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The Vogue Business climate finance glossary Photo: Getty Images / Artwork by Vogue Business

An essential guide to climate finance, one of the most complex but critical tools in the fight against the climate crisis.

An essential guide to climate finance, one of the most complex but critical tools in the fight against the climate crisis. In our new series, The Hidden Cost, Vogue Business breaks down everything you need to know about climate finance as it relates to fashion's supply chains. No jargon, just insights. Read more here

Climate finance can seem inaccessible at the best of times, but its impact is universal. It can help fund decarbonisation in fashion supply chains, or help communities on the frontlines of the climate crisis access loss and damage funds . It can take the form of macroeconomic interventions or micro-grants for grassroots initiatives. It can come from governments, private enterprises or anyone in between. At the next United Nations Climate Change Conference (COP30) in November, it will be the main topic of negotiations.

Consider this your essential guide to climate finance: designed to be beginner-friendly, but just as useful for experts to refer back to. It has been published in partnership with The Conversation , an independent source of informed comment written by academic experts. It includes all of the most important climate finance terms, as well as few complementary definitions from the broader climate space, such as carbon offsetting and carbon budget. We may add to it from time to time, as the sector evolves.

Blue bonds

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Blue bonds are debt instruments designed to finance ocean-related conservation, like protecting coral reefs or sustainable fishing. They're modelled after green bonds, but focus specifically on the health of marine ecosystems — a key pillar of climate stability.

By investing in blue bonds, governments and private investors can fund marine projects that deliver both environmental benefits and long-term financial returns. Seychelles, the island republic in the Western Indian Ocean, issued the first blue bond in 2018, worth $15 million over 10 years. Now, more are emerging as oceans rise on the global sustainability agenda. As of June 2025, the World Bank estimates that the blue bond market has grown to $15.25 billion in cumulative issuance.

By Narmin Nahidi, assistant professor of finance at the University of Exeter

Carbon border adjustment

The carbon border adjustment mechanism is about to shake up the way we trade, produce and price carbon. The European Union's proposed policy, which is due to be enacted by 2026, will put a carbon price on imports like iron, cement, fertiliser, aluminium and electricity — the latter of which would have a direct impact on fashion production. If a product is made in a country with weaker climate policies, the importer must pay the difference between that country's carbon price and the EU's. The goal is to avoid “carbon leakage”, which is when companies relocate to avoid emissions rules.

But this mechanism is more than just a tariff tool. It's a bold attempt to reshape global trade. Countries exporting to the EU may be pushed to adopt greener manufacturing or face higher tariffs.

The carbon border adjustment mechanism is controversial: some call it climate protectionism, others argue it could incentivise low-carbon innovation worldwide and be vital for achieving climate justice. Many developing nations worry it could penalise them unfairly unless there's climate finance to support greener transitions.

Carbon border adjustment mechanisms are still evolving, but they are already forcing companies, investors and governments to rethink emissions accounting, supply chains and competitiveness. It's a carbon price with global consequences.

By Narmin Nahidi, assistant professor of finance at the University of Exeter

Carbon budget

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The Paris Climate Agreement (2015) aims to limit global warming to 1.5°C above pre-industrial levels by 2030. The carbon budget is the maximum amount of CO2 emissions allowed, if we want to have a 67 per cent chance of staying within this limit. The Intergovernmental Panel on Climate Change (IPCC) estimates that the remaining carbon budgets amount to 400 billion tonnes of CO2 from 2020 onwards.

Think of the carbon budget as a “climate allowance”. Once it has been spent, the risk of extreme weather or sea level rise increases sharply. If emissions continue unchecked, the budget will be exhausted within years, risking severe climate consequences. The IPCC sets the global carbon budget based on climate science, and governments use this framework to set national emission targets, climate policies and pathways to net-zero emissions.

By Dongna Zhang, assistant professor of economics and finance at Northumbria University

Carbon credits

Carbon credits are like a permit that allow companies to release a certain amount of carbon emissions into the air. One credit usually equals one tonne of CO2. These credits are issued by the local government or another authorised body, and can be bought or sold. Think of it like a budget allowance for pollution. It encourages a focus on the finite amount of carbon we can afford to emit each year to stay within global climate targets.

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The aim is to put a price on carbon to encourage cuts in emissions. If a company reduces its emissions and has leftover credits, it can sell them to another company that is going over its limit. But there are issues. Some argue that carbon credit schemes allow polluters to pay their way out of real change, and not all credits are from trustworthy projects. So, while carbon credits can play a role in addressing the climate crisis, they are not a complete solution on their own.

