



**FAIR FINANCE ASIA**

**VERSION 2 MODULE 4**

---

**SUSTAINABLE FINANCE  
TAXONOMY GUIDEBOOK  
(2024)**



## About this guidebook

This guidebook, commissioned by Fair Finance Asia (FFA), is an update of Module 4 of the original Sustainable Finance Taxonomy Guidebook published by FFA in 2022. *Version 2 Module 4: Sustainable Finance Taxonomy Guidebook (2024)* is designed specifically for Asian civil society organizations interested in learning about frameworks and taxonomies for sustainable finance, and how to optimally leverage them when promoting greater transparency and accountability in the financial sector, and advocating for just energy transition.

Version 2 of Module 4 (2024) uses all publicly available data and information up to the start of May 2024.

## About Fair Finance Asia

FFA is a regional network of Asian civil society organizations that are committed to ensuring that the business decisions and funding strategies of financial institutions in the region respect the social and environmental well-being of the communities in which they operate. Civil society coalitions from 10 countries are part of the FFA network: Bangladesh, Cambodia, India, Indonesia, Japan, Lao PDR, Pakistan, the Philippines, Thailand, and Vietnam. To learn more about FFA, visit: [fairfinanceasia.org](http://fairfinanceasia.org).

## About SOMO (Stichting Onderzoek Multinationale Ondernemingen - Centre for Research on Multinational Corporations)

The Centre for Research on Multinational Corporations (SOMO) is a critical, independent, not-for-profit knowledge and research center on multinationals. Since 1973 SOMO has investigated multinational corporations and the impact of their activities on people and the environment. SOMO provides custom-made services (research, consulting, and training) to non-profit organizations and the public sector. It strengthens collaboration between civil society organizations through its worldwide network. More information on SOMO can be found at [www.somo.nl](http://www.somo.nl).

## Research Partnership

FFA's Regional Team updated Module 4 in collaboration with Myriam Vander Stichele, Advisor to FFA and Senior Researcher at SOMO, and 9 FFA national coalitions: Bangladesh, Cambodia, Indonesia, Japan, Lao PDR, Pakistan, the Philippines, Thailand, and Vietnam.

Correct citation of this report: Fair Finance Asia and Vander Stichele, M. (2024, August). *Version 2 Module 4: Sustainable Finance Taxonomy Guidebook (2024)*.

## Overall Research Design, Management, and Contributions

This update to Module 4 was finalized with strategic guidance and editorial reviews by Bernadette Victorio (Program Lead, FFA), Srishty Anand (Research and Advocacy Advisor, FFA), Victoria Caranay (Strategy Analyst, FFA), Kyle Cruz (Knowledge and Communications Manager, FFA), Sodavy Nhong (Program Officer Research and Advocacy, FFA), and Geraldine Hoggang (Communications Officer, FFA).

In addition, FFA would like to thank all contributors to this report, including Sandy Pederson of Seed Edit Communications for editing the report and NOVA Cambodia for designing the report.

## Disclaimer

This report is provided for informational purposes and is not to be read as providing endorsements, representations, or warranties of any kind whatsoever. Fair Finance Asia and SOMO observe the greatest possible care in collecting information and drafting publications, but cannot guarantee that this report is complete. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation. In connection with this report or any part thereof, Fair Finance Asia and SOMO do not owe a duty of care (whether in contract or in tort or under statute or otherwise) to any person or party to whom the report is circulated to and shall not be liable to any party who uses or relies on this report.

This material/production has been financed by the Embassy of Sweden in Bangkok, Thailand. Responsibility for the content rests entirely with the creator. The Embassy of Sweden in Bangkok does not necessarily share the expressed views and interpretations.

© Fair Finance Asia, July 2024: This publication is subject to copyright, but the text may be used free of charge for the purposes of advocacy, campaigning, education, and research, provided that the source is acknowledged in full. The copyright holder requests that all such use be registered with them for impact assessment purposes. For copying in any other circumstances, or for re-use in other publications, or for translation or adaptation, permission must be secured.

