formally define greenwashing for regulatory purposes, and push banks to integrate climate risk into their existing risk-management structures — extending India's green finance architecture from capital markets into core banking regulation.

Markets: A Maturing Green Bond Market

India's green, social, sustainability and sustainability-linked (GSS+) debt market has grown from \$21.4 billion in cumulative issuance in 2021 to \$55.9 billion by the end of 2024 — a 186% increase — making India the fourth-largest emerging-market source of such debt globally, behind China, South Korea and Chile.¹⁴ The Government of India's sovereign green bond programme, launched in January 2023, has raised ₹72,697 crore cumulatively since FY2022-23, including ₹15,000 crore issued in FY2025-26, creating a domestic green yield curve that private issuers can price against.

Figure 6: Growth of India's GSS+ debt market, 2021-2024.



Source: Climate Bonds Initiative, India Sustainable Debt State of the Market report 2024

¹¹ SEBI circular dated 12 July 2023 (BRSR Core) and amendment dated 28 March 2025. sebi.gov.in

¹² Reserve Bank of India (2025). Reserve Bank of India (Commercial Banks – Climate Finance and Management of Climate Change Risks) Directions, 2025, dated 28 November 2025. rbi.org.in

¹³ Reserve Bank of India (2025). Reserve Bank of India (Non-Banking Financial Companies – Climate Finance and Management of Climate Change Risks) Directions, 2025, dated 28 November 2025

¹⁴ Reserve Bank of India (2025). Reserve Bank of India (Small Finance Banks – Climate Finance and Management of Climate Change Risks) Directions, 2025, dated 28 November 2025

The market is not without friction. Several sovereign green bond auctions between May 2024 and mid-2025 were fully or partially cancelled after investors declined to accept the “greenium” (the yield concession typically associated with green-labelled debt) that the government was seeking — a reminder that even in a maturing market, climate-labelled instruments still have to clear a genuine pricing test, not just a disclosure one.¹⁵ Structural gaps also remain: India does not yet have a finalised national green taxonomy, which the market widely views as necessary to reduce verification costs and improve comparability between issuers.

The Real Challenge: Proving the Money Created Climate Impact

Raising climate-labelled capital is only half the task. The harder, and increasingly regulated, half is proving that the capital raised actually produced the climate outcome it was raised for.

This concern is not abstract. PwC's Global Investor Survey found that a high proportion of institutional investors believe corporate sustainability reporting contains at least some unsupported claims, and a similar majority want ESG metrics assured to the same standard as financial statements.¹⁶ EY's own client research points the same way, noting that years of sustainability messaging in glossy annual reports have been met with growing investor scepticism, and that regulators and lawmakers are responding directly to concerns about greenwashing.¹⁷

Regulators are responding in kind. Under SEBI's BRSR Core, reasonable assurance of core KPIs is being phased in for progressively smaller listed companies,¹⁸ and the RBI's new climate finance directions explicitly define greenwashing as marketing a product or activity as “green” when it does not meet the criteria to be classified as such — turning what was once a reputational risk into a defined regulatory one.¹⁹

Why Attribution is Hard

Even with good-faith reporting, attribution remains genuinely difficult. If a company issues a green bond to fund a mix of solar capacity and energy-efficiency retrofits, how much of the resulting emissions reduction would have happened anyway, absent the financing? What baseline year and calculation methodology apply, and is that methodology consistent with the GHG Protocol and IFRS S2's disclosure requirements? Answering these questions with rigour typically requires the same order of financial-statement discipline — documented data sources, calculation methodologies and version-controlled evidence trails — that companies already apply to their audited accounts.

This is why the intermediary layer discussed earlier — independent ESG assurance providers, rating agencies and verification bodies — is becoming as important to climate finance as the banks and bond underwriters that arrange the capital in the first place. Without credible measurement, climate finance risks becoming a disclosure exercise dressed up as an investment one; with it, ESG genuinely closes the loop from commitment to capital to outcome.

¹⁵ Business Standard (2024). “RBI Cancels 10-Year Green Bond Auction as Market Refuses to Pay Greenium” and related reporting. [business-standard.com](https://www.business-standard.com)

¹⁶ PwC. “ESG Data Collection and Reporting” and “Guidance on SEC Climate Disclosures, ESG Regulations.” [pwc.com](https://www.pwc.com)

¹⁷ EY (2025). “Credible Climate Claims in Light of Regulatory Scrutiny.” [ey.com](https://www.ey.com)

¹⁸ SEBI BRSR Core circular, 12 July 2023. [sebi.gov.in](https://www.sebi.gov.in)

¹⁹ RBI Climate Finance and Management of Climate Change Risks Directions, 2025. [rbi.org.in](https://www.rbi.org.in)

Inference & Analysis — ESG Is Becoming a Capital-Allocation Exercise

The throughline across every section of this article is the same: a net-zero target, a sustainability report and an ESG rating are all, ultimately, proxies for a capital-allocation decision. Which projects get funded, by whom, on what terms, and with what proof of outcome — that is the real substance behind any climate commitment.

For boards and finance functions, this means climate strategy cannot sit apart from capital strategy. Every material climate risk or opportunity identified through an ESG lens must eventually survive an investment committee, compete against other uses of capital, and find a financing structure that matches its risk profile. For India specifically, a regulatory architecture is now falling into place — from BRSR Core to the RBI's climate finance directions to a maturing green bond market — that increasingly makes this connection mandatory rather than optional.

The organisations that will lead on climate over the next decade are unlikely to be simply the ones with the most ambitious targets. They will be the ones that have built the internal muscle to translate ESG commitments into bankable projects, match those projects to the right capital, and prove — credibly and verifiably — that the money moved the needle. ESG, in that sense, has quietly become one of the most important capital-allocation disciplines a company practises.

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