Sustainability and Sustainable Economy

Taxonomy

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Summary

Sustainability is a vast and crucial area that has gained growing multidisciplinary and multisystem attention over the past five decades, albeit insufficiently. The multidisciplinary and multisystem discourse is vital and necessary, but it necessitates a common language to aid all participants, all of us, in achieving a harmonious and sustainable world. I offer my humble contribution to this discourse (in the spirit of Janus)[1] to accompany you through the stages of your involvement and foster a sustainable mindset. This includes collecting and defining basic terms in the field and offering an interpretation of them.

Introduction

The threats to our survival and the survival of our environment and the challenges they pose require us to acknowledge our personal and collective responsibility as humans for the current situation on earth and embrace a **sustainable mindset**.

"The greatest danger to the planet is the belief that someone else will save it"

Robert Swan

The Starting Point (Time, Subject and Object)

Time – We are all temporary inhabitants of this world along a continuous timeline.

Let us start here and now. We face challenges in our times, but this is not a new phenomenon. However, as humanity moves forward, the exponential increase in population, the rapid advancement of technology, and the "explosion" of knowledge amplify humanity's **impact** and ability to affect human existence in general and the environment in which this existence is possible in particular. Although humanity may not be the primary and only factor impacting human existence, it is enough to agree that its influence is significant and that there are real existential threats.

The subject – The individual: the human species is made up of individuals and the behavior of humanity is the sum total of the behavior of the individuals and the synergistic relationships that arise from our interactions. While we tend to place the individual at the center of the discourse, we choose to approach this discussion from the bottom up, acknowledging the various roles that an individual plays, such as consumer or producer, investor or depositor, regulator or citizen, and adult or unborn child. Each one of us individuals, donning different hats, seeks to develop and nurture ourselves out of a desire to maximize our personal well-being[2] (and some of us are given a real opportunity to do so).

[1] Janus, in ancient Roman mythology, is the god of gates: beginnings, transitions, time, openings, endings and so on. Janus is depicted as a double-faced head: one looks to the past, and the other to the future.
[2] Extension of the teachings of the English legal philosopher Jeremy Bentham (1748-1832)

The Object – The material, often represented today by money, consumer goods, and other physical assets. As the material and the individual intersect, the definition and limits of personal well-being are reduced, leading to a narrowly individualistic frame of mind[3] or "instrumental rationality"[4]. In so-called developed countries, the individual's motivation to accumulate and consume material is increasingly driven by one's desire for social esteem and recognition, rather than basic needs or well-being. "Power, honor, and money", based on the three components of Max Weber's theory of social stratification[5], as famously depicted in the lyrics of the American hip-hop band The Lox[6].

The Discourse Space – Perspective

From the individual to the collective and to humanity as a whole: if we expand our perspective for a moment, we see that there are eight billion unique individuals, some closer, some far from us, who, like us, seek maximum personal **well-being**. If we move forward in time and deepen our perspective, we will see our children and find that they and their unborn descendants will also strive to maximize their own well-being.

The Individual – The Physical Space – The Individual: We, the individual, exist within a society that operates and conducts itself in an environment. Hence our personal well-being depends on both society and the environment, whether we like it or not. Any instability in society or the environment poses a risk to our individual (and societal) well-being and that of our descendants to whom we owe what we asked for ourselves – well-being.

The Paradox

The majority of the scientific and international communities warn us that humanity is facing real and intensifying threats to its existence. At the same time, the ambitions of individuals to maximize personal well-being have taken the proportions of a race to obtain and accumulate more and more material. This increasingly intensifying race enables (some would say produces) an accelerated consumption (and production) culture, which fuels the very same **threats to the environment**.

[3] Psychologist and researcher Kathleen Vohs has written extensively on the topic of self-interest and its effects on social behavior and decision-making.

[4] German philosopher and sociologist Jürgen Habermas is a German philosopher and sociologist who has written extensively on the role of money and instrumental rationality in modern societies.

[5] German sociologist Max Weber's three component theory of stratification in his book Wirtschaft und Gesellschaft (1922).

[6] Money, Power & Respect (1988) Bad Boy Records.

Will the current social order and human arrangements both now and in the future, allow individuals to strive for maximum personal benefit while maintaining this narrow, individualistic mindset?

The Approach

Our precious limited time makes it unrealistic to rely on politicians to bring us to a safe harbor or wealthy individuals to voluntarily agree to give up (part of) their power. Instead, it is imperative that we individuals, in our various hats, acknowledge the paradox without delay. Humanity must urgently align its economic thinking and economic activity with the limitations and risks that endanger our existence, some of which are irreversible, and take decisive action to address these challenges.

