Transition Finance

Enabling a Sustainable Future

IE Professor **Manoel Gadi**, with a Ph.D. in New Finance and Cryptocurrency, is an analytics and business intelligence expert specializing in integrating **ESG ratings** into Risk and Fraud Analytics. He teaches the Technology course focused on **SDG goals** and the Fintech course including **Transition Finance** mechanisms. His extensive background in the financial sector includes key roles at Banco Santander and Citibank Brazil, where he leveraged data analytics for risk management, marketing, and sales optimization.

He holds a Master of Science in Computer Engineering from the University of São Paulo, Brazil, an MBA from IE Business School in Madrid, and a Ph.D. in Cryptocurrency and AI from Universidad de Alcalá. Prof. Gadi possesses deep expertise in risk analytics, model management, Big Data, machine learning, and financial analytics, with a particular focus on incorporating ESG factors into credit risk modeling and supporting the transition to sustainable finance.

Currently, as well as teaching, he leads SunCaged Analytics Consulting Europe SL, providing specialized analytics consulting services.

Outline

- What is Transition Finance (TS)?
- The Role of Transition Finance (Financial Instruments)
- Supporting Organizations
- Industry Success Case
- KPIs
- Challenges
- Trends and Future
- References and Academic Literature Review (Fraud in TS)

What is Transition Finance?

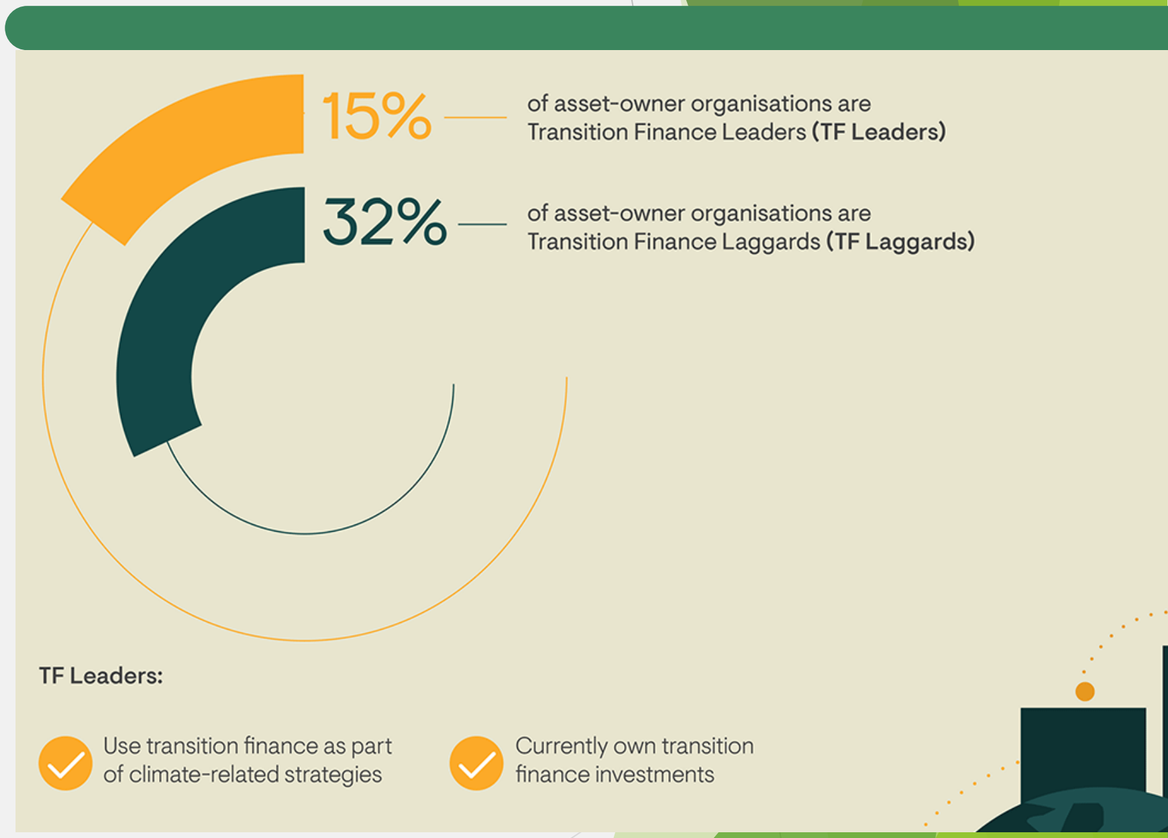
An investment approach that focuses on real-world impact, often by enabling an investee's climate-change strategy. It provides funding for industries that currently lack feasible green alternatives but are crucial to economic development.

Unlike **green finance**, typically done for **good quality ESG Rating company/project**, which **funds already sustainable companies/projects**, **transition finance helps industries get the ball rolling** to reduce emissions progressively rather than immediately achieving net-zero.

According to Ninety One's survey of 300 senior professionals across asset-owner institutions, including pension funds, insurers, endowments, foundations, central banks, sovereign wealth funds, and consultants; **15%** of asset-owner organizations are Transition Finance Leaders (TF Leaders) and **32%** of asset-owner organizations are Transition Finance Laggards (TF Laggards).

For most TF Leaders, climate action is a strategic goal and allocate more assets to climate-related investments. They use transition finance as part of broader climate-related strategies and have more assets under management (US$100 billion or more) compared to only 20% of TF Laggards.

TF Laggards are more skeptical about climate-related investments, believe climate investing leads to lower returns and are more focused on traditional risk-return performance.



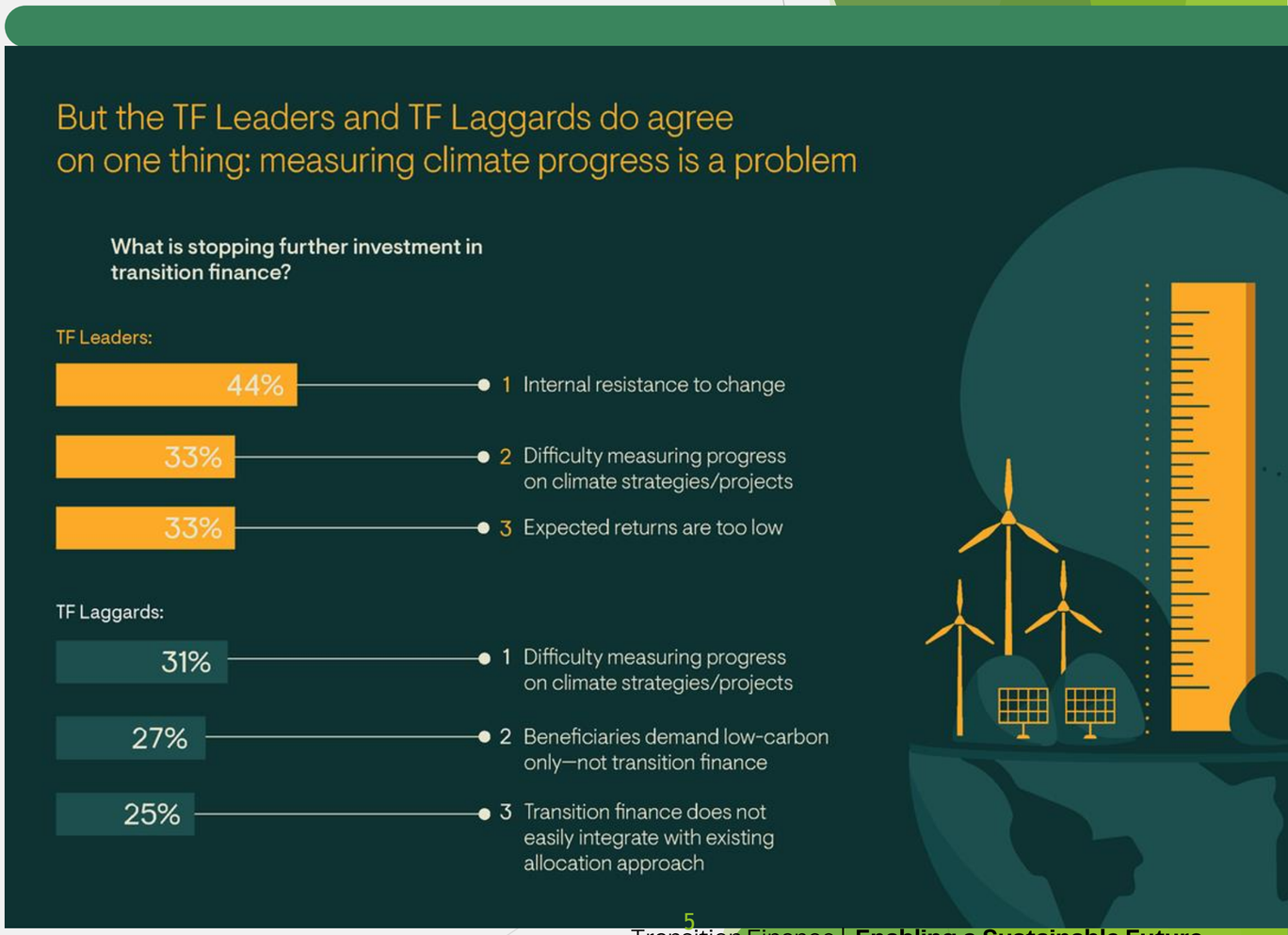
A lot of the asset owners are leading the transition finance movement, which are more likely to be from developed European nations, particularly Germany, Denmark and the UK. Source: Planetary Pulse.