# CONTENTS

<b>ABBREVIATIONS AND DEFINITIONS</b>	<b>4</b>
<b>ABOUT THE MODULE</b>	<b>7</b>
<b>OVERVIEW</b>	<b>8</b>
<b>ASEAN</b>	<b>12</b>
<b>INDONESIA</b>	<b>23</b>
<b>PHILIPPINES</b>	<b>29</b>
<b>THAILAND</b>	<b>37</b>
<b>VIETNAM</b>	<b>42</b>
<b>CAMBODIA</b>	<b>46</b>
<b>LAO PDR</b>	<b>48</b>
<b>BANGLADESH</b>	<b>49</b>
<b>PAKISTAN</b>	<b>52</b>
<b>JAPAN</b>	<b>55</b>



# ABBREVIATIONS AND DEFINITIONS

ABBREVIATION	TERM	DEFINITION
<b>AFOLU</b>	Agriculture, Forestry, and other Land Use	Activities in the sectors of agriculture, forestry and land use.
<b>ASEAN</b>	Association of Southeast Asian Nations	Association of 10 Member States in Southeast Asia that promotes intergovernmental cooperation and facilitates economic, political, security, military, educational, and sociocultural integration among its Member States.
<b>ATB</b>	ASEAN Taxonomy Board	An ASEAN financial body set up to develop, maintain, and promote a multi-tiered ASEAN Taxonomy for Sustainable Finance.
<b>CCS</b>	Carbon Capture and Storage	The capture of CO <sub>2</sub> from large emissions sources, such as power generation or industrial facilities, and injected to store in deep geological formations.
<b>CCUS</b>	Carbon Capture, Utilization and Storage	CO <sub>2</sub> captured from large emissions sources, used on-site or compressed and transported to be used in a range of applications, or injected to store in deep geological formations.
<b>CFPP</b>	Coal-Fired Power Plant	A power station that generates electricity from the combustion of coal.
<b>CPO</b>	Coal Phase-Out	An activity whereby processes involving combustion of coal, such as coal-powered generation of electricity, are shut down over a shorter than normal time in line with aims to reduce greenhouse gas (GHG) emissions.
<b>CSO</b>	Civil Society Organization	A non-profit organization by and for citizens.
<b>DNSH</b>	Do No Significant Harm	A principle that avoids and prevents significant harm to one or more of a taxonomy's environmental objectives (EOs) by a taxonomy-aligned activity through the implementation of required actions.
<b>EC</b>	Essential Criteria	Minimum criteria that must be fulfilled when implementing a taxonomy-aligned activity. The EC are DNSH, RMT, and SA (see definitions).
<b>EO</b>	Environmental Objective	Environmental objectives that a taxonomy is intended to facilitate as the outcome of an aligned activity.
<b>ESG</b>	Environmental, Social, and Governance	Factors that are considered in decision-making and incorporate sustainability considerations in financial products or activities.

ABBREVIATION	TERM	DEFINITION
<b>EU</b>	European Union	Regional political and economic union of 27 European Member States.
<b>FF</b>	Foundation Framework	Approach by the ASEAN Taxonomy for Sustainable Finance for assessing the contribution of activities, which is based on Guiding Principles of the Taxonomy.
<b>FFA</b>	Fair Finance Asia	FFA is a network of more than 90 CSOs in Asia working to ensure that financial institutions operating in Asia are transparent and accountable to ESG criteria in their business activities and investment decisions. FFA operates at the regional level and in 10 countries across Asia, namely, Bangladesh, Cambodia, Lao PDR, India, Indonesia, Japan, Pakistan, the Philippines, Thailand, and Vietnam.
<b>FPIC</b>	Free and Prior Informed Consent	A specific right that pertains to Indigenous Peoples, which allows them to give or withhold consent prior to a project that may affect them or their territories.
<b>GHG</b>	Greenhouse Gas	A group of gases that contribute to global warming and climate change.
<b>GFANZ</b>	Glasgow Finance Alliance for Net Zero	A financial industry umbrella organization promoting voluntary measures to align with the Paris Agreement.
<b>ICT</b>	Information and Communication Technology	Technologies for telecommunication, computers, software, storage and audiovisual technologies, etc.
<b>IFC</b>	International Finance Corporation	A member of the World Bank Group, the IFC is a development institution focused on developing the private sector and creating markets in more than 100 countries.
<b>NDC</b>	National Determined Contribution	A national climate action plan to cut emissions and adapt to climate impacts in alignment with the Paris Agreement.
<b>PA</b>	Paris Agreement	The Paris Agreement, under the United Nations Framework Convention on Climate Change (UNFCCC), aims to limit climate change to a maximum 2°C.
<b>PS</b>	Plus Standard	Approach by the ASEAN Taxonomy for Sustainable Finance for assessing the contribution of activities based on pre-defined technical screening criteria (TSC).
<b>RMT</b>	Remedial Measures to Transition	Measures taken to remediate or mitigate the impact of any significant harm resulting from an activity, or any actions required to implement the activity (an EC of various taxonomies).