The Economic Paradigm

The **economic** paradigm plays a fundamental role in the discourse of sustainability. It is therefore essential to delve into the topic of economics. The economic discussion is divided into two main streams: normative economics on one side and positive economics on the other. The focus of positive economics is on "what is", while normative economics focuses on "what ought to be". Adopting one of these approaches while ignoring the other in discussions on sustainability hampers our ability to find solutions to the challenges and threats we face. Conventional economics, based on positive economics, is unable to provide answers by itself to the real threats to humanity's existence. This is because the positive economic approach has structural limitations that hinder its ability to address complex issues such as future scenarios, real uncertainties, information gaps, and measurement problems. The positive economic approach, dominated by conventional economics, largely repudiates the current threats to humanity's existence, downplays extreme and irreversible situations, and all under the pretext of maximizing efficiency in an infinite game. The emphasis on empirical evidence in positive economics, at the expense of what is desirable and necessary, has suppressed the critical judgment necessary for discussions in times of crisis. Additionally, the attempt to establish economics as a precise and objective science (rooted in the principles of positive economics) while separating it from society, has created an artificial hierarchy where society is subservient to the economy and is expected to serve its needs.

Therefore, until the positive approach works positively in this context, it is crucial to also consider the normative approach. In response to the question raised in the previous paragraph, **the social structure and order demand a normative framework to which individuals are subjected**.

For proponents of classical economics, this entails a return to the individualistic perspective, particularly as expressed in the roots of classical economics, which based its outlook on the moral position of the individual, possibly in an effort to secure sustainability.

"How selfish soever man may be supposed, there are evidently some principles in his nature, which interest him in the fortune of others, and render their happiness necessary to him…"

Adam Smith, The Theory of Moral Sentiments, 1759

Economists (in academia, public service and industry) bear a significant responsibility to incorporate sustainability into their discourse, re-evaluate the patterns of economic thinking, question widely held beliefs in economic thinking, challenge common echelons in the scale of economic knowledge, and subordinate their thinking and economic practices to sustainability.

The Goal

The discourse on sustainability serves two main purposes: first, to increase the individual's awareness of the present threats to human existence, and second, to encourage the individual to acknowledge the extent and scope of our impact in our various roles on others, including those beyond our immediate awareness or concern. Only by fully understanding the gravity of the situation and the individual's influence, can we establish balanced thinking norms and behavior patterns.

True Story

The following incident occurred in my first-year introductory microeconomics course at Sapir Academic College. I have been teaching this course for almost thirty years, lately as part of the "Gateway to Academics" program, a unique initiative run at Sapir Academic College to advance education among Bedouin students, who are often the first generation in their families and communities to pursue higher education.

In one of the early lessons of the course, I taught the concept of efficient resource allocation and introduced terms such as "production function" and "marginal productivity". As part of the class, I presented my students with a classic example where they had to allocate four identical workers between two different wheat fields (i.e., with different production functions). I asked them to allocate the workers with maximum efficiency (note, that in Hebrew, there is one word for efficient and effective). After they took some time to think, I asked how they would allocate the workers most efficiently. Malek raised his hand and answered: “Two workers assigned to field A and two assigned to field B”. Next answered Bosina: “Two will be assigned to field A and two to field B”. Next replied Amal and Muhammad and the rest of the class – all claimed that the workers should be split evenly between the two fields with two workers assigned to each. This uniform and unambiguous answer surprised me, as the most efficient allocation, which would result in the maximum wheat output, would be three workers assigned to field A and one worker assigned to field B. I asked my students to explain their clear-cut response. They said: "Will a worker come to work in the field every morning and work alone? What if something happens to him? How will he pass the time? Just by himself?" At first, I chuckled, but then I quickly caught myself and stood before them touched, grateful for the lesson I had learned from them about efficiency and its different facets. I thanked them for showing me that maximum well-being does not always equate to maximum output or income, and even now, I remain thankful for the insight that the current and conventional definition of efficiency is not necessarily sustainable.

"מִכָּל מְלַמְּדַי הִשְׂכַּלְתִּי", "ומתלמדי יותר מכולן". (Hebrew)

"I have learned from all my teachers”[7]
“and most of all from my pupils”[8]

[7] Book of Psalms 119:99 (according to the Hebrew meaning)
[8] Babylonian Talmud: Tractate Taanit 7a

Terms

This list of terms is incomplete, and some of the definitions offered are open to alternative interpretations. The terms and definitions presented here serve as a kind of "Guide for the Perplexed"[9] to key concepts in the sustainability discourse, particularly within the realm of sustainable economics.