Early steps towards transition

The same survey conducted by Ninety One among senior executives from asset-owner organizations worldwide revealed that **60%** of respondents consider **fighting climate change a strategic objective** for their funds. Additionally, **51% have established emissions-reduction targets.**

While this suggests that a majority are acknowledging and addressing climate-related risks and opportunities, the impact in real-world investment strategies appears limited.

Only **19%** actively incorporate transition finance, and an even smaller fraction — just **16%** — allocate funds to transition-finance assets in emerging markets, where both emissions and population growth are accelerating.



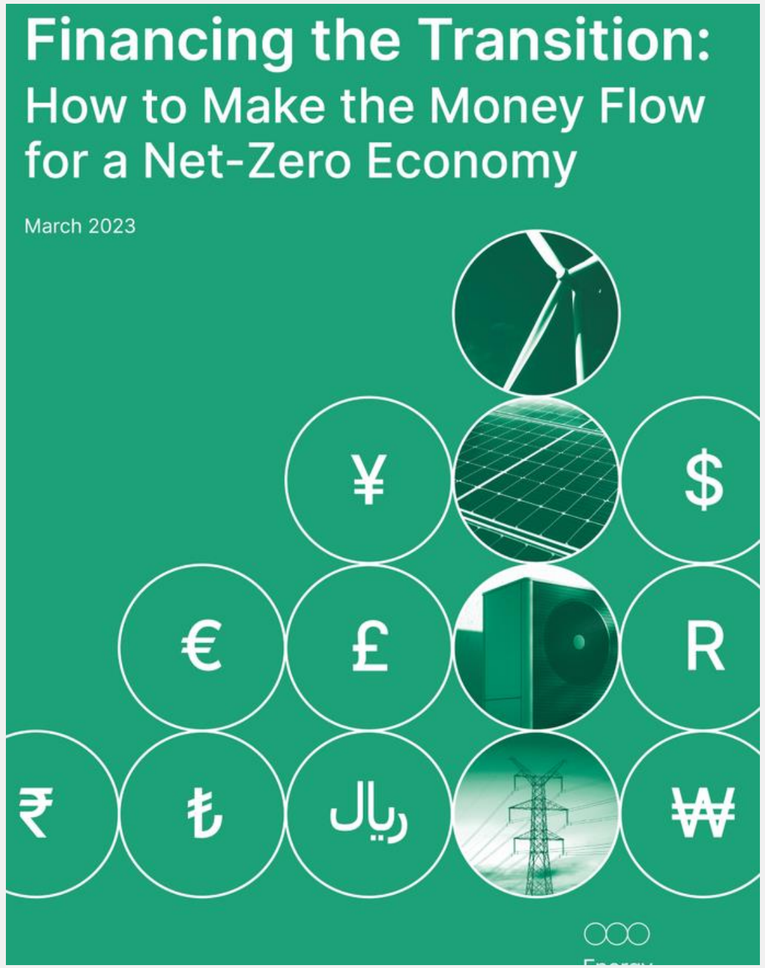
The Role of Transition Finance

Transition finance has emerged as a **vital mechanism** for enabling industries with high carbon footprints to progressively lower their emissions. According to the OECD (2021), achieving global net-zero goals requires tailored financial instruments that support emission-intensive sectors in their transformation. This includes the issuance of **transition bonds** and key performance indicator **(KPI)-linked debt securities that incentivize measurable progress toward sustainability.** However, the risk of greenwashing remains a concern, necessitating stringent regulatory frameworks to ensure that transition finance genuinely contributes to decarbonization efforts.

Energy Transitions Commission or ETC is a global coalition of leaders from across the energy landscape committed to achieving net-zero emissions by mid-century, in line with the Paris climate objective of limiting global warming to well below 2°C and ideally to 1.5°C. The video in the next slide was issued by ETC where they show how our world would like if we focused on Transition Finance as part of committing to net-zero emissions.

Source: Energy Transitions Commission.

Financing the Transition



The global race to net-zero emissions is at a turning point. **To keep global warming within 1.5°C**, carbon dioxide (CO_2) emissions must drop by 45% by 2030 and reach **net zero by 2050**. However, achieving these goals is not just about scaling up renewables — it also requires helping high-emission industries transition towards low-carbon alternatives.

Many industries — such as **steel, cement, and chemicals — are critical** to modern economies but remain highly carbon-intensive. While sustainable finance has traditionally focused on funding low-emission technologies, this approach alone is not enough. **Without capital to decarbonize** existing high-emission sectors, **large portions of the global economy could be excluded from the transition.**

This is where transition finance plays a pivotal role. Instead of forcing an abrupt shift, it provides financial mechanisms to help hard-to-abate sectors progressively lower emissions while aligning with Paris Agreement goals.

Supporting organizations

Key Organizations in Transition Finance

Multilateral Development Banks (MDBs)

- International Finance Corporation (IFC)
- European Investment Bank (EIB)
- Asian Development Bank (ADB)
- African Development Bank (AfDB)

Climate Funds

- Green Climate Fund (GCF)
- Climate Investment Funds (CIF)
- Global Environment Facility (GEF)
- Adaptation Fund (AF)

Private-Sector & Industry-Led Initiatives

- Net-Zero Asset Owner Alliance
- Sustainability-Linked Bonds & Loans

How Key Orgs Drive Transition Finance

IFC (International Finance Corporation)

Supports private sector investments in emerging markets for sustainable projects.

GCF (Green Climate Fund)

Provides grants and concessional financing for climate-resilient development.

EIB (European Investment Bank)

Major funder of sustainable infrastructure in Europe.

ADB (Asian Development Bank)

Supports green energy and climate adaptation projects in Asia.

CIF (Climate Investment Funds)

Provides large-scale funding for clean energy transitions.

AfDB (African Development Bank)

Provides financing for clean energy, climate adaptation, and sustainable infrastructure across Africa.

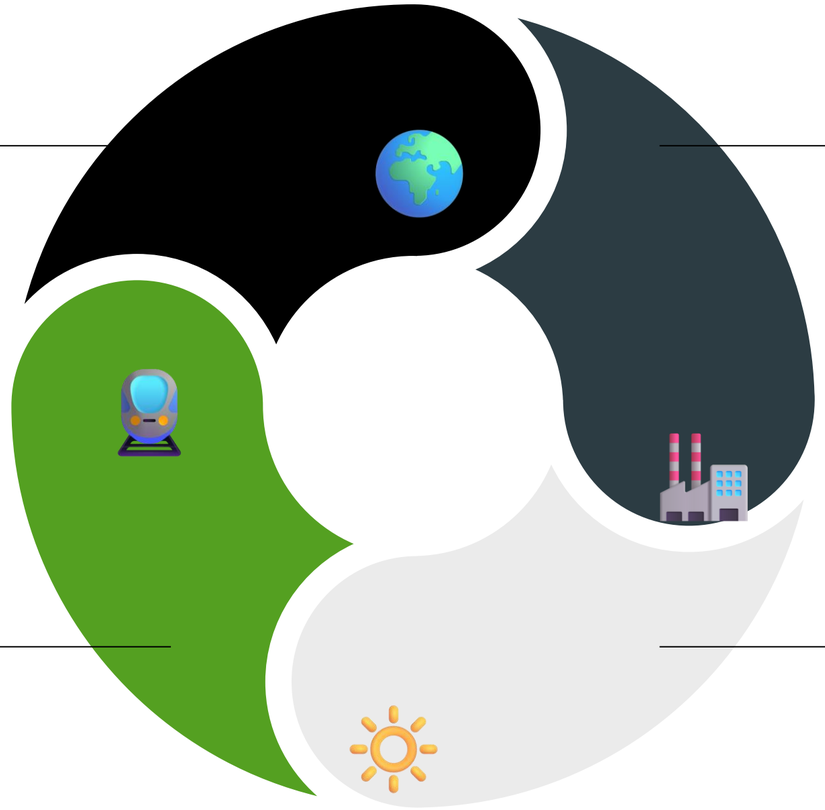
Real-World Impact of Transition Finance

ENERGY

Green Climate Fund (GCF) – Africa → **$500M+**: Expanded solar & wind power, **boosting energy access & reducing fossil fuel dependence.**