By Sankar Sivarajah, professor of circular economy at Kingston University London

Carbon offsetting

Carbon offsetting is a way for people or organisations to make up for the carbon emissions they are responsible for. For example, if you contribute to creating pollutant emissions by flying, driving or manufacturing a product, you can help balance that out by supporting

projects that reduce emissions elsewhere. This might include planting trees (which absorb carbon dioxide), or building wind farms to produce renewable energy.

The idea is that your support helps cancel out the damage you are doing. For example, if your flight trip creates one tonne of carbon dioxide, you pay to support a project that removes the same amount.

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While this sounds like a win-win, carbon offsetting is not perfect. Some argue that it lets people feel better without really changing their behaviour, a phenomenon sometimes referred to as greenwashing. Not all projects are effective or well managed. For instance, some tree planting initiatives might have taken place anyway, even without the offset funding, deeming your contribution inconsequential. Others might plant the non-native trees in areas where they are unlikely to reach their potential in terms of absorbing carbon emissions. So, while offsetting can help, it is no magic fix. It works best alongside real efforts to reduce greenhouse gas emissions and encourage low-carbon lifestyles or supply chains. Rather than carbon offsetting, many progressive fashion brands are now exploring carbon insetting , which stops carbon emissions from being emitted in the first place.

By Sankar Sivarajah, professor of circular economy at Kingston University London

Carbon tax

A carbon tax is designed to reduce greenhouse gas emissions by placing a direct price on carbon dioxide and other greenhouse gases. A carbon tax is grounded in the concept of the social cost of carbon. This is an estimate of the economic damage caused by emitting one tonne of CO2, including climate-related health, infrastructure and ecosystem impacts.

A carbon tax is typically levied per tonne of CO2 emitted. The tax can be applied either upstream (on fossil fuel producers), or downstream (on consumers or power generators). This makes carbon-intensive activities more expensive. It also incentivises nations, businesses and people to reduce their emissions, while untaxed renewable energy becomes more competitively priced and appealing.

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Sweden has one of the world's highest carbon tax rates and has cut emissions by 33 per cent since 1990 while maintaining economic growth. Its success stems from early adoption, covering a broad range of sectors with consistent and transparent messaging that ensures strong public support.

Canada introduced a national carbon tax in 2019. In the country, most of the revenue from carbon taxes is returned directly to households through annual rebates, making the scheme revenue-neutral for most families. However, despite its economic logic, inflation and rising fuel prices led to public discontent — especially as many citizens were unaware of rebates.

Carbon taxes face challenges including political resistance, fairness concerns and low public awareness. Their success depends on clear communication and visible reinvestment of revenues into climate or social goals. One 2025 study that surveyed 40,000 people in 20 countries found that support for carbon taxes increases significantly when revenues are used for environmental infrastructure, rather than returned through tax rebates.

By Meilan Yan, senior lecturer in financial economics at Loughborough University

Climate resilience

What happens when the places we live in — our cities, towns and neighbourhoods — are pushed to their limits by climate change? Floods, wildfires, heatwaves and rising seas aren't future threats — they are happening now and they will get worse in the future. But there's a powerful idea that's helping cities fight back: climate resilience.

Resilience has become the buzzword of our time. In an era of climate change, it refers to the ability of a system — like a city, a community, or even an ecosystem — to anticipate, prepare for, respond to and recover from climate-related shocks and stresses.

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Sometimes, people say resilience is about ‘bouncing back'. But it's not just about surviving the next storm. It's about adapting, evolving and thriving in a changing world. Resilience means building smarter and better. It means designing homes that stay cool during heatwaves. Roads that don't wash away in floods. Power grids that don't fail when the weather turns extreme. It's

also about people. A truly resilient city protects its most vulnerable. It ensures that everyone — regardless of income, age, or background — can weather the storm.

Resilience isn't just reactive; it's proactive. It's about planning ahead, using science, local knowledge and innovation to reduce risk before disaster strikes. From restoring wetlands to creating early warning systems for heatwaves, climate resilience is about weaving strength into the very fabric of our cities. All of this requires capital, which is where climate finance mechanisms such as ESG investing, green or blue bonds, and loss and damage funds come into play.

By Paul O'Hare, senior lecturer in geography and development at Manchester Metropolitan University

Climate risk disclosure

Climate risk disclosure refers to how companies report the risks they face from climate change, such as flood damage, supply chain disruptions or regulatory costs. It includes both physical risks (like storms) and transition risks (like changing laws or consumer preferences).

Mandatory disclosures, such as those proposed by the UK and the EU, aim to make climate-related risks transparent to investors. Done well, these reports can shape capital flows towards more sustainable business models. Done poorly, they become greenwashing tools.

