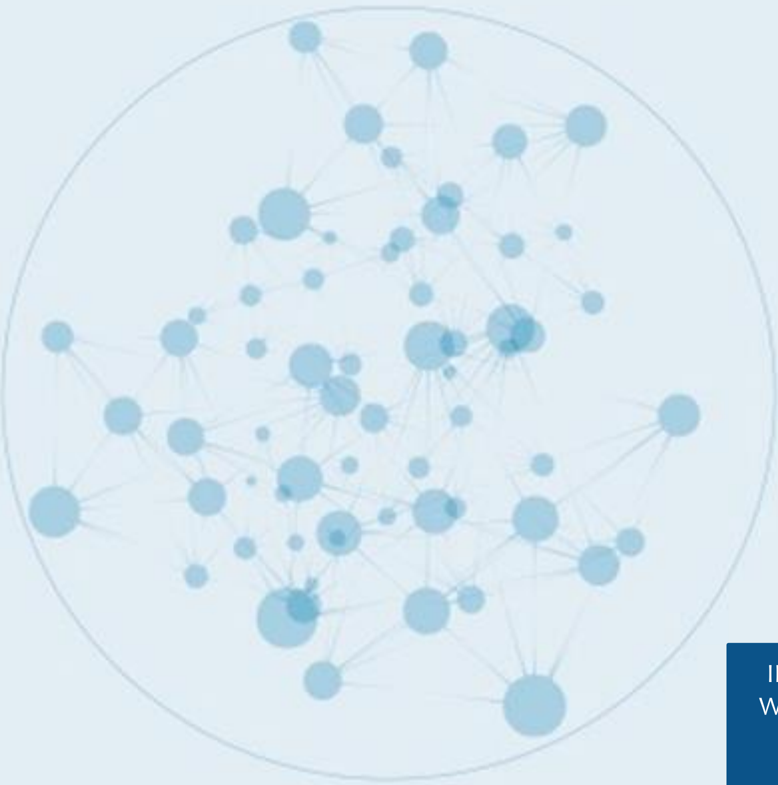
Inquiry: Design of a Sustainable Financial System

UNEP

DEFINITIONS AND CONCEPTS

Background Note



INQUIRY WORKING PAPER

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The UNEP Inquiry

The Inquiry into the Design of a Sustainable Financial System has been initiated by the United Nations Environment Programme to advance policy options to improve the financial system's effectiveness in mobilizing capital towards a green and inclusive economy—in other words, sustainable development. Established in January 2014, it published its final report, The Financial System We Need, in October 2015 and is currently focused on actions to take forward its findings.

More information on the Inquiry is at: *www.unep.org/inquiry* and *www.unepinquiry.org* or from: Ms. Mahenau Agha, Director of Outreach *mahenau.agha@unep.org*.

About this report

This input paper has been prepared by the authors as a contribution to the G20 Green Finance Study Group (GFSG) but has not been endorsed by it nor does it represent the official views or position of the GFSG or any of its members.

Comments are welcome and should be sent to *nick.robins@unep.org*.

Acknowledgements

Maya Forstater and Naurin Nuohan Zhang are the authors of this paper.

Contents

This short paper is part of a wider body of work on the GFSG Research Subject: Measuring Progress. It provides an initial mapping of existing practice in G20 and other countries and, where relevant internationally, highlights areas of convergence and difference, as well as distinctions between green, climate, and sustainable finance. It covers:

1. Definitions of 'green finance' that countries adopted
2. Thematic typologies of green investment in particular industries
3. Clarification of the scope of 'green finance' in comparison with other related concepts such as climate finance and sustainable finance

In summary, its findings are:

1. **Increasing use of the term in many countries and internationally**, most usually in broad, underdefined ways, but increasingly in the context of market-led standards (e.g. green bond principles), policy/regulatory measures (e.g. environmental risk regulations, reporting requirements, fiscal measures (e.g. tax credits) and 'development' financing involving public and private financing.
2. **Broad convergence of definitions and some distinct differences**, most specific elements/categories are similar across diverse contexts and uses, with a number of divergences, some uncontroversial (e.g. internet infrastructure) and others more contested (e.g. diesel railways, hydropower/nuclear/ultracritical coal).
3. **Broad agreement in distinctions between green, climate and sustainable finance**, with sustainable finance being the most inclusive including social, environmental and economic aspects, climate including a subset of environmental aspects, and green finance including climate finance but excluding social and economic aspects.

It is intended as an initial framework that can continue to be developed drawing in the results of the ongoing survey undertaken for the study group by the International Finance Corporation (IFC).