TRANSPORT

European Investment Bank (EIB) - **Sustainable Transport → €20B+:** Increased EV adoption, lower transport emissions, & **improved urban air quality.**



INFRASTRUCTURE

Japan's Transition Finance – **Heavy Industry → $10B+:** Greener steel & cement production, **cutting heavy industry CO_2 emissions.**

MANUFACTURING

Asian Development Bank (ADB) → **$100M:** Reduced energy & water use in textile production, **lowering industrial pollution.**

Fraud Risks

- **Corruption & fund misuse** (EIB)
- **Climate funds diverted to non-climate projects** (GCF)
- **Greenwashing & misleading ESG claims** (Net-Zero Asset Owner Alliance)
- **Fraudulent carbon credits, lack of verification** (CIF & GCF)

Detection

- **AI & Machine Learning** – Detects fraud patterns (EIB, IFC)
- **Blockchain & Traceability** – Secures carbon credit transactions (GCF, CIF)
- **Regulatory & Government Intervention** – Stricter ESG audits & penalties (EIB, Net-Zero Alliance)
- **Satellite Monitoring** – Tracks real project impact (GCF, CIF, AfDB)

Why it matters:

- **Weak oversight = billions in misused funds**
- **Loss of investor trust slows climate progress**

Success Case & more

redeia

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red eléctrica

reintel

Red Eléctrica, now operating under the brand Redeia, has been instrumental in advancing Spain's energy transition through strategic initiatives in green finance and sustainable infrastructure development. Their efforts serve as a compelling case study in transition finance.

Who is Redeia?

Their primary objective is to ensure a **secure, efficient**, and **sustainable** electricity supply, aligning with Spain's and the European Union’s energy transition goals.

To achieve this, the company has implemented **sustainable financing** strategies that support key projects in electrical infrastructure and renewable energy.

Who are they?

They manage Spain's electricity system and transmission network.

Source: Redia Conocenos

Redeia’s Path to Transition

2017

A European utility became the first to convert its €800 million syndicated loan into sustainable financing.

2018

Reduction in the cost of the syndicated loan due to an improved rating from Vigeo Eiris.

2019

New long-term financing of €375M and $30M with sustainability criteria and a green financing framework.

2020

Red Eléctrica's first €700M green bond issuance and a $30M sustainable operation in Peru.

2021

Redeia joined the Nasdaq Sustainable Bond Network, a leading repository for sustainable finance.

2022

First sustainable satellite business operation and extension of Redeia's green syndicated loan until 2027.

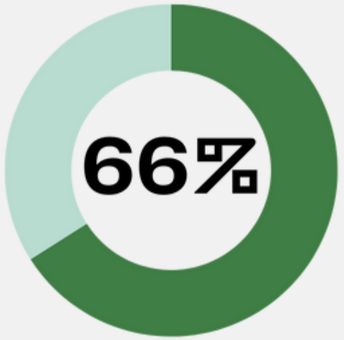
2023

Issuance of green hybrid bonds to drive Spain's ecological transition.

2024

Fourth and fifth green bond issuances of €500M each to further drive Spain's ecological transition.

Green Bonds



Redeia Strengthens Its Sustainable Financing with a it's fifth €500M Green Bond Issuance

- Date: June 2024
- Amount: €500 million
- Term: 8 years
- Interest rate: 3.458%

66% of Redeia's financing already meets sustainable criteria.

- Goal: 100% of financing under sustainable criteria by 2030.
- High investor demand: offer was tripled, reaching ~€1.5 billion.
- Supported by national & international investors (EIB, ICO, etc.).
- Funds will drive the energy transition in Spain.
- Strengthens the company's sustainable growth strategy.

"The success of this operation, in line with previous ones, shows the confidence our investors place in our group."
– Emilio Cerezo, CFO, Redeia