<b>ABBREVIATION</b>	<b>TERM</b>	<b>DEFINITION</b>
<b>SA</b>	Social Aspects	An EC of the ASEAN Taxonomy for Sustainable Finance that relates to an obligation for activities to avoid causing social harm.
<b>SDGs</b>	Sustainable Development Goals	17 United Nations objectives intended to serve as a “shared blueprint for peace and prosperity for people and the planet now and into the future”.
<b>TSC</b>	Technical Screening Criteria	Quantitative or qualitative criteria against which the classification of a taxonomy-aligned activity is assessed.
<b>UN</b>	United Nations	Intergovernmental organization intended to maintain international peace and security.

# ABOUT THE MODULE

To support civil society organizations (CSOs) across Asia in navigating the intricate landscape of financial sustainability, Fair Finance Asia (FFA) presents **Version 2 Module 4: Sustainable Finance Taxonomy Guidebook (2024)**. This is an update from FFA's Sustainable Finance Taxonomy Guidebook: Module 4 (2022)<sup>1</sup>. This edition focuses on assessing the progress in taxonomy development across FFA countries, as well as Version 3 of the Association of Southeast Asian Nations (ASEAN)'s Taxonomy for Sustainable Finance. Developed to demystify technical jargon and provide practical guidance, this guidebook aims to equip CSOs and other stakeholders with the knowledge they need to raise community voices and public interest issues when engaging with financial sector leaders and decision-makers regarding taxonomies for sustainable finance.

Version 2 of Module 4 (2024) covers taxonomy development up to the beginning of May 2024 in 9 of the 10 FFA coalition countries: Bangladesh, Cambodia, Indonesia, Japan, Lao PDR, Pakistan, the Philippines, Thailand, and Vietnam. No taxonomy development has been undertaken in India. Version 2 of Module 4 (2024) covers the ASEAN Taxonomy for Sustainable Finance Version 3, developed by ASEAN to provide a general standard for ASEAN Member States and foster regional harmonization and alignment.

The overview section presents a range of processes and taxonomies across FFA coalition countries and steps they have taken to develop sustainable finance frameworks with the long-term goal to achieve the Paris Agreement and the United Nations Sustainable Development Goals (SDGs). The taxonomy development of countries is at very different stages. Many, but not all, FFA coalition countries have embarked on this journey to support and accelerate the financing of their transition.

This updated guidebook explains how authorities and financial actors in FFA coalition countries have initiated, developed, and updated taxonomies, and how the ASEAN Taxonomy Version 3 has provided a standardized framework for its Member States to attract domestic and foreign private finance for climate-related activities. It provides insights into the consultations and decision-making processes that have led to the development of national and regional taxonomies. The guidebook offers an overview of the main elements of each sustainable finance taxonomy, such as the technical screening criteria (TSC), the priority economic sectors, the usage of the taxonomy, and future developments.

This module starts with an overview of the regional taxonomy developed by ASEAN, followed by overviews of taxonomies of FFA coalition countries in ASEAN and beyond.

Version 2 Module 4: Sustainable Finance Taxonomy Guidebook (2024) demonstrates FFA's commitment to empower CSOs and facilitate more transparent and inclusive engagement in advancing sustainable finance across Asia.