The phrasing of these definitions involved referencing multiple websites and sources. Definitions that are quoted from the source are noted as such. All other sources utilized in this process are listed at the end of the document.

I have categorized the terms into four groups:
1. Human Existence
2. Human Perspective
3. Human Behavior
4. Sustainable Finance Industry

1. Human Existence

Sustainability[10] – the ability to meet our needs* as humankind without compromising the ability and possibility of future generations to meet their own needs.

*Meeting our needs necessitates access to natural, social, and economic resources.

Secondary Terms and Concepts

Environmental Sustainability is achieved when ecological integrity is preserved, the earth's natural systems remain in equilibrium, and human consumption of natural resources occurs at a rate that allows for their replenishment. Attaining Environmental **Sustainability** entails addressing significant **Environmental Threats** such as climate change, biodiversity loss, air and water pollution, drought and water scarcity, resource depletion, deforestation, and overpopulation.

Social Sustainability is achieved when all people have access to sufficient resources and can meet their basic needs for the health and safety of themselves, their families, and their communities. **Social** **Sustainability** is attained through two dimensions: 1. Embracing,

[9] Rambam's (Maimonides) Moreh Nevukhim (The Guide for the Perplexed), Illustrated Hebrew manuscript, Barcelona, 1347–48.

[10] Based on the definition by the UN Brundtland Commission on Environment and Development (1987)

adopting, and respecting universal human rights, assuring individual, labor, and cultural rights, and preventing adverse discrimination; 2. achieving **Collective Social Sustainability**.

2. Human Perspective

Economy is a social sphere and domain that encompasses all human activity and the social interactions necessary to meet humankind's needs and promote **well–being**.

Note: The **economy** is not a standalone entity or field, but rather a complex system of processes that are influenced by a range of factors, the main being cultural values, education, technological evolution, history, social organization, political structure, legal systems, and the availability of natural resources in the environment where it operates. These factors give context and content and determine the conditions and parameters in which an **economy** operates.

Sustainable Economy encompasses all human endeavors and interpersonal interactions necessary to meet humankind's needs and attain **well–being** without compromising the ability and possibility of future generations to meet their own needs.

Well-being is the experience of health (physical, mental and emotional), happiness, and prosperity.

Author's Note: This seems to be the concept I struggled the most to frame its definition, because **well-being**, especially the way it is perceived, is derived from numerous subjective aspects such as culture, values, beliefs, feelings, emotions, geography, and more. Given the central role that the concept of **well-being** holds in discussions about **sustainability**, I chose to shed some light on the concept using the Capability Approach of Martha Nussbaum[11] and Amartya Sen[12].

Capability Approach - a universal approach that states that well-being is an outcome that is not confined solely to the measure and extent of the product attained. According to the Capability

[11] Martha Nussbaum (1947) is a renowned American philosopher. Over the years, a significant part of her work dealt with capabilities, often focusing on women's opportunities and unequal freedoms.

[12] Amartya Sen (1933) is an Indian-born economist and philosopher, and a Nobel Prize recipient in Economic Sciences (1998) for his contribution to welfare economics.

Approach, the presence of well-being is also found beyond its attainment - that is, both in the freedom to pursue[13] it and in the ability to exercise agency in promoting the well-being of society.

Secondary Terms and Concepts

Collective Social Sustainability emphasizes the importance of collective collaboration (involvement, engagement, and action) in building social capital and facilitating social integration resources[14] necessary to meet social challenges, i.e., promote **sustainable development** and achieve **social sustainability**. Collective Social Sustainability is attained by a shared sense of responsibility and ownership among community members (creating and maintaining social cohesion), intermediary institutions[15] (enabling society to exist as an integrated entity) and maintaining a sufficient level of social integration resources.

Community well-being[16] is the combination of a set of conditions - social (economic, cultural, and political) and environmental - that promote a healthy and prosperous quality of life for all members of the community regardless of income, gender, age, culture, etc.

