ICMA
International Capital Market Association

Sustainable Finance: High-level definitions

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Introduction

Sustainability has become a mainstream consideration for the financial sector as illustrated among others by the success of the green, social and sustainability bond markets underpinned by the Green Bond Principles & Social Bond Principles (GBP SBP), which are supported by ICMA. Policy makers and regulators have also launched initiatives in this sector with the most visible being the EU Action Plan on Financing Sustainable Growth and China's vigorous actions in support of green finance.

With these promising developments there is however a need for convergence on terminology among markets participants, wider stakeholders, as well as policy makers and regulators.

Specifically, the use of "climate", "green" and "sustainable" as if they were interchangeable terms may dilute the urgency of making progress in climate mitigation and sustainable growth policy goals as outlined notably in the Paris Agreement or in the United Nations Sustainable Development Goals. It is also important to note for example that the definition of Social Finance incorporates funding health and healthcare projects and, therefore especially relevant in the current context, those related to COVID-19.

These High-level definitions are the second publication of ICMA's Sustainable Finance Committee set up in September 2019. This Committee brings together various ICMA committees, including its buy-side arm, corporate issuer forum, legal and documentation committee as well as the Executive Committee of GBP SBP, and aims to address cross-cutting sustainable finance developments.

In this publication, ICMA is proposing high-level definitions building on current market usage and existing official sector terminology that pertain to the most commonly used terms in the sustainable finance field. The objective is to clarify the debate and to ensure that all participants and stakeholders have a common and transparent vocabulary to refer to. This publication is also designed as a contribution to other ongoing efforts in the financial industry to develop a consensus around key terms and definitions in sustainable finance.

In the annex, we provide a diagram illustrating the interaction between key high-level definitions, and a table with the key sources that we used as reference.

High-level definitions

Climate Finance

Climate Finance is financing that supports the transition to a climate resilient economy by enabling mitigation actions, especially the reduction of greenhouse gas emissions, and adaptation initiatives promoting the climate resilience of infrastructure as well as generally of social and economic assets.

Climate Transition

Climate Transition is the pathway supported by targeted policies and initiatives to a climate resilient economy with low greenhouse gas emissions in line with the targets of the Paris Agreement[1].

Green Finance

Green Finance is broader than Climate Finance in that it also addresses other environmental objectives such as natural resource conservation, biodiversity conservation, and pollution prevention and control.

Impact Finance

Impact Finance is financing of businesses or economic activities which produces verifiable and direct positive impact on the society and/or environment, based on agreed metrics and benchmarking[2] while also seeking market aligned or better financial returns.

Responsible or ESG Investing

Responsible Investing, also known as ESG Investing[3], refers to strategies and practices that incorporate material environmental, social and governance (ESG) factors[4] in investment decisions and active ownership with a view to minimise risks and maximise returns[5]. It can be pursued by all investors as part of their fiduciary duty on the basis that ESG factors are considered as having a material impact on returns.

Sustainable Development Goals (SDGs)

SDGs[6] refer to 17 integrated and indivisible goals with 169 associated targets and form the core of the 2030 Agenda for Sustainable Development adopted by the United Nations on 25 September 2015 to end poverty, protect the planet and ensure prosperity for all. Each goal has specific targets to be achieved by 2030. These goals and targets have been designed for consideration by national governments but have also been increasingly used as appropriate by corporates.

Social Finance

Social Finance[7] is financing that supports actions mitigating or addressing a specific social issue and/or seeking to achieve positive social outcomes especially but not exclusively for a target population(s). Social finance project categories include but are not limited to, providing and/or promoting affordable basic infrastructure, access to essential services (such as health and healthcare), affordable housing, employment generation including through the potential effect of SME financing and microfinance, food security, and socioeconomic advancement and empowerment.

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1 Article 2 of the Paris Agreement refers to "*making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development*".

2 Impact finance will be looking to achieve targeted outcomes. There is a broad spectrum within impact finance, ranging from maximising financial returns with targeted environmental and/or social outcomes to a more philanthropic investment strategy where financial return considerations remain secondary.

3 See Principles for Responsible Investment.

4 The Principles for Responsible Investment, the UN-supported investor initiative promoting responsible investment, has developed a list of ESG factors.

5 Governance risks and opportunities have typically been the core element of the ESG investment due to a positive correlation between good governance and good financial performance as well as governance factors being relatively easier to define, measure and track. The increasing awareness in environmental and social risks and opportunities has also led the market to incorporate these elements.