<sup>1</sup> M. Vander Stichele (2022, June), Sustainable finance taxonomy: a guidebook for civil society organizations, Fair Finance Asia. [bit.ly/FFAguidebook](https://bit.ly/FFAguidebook) (last viewed August 6, 2024).

# OVERVIEW

This overview summarizes how FFA coalition countries and ASEAN have initiated, developed, and updated taxonomies. Table 1 captures what has changed since the first edition of this module was published.

**TABLE 1: TAXONOMY UPDATES IN FFA COALITION COUNTRIES AND ASEAN, 2024 AND 2022**

COUNTRY	2024		2022	
	TAXONOMY BEING DEVELOPED OR ANNOUNCED	CHARACTERISTICS OF THE TAXONOMY	TAXONOMY BEING DEVELOPED, ANNOUNCED, OR ISSUED	OTHER LISTS AND DEFINITIONS OF “GREEN” OR SUSTAINABLE ACTIVITIES
<b>ASEAN</b>	<p>The third version of the <b>ASEAN Taxonomy for Sustainable Finance</b> was released on March 27, 2024. An update of the third version was agreed by the ATB on April 25, 2024, and published for consultation until the end of 2024, covering the sectors energy, transportation and storage, and construction and real estate.</p> <p>The second version of the ASEAN Taxonomy became officially effective with an update on February 19, 2024.</p> <p>New versions are expected in 2025.</p>	<p>The Taxonomy allows ASEAN Member States to choose between two approaches:</p> <ul style="list-style-type: none"> <li>• A general, principles-based “Foundation Framework” (FF); or</li> <li>• A “Plus Standard” (PS) with TSC for each economic activity in relation to each of the 4 environmental objectives (EOs) and 3 essential criteria (EC).</li> </ul> <p>Phased-in coverage of technical screening criteria (TSC) for 6 focus economic sectors:</p> <ul style="list-style-type: none"> <li>• Energy (electricity, gas, steam and air conditioning supply);</li> <li>• Agriculture, forestry, and fishing;</li> <li>• Manufacturing;</li> <li>• Transportation and storage;</li> <li>• Water supply, sewerage, and waste management; and</li> <li>• Construction and real estate.</li> </ul>	<p>ASEAN Green Taxonomy published on November 10, 2021, by the ASEAN Taxonomy Board.</p>	<p>ASEAN Green Bond Standards; ASEAN Social Bond Standards; ASEAN Sustainable Bond Standards.</p>
<b>INDONESIA</b>	<p>Indonesia’s Financial Services Authority (OJK) issued the <b>Indonesian Taxonomy for Sustainable Finance</b> (version 1) on February 20, 2024.</p> <p>The Taxonomy is a “living document” that will change over time through periodic reviews.</p>	<p>Phased-in coverage of priority sectors for TSC and 3 EC include:</p> <ul style="list-style-type: none"> <li>• Energy, including critical minerals’ mining, enabling sectors (carbon capture and storage (CCS), development of innovative CCS technology, and energy efficiency activities) (February 2024);</li> <li>• Transportation, construction and real estate, forestry and other land uses (FOLU) (likely in 2025);</li> <li>• Agriculture, waste management, industrial processes and production use (IPPU) (likely in 2026).</li> </ul> <p>Version 1 focuses on EO1 (climate change mitigation) and EO2 (climate change adaptation) in the energy sector. The next version will cover EO3 and EO4.</p> <p>MSME activities can use a simpler, principles-based approach.</p>	<p>The Green Taxonomy, developed by various ministries and OJK, was published on January 20, 2022.</p>	<p>Activities list in the Green Bond Regulation (OJK) in the Sustainable Finance Roadmap: Phase 1; green projects identified green bonds issued by the government; private sector led-activities list developed by the Indonesia Sustainable Finance Initiative (ISFI)</p>