1 Definitions of 'Green Finance' in Use

There is no single definition for green or sustainable finance but a few working definitions and sets of criteria have been developed in the context of the global financial system, national financial systems, financial institutions (e.g. 'green banking') and financial instruments (e.g. 'green bonds'). Definitions include broad general statements, market-led standards and official criteria for policy, regulatory, fiscal or statistical purposes. A number of studies have also established working definitions in order to assess green finance internationally.[1]

- **People's Bank of China:** "Green finance policy refers to a series of policy and institutional arrangements to attract private capital investments into green industries such as environmental protection, energy conservation and clean energy through financial services including lending, private equity funds, bonds, shares and insurance."[2]
- **Government of Germany:** "Green Finance is a strategic approach to incorporate the financial sector in the transformation process towards low-carbon and resource-efficient economies, and in the context of adaptation to climate change."[3]
- **Indonesian Financial Services Authority (OJK)**: Sustainable finance in Indonesia is defined as "comprehensive support from the financial service industry to achieve sustainable development resulted from a harmonious relationship between economic, social and environmental interests".[4]
- **Organisation for Economic Co-operation and Development (OECD):** Green Finance is finance for "achieving economic growth while reducing pollution and greenhouse gas emissions, minimising waste and improving efficiency in the use of natural resources."[5]
- **Swiss Federal Ministry of Environment (FOEN):** Sustainable finance is defined as financial products and services, under the consideration of environmental, social and governance factors throughout the whole risk management and decision-making process, provided to promote responsible investments which create a positive environmental, social and governance impact.[6]

'Green finance' is also often thought of in terms of **finance for green growth**:

- **United Nations Economic and Social Commission for Asia and the Pacific (UN ESCAP)**: growth that emphasizes environmentally sustainable economic progress to foster low-carbon, socially inclusive development.
- **OECD:** fostering economic growth and development, while ensuring that natural assets continue to provide the resources and environmental services on which our well-being relies.
- **World Bank:** growth that is efficient in its use of natural resources, clean in that it minimizes pollution and environmental impacts, and resilient in that it accounts for natural hazards and the role of environmental management and natural capital in preventing physical disasters.

In addition to general definitions are those focused on particular financial segments and instruments such as banking, bonds or institutional investment:

- **China Banking Regulatory Commission:** Article 6 of the Green Credit Guidelines states that "The board of directors or supervisory board of a banking institution shall build and promote green credit concepts concerning energy saving, environmental protection and sustainable development, be committed to giving play to the functions of facilitating holistic, coordinated and sustainable economic and social development, and establish a sustainable development model that will benefit the society at the same time."[7]

- **Bangladesh Bank:** "Green finance as a part of Green Banking makes great contribution to the transition to resource-efficient and low carbon industries i.e. green industry and green economy in general. Green banking is a component of the global initiative by a group of stakeholders to save environment."
- The **Global Sustainable Investment Alliance** defines sustainable investing as an investment approach that considers environmental, social and governance (ESG) factors in portfolio selection and management.[8]
- **South Africa's Code for Responsible Investment in South Africa (CRISA)** states that "an institutional investor should incorporate sustainability considerations, including ESG, into its investment analysis and investment activities as part of the delivery of superior risk-adjusted returns to the ultimate beneficiaries."
- The **International Development Finance Club** defines green finance as referring to financial investments flowing into sustainable development projects and initiatives, environmental products, and policies that encourage the development of a more sustainable economy.