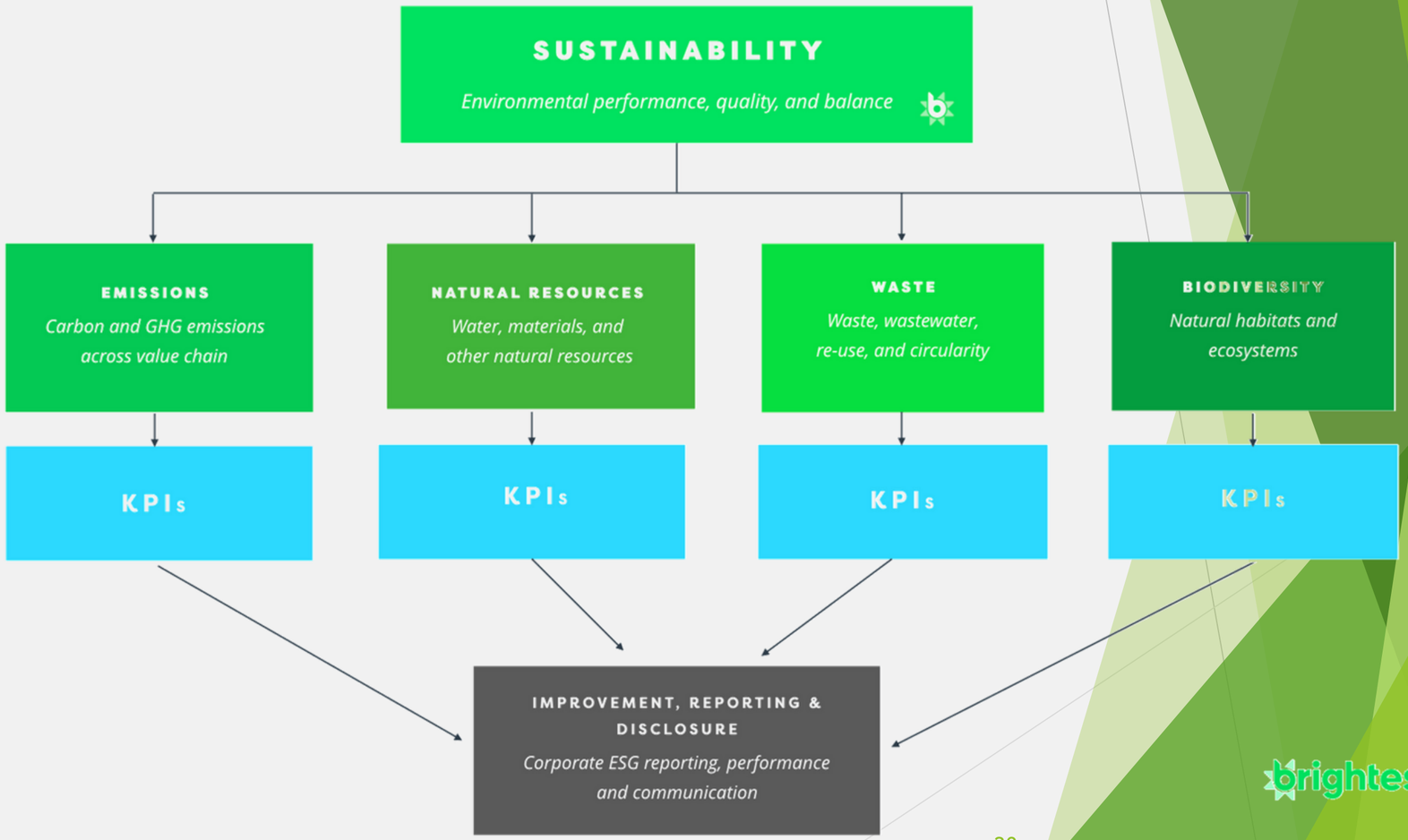
Impact Measurement

Main KPIs for Sustainable Transition

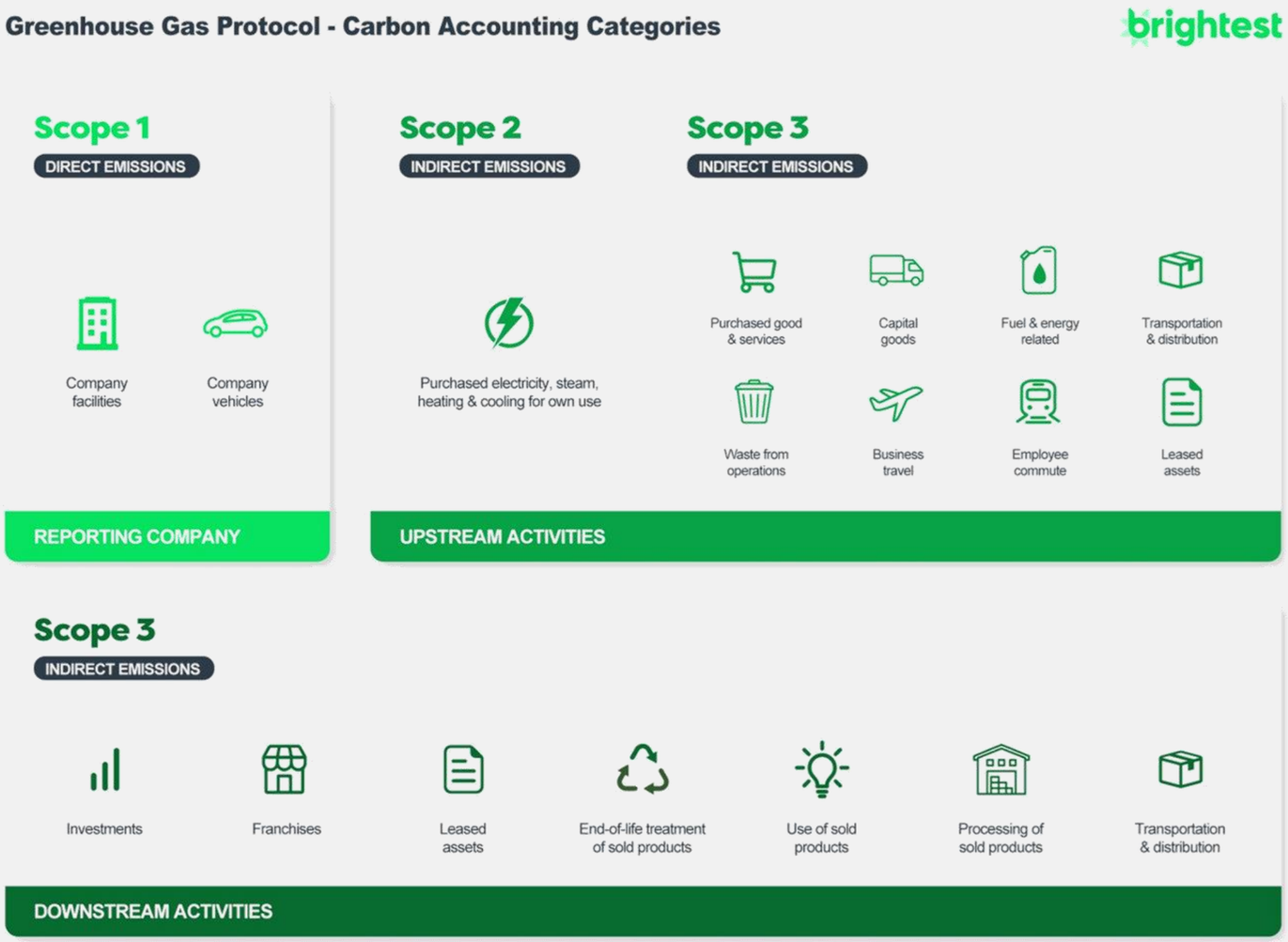
The KPIs are used to measure progress in sustainable transition efforts across multiple environmental dimensions and they help organizations track, report, and improve their Environmental, Social, and Governance (ESG) performance.

These indicators align with global sustainability standards (e.g., EU Taxonomy, UN Sustainable Development Goals).

Transparent ESG disclosure builds investor confidence and regulatory compliance.



Greenhouse Gas Protocol



The Greenhouse Gas (GHG) Protocol is the global standard for measuring and managing carbon emissions, categorizing them into three scopes based on their source and control.

Understanding these scopes is essential for effective carbon accounting and emissions reduction strategies.

Understanding and tracking all three scopes allows businesses to develop data-driven carbon reduction strategies.

How Redeia measures & communicates its climate & societal impact

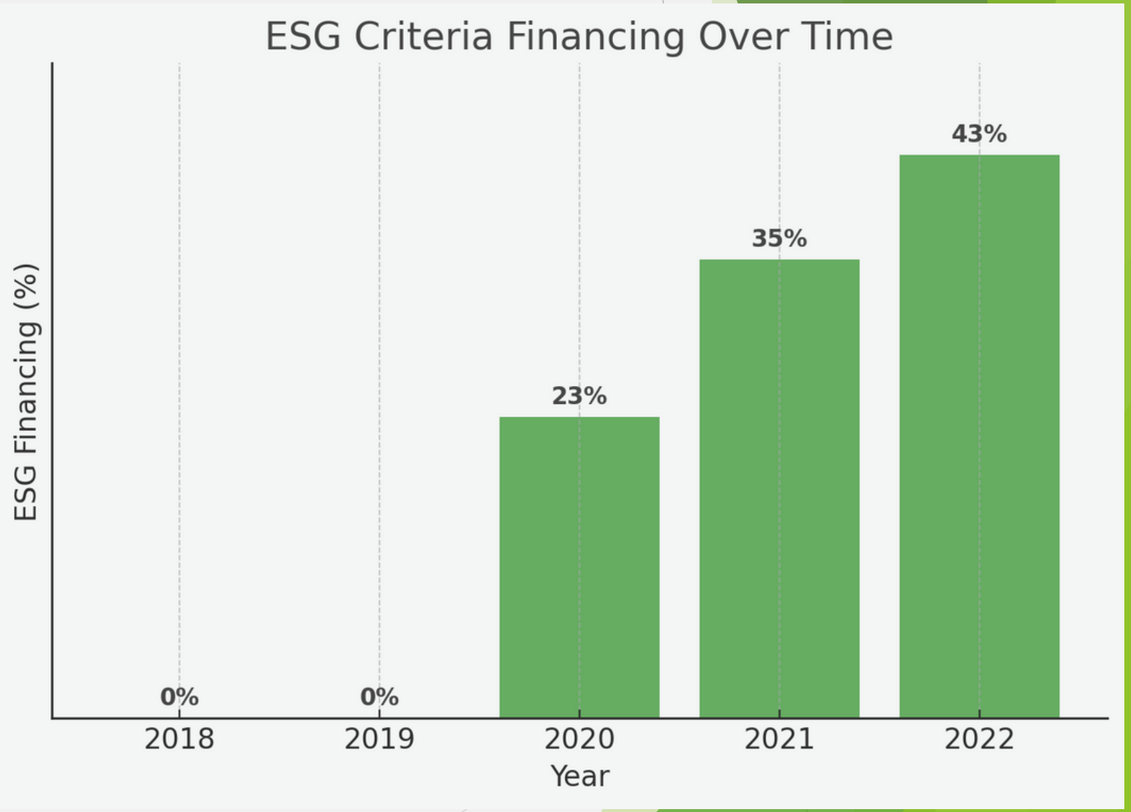
Redeia integrates climate action and social responsibility into its operational strategy by setting measurable sustainability goals and aligning with international ESG frameworks.

Key Metrics:

- 55% CO_2 reduction by 2030 (Scope 1 & 2).
- 74% renewable electricity share by 2030.
- 0% landfill waste by 2030.

Measurement Methods:

- Alignment with SDGs & ESG frameworks (DJSI, FTSE4Good).
- ESG Scoring: Supplier assessments, carbon tracking, biodiversity impact.



Measuring Progress

Tracking environmental, social, and governance (ESG) performance is essential for companies aiming to align with sustainability goals and investor expectations. This table below shows key ESG indicators, their scores, and what they signify about the company's sustainability standing.