COUNTRY	2024		2022	
	TAXONOMY BEING DEVELOPED OR ANNOUNCED	CHARACTERISTICS OF THE TAXONOMY	TAXONOMY BEING DEVELOPED, ANNOUNCED, OR ISSUED	OTHER LISTS AND DEFINITIONS OF “GREEN” OR SUSTAINABLE ACTIVITIES
PHILIPPINES	<p>The first version of the <b>Philippine Sustainable Finance Taxonomy Guidelines (SFTG)</b> was published on February 23, 2024.</p> <p>Expanded versions are being developed.</p>	<p>The principles-based SFTG prioritizes the climate change mitigation objective (EO1) and the following sectors that need to apply 3 EC:</p> <ul style="list-style-type: none"> <li>• Energy;</li> <li>• Transport;</li> <li>• Waste management;</li> <li>• Industry, including manufacturing, construction, and mining;</li> <li>• Agriculture, forestry, and other land use (AFOLU); and</li> <li>• Coastal and marine resources.</li> </ul> <p>EO2 has no priority sectors. The next versions will integrate protection of healthy ecosystems and biodiversity (EO3) and the promotion of resource resilience and transition to a circular economy (EO4).</p> <p>Simplified assessment methods are permitted for MSMEs.</p>	<p>Principles-based taxonomy proposal published in October 2021 as the Philippines Sustainable Finance Guiding Principles, endorsed by the Inter-agency Technical Working Group for Sustainable Finance (ITSF).</p>	<p>Guidelines on the issuance of green/social/sustainability bonds under the ASEAN Green, Social and Sustainable Bonds Standards in the Philippines; Sustainability Reporting Guidelines for Publicly Listed Companies</p>
THAILAND	<p>The <b>Thailand Taxonomy</b> (Phase 1) was released on June 30, 2023.</p> <p>Phase 2 of the Thailand Taxonomy started in February 2024 and the result is expected to be published in 2025.</p> <p>Successive phases will develop TSC for activities with five other EOs similar to those of the ASEAN Taxonomy.</p>	<p>The Thailand Taxonomy Phase 1 focuses on TSC and 2 compulsory principles for 23 activities with a climate change mitigation objective (EO1) in two sectors:</p> <ul style="list-style-type: none"> <li>• Energy; and</li> <li>• Transportation.</li> </ul> <p>Phase 2 will develop TSC for EO1 in the following sectors:</p> <ul style="list-style-type: none"> <li>• Manufacturing;</li> <li>• Agriculture;</li> <li>• Real estate and construction; and</li> <li>• Waste management.</li> </ul>	<p>Recommendation for developing a practical and comprehensive sustainable finance taxonomy published in August 2021 by consultants endorsed by the ITSF.</p>	

COUNTRY	2024		2022	
	TAXONOMY BEING DEVELOPED OR ANNOUNCED	CHARACTERISTICS OF THE TAXONOMY	TAXONOMY BEING DEVELOPED, ANNOUNCED, OR ISSUED	OTHER LISTS AND DEFINITIONS OF “GREEN” OR SUSTAINABLE ACTIVITIES
<b>VIETNAM</b>	A draft green taxonomy decree, “ <b>Regulations on environmental criteria and validation for projects granted green credit and [financed by] issued green bonds</b> ”, was finalized at the end of 2022. No final decision on its official adoption or implementation had been taken as of the beginning of May 2024.	<p>The nine economic sectors covered in the draft “Green Classification List”, whose 80 projects are defined by TSC to benefit environmental goals, include:</p> <ul style="list-style-type: none"> <li>• Energy;</li> <li>• Transportation;</li> <li>• Construction;</li> <li>• Water resources;</li> <li>• Agriculture, forestry, fisheries and biodiversity conservation;</li> <li>• Processing and manufacturing industries;</li> <li>• Waste management;</li> <li>• Information communication and services; and</li> <li>• Sectors that must reduce high GHG emissions.</li> </ul> <p>The draft taxonomy decree defines how projects must be validated or certified.</p>	The National Green Growth Strategy for 2021–2030: Vision Towards 2050, identifies the tasks for formulating systems for national and sectoral green classification standards and criteria.	How-to Issue Guide for Green Bonds, Social Bonds and Sustainability Bonds; guidelines for classifying public investment for climate change and green growth; regulation for the issuing and trading of bonds, including green bonds; policies on promoting green credit growth and managing environmental and social risks in credit-granting activities
<b>CAMBODIA</b>	In 2023, the National Bank of Cambodia (NBC) signed a technical assistance cooperation agreement with the International Finance Corporation (IFC) to develop a Green Finance Taxonomy by 2025.	<p>NBC-IFC cooperation started with a consultation workshop on May 9, 2024, on why and how to develop a taxonomy.</p> <p>The drafting process will identify economic sectors and criteria for aligned activities. The draft will be shared with relevant stakeholders.</p>	No	Cambodian Sustainable Finance Principles and implementation guidelines by the Association of Banks of Cambodia (ABC) (voluntary)
<b>LAO PDR</b>	The central bank, Bank of the Lao PDR (BOL), is receiving technical assistance from the IFC until 2027 to develop a green taxonomy, among other activities.	Since 2023, the technical assistance includes developing and defining “ <i>green activities for Lao PDR to be in line with the green activities of ASEAN (ASEAN Taxonomy) and to reach the international standards</i> ” and to be used for regulating green loans and green bonds.	Lao PDR was not part of the FFA coalition in 2022.	