Associated Terms and Concepts

Local Economy refers to the **economy** within a specific geographic region. The prosperity of the Local E**conomy** brings about a range of economic, **Social Impact**, and **Environmental Impacts**. Reinvesting a higher percentage of money in the local **economy** has a multiplier effect, and leads to more job opportunities, reduced tax loss, and stronger support for the local community. A lower percentage of money leaving the local **economy** results in decreased transportation and transactions, thereby reducing emissions of greenhouse gases and conserving natural resources. There are various methods to boost the local **economy**, including purchasing locally made goods and services, employing local residents, participating in local exchange initiatives such as recycling or reuse, supporting local finance, and investing in small local businesses and entrepreneurs.

Sharing Economy is a socio–economic system that is based on the shared use of resources, such as physical, technological, and intellectual assets. This system facilitates a wider and more effective utilization of these resources, promoting collaboration and sharing in the creation, production, distribution, trade, and consumption of goods and services between

[13] To make choices and act beneficially in various contexts, e.g., health, education, security, employment, nutrition, leisure, participation, etc.

[14] E.g., access to education, job training programs, healthcare, affordable housing, literacy skills, and other resources that can help individuals overcome barriers to integration and improve their well-being.

[15] A phrase commonly associated with the French social philosopher Alexis de Tocqueville (1805-1859), referring to institutions (such as religious organizations, educational institutions, voluntary civic or professional associations) playing a critical role in mediating between individuals and the larger social order.

[16] Based on Wiseman J & Brasher K. Community Wellbeing in an Unwell World: Trends, Challenges, and Possibilities, Journal of Public Health Policy (2008) p. 358.

individuals and organizations. Unlike a traditional **economy**, which prioritizes financial gain, the sharing economy emphasizes fairness and equitable sharing.

Green Economy aims to promote prosperity for all within the bounds of the planet's ecological systems, by promoting low-carbon, resource-efficient, and **socially inclusive** practices. To achieve this goal, a green **economy** places a high value on access to natural resources and infrastructures that sustain life and invest in the education and knowledge necessary for people to thrive. While a green **economy** relies on collective action for public goods, it is ultimately driven by individual choices within society.

Circular Economy prioritizes waste prevention by maximizing the use of raw materials and energy sources. At its core is a cycle of production and consumption, to waste management and a market of (secondary) raw materials in a closed loop. In a circular **economy,** the value of products and materials is maintained for as long as possible and resource usage and waste are minimized. This differs from the traditional linear economic model, which follows a "take, use, consume, and dispose" pattern. In a circular **economy**, the focus is on sharing, leasing, reusing, repairing, refurbishing, and recycling existing products and materials for as long as possible.

Triple Bottom Line (TBL) – a performance accounting framework that incorporates three dimensions: the environment, society, and finances (also known as PPP, or Planet, People, Profit). The TBL indicates a company's level of commitment to **corporate social responsibility (CSR)** and the **Impact** of its **social responsibility** efforts over time. John Elkington, a British entrepreneur and author, claims to have coined the term in 1994. The TBL is sometimes referred to as the Double Bottom Line (DBL), which combines environment and society as **Social Responsibility**.

Sustainable Mindset is a holistic and integrated approach to decision-making that considers the long-term **social** and **environmental impact**. This perspective involves taking into consideration the relation and interdependence of the environment, society, and **economy** and making choices that balance current needs with the abilities and possibilities of future generations.

Sustainable Development is an organizing principle that aims to meet our needs as humankind while preserving the ability of future generations to meet their own needs[17]. In other words, it refers to development that is environmentally, socially, and economically sustainable without compromising the stability of the natural world and the integrity of the universe.

[17] Based on the definition by the UN Brundtland Commission on Environment and Development (1987)

Sustainable Finance is the application of financial activity to support **sustainable development** or responsible practices. Therefore, sustainable financing, including investments and **financial instruments**, aims to generate a positive **impact** by directing capital towards endeavors that promote **social sustainability** and **environmental sustainability**. Transparency is emphasized in sustainable finance, including disclosure of risks associated with environmental, social, and governance **(ESG) factors** and the mitigation of such risks by appropriate management and control of financial and corporate entities.

ESG stands for Environment, Society, and Governance, and represents financial interests that consider **sustainability** and ethical **impact**. ESG performance metrics, including non–financial indicators, are utilized in financial analysis to assess corporations and countries, including their contribution to **sustainable development**.