Key Indicator	Score	Implications
Dow Jones Sustainability Index (DJSI)	85/100	Indicates strong performance in environmental, social, and governance aspects.
ISS ESG and MSCI Ratings	Good	Signifies robust ESG practices relative to industry peers.
S&P Global ESG Score	82/100	Performs strongly in ESG criteria, ranking among the top companies in sustainability within its industry

Key External Drivers in the Energy Transition

The energy transition is driven by regulatory policies, financial institutions, and government initiatives that promote sustainability, decarbonization, and responsible financing. These external forces shape how businesses and investors align with climate goals and ensure a just transition to a low-carbon economy.

- Regulators - EU Green Deal
- Ministry for the Ecological Transition and the Demographic Challenge (MITECO)
- Lending Institutions
- European Sustainability Reporting Standards (ESRS) – Mandatory for 2024

Challenges & Roadblocks

Challenges & Roadblocks

01

Regulatory Uncertainty

Lack of clear definitions and standards can lead to ineffective investments (OECD, 2021)

02

Financial Barriers

High capital costs and uncertain returns deter traditional investors (Minardi, 2023)

03

Institutional Resistance

Financial institutions resisting sustainability face destabilization risks (Loorbach et al., 2020).

04

ESG Greenwashing

Companies may prioritize image over genuine sustainability efforts (Minardi, 2023)

Recent trend and future outlooks

Standardization Challenges

1 Fragmented Frameworks

The lack of unified standards across markets creates confusion for investors and increases the risk of greenwashing. Different frameworks define "transition" activities differently, making comparison difficult.

2 Data Limitations

Limited data on emissions and transition pathways makes it challenging for investors to assess the credibility of transition plans. Many companies lack the capacity to accurately measure and report their carbon footprint.

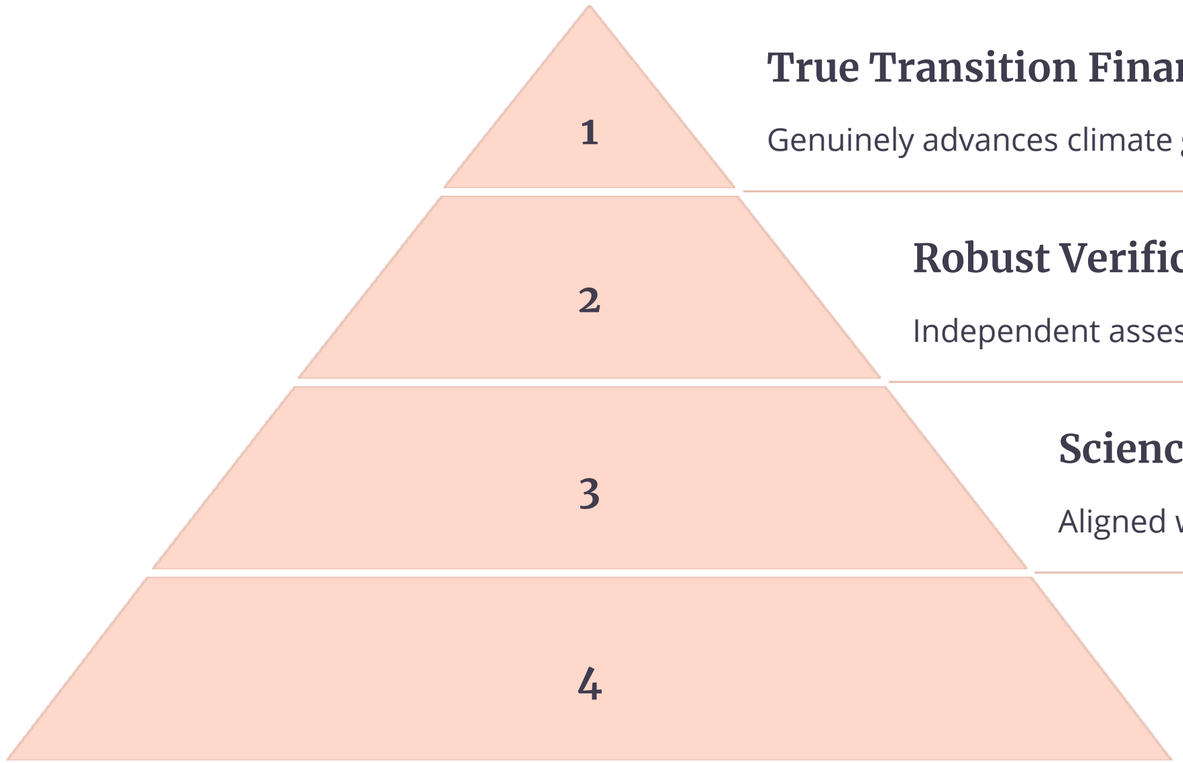
3 Verification Gaps

Insufficient third-party verification mechanisms undermine confidence in transition claims. Without robust assessment, sustainability-linked instruments may set easily achievable targets that don't drive meaningful change.

4 Policy Uncertainty

Inconsistent government policies create an unstable environment for long-term transition planning. Investors hesitate to commit capital when regulatory requirements might shift unexpectedly.

Greenwashing Concerns



True Transition Finance

Genuinely advances climate goals

Robust Verification

Independent assessment of targets

Science-Based Targets

Aligned with Paris Agreement

Weak Standards Risk "Transition-Washing"

Using transition label for minimal change

The greatest risk in transition finance is "transition-washing" - companies using the transition label to delay meaningful action or make minimal changes while continuing business-as-usual. Without robust standards and verification, transition finance could undermine climate progress rather than accelerate it.

Ensuring that sustainability performance targets are ambitious enough and aligned with science-based pathways is critical. The credibility of transition finance depends on transparent verification and accountability mechanisms to prevent greenwashing.

Social Dimensions of Transition

Jobs at Risk

Millions of workers currently employed in fossil fuel industries face potential displacement as these sectors contract, creating social and political resistance to transition efforts.

Community Support

Communities dependent on carbon-intensive industries need economic diversification support to maintain their social fabric through the transition period.

1 2 3 4

Retraining Programs

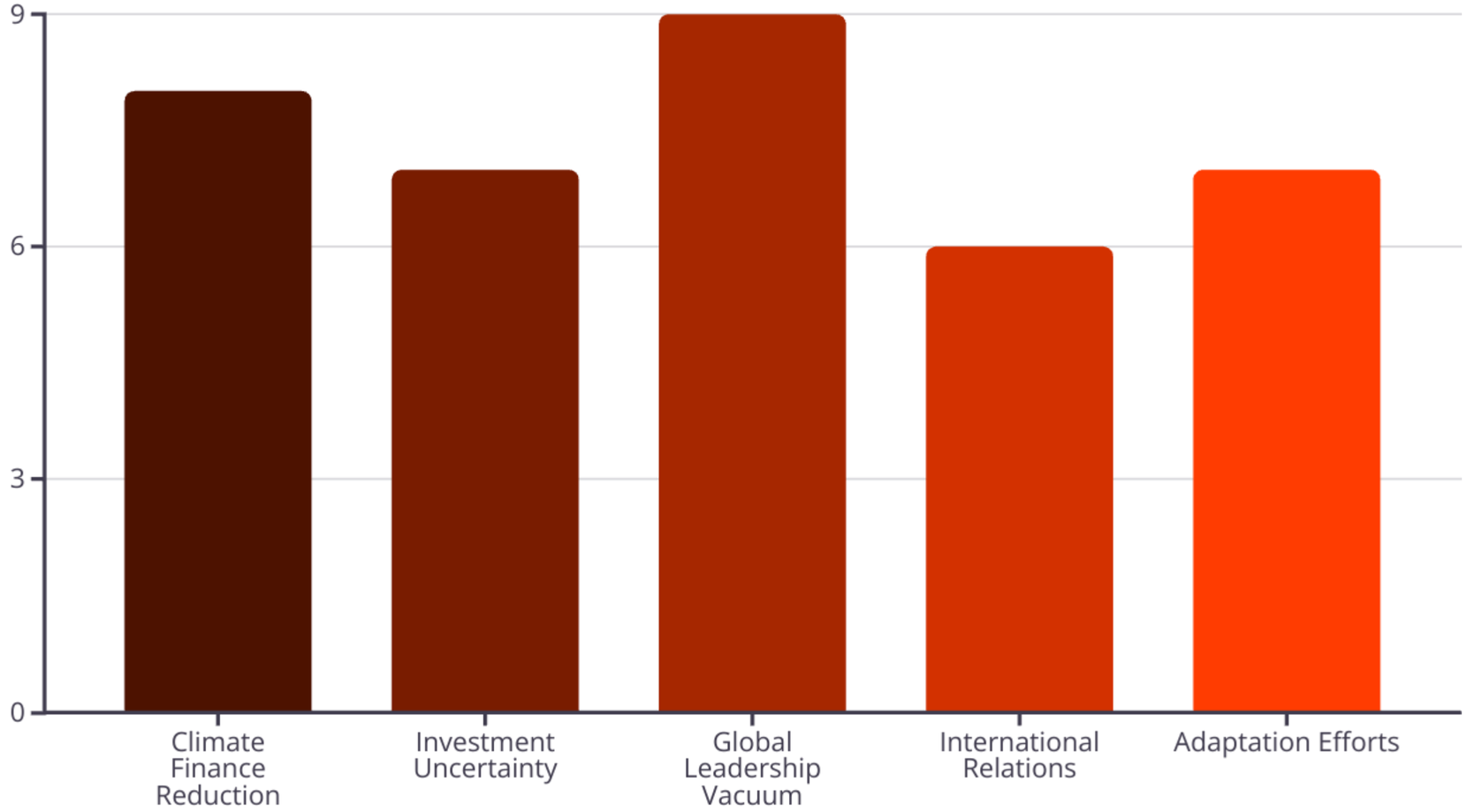
Successful transition requires comprehensive retraining and education initiatives to help workers acquire skills needed in growing green sectors, requiring dedicated financing.