COUNTRY	2024		2022	
	TAXONOMY BEING DEVELOPED OR ANNOUNCED	CHARACTERISTICS OF THE TAXONOMY	TAXONOMY BEING DEVELOPED, ANNOUNCED, OR ISSUED	OTHER LISTS AND DEFINITIONS OF “GREEN” OR SUSTAINABLE ACTIVITIES
<b>BANGLADESH</b>	Bangladesh Bank published a <b>Green Bond Taxonomy</b> in September 2022 for use by banks and financial institutions.	<p>The 88 activities and projects defined according to detailed requirements to reduce emissions are classified by the Green Bond Taxonomy in eight sectors:</p> <ul style="list-style-type: none"> <li>• Low-carbon electricity, heating, and cooling;</li> <li>• Green housing and building;</li> <li>• Energy and resource efficiency in industry;</li> <li>• Low-carbon transport;</li> <li>• Circular economy, wastewater, and water management;</li> <li>• Green agriculture and land use;</li> <li>• Climate resilience and climate change adaptation measures; and</li> <li>• Services associated with a low-carbon, climate-resilient, and green economy.</li> </ul> <p>Updates of the Green Bond Taxonomy will help mobilize investment for climate change adaptation and the SDGs.</p>	Bangladesh was not part of the FFA coalition in 2022.	
<b>PAKISTAN</b>	No taxonomy is being developed by financial authorities despite international advice on how to introduce a green taxonomy.		No	Pakistan Green Banking Guidelines
<b>JAPAN</b>	Official policy opposes the introduction of a green or sustainable taxonomy, contrary to investor opinion.		No	Japan Green Bond Guidelines; consultation on Social Bond Guidelines and Basic Guidelines on Climate Transition Finance
<b>INDIA</b>	No further updates since 2022.	No further updates since 2022.	A draft descriptive sustainability taxonomy developed by the Sustainable Finance Collaborative (a multi-agency task force), has not been published as announced on December 15, 2021.	India Green Bond Guidelines; the India-UK private sector Sustainable Finance Working Group’s proposal for a climate-just transition and sustainable taxonomy; new Business Responsibility and Sustainability Reporting (BRSR) format

# ASEAN

## THE ASEAN TAXONOMY FOR SUSTAINABLE FINANCE AND GUIDANCE FOR TRANSITION FINANCE

Since March 2021, the ASEAN Taxonomy Board (ATB), comprised of representatives from the financial authorities of ASEAN Member States, has issued several versions of the ASEAN Taxonomy for Sustainable Finance. Each version, with updates per version, incorporated additional or amended details, technical criteria, and clarifications. On April 25, 2024, the ATB issued an updated third version of the ASEAN Taxonomy for consultation. In October 2023, the ASEAN Transition Finance Guidance was published for the first time. These voluntary and flexible standards have been developed for ASEAN Member States to attract financing for economic activities that contribute to climate change mitigation, climate change adaptation, and environmental protection, with some social safeguards.