ESG Factors – there is no definitive taxonomy for **ESG** factors. These factors are interrelated, can be measured to some extent, but may prove challenging to assign a monetary value to. Some of the key factors include:

- **Environment** – the preservation of nature: global climate change and carbon emissions, air and water pollution, biological diversity, deforestation, energy efficiency, waste management, land use, and water scarcity.
- **Society** – consideration of people and their relationships, such as: human rights, **diversity and inclusion**, health and safety, engagement, community relations, e.g., labor standards and practices, customer satisfaction, employee engagement, suppliers and partners (local sourcing, **diversity** and **social responsibility**), data protection.
- **Governance** – a company's standards and practices, such as: compensation policy of management, composition of the board of directors (including independence, **social diversity**, structure, and audit committee), shareholder rights, code of **ethical responsibility** in the workplace (such as preventing discrimination and harassment, addressing bribery and corruption, and establishing whistleblower programs), lobbying, and political contributions.

Associated Terms and Concepts

Social Development Goals (SDGs) – an agenda towards **sustainable development**, that is an urgent call to action in a global cooperation. The aim is to achieve peace and prosperity for people and the planet, both now and in the future through 17 international development goals to be achieved from 2016 to 2030. The SDGs acknowledge that eradication of poverty, and other deprivations should go hand in hand with strategies that improve health and education, reduce inequality and promote economic growth while actively dealing with climate change, and ocean and forest protection. Adopted by the United Nations Sustainable Development Summit in September 2015, this agenda builds upon the success of the Millennium Development Goals (MDGs) and has been unanimously approved by all UN member states.

Secondary Terms and Concepts

SDG – Goals, Targets and Indicators – the 17 **SDG** goals each have seven to eight targets, and for each target, several indicators have been established to assess the accomplishment of the goal (a total of 231 indicators). These goals, targets, and indicators serve as a benchmark for screening, prioritizing, categorization, and definition of various human activities and initiatives.

Diversity and Inclusion – **Social diversity** refers to the representation of individuals or groups with different backgrounds and perspectives. **Social inclusion** is about the extent to which these diverse groups are integrated and their presence, contributions and perspectives are appreciated. It involves ensuring that everyone in the diverse group feels engaged, valued, respected and treated fairly and is integrated into the reference group.

3. Human Behavior

Impact – a positive or negative effect that results in changes in people's lives[18]. To be considered an impact, an effect must:
- be long-lasting;
- affect a clearly identifiable population group;
- be the result of an intervention, either direct or indirect, intended or unintended

The impact of an intervention can encompass a wide range of effects including economic, socio-cultural, institutional, environmental and technological[19]. In the context of evaluation, impact refers to the long–term changes resulting from the intervention.
The term "Impact" is usually used to refer to a positive result, which can be divided into three categories: (A) **A**ct to prevent harm; (B) **B**enefit stakeholders; (C) **C**ontribute to the solution of a defined problem.

Secondary Terms and Concepts

Environmental Impact refers to the **impact** of human activities (primarily socio-economic) on the elements of the environment. This impact can be negative, causing an environmental imbalance or exacerbating it, or it can be positive, reducing **environmental threats** or risks or contributing to its balance.

Social Impact refers to the **impact** on the **well-being** of people and communities that results from the actions or inactions of individuals, activities, projects, programs or policies. A social **impact** can be positive, such as one that contributes to reducing social injustice, or negative. The degree of social **impact** is determined by two factors: scope – the number of people affected over time, and depth – the degree of impact on them.

Associated Terms and Concepts

Social Responsibility (SR) – an ethical framework that mandates individuals and organizations to act or interact in a manner that promotes the common good, without compromising the freedom of future generations to attain **well-being**[20].

[18] For example: changes in knowledge, skills, behavior, health, or living conditions for children, adults, families, or communities.
[19] According to the official UN definition
[20] In the sense of "people with capabilities" (to be and to act) (Amartya Sen's **Capability Approach**)

Sustainable Investment – an investment strategy that does not generate negative **impact** on the world.

Secondary Terms and Concepts

Responsible Investment Spectrum, ABC.

- **Socially Responsible Investments (SRI)** – investment strategies driven by an intent to avoid causing harm (**A**ct to avoid harm) and align with environmental and social values (usually) based on universal ethical criteria, while still seeking financial returns. SRI often takes the form of **excluding** or **negatively screening** industries or activities with low **ethical responsibility** or standards. **Ethical Investing**, **Values–Based Investing**, and **Conscious Investing** are other terms used to describe investments that reflect an investor's values.
- **Environmental, Social, and Governance (ESG) Investments** – an investment strategy whose purpose is to **B**enefit all stakeholders by considering **ESG factors** and assigning scores or evaluations to these factors. The scores can be used as a benchmark or for comparative analysis or screening between sectors. An overall **ESG** score can be weighted based on the relative importance of each factor.
- **Impact Investments** – investments with the objective of creating positive **social impact** and **environmental impact** that can be quantified (**C**ontribute to solution), along with a financial return[21].