Just Transition

A fair transition ensures that decarbonization benefits are widely shared while its costs don't fall disproportionately on vulnerable populations.

The concept of "just transition" recognizes that climate action must account for social equity. Without addressing the legitimate concerns of affected workers and communities, transition efforts will face significant resistance and may ultimately fail.

Impact of US Withdrawal from Paris Agreement



The US withdrawal from the Paris Agreement created significant ripple effects for transition finance. Financial contributions to climate funds decreased dramatically, while investment uncertainty increased as policy signals became mixed. The leadership vacuum emboldened climate skeptics in other nations.

Despite these setbacks, the private sector and sub-national governments stepped up their climate commitments. **States like California and New York, along with major corporations, maintained momentum** through their own climate initiatives and transition finance programs.

EU Regulation as Competitive Advantage

Innovation Driver

The EU's regulatory framework for sustainable finance, including the EU Taxonomy, drives innovation by providing clear definitions of sustainable activities and transition pathways.

Market Creator

By establishing standards like the EU Green Bond Standard, Europe creates markets for sustainable financial products, positioning European financial institutions at the forefront of the transition finance market.

Strategic Autonomy

Regulations supporting domestic clean technology and renewable energy production reduce dependence on imported fossil fuels, enhancing energy security while creating new industries.

Global Standard-Setter

The EU's push to export its ESG regulations to countries like India and Brazil creates global alignment that benefits European companies already compliant with these standards.

While regulations can create entry barriers, particularly for smaller players who face higher relative compliance costs, they also create predictable market conditions that attract long-term investment in transition activities.

Strengthening the Future of Transition Finance

1

Robust Standards

Develop clear, science-based taxonomies and frameworks that define credible transition activities with measurable outcomes. Standards must be rigorous enough to prevent greenwashing while remaining practical for implementation.

2

Transparency Enhancement

Improve data collection, reporting mechanisms, and disclosure requirements to enable investors to make informed decisions about transition investments and their actual impact on emissions reduction.

3

Stakeholder Engagement

Foster collaboration between governments, businesses, investors, civil society, and affected communities to ensure transition plans are both technically sound and socially equitable.

4

Global Coordination

Align international frameworks to prevent regulatory arbitrage and create consistent market signals for investors across jurisdictions.

The future of transition finance depends on balancing urgency with integrity. As we move forward, we must ensure that transition finance genuinely accelerates decarbonization rather than providing cover for business-as-usual. With robust standards, transparency, and inclusivity, transition finance can fulfill its essential role in building a sustainable global economy.

Emerging Transition Finance Mechanisms

Key Financial Instruments Driving the Transition:

1. Sustainability-Linked Bonds & Loans (SLBs & SLLs)

- Incentivize sustainability performance with financial penalties for non-compliance.

2. Transition Bonds

- **Specifically designed to finance emission reduction projects in hard-to-abate sectors (e.g., steel, cement, aviation) and support industries that cannot yet fully transition to net-zero but are making measurable improvements.**

3. Blended Finance

- **Combines public and private funding to reduce risks in sustainability projects.**

4. Carbon Pricing & Market-Based Mechanisms

- **Carbon taxes and cap-and-trade systems align financial incentives with emissions reduction.**

5. Green & Transition Taxonomies

- **Establish clear definitions of what qualifies as sustainable or transition investments.**
- **Help investors and financial institutions distinguish credible green projects from greenwashing.**

Government Policies

Key Policy Approaches

1. Regulatory Frameworks & Disclosure Requirements
    - Mandatory climate-related financial disclosures for transparency.

2. Public Expenditure & Incentives
    - Government funding through transition bonds, grants, and subsidies.

3. Multilateral Development Bank (MDB) & DFI Support
    - Institutions like World Bank, ADB, and EBRD finance transition activities. Provide risk-sharing instruments and co-financing.

4. Sector-Specific Policies
    - Transition targets for high-emission industries (steel, cement, transport).Incentives for clean technology adoption and regulatory reforms.

5. Cross-Border Policy Coordination
    - EU Green Deal, Belt and Road Green Investment Principles, US-India Clean Energy Facility.

Challenges and Future Outlooks

Despite significant progress, transition finance faces several challenges:

- **Regulatory Uncertainty: Lack of globally harmonized standards can create investment uncertainty.**
- **Greenwashing Risks: Companies may misrepresent transition finance initiatives without strict oversight.**
- **Capital Allocation Issues: Ensuring funds reach projects with the highest climate impact remains a challenge.**

Future Outlook

- **Expansion of Transition Taxonomies**: More countries are expected to develop clear guidelines for transition finance.
- **Scaling of Blended Finance Models:** Increased collaboration between public and private sectors will enhance capital mobilization.
- **Advancements in Digital and Climate-Tech Solutions**: Technologies such as blockchain for carbon credit verification and AI for climate risk assessment will further enable transition finance.

Conclusion

Turning Ambition into Action

- **Bridging the Gap to Net-Zero**
  Transition finance plays a crucial role in helping high-emission industries progressively reduce their carbon footprint while maintaining economic stability.

- **Growing Momentum**
  More financial institutions and governments are adopting transition finance mechanisms, but broader adoption and standardization are needed.

- **Challenges Remain**
  Greenwashing risks, regulatory uncertainty, and capital allocation issues must be addressed to ensure genuine decarbonization.

- **Future Outlook**
  Advancements in blended finance, sustainability-linked instruments, and digital solutions (AI & blockchain) will enhance the effectiveness of transition finance.

Turning Ambition into Action

Only through collaboration between policymakers, investors, and industries can we accelerate the transition to a low-carbon economy

—now is the time to act.

References

References 1/2

1. **Transition Finance: Investigating the State of Play**
Tandon (2021) explores transition finance as a key mechanism to support high-emission industries in shifting toward lower emissions. The report reviews emerging taxonomies, financial instruments such as transition bonds and KPI-linked securities, and key policy frameworks. A critical takeaway is that transition finance must ensure genuine decarbonization and avoid “greenwashing.”

2. A Positive Finance Transition Framework
Loorbach et al. (2020) propose a systemic shift in finance, emphasizing integrated value creation rather than short-term financial returns. They argue that current financial systems prioritize shareholder value at the expense of environmental and social well-being. Their framework calls for transition governance to drive financial institutions, professionals, and investors toward long-term sustainability.

3. ESG and Sustainable Finance Trends
Minardi (2023) explores the role of ESG investing in the green transition, highlighting its growing importance in investment strategies. However, the study cautions against simplistic ESG approaches, emphasizing the need for systemic change rather than just capital reallocation. The report also highlights challenges such as greenwashing, inconsistent ESG ratings, and a lack of standardization in sustainability reporting.