### ASEAN'S SUSTAINABLE FINANCE AND TAXONOMY DEVELOPMENT

Given that ASEAN is one of the most at-risk regions in the world to the worsening impacts of climate change, significant financing is needed to transform the economies, companies, and economic activities of ASEAN Member States in line with the Paris Agreement and the United Nations Sustainable Development Goals (SDGs).<sup>2</sup> ASEAN has, therefore, been working on voluntary sustainable finance instruments to attract more financing for activities that support a green and orderly energy transition. The first step was to set standards for issuing ASEAN Green, Social, and Sustainability Bonds. Then, to increase supply and demand for sustainable finance in the region, ASEAN developed three tools for use by Member States: a taxonomy (common definitions) for sustainable finance, transition guidance, and disclosure standards.

The ASEAN Taxonomy for Sustainable Finance is the outcome of ongoing discussions, development, consultations, consensus building, and so far has three versions with updates. For ASEAN's diverse Member States, the Taxonomy is voluntary and can be adapted to their specific climate and environmental needs as a national taxonomy. While the ASEAN Taxonomy sets a general standard for Member States, it also attempts to integrate the taxonomies developed by Member States.<sup>3</sup>

This overview covers **Version 3** of the ASEAN Taxonomy for Sustainable Finance, as released on April 25, 2024.<sup>4</sup> Given that Version 3 will be under consultation until the end of 2024, a few amendments to the technical criteria are likely to be made before this version is official.

In parallel with these developments, the ASEAN Capital Markets Forum published the first version of the voluntary ASEAN Transition Finance Guidance on October 17, 2023. As explained at the end of this chapter, this guidance is not (yet) part of the ASEAN Taxonomy.

### DECISION-MAKING ON THE ASEAN TAXONOMY

#### THE DECISION-MAKERS: THE ASEAN TAXONOMY BOARD

In March 2021, ASEAN finance ministers and central bank governors established the **ASEAN Taxonomy Board (ATB)** with a mandate to develop, approve, publish, review, interpret, promote, and maintain an ASEAN Taxonomy for Sustainable Finance.<sup>5</sup> The 13 members of the ATB are selected from ASEAN country representatives of various ASEAN financial committees (two representatives from each committee):

<sup>2</sup> ASEAN Taxonomy Board (ATB) (2021, November), ASEAN Taxonomy for Sustainable Finance – Version 1, pp. 8-12. [bit.ly/ASEANTaxonomyV1](https://bit.ly/ASEANTaxonomyV1) (last viewed August 6, 2024); ASEAN (2021, October), ASEAN State of Climate Change Report: Current Status and Outlook of the ASEAN Region Toward the ASEAN Climate Vision 2050, p. v. [bit.ly/ASEANCCReport](https://bit.ly/ASEANCCReport) (last viewed August 6, 2024); ASEAN (2024), ASEAN Socio-Cultural Community, Strengthening the Climate Financing Ecosystem in ASEAN, Policy Brief #1. [bit.ly/ASCCPolicyBrief](https://bit.ly/ASCCPolicyBrief) (last viewed August 6, 2024).  
<sup>3</sup> ATB (2024, April 25), ASEAN Taxonomy for Sustainable Finance – Version 3, p. 20. [bit.ly/ASEANTaxonomy\\_V3](https://bit.ly/ASEANTaxonomy_V3) (last viewed August 6, 2024).  
<sup>4</sup> ATB (2024, April 25), ASEAN Taxonomy for Sustainable Finance – Version 3. [bit.ly/ASEANTaxonomy\\_V3](https://bit.ly/ASEANTaxonomy_V3) (last viewed August 6, 2024).  
<sup>5</sup> ATB, Idem, p. 14.

## Formation of the ASEAN Taxonomy Board (ATB)<sup>6</sup>

## ASEAN TAXONOMY BOARD



**Established by:** 4 sectoral bodies under the ASEAN Finance Cooperation Process:

- Represents the banking, capital market and insurance sectors.
- Facilitates the development of the ASEAN Taxonomy.
- The ATB was established under the auspices of the ASEAN Finance Ministers and Central Bank Governors' Meeting (AFMGM).

### ASEAN Taxonomy Board Members:

	Brunei Darussalam Central