By Narmin Nahidi, assistant professor of finance at the University of Exeter

Emissions trading scheme

An emissions trading scheme is the primary market-based approach for regulating greenhouse gas emissions in many countries around the world, including Australia, Canada, China and Mexico.

Part of a government's job is to decide how much of the economy's carbon emissions it wants to avoid in order to fight climate change. It must put a hard-stop ‘cap' on carbon emissions that economic production is not allowed to surpass. Preferably, the polluters (that's the manufacturers and fossil fuel companies) should be the ones paying for the cost of climate mitigation.

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Regulators could simply tell all firms how much they are allowed to emit over the next 10 years or so. But giving every firm the same allowance across the board is not cost efficient, because avoiding carbon emissions is much harder for some firms (such as steel producers) than others (such as tax consultants). Since governments cannot know each firm's specific cost profile either, it can't customise the allowances. Also, monitoring whether polluters actually abide by their assigned limits is extremely costly.

An emissions trading scheme solves this dilemma using the cap-and-trade mechanism. Instead of assigning each polluter a fixed quota and risking inefficiencies, the government issues a large number of tradable permits — each worth, say, a tonne of CO2-equivalent (CO2E) — that add up to the cap. Firms who can cut greenhouse gas emissions relatively cheaply can then trade their surplus permits to those who find it harder, at a price that makes both better off.

By Mathias Weidinger, environmental economist at the University of Oxford

Environmental, social and governance (ESG) investing

In simple terms, environmental, social and governance (ESG) investing means choosing to invest in companies that are not only profitable, but also responsible. Investors use ESG metrics to assess risks (such as climate liability or labour practices) and align portfolios with sustainability goals, by looking at how a company impacts our planet and treats its people and communities. While there isn't one single global body governing ESG, various organisations, ratings agencies and governments all contribute to setting and evolving these metrics. For example, investing in a company committed to renewable energy and fair labour practices might be considered ‘ESG aligned'.

Supporters believe ESG helps identify risks and create long-term value. Critics argue it can be vague or used for greenwashing. ESG works best when paired with transparency and clear data. A key barrier is that standards vary, and it's not always clear what counts as ESG.

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Why do financial companies and institutions care? Issues like climate change and nature loss pose significant risks, impacting company values and the global economy. Investing with ESG in mind can help manage these risks and unlock opportunities, with ESG assets projected to reach over $40 trillion by 2030.

However, gathering reliable ESG information can be challenging. Companies often self-report, and the data isn't always standardised or up to date. Researchers are using geospatial data, like satellite imagery and AI, to independently assess environmental impacts. The goal is for this to improve ESG ratings and provide clearer, more consistent insights for investors. This approach could help us overcome current data limitations to build a more sustainable financial future.

By Amani Maalouf, a senior researcher in spatial finance at the University of Oxford

Financed emissions

Financed emissions are the greenhouse gas emissions linked to a bank or investor's lending and investment portfolio, rather than their own operations. For example, a bank that funds a coal mine or invests in fossil fuels is indirectly responsible for the carbon those activities produce.

Measuring financed emissions helps reveal the real climate impact of financial institutions, not just their office energy use. It's a cornerstone of climate accountability in finance and is becoming essential under net-zero pledges. Increasingly, companies are being encouraged to consider their financed emissions through banking, pensions and investments.

By Narmin Nahidi, assistant professor of finance at the University of Exeter

Green bonds

Green bonds are loans issued to fund environmentally beneficial projects, such as energy-efficient buildings or clean transportation. Investors choose them to support climate solutions while earning returns.

Green bonds are a major tool to finance the shift to a low-carbon economy by directing finance towards climate solutions. As climate costs rise, green bonds could help close the funding gap while ensuring transparency and accountability.

Green bonds are required to ensure funds are spent as promised. For instance, imagine a city wants to upgrade its public transportation by adding electric buses to reduce pollution. Instead of raising taxes or slashing other budgets, the city can issue green bonds to raise the necessary capital. Investors buy the bonds, the city gets the funding, and the environment benefits from cleaner air and fewer emissions.

The growing participation of government issuers has improved the transparency and reliability of these investments. The green bond market has grown rapidly in recent years. According to

the Bank for International Settlement, the green bond market reached $2.9 trillion in 2024 — nearly sixfold that of 2018. At the same time, annual issuance (the total value of green bonds issued in a year) hit $700 billion, highlighting the increasing role of green finance in tackling climate change.

By Dongna Zhang, assistant professor of economics and finance at Northumbria University

Just transition

Just transition is the process of moving to a low-carbon society that is environmentally sustainable and socially inclusive. In a broad sense, a just transition means imagining a future where we have moved beyond fossil fuels, and society works better for everyone. That can look very different in a European city — where, for example, it might mean fewer cars and better public transport — compared to a rural setting in Southeast Asia, where it might mean finding new ways of growing crops that are more sustainable.