Associated Terms and Concepts

Negative Screening – the process of identifying companies, industries, or countries with low scores based on poor performance or high risks. This can include **social responsibility (SR)** screening using universal or personal (subjective) ethical standards, or screening according to **ESG** performance in comparison to accepted **ESG** scores.

Exclusionary Screening – the practice of excluding companies or sectors that go against a client's social or moral values from an investment portfolio.

Positive Screening – the opposite of **negative screening.** The process of identifying companies, industries, or countries with high scores based on high performance or low risks.

Environmental Responsibility – the duty of individuals, corporations, government entities, and communities to protect the environment, improve it, and prevent potential harm to the environment from their actions and activities.

[21] Source – Global Impact Investing Network (GIIN)

Ethical Responsibility – the duty to act and conduct oneself correctly and properly according to ethical standards in a specific context or field, exceeding legal requirements.

Financial responsibility – the duty of ensuring positive economic performance, protecting wealth, maximizing it, and avoiding actions, activities and conduct that could result in financial harm.

Impact Development – the act, process, or outcome of deliberate development efforts aiming to achieve positive purposeful and measurable (to some extent) **impact**. Impact Development involves intentionally initiating, designing and implementing actions that bring about meaningful, long-lasting and additional **outcome**s (i.e., changes, improvements, or advancements that would likely not have occurred at this point without these efforts) that affect a clearly identifiable population group, in various aspects of society, the environment, or the **economy**. The development efforts (projects, initiatives or ventures) can encompass a wide range of sectors (business, governmental or public) and activities (e.g., education, health, housing, environment, welfare, technology, community development, economic development, etc.).
Impact Development is a narrower concept of the **Sustainable Development** principle.

Impact Management – the process of managing the creation of **social impact** and **environmental impact** and measuring this impact to optimize and maximize it. **Impact** management is based on an entity's impact strategy and covers all stages of impact creation, including planning (goals and modes of action), implementation, reporting, measurement and evaluation, learning, and drawing conclusions. The Impact Management Project (IMP) identifies five dimensions of impact management: what (is the **impact**), who (experienced the **impact**), how much (of the **impact** is occurring), contribution, and risk.

Theory of Change (ToC) – a systematic and logical framework that explains and demonstrates how a specific intervention or set of interventions is expected to lead to desired change and development (especially social change), on causal analysis and available evidence.

Associated Terms and Concepts

Efficiency vs. Effectiveness – Efficiency is the ability to produce an intended result in a manner that uses as few resources as possible, while **effectiveness** refers to the ability to produce an **outcome** that provides a higher value according to set goals. You could say that efficiency is doing things right and effectiveness is doing the right things.

Output vs. Outcome – **Output** refers to the result produced by an activity (what was done). **Outcome** encompasses the added value or **impact** of the output on the target group. The initiator of the activity has (some) control over the activity and thus the output, but the outcome is not within the initiator's control.

Consumer Behavior – all activities related to buying goods, consuming services, using them, and disposing of them. Consumer behavior is influenced by the emotions, attitudes, and preferences of the consumer and is an interdisciplinary social science that includes psychology, sociology, anthropology, marketing, and **economics**.

Corporate Social Responsibility (CSR) – the notion that a business corporation should have a positive contribution to the common good and consider the **environmental impact** and the **social impact** while making business decisions, in an effort to create shared value in terms of social, environmental and financial outcomes.

Associated Terms and Concepts

Color Washing [22] – **a** general term for a profit-oriented tactic usually used by companies and brands to deceptively communicate false or unsubstantiated messages regarding their values, products, or practices in order to market them more appealingly to environmentally and socially conscious consumers. There are several such practices:

- **Green Washing** – where a company falsely portrays or claims that their products or practices are environmentally friendly or have an exaggerated positive **environmental impact**, deceiving the public, especially consumers.
- **Social Washing** – deceptive portrayal or assertion of **social responsibility** that exceeds the actual extent of it.
- **Sports Washing** – a neologism regarding utilizing investments in sports, such as major sporting events, facilities, or sponsorships, to enhance the image of a nation or city, frequently for political motives. This practice is often employed as a deflection from existing issues or to enhance the reputation of the nation or city.
- **Pink Washing** – deceptive claim or representation of promoting women's empowerment while concealing exploitation or inequality towards women.
- **Brown Washing** – deceptive claim or representation of supporting populations of black, brown, indigenous, and other non-white skin tones (BIPOC) while not implementing anti-racist practices or empowering BIPOC individuals in their business or activities.
- **Rainbow Washing** – deceptive claim or representation of supporting the LGBTQIA+ community, while not empowering LGBTQIA+ individuals in their business or activities.