6 SDGs are: "1) End poverty; 2) Zero hunger; 3) Good health and well-being; 4) Quality education; 5) Gender equality; 6) Clean water and sanitation; 7) Affordable and clean energy; 8) Decent work and economic growth; 9) Industry, innovation and infrastructure; 10) Reduced inequalities; 11) Sustainable cities and communities; 12) Responsible consumption and production; 13) Climate action; 14) Life below water; 15) Life on land; 16) Peace and justice; and, 17) Partnerships for the goals.

7 The definition of Social Finance refers to and is consistent with the Social Bond Principles https://www.icmagroup.org/green-social-and-sustainability-bonds/social-bond-principles-sbp/ supported by ICMA.

Socially Responsible Investment (SRI)

Socially Responsible Investment (SRI) refers to investing with the aim of achieving financial returns while respecting specific ethical, environmental and/or social criteria.

Sustainable Finance

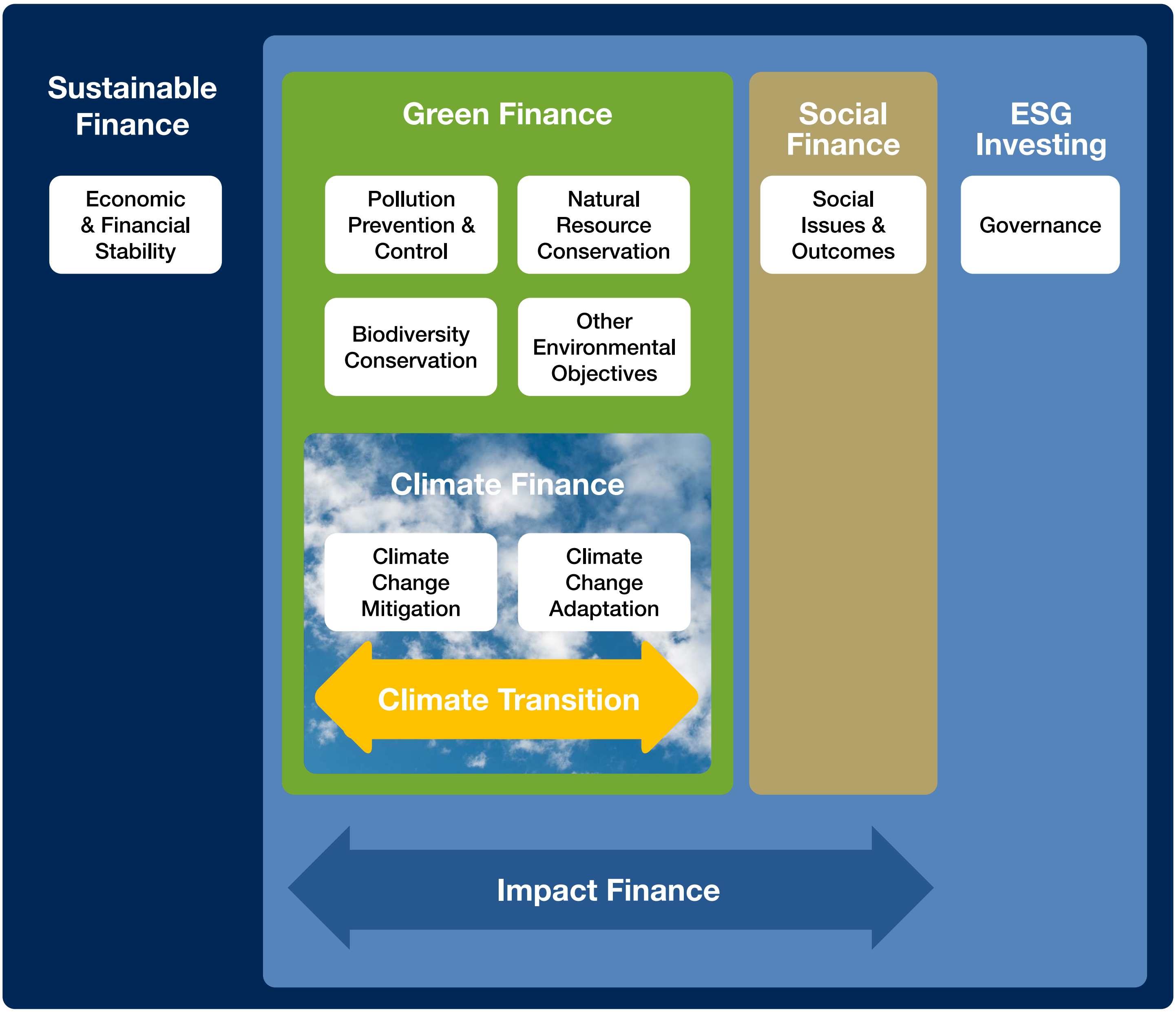
Sustainable Finance incorporates climate, green and social finance while also adding wider considerations concerning the longer-term economic sustainability of the organisations that are being funded, as well as the role and stability of the overall financial system in which they operate.

