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50 Years | 1964 – 2014

Deutsches Institut für Entwicklungspolitik

German Development Institute

Definition of Green Finance

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Green finance in the literature:

Up to today, we do not have a precise and commonly accepted definition of green finance for two reasons. First, many publications do not try to define the term – for instance neither IFC (2013) nor Spratt and Griffith-Jones (2013) include a definition of green finance[1] – and second, the definitions that are proposed vary significantly. Among the few definitions that can be found in the literature are the following:

- Höhne / Khosla / Fekete / Gilbert (2012): "Green finance is a broad term that can refer to financial investments flowing into sustainable development projects and initiatives, environmental products, and policies that encourage the development of a more sustainable economy. Green finance includes climate finance but is not limited to it. It also refers to a wider range of „other environmental objectives, for example industrial pollution control, water sanitation, or biodiversity protection. Mitigation and adaptation finance is specifically related to climate change related activities: mitigation financial flows refer to investments in projects and programs that contribute to reducing or avoiding greenhouse gas emissions (GHGs) whereas adaptation financial flows refer to investments that contribute to reducing the vulnerability of goods and persons to the effects of climate change."[2]
- Zadek and Flynn (2013): "Green finance is often used interchangeably with green investment. However, in practice, green finance is a wider lens including more than investments as defined by Bloomberg New Energy Finance and others. Most important is that it includes operational costs of green investments not included under the definition of green investment. Most obviously, it would include costs such as project preparation and land acquisition costs, both of which are not just significant but can pose distinct financing challenges."[3]
- Pricewaterhouse Coopers Consultants (PWC) (2013): "For the banking sector, green finance is defined as financial products and services, under the consideration of environmental factors throughout the lending decision making, ex-post monitoring and risk management processes, provided to promote environmentally responsible investments and stimulate low-carbon technologies, projects, industries and businesses."[4]

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1 IFC (2013): Mobilizing Public and Private Funds for Inclusive Green Growth Investment in Developing Countries - An Expanded Stocktaking Report Prepared for the G20 Development Working Group, IFC Climate Business Department; and Spratt and Griffith-Jones (2013): Mobilising Investment for Inclusive Green Growth in Low-Income Countries, GIZ.

2 Höhne / Khosla / Fekete / Gilbert (2012): Mapping of Green Finance Delivered by IDFC Members in 2011, Ecofys.

3 Zadek and Flynn (2013): South-Originating Green Finance: Exploring the Potential, The Geneva International Finance Dialogues, UNEP FI, SDC, and iisd.

4 Pricewaterhouse Coopers Consultants (PWC) (2013): Exploring Green Finance Incentives in China, PWC.

- Böhnke / Eidt / Knierim / Richert / Röber / Volz (forthcoming): "According to our definition, ["Green Finance" (] GF [)] comprises all forms of investment or lending that take into account environmental impact and enhance environmental sustainability. A key element of GF is sustainable investment and banking, where investment and lending decisions are taken on the basis of environmental screening and risk assessment to meet environmental sustainability standards."[5]

Proposal of a definition of green finance:

Green finance comprises

- **the financing of public and private green investments (including preparatory and capital costs) in the following areas**
  - **environmental goods and services[*] (such as water management or protection of biodiversity and landscapes)**
  - **prevention, minimization and compensation of damages to the environment and to the climate (such as energy efficiency or dams)**

- **the financing of public policies (including operational costs) that encourage the implementation of environmental and environmental-damage mitigation or adaptation projects and initiatives (for example feed-in-tariffs for renewable energies)**

- **components of the financial system that deal specifically with green investments, such as the Green Climate Fund or financial instruments for green investments (e.g. green bonds and structured green funds), including their specific legal, economic and institutional framework conditions**

Clarification: Climate finance is merely one aspect of green finance, which is particularly focused on adaptation to the impacts of climate change or the reduction or limitation of greenhouse gas emissions.