[22] Washing as a metaphor of fraud, cover-up, distraction.

4. Sustainable Finance Industry

Financial Inclusion (or **Inclusive Finance**) – aims to eliminate barriers[23] that prevent individuals and communities from accessing financial products and services that can improve their lives, reduce poverty and promote prosperity. This involves making financial products and services that meet the needs of people and businesses, such as transactions, payments, savings, credit, and insurance, available at reasonable prices and in a responsible and sustainable manner. Financial inclusion is seen as an important factor in achieving several of the Sustainable Development Goals (**SDGs**), primarily the first – No Poverty.

Blended Finance – strategically mobilizing and blending different sources of funding[24] for **sustainable development**, particularly in emerging and frontier markets, to attract commercial capital for **sustainable development** projects and provide financial returns to investors.

Financial Instruments

Microfinance – providing financial services to low-income or without collateral individuals or groups who are often absent or excluded from accessing traditional financial services, such as banking. Microfinancing aims at empowering people while adhering to ethical and responsible lending practices such as not involving unfair pricing. This usually includes small loans and a range of other services such as credit, savings, and insurance.

Pay for Success – an innovative funding model that focuses on results, shifting the focus from allocating resources to achieving **outcomes**.

Secondary Terms and Concepts

Social Impact Bond – a relatively new **financial instrument** introduced in 2010. It is a **performance-based contract** between "outcomes-funders", service providers, and investors with a shared goal of achieving social **outcomes**. The financial risk is transferred from "traditional funders", often from the public sector or the third sector, to a "new investor". The investor provides upfront capital for evidence-based social programs to achieve better **outcome**s in areas such as welfare, employment, health, education, crime, and agriculture. Service providers implement the plans, and the direct beneficiary (the ordering party) pays the investors based on the actual **outcomes**, according to a pre-agreed benchmark, reference group, or **outcome** agreed upon between the parties.

[23] Barriers can be categorized based on multiple dimensions, such as geographic access (proximity to a financial service provider) and socio-economic access (the lack of prohibitive fees and documentation requirements).

[24] Financing varies in numerous ways, including the sources of funding (e.g., public vs. private), the types of financing (e.g., subsidized vs. non-subsidized), and the objectives of financing (e.g., development funds vs. commercial purposes).

Development Impact Bond – a recent **financial instrument**, introduced in 2014, used to finance development programs in resource-poor countries by attracting private investors. It is a **performance-based investment instrument** and a subtype of a **social impact bond**.

Green Bond – a debt instrument for **socially responsible investment (SRI)**, issued by both public and private entities, to raise capital for climate or environmentally-friendly projects with a positive **environmental impact** or reduction of negative impact, such as energy efficiency, clean energy production, sustainable land use, and more.

Climate Bond – unique application of a **Green Bond**, financing projects aimed at reducing carbon emissions or mitigating the effects of climate change.

Associated Terms and Concepts

Results-Based Finance (RBF)[25] or Outcome-Based Finance – a general term that refers to programs or interventions that reward individuals or organizations based on the achievement of pre-agreed and verified **outcomes**. Outcome-based financing is considered a way to increase **efficiency** (by reducing costs or risk) and **effectiveness** (to achieve better **outcomes**) by linking payment to performance.

Performance-Based or Outcome-Based Contract – a form of **results-based financing.** These are agreements between a provider and a recipient where payment is determined based on the **outcomes** achieved from the provided product or service. Such contracts align the incentives of both parties towards the attainment of specific, measurable **outcomes** and shift the focus from inputs or processes to **outputs** or **outcomes**. Outcome-based contracts are increasingly being used in various social initiatives or processes.

Financing Sources

Ethical Bank – a bank that supports **sustainable development** by considering the **social impact** and **environmental impact** of its activities, such as investments, loans, and insurance services, as well as its conduct, such as fair trade and fair labor practices. Such banks adopt **sustainable investment** practices (e.g., promoting **social inclusion** or social initiatives) alongside **financial responsibility**.