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Just transition has existed as a concept since the 1970s. It was originally applied to the green energy transition, protecting workers in the fossil fuel industry as we move towards more sustainable alternatives. These days, it has so many overlapping issues of justice hidden within it, so the concept is very tricky to define. Even at the level of UN climate negotiations, global leaders struggle to agree on what a just transition should mean.

The big battle is between developed countries, who want a very restrictive definition around jobs and skills, and developing countries, who are looking for a much more holistic approach that considers wider system change and includes considerations around human rights, Indigenous peoples and creating a fairer global society. There is also the big question of who funds a just transition, and how the current economic system of risks, rewards and incentives helps or hinders the process.

By Alix Dietzel, climate justice and climate policy expert at the University of Bristol

Loss and damage

A global loss and damage fund was agreed among nations at the UN Climate Summit (COP27) in 2022. This means that the richer countries of the world put money into a fund that the least developed countries can then call upon when they have a climate emergency.

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The World Bank has agreed to run the loss and damage fund, but it is charging significant fees for doing so.

At the moment, the loss and damage fund is made up of relatively small pots of money. Much more will be required to provide relief to those who need it the most now and in the future.

By Mark Maslin, professor of earth system science at UCL

Mitigation versus adaptation

Mitigation means cutting greenhouse gas emissions to slow down climate change. Adaptation means adjusting to its effects, like building sea walls or growing heat-resistant crops. Both are essential: mitigation tackles the cause, while adaptation tackles the symptoms.

Globally, funding often goes to mitigation, but vulnerable communities often need adaptation support the most. Balancing the two is a major challenge in climate policy, especially for developing countries facing immediate climate threats.

By Narmin Nahidi, assistant professor of finance at the University of Exeter

Nationally determined contributions

Nationally determined contributions (NDCs) are at the heart of the Paris Climate Agreement, the global effort to collectively combat climate change. NDCs are individual climate action plans created by each country. These targets and strategies outline how a country will reduce its greenhouse gas emissions and adapt to climate change, essentially doubling as national investment and development plans.

Each nation sets its own goals based on its own circumstances and capabilities, so there is no standard NDC. These plans should be updated every five years and countries are encouraged to gradually increase their climate ambitions over time.

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The aim is for NDCs to drive real action by guiding policies, attracting investment and inspiring innovation in clean technologies. But current NDCs fall short of the Paris Climate Agreement goals, and many countries struggle to turn their plans into reality. NDCs also vary widely in scope and detail, so it's hard to compare efforts across the board. Stronger international collaboration and greater accountability will be crucial.

By Doug Specht, reader of cultural geography and communication at the University of Westminster

Natural capital

Natural capital is the value assigned to the stock of forests, soils, oceans and certain minerals such as lithium. It sustains every part of our economy. It's the bees that pollinate our crops. It's the wetlands that filter our water and it's the trees that store carbon and cool our cities.

Fashion depends on water, soil and biodiversity — all types of natural capital. Forward-thinking fashion companies are now asking: how do we create, rather than deplete? How do we restore rather than extract? If we fail to value nature properly, we risk losing it. But if we succeed, we unlock a future that is not only sustainable, but also truly regenerative.

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The University of Oxford is developing tools to integrate nature into national balance sheets, advising governments on biodiversity, and helping industries from fashion to finance embed nature into their decision-making.

Think of natural capital as the economic value of ecosystems and natural resources (forests, rivers, wildlife) that provide essential services like carbon storage, flood protection and food production. Sustainable finance seeks to integrate natural capital into decision-making to prevent environmental degradation.

By Mette Morsing, professor of business sustainability and director of the Smith School of Enterprise and Environment at the University of Oxford

Net zero

Reaching net zero means reducing the amount of additional greenhouse gas emissions that accumulate in the atmosphere to zero. This concept was popularised by the Paris Climate

Agreement, a landmark deal that was agreed at the UN Climate Summit (COP21) in 2015, to limit the impact of greenhouse gas emissions.

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There are some emissions, from farming and aviation, for example, that will be very difficult, if not impossible, to reach absolute zero. Hence, the 'net'. This allows people, businesses and countries to find ways to suck greenhouse gas emissions out of the atmosphere, effectively cancelling out emissions while trying to reduce them. This can include reforestation, rewilding, direct air capture, as well as carbon capture and storage. The goal is to reach net zero: the point at which no extra greenhouse gases accumulate in earth's atmosphere. This is inherently linked to climate finance: without investment in decarbonisation (which includes addressing financed emissions), we will not achieve net zero.

By Mark Maslin, professor of earth system science at UCL

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