4. Transition Finance: Enabling Low-Carbon Transformation
The OECD (2021) report highlights transition finance as a crucial tool for helping high-emission industries reduce their carbon footprint. It examines financial instruments, taxonomies, and policy frameworks designed to facilitate decarbonization. The report stresses that transition finance must be structured to prevent “greenwashing” and ensure accountability.

References 2/2

5. Sustainable Financial Instruments in the Public Sector
Singh (2024) analyzes sustainable financial instruments for the public sector in developing countries, exploring opportunities, challenges, and policy frameworks. The study discusses the importance of innovative financial tools to support sustainability goals and economic resilience.

6. Transition Finance for Emerging Economies
Tyson & Vaze (2023) examine transition finance in emerging markets, outlining policy priorities for the G20. Their policy brief identifies key challenges and opportunities for financial mechanisms that support sustainable development.

7. Red Eléctrica and the Dow Jones Sustainability Index
Corresponsables (2023) reports on the inclusion of Red Eléctrica in the Dow Jones Sustainability Index Europe. The article highlights the company's sustainability performance and its recognition in international sustainability rankings.

8. Measuring Environmental Performance in Sustainability
Brightest (n.d.) provides a guide on sustainability measurement and environmental performance tracking. The resource discusses various methodologies for assessing sustainability impacts across industries.

Thank you!

Fraud Risk in Transition Finance Literature Review

LITERATURE REVIEW:
Existing Research on Fraud Risks in Transition Finance

- Section A: Existing Research on Fraud Risks in Transition Finance
- Section B: The Role of Business Analytics & AI in Fraud Detection
- Section C: Key Debates & Gaps in the Literature

PRISMA RESOURCE COMPARISON

Source Title	Main Focus	Methodology	Key Findings	Relevance to Transition Finance & Risk
What you see is not what you get: ESG scores and greenwashing risk	ESG scores, greenwashing risk	Empirical analysis of ESG scores	ESG scores may not reflect actual sustainability performance	Evaluates ESG reliability, crucial for risk assessment
The greening of the insolvency system	Insolvency system and sustainability	Legal and policy analysis	Insolvency laws need adaptation to support sustainability	Explores regulatory frameworks affecting financial risk
From greenwashing to genuine sustainability: Insights from FinTech and banking executives in emerging market experience	Sustainability in FinTech and banking	Qualitative interviews with FinTech executives	FinTech plays a crucial role in driving genuine sustainability	Highlights FinTech's role in sustainable finance risk management
Sustainable-Finance-and-Fraud-Detection-Exploring-Fintech-Innovations-and-Robo-Advisors	FinTech innovations and fraud detection	Review of FinTech fraud detection models	FinTech and robo-advisors improve fraud detection	Discusses fraud detection innovations relevant to financial risk
Fraud Detection and Energy Markets: Enhancing Financial Security Through AI and Sustainable Finance	AI-driven fraud detection in energy markets	AI modeling for fraud detection in energy markets	AI enhances fraud detection in energy markets, ensuring security	AI applications in fraud risk mitigation for energy markets
The-Future-of-Modern-Finance-AI-Driven-Fraud-Detection-and-Energy-Market-Forecasting	AI in finance, fraud detection, and forecasting	Predictive modeling and AI applications	AI-driven fraud detection improves financial forecasting	Explores AI's role in reducing financial fraud risk
Blockchain technology and real-time auditing: Transforming financial transparency and fraud detection in the Fintech industry	Blockchain for financial transparency and fraud prevention	Blockchain implementation case studies	Blockchain increases financial transparency and fraud prevention	Blockchain as a tool for reducing fraud and enhancing transparency
Challenges and Opportunities of ESG Integration in Financial Operations	ESG integration in financial operations	Comparative analysis of ESG integration challenges	Challenges include regulatory gaps and operational complexity	Challenges in ESG integration impacting financial risk management
Financial mechanisms for sustainable development: green bonds, ESG strategies, and market regulation	Green bonds, ESG strategies, market regulation	Financial market analysis and regulatory assessment	Green finance mechanisms drive sustainable development	Green bonds and ESG strategies' role in financial stability
Modeling behavioral insights to mobilize private investment in climate change adaptation: evidence from Chinese investors	Behavioral insights for climate investment	Behavioral economic modeling of investor decisions	Investor behavior is influenced by behavioral insights and policy incentives	Behavioral insights in climate investment decision-making

Section A: Existing Research on Fraud Risks in Transition Finance

What you see is not what you get: ESG scores and greenwashing risk

What you see is not what you get: ESG scores and greenwashing risk - ScienceDirect

The study "What You See is Not What You Get: ESG Scores and Greenwashing Risk" by Kathan et al. (2024) explores the misalignment between ESG scores and actual corporate sustainability efforts, highlighting significant fraud risks in transition finance. The research identifies that high ESG ratings can sometimes indicate greenwashing, where companies manipulate sustainability narratives without meaningful environmental impact. From a business analytics perspective, this presents a data integrity challenge, as ESG scores rely heavily on self-reported and third-party data, making them vulnerable to misrepresentation and financial fraud. The study also emphasizes that larger firms face higher greenwashing risks, but increased analyst scrutiny and AI-driven fraud detection models can help mitigate these risks. These findings stress the need for advanced fraud analytics, machine learning, and blockchain solutions to enhance ESG reporting transparency and reduce regulatory risks in sustainable finance.

Section A: Existing Research on Fraud Risks in Transition Finance

The greening of the insolvency system

The greening of the insolvency system - WRAP: Warwick Research Archive Portal

This article explores how insolvency frameworks can integrate environmental considerations, but it also raises concerns about potential fraud risks in the process.The authors highlight that green insolvency mechanisms, which prioritize environmental sustainability in corporate restructuring, could be exploited for fraudulent activities. Companies in financial distress may misuse green transition claims to secure favorable treatment, avoid liability, or access sustainability-linked financing under false pretenses. This could include:

- "Greenwashing insolvency", where firms falsely claim environmental commitments to access restructuring benefits.
- Misallocation of transition funds, where financial support intended for sustainable restructuring is diverted or misused.
- Regulatory arbitrage, where companies manipulate environmental criteria in insolvency proceedings to delay enforcement actions or evade liabilities.

Additionally, the study suggests that insolvency practitioners, creditors, and regulators must strengthen due diligence measures to prevent fraudulent misrepresentation in green finance claims. This includes enhanced transparency, stricter reporting standards, and robust oversight mechanisms to ensure that sustainability considerations do not become loopholes for financial misconduct.By integrating anti-fraud safeguards into green insolvency frameworks, the legal and financial systems can better align corporate restructuring with genuine environmental and financial integrity.

Section A: Existing Research on Fraud Risks in Transition Finance

From greenwashing to genuine sustainability: Insights from FinTech and banking executives in emerging market experience

From greenwashing to genuine sustainability: Insights from FinTech and banking executives in emerging market experience - ScienceDirect

This article examines how greenwashing practices in FinTech and banking create risks of misrepresentation and financial misconduct in emerging markets. The study highlights that while financial institutions are under increasing pressure to demonstrate sustainability, many resort to superficial ESG claims to attract investors and regulatory incentives, rather than implementing genuine environmental initiatives. This misrepresentation poses fraud risks, including false sustainability reporting, misallocation of green funds, and regulatory evasion. The authors emphasize the need for stronger regulatory oversight, improved transparency, and stricter compliance mechanisms to prevent sustainability claims from becoming a tool for financial fraud and market manipulation. Strengthening accountability in green finance is essential to ensuring that firms transition from deceptive practices to authentic sustainability efforts.

Section B: The Role of Business Analytics & AI in Fraud Detection

Sustainable Finance and Fraud Detection: Exploring Fintech Innovations and Robo-Advisors

Sustainable-Finance-and-Fraud-Detection-Exploring-Fintech-Innovations-and-Robo-Advisors.pdf

Nadeem Ashraf’s "Sustainable Finance and Fraud Detection: Exploring Fintech Innovations and Robo-Advisors" explores how AI, machine learning, and fintech innovations are transforming fraud detection in sustainable finance. The study highlights the role of robo-advisors in algorithm-driven investment decisions, reducing human bias and improving accessibility to ESG investments. From a business analytics and risk management perspective, the paper emphasizes blockchain’s role in enhancing transparency and mitigating greenwashing risks in ESG finance. The research underscores the need for advanced fraud analytics, anomaly detection models, and AI-driven compliance systems to strengthen risk management frameworks in sustainable investments. These findings are critical in addressing financial fraud risks and regulatory challenges in transition finance.