Impact Fund – aims to generate a measurable, beneficial **social impact** or **environmental impact**, in addition to financial returns[26]. This type of fund is usually backed by institutional investors (pension, hedge, private, or other funds, endowments, banks), as well as government funds, channeling investors' money to create positive **impact**.

[25] Source: World Bank, International Bank for Reconstruction and Development (IBRD), International Development Association (IDA)
[26] Source: GIIN

Outcome Fund – an **outcome-**based investment fund that allocates funds towards achieving specific social or environmental results by issuing different **performance (outcomes)-based contracts.** This fund is sourced by public, private, or philanthropic investors such as **impact investors** that are invested in companies, projects or organizations that focus on obtaining specific measurable social or environmental **outcomes** in addition to financial returns. Outcome funds have a well-defined set of **outcomes** they aim to achieve and take a rigorous approach to measuring and reporting the **impact** of their investments.

Institutional Consumers of Sustainable Finance

Impact Organization/Venture – an entity with the deliberate systematic objective of generating positive **social impact** or **environmental impact** alongside financial returns. These organizations or ventures may concentrate on specific areas of concern, such as education, health, or climate change, and use their business operations and profits to address a local or global community need related to these issues. Impact organizations can take various forms, such as non-profit organizations, for-profit companies, or hybrid models that incorporate aspects of both.

Social Enterprise – a business with social or environmental objectives. Its main goal is to address a social problem or concern (maximize social benefit) while seeking economic independence (maximize surpluses). The surpluses of a social enterprise are not distributed as dividends to its owners but are rather used to finance its social goals, balancing between the profit-driven business and nonprofit sectors. They may differ in ownership structure (such as cooperatives, companies and associations), financial goals (nonprofit or for-profit), degree of economic independence, and financing methods (such as public benefit organizations or endowments).

Note: The definition of a social enterprise can vary depending on the location, such as the business environment, legal system, and cultural norms.

Public Benefit Corporation (PBC) – a corporation with a unique legal status as defined by the relevant jurisdiction. The structure of a PBC allows the company to pursue both social or environmental goals and financial goals while taking into account the interests of its stakeholders, such as shareholders, employees, and the community. A PBC is created with the purpose of delivering a specific social and public benefit, which is legally defined in the company's founding documents, and operates in a **responsible** manner and with a **Sustainable Mindset**. PBCs are subject to higher standards of purpose, accountability and transparency, and must consider the **impact** of their decisions on all stakeholders. The specific requirements and regulations regarding PBCs vary between countries. In most cases, a PBC is registered as a private, for-profit company, but in some countries, it may be incorporated as a government-owned statutory corporation. Being designated as a PBC offers several benefits, such as greater decision-making flexibility (as the company can prioritize public benefit over profits) potential tax benefits (according to local taxation laws), an improved reputation and credibility, and the ability to attract **socially responsible investors** and employees. In some countries, PBCs are allowed to distribute surpluses to shareholders and sell their holdings in the company to make a profit. In other countries, such as Israel, public benefit companies (PBCs) are prohibited from distributing surpluses to shareholders as dividends. Instead, these profits must be used to fund social objectives. Furthermore, the owners of PBCs are not allowed to sell their stakes for profit.

Secondary Terms and Concepts

B Corp – certification given to for-profit **PBCs**, under the laws of certain states in the United States, for meeting high standards of social and environmental performance, responsibility, and transparency. The certification is given by B Lab, a US non-profit.

Bibliography

The following list of 'General Sources' is intended to make reading and broader understanding accessible to a wide audience. This is not a bibliographic list according to academic tradition - partly because most definitions presented in this document are not drawn from academic articles (and in rare cases there is a reference as customary), and partly due to the desire to direct to engaging information sources that will enhance the recognition, knowledge, and understanding of sustainability in its various aspects.

General Sources:

- The United Nations, Department of Economic and Social Affairs
- The United Nations Development Group
- UNEP – UN Environment Programme
- OECD
- The World Bank IBRD and IDA (the International Bank for Reconstruction and Development and the International Development Association)
- The Global Impact Investing Network (GIIN)
- The European Banking Authority (EBA)
- Wikipedia
- The Impact Management Project (IMP)
- Investopedia
- Government Outcomes Lab (GOL)
- The Definition
- Corporate Finance Institute (CFI)
- Green Economy Coalition
- LII (Legal Information Institute) Cornell Law School
- Psychology Today
- Urban Institute
- Santander
- 80000 hours
- Sustainable Fashion Matterz

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