Taxonomy

Taxonomy, in the context of sustainable finance, is a classification system identifying activities, assets, and/or project categories that deliver on key climate, green, social or sustainable objectives with reference to identified thresholds and/or targets.

Annex 1: Interaction between key high-level definitions

The diagram below illustrates the interaction between key high-level definitions and especially how the wider definitions incorporate narrower ones. For example, Sustainable Finance is the widest definition incorporating ESG Investing, Green Finance, Social Finance and Climate Finance. White boxes aim to identify key differentiating themes between the definitions e.g. social issues & outcomes in relation to Social Finance. Double arrowed boxes identify definitions that interact dynamically with themes or other definitions e.g. Impact Finance in relation to Green Finance and Social Finance.



Annex 2: Comparison and sources for key high-level definitions

	UN/UNEP/UNEP FI	EU	G20	China	Comments & Other Sources
Climate Finance	"…refers to local, national or transnational financing—drawn from public, private and alternative sources of financing—that seeks to support mitigation and adaptation actions that will address climate change." Source		"aims to reduce GHG emissions, enhance GHG sinks and reduce the vulnerability of human and ecological systems to negative climate change." Source (page 26)		ICMA's definition is based on market usage and refers also the language under the Paris agreement as well as the UN definition by adding further emphasis on the applicability of climate finance to both projects and assets.
Green Finance	"…is generally used to convey something broader than climate finance, in that it addresses other environmental objectives and risks. It tends to be understood with a greater focus on greening broad flows of private investment rather than mainly concerning public and public-leveraged financial flows." Source (page 10)		"financing of investments that deliver environmental benefits in the broader context of environmentally sustainable development." Source (page 26)	"financial services provided for economic activities that are supportive of environment improvement, climate change mitigation and more efficient resource utilization. These economic activities include the financing, operation and risk management for projects in areas such as environmental protection, energy savings, clean energy, green transportation, and green buildings." Source (page 8)	ICMA's definition is based on market usage and reflects a simplified version of the UN definition.
Impact Finance	"which verifiably produces a positive impact on the economy, society or the environment once any potential negative impacts have been duly identified and mitigated." Source (page 2)	"investments that intend to create measurable positive social or environmental outcomes alongside financial returns." Source (page 16)			ICMA's definition is based on market usage and is closer to the EU's definition. It also refers to the definition by the Global Impact Investing Network (GIIN) which defines impact investing as investments made with the intention to generate positive, measurable social and environmental impacts alongside a financial return.
Sustainable Finance	"Although the terms are not always used consistently, in general a distinction can be drawn between approaches to sustainable finance that take a broad environmental, social, economic and governance approach, and those that take a narrower, 'green finance' one concerned only with environmental issues. Even more narrowly focused are those targeted only on climate change mitigation and/or adapting to climate change impacts" Source (page 10)	"the process of taking due account of environmental and social considerations in investment decision-making, leading to increased investments in longer-term and sustainable activities" "In the EU's policy context sustainable finance is understood as finance to support economic growth while reducing pressures on the environment and taking into account social and governance aspects. Sustainable finance also encompasses transparency on risks related to ESG factors that may impact the financial system, and the mitigation of such risks through the appropriate governance of financial and corporate actors." Source	"Sustainable finance can be broadly understood as financing as well as related institutional and market arrangements that contribute to the achievement of strong, sustainable, balanced and inclusive growth, through supporting directly and indirectly the framework of the Sustainable Development Goals (SDGs). A proper framework for sustainable finance development may also improve the stability and efficiency of the financial markets by adequately addressing risks as well as market failures such as externalities." Source (page 7)		ICMA's proposed definition is based on market usage and draws on the G20 and EU references.

ICMA Zurich
T: +41 44 363 4222
Dreikönigstrasse 8
CH-8002 Zurich

ICMA London
T: +44 20 7213 0310
23 College Hill
London EC4R 2RP

ICMA Paris
T: +33 1 70 17 64 72
62 rue la Boétie
75008 Paris

ICMA Hong Kong
T: +852 2531 6592
Unit 3603, Tower 2,
Lippo Centre
89 Queensway, Admiralty
Hong Kong

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International
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