Section B: The Role of Business Analytics & AI in Fraud Detection

Fraud Detection and Energy Markets: Enhancing Financial Security Through AI and Sustainable Finance

Fraud-Detection-and-Energy-Markets-Enhancing-Financial-Security-Through-AI-and-Sustainable-Finance.pdf

The article "Fraud Detection and Energy Markets: Enhancing Financial Security Through AI and Sustainable Finance" by Ali Usman and Ashfaq Ramazan (February 2025) explores the integration of Artificial Intelligence (AI) in bolstering fraud detection within the energy sector. As energy markets become increasingly complex with the rise of renewable investments and digital trading platforms, traditional fraud detection methods often fall short. The authors highlight how AI-driven technologies, particularly machine learning algorithms, can analyze vast amounts of transactional data in real-time, identifying anomalies and potential fraudulent activities more effectively than conventional systems. Additionally, the paper discusses the role of sustainable finance instruments, such as green bonds, in promoting transparency and accountability. By ensuring that funds are allocated responsibly to genuine renewable energy projects, these financial tools, when combined with AI monitoring systems, can significantly reduce the risk of financial mismanagement and fraud in the energy sector. This synergy between AI and sustainable finance not only enhances financial security but also supports the global transition towards a more sustainable energy landscape.

Section B: The Role of Business Analytics & AI in Fraud Detection

The Future of Modern Finance: AI-Driven Fraud Detection and Energy Market Forecasting

The-Future-of-Modern-Finance-AI-Driven-Fraud-Detection-and-Energy-Market-Forecasting.pdf

The article "The Future of Modern Finance: AI-Driven Fraud Detection and Energy Market Forecasting" by Mubashir Malik and Hina Lali (February 2025) explores the transformative impact of Artificial Intelligence (AI) and Machine Learning (ML) on financial security and energy market dynamics. The authors highlight how AI-driven fraud detection systems enhance the precision and efficiency of identifying fraudulent activities by analyzing vast datasets in real-time, thereby enabling financial institutions to proactively address evolving fraud schemes. In the context of energy markets, the paper discusses the application of AI and predictive analytics to improve forecasting accuracy for energy prices, demand, and supply. By incorporating historical data, weather patterns, and other external variables, AI models provide stakeholders with actionable insights, facilitating informed decision-making in an increasingly complex energy landscape. This integration of AI technologies not only bolsters financial security but also supports the global transition towards sustainable energy solutions.

Section B: The Role of Business Analytics & AI in Fraud Detection

Blockchain Technology and Real-Time Auditing: Transforming Financial Transparency and Fraud Detection in the Fintech Industry

Blockchain technology and real-time auditing: Transforming financial transparency and fraud detection in the Fintech industry | Gulf Journal of Advance Business Research

The article explores how integrating blockchain technology into auditing processes can enhance financial transparency and improve fraud detection within the fintech sector. By reshaping real-time auditing processes, blockchain not only enhances operational efficiency but also sets a foundation for a more secure and trustworthy financial ecosystem. The study highlights blockchain's potential to automate transaction verification without the need for a trusted third party, thereby enhancing the authenticity of financial records. Additionally, the article discusses the role of smart contracts in facilitating automated and secure financial transactions, further contributing to the integrity and efficiency of financial operations. By leveraging these features, blockchain technology can transform traditional auditing methodologies, making them more efficient, reliable, and resilient to fraud.

Section C: Key Debates & Gaps in the Literature

Challenges and Opportunities of ESG Integration in Financial Operations

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The article highlights key gaps and debates in the integration of Environmental, Social, and Governance (ESG) factors within financial operations, particularly in the context of transition finance. One of the most pressing issues is the lack of standardized ESG reporting frameworks, which creates inconsistencies in sustainability disclosures and raises concerns about data reliability and greenwashing risks. This gap fuels an ongoing debate: should regulatory bodies impose global ESG standards, or should firms and financial institutions continue relying on voluntary ESG disclosures?Another critical debate revolves around the effectiveness of AI and big data in ESG risk assessment. While technological advancements have improved ESG data processing, there are concerns regarding data bias, algorithmic transparency, and the ethical implications of AI-driven decision-making in transition finance. Additionally, regulatory uncertainty remains a key barrier, as fragmented policies across different regions create market inefficiencies and compliance challenges. Some scholars argue that stronger government intervention is necessary to enforce ESG accountability, while others advocate for market-driven solutions that allow financial institutions to self-regulate.The study suggests that addressing these gaps through enhanced ESG transparency, AI-driven fraud detection, and clearer regulatory guidelines can strengthen transition finance mechanisms. However, debates persist on whether transition finance truly accelerates sustainable change or merely serves as a financial tool that companies exploit for reputational gains. These unresolved issues highlight the need for further research on risk mitigation, financial fraud detection, and the role of technological advancements in shaping the future of ESG finance.

Section C: Key Debates & Gaps in the Literature

Financial mechanisms for sustainable development: green bonds, ESG strategies, and market regulation

Financial mechanisms for sustainable development: green bonds, ESG strategies, and market regulation | Sapozhnikov | Ekonomichnyy analiz

The article examines the evolving landscape of sustainable finance, highlighting several unresolved debates and gaps in the literature.One of the central debates revolves around the effectiveness of green bonds in truly driving sustainable development. While green bonds have seen significant growth, concerns about greenwashing persist, as verification and impact assessment mechanisms remain inconsistent across markets. Some scholars argue that market-driven transparency initiatives are sufficient, while others advocate for stricter regulatory oversight, such as the EU Green Bond Standard, to ensure accountability.Another key gap in the literature is the lack of standardized ESG metrics and reporting frameworks. Despite the widespread adoption of ESG investing strategies, variability in ESG rating methodologies creates confusion for investors. The debate continues on whether a single global ESG reporting framework should be mandated or if market competition among ESG rating agencies fosters better accountability.Furthermore, the role of market regulation in sustainable finance remains contentious. Some scholars argue that self-regulation and voluntary disclosure are sufficient to encourage sustainable investment, while others stress that government intervention and legally binding standards are necessary to mitigate financial risks and fraud in ESG-linked financial instruments. The literature lacks consensus on the ideal balance between regulatory enforcement and market-driven innovation.Ultimately, while green bonds, ESG strategies, and regulatory frameworks provide promising tools for financing sustainable development, gaps in transparency, accountability, and global coordination remain significant obstacles. Addressing these debates requires further empirical research, cross-border regulatory collaboration, and the integration of AI-driven fraud detection to ensure credibility in sustainable finance markets.

Section C: Key Debates & Gaps in the Literature

Modeling behavioral insights to mobilize private investment in climate change adaptation: evidence from Chinese investors | Environment, Development and Sustainability

Modeling behavioral insights to mobilize private investment in climate change adaptation: evidence from Chinese investors | Environment, Development and Sustainability

The article "Modeling Behavioral Insights to Mobilize Private Investment in Climate Change Adaptation: Evidence from Chinese Investors" highlights critical gaps in transition finance, particularly in attracting private sector participation in climate adaptation projects. One of the main debates in the literature is why private investment in adaptation finance remains significantly lower than mitigation finance, despite growing climate risks. Scholars argue whether financial incentives alone are enough to drive private sector engagement or if behavioral insights and risk perception play a more dominant role in shaping investment decisions.A key gap identified in the study is the lack of investor confidence due to information asymmetry and regulatory uncertainty. While financial incentives and government subsidies exist, limited transparency and inconsistent reporting frameworks make it difficult for investors to assess the long-term viability of adaptation projects. This raises the question: Should transition finance frameworks prioritize stricter regulations and ESG disclosure standards to ensure accountability, or should market-driven incentives, such as tax benefits and impact investing, be the main drivers of adaptation finance?Additionally, the research underscores the influence of social norms and peer behavior on investment decisions, highlighting an area that is often overlooked in financial models. This presents a gap in current transition finance policies, which primarily focus on monetary returns rather than behavioral motivators that drive investor engagement. The debate continues on whether governments and financial institutions should integrate behavioral finance strategies—such as framing climate investments as the new financial norm—to accelerate private capital mobilization.Ultimately, this study highlights the need for further research on psychological and social drivers of private investment in transition finance, along with more data-driven approaches to risk assessment, transparency, and regulatory enforcement. Addressing these gaps can help bridge the current underinvestment in climate adaptation, ensuring a more effective transition to a climate-resilient economy.