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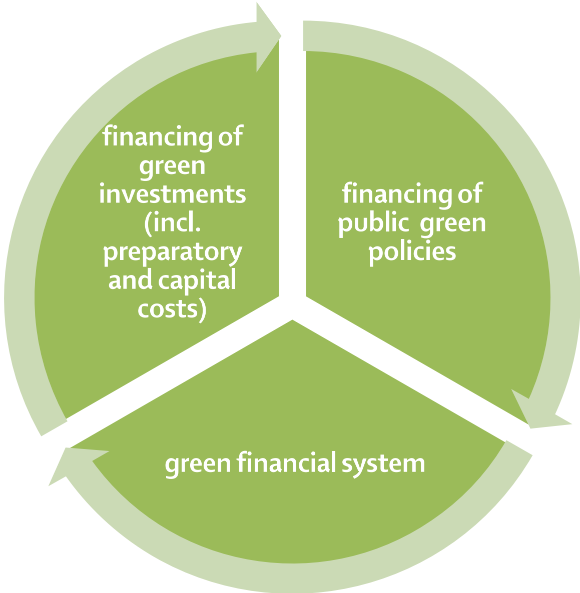
5 Böhnke / Eidt / Knierim / Richert / Röber / Volz (forthcoming): How to Make Green Finance Work - Empirical Evidence from Bank and Company Surveys, German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE).

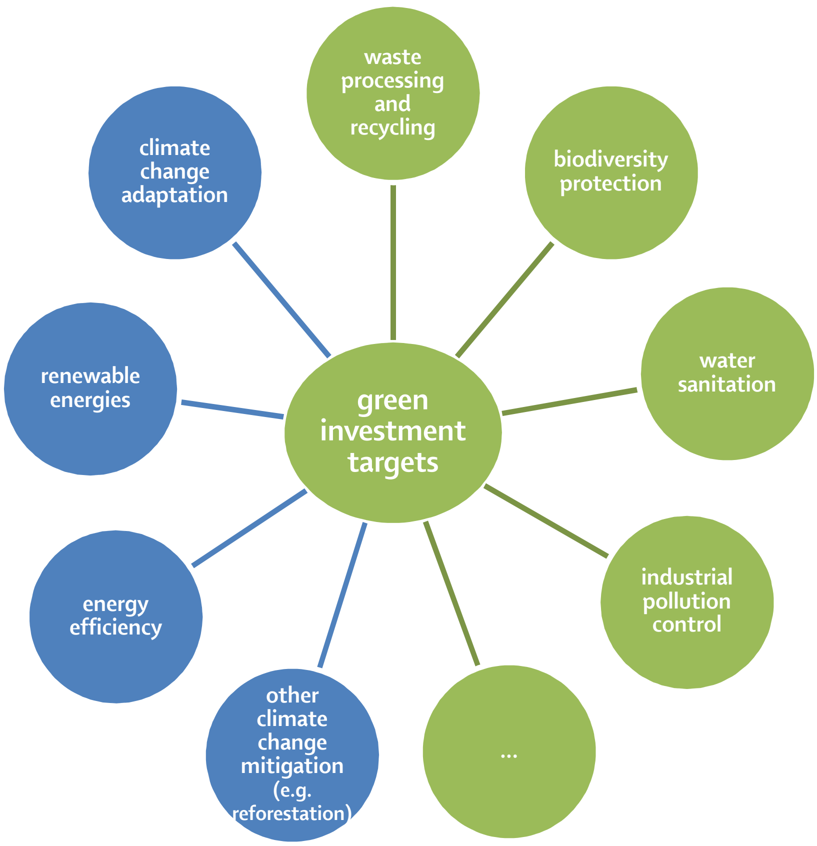
* Eurostat defines environmental goods and services as those "that are produced for the purpose of preventing, reducing and eliminating pollution and any other degradation of the environment (environmental protection) and preserving and maintaining the stock of natural resources and hence safeguarding against depletion (resource management)". Source: http://epp.eurostat.ec.europa.eu/statistics_explained/index.php?title=Environmental_goods_and_services_sector&stable=1

Figure 1 Green finance comprises...



Source: Author's illustration.

Figure 2 Green investments include investments in...



Note: Green investments include climate related investments (blue bubbles), but are not limited to them.
Source: Author's illustration.