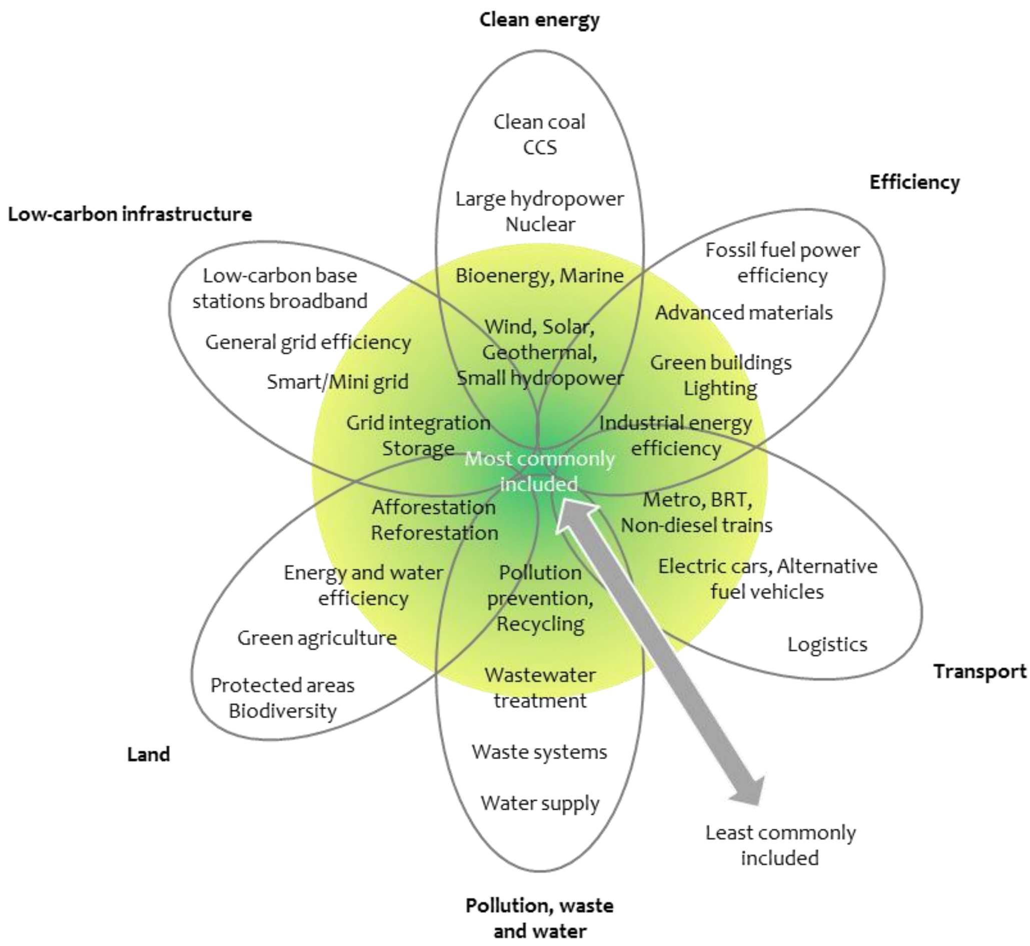
2 Thematic Investment Typologies

Beyond these high-level definitions, and in some cases standards, the following typologies have been developed, which target **thematic industries and technology sectors**.

- **Climate Bonds Standard (CBS):**[9] Green technologies specified in energy, buildings, industry, waste, transport and ICT.
- **French government's Climate and Energy Transition Label**:[10] Green technologies specified in energy, buildings, industry, waste, transport and ICT.
- **China's Green Projects Catalogue:** Energy saving, pollution prevention and control, resource conservation and recycling, clean transportation, clean energy, ecological protection.
- **US Clean Technology Index:** Alternative energy and energy efficiency to advanced materials, clean air and water, eco-friendly agriculture/nutrition and clean manufacturing.[11]
- **NASDAQ Green Economy Index:** Energy efficiency, clean fuels, renewable energy generation, natural resources, water, pollution mitigation and advanced materials.[12]
- **Netherlands Green Funds Scheme:**[13] Nature, forest and landscape, agriculture green projects, energy, sustainable construction and sustainable mobility.
- **US Energy Conservation and Renewable Energy Bonds:**[14] Energy efficiency in public buildings, green communities, renewable energy production, R&D, efficiency/energy reduction measures for mass transit, and energy efficiency education campaigns, solar, wind, biomass, solid waste and hydropower projects.
- **UK's Green Investment Bank:** "Positive contribution to a recognised green purpose (greenhouse gas (GHG) reduction, resource efficiency, protection of the environment and biodiversity, promotion of environmental sustainability).[15] Specific criteria for sustainable investment projects for offshore wind, waste, energy efficiency, biomass, onshore wind, and hydropower.[16]
- **Bangladesh Green Banking Guidelines:** Renewable energy and biogas, water supply, wastewater treatment, solid and hazardous waste disposal, green buildings, green products and materials, energy efficient brick kilns, clean transportation, land remediation, and sustainable land management.
- **China Banking Regulatory Commission – Green Credit Statistics:** Green agriculture, green forestry, industrial energy and water conservation and environmental protection, nature protection, ecological restoration and disaster prevention resource recycling, waste disposal and pollution prevention and treatment, renewable and clean energy sources, water supply, energy saving, green buildings and green transportation, and overseas projects where international conventions and standards are adopted.
- **Deutsche Bank Climate Change Investment Universe:**[17] Specific green technologies identified in clean energy, agriculture, energy efficiency, water, waste, transport.
- **The Brazilian Bankers Federation (FEBRABAN)** has developed a methodology for assessing finance for the green economy which looks at volumes of investment which are subject to general policies and voluntary commitments, those where there is evidence that ESG analysis has been actively applied, those subject to sectoral environmental criteria.[18]

In many cases, more detailed environmental and performance specifications are also attached to the categories to determine investments eligible for a particular ‘green’ label or source of finance.[19] These taxonomies use different approaches and structures, but there are large areas of consensus and significant overlap between category schemes for “tagging” green investment and finance.

Exhibit 1: Clusters of categories



[Illustrative: not exhaustive]

The table below provides a broad, non-exhaustive outline of key categories included most commonly in lists of green sectors (‘core’), those which are included in some taxonomies (‘additional’) and those (‘questioned’) categories where some taxonomies consider that more work is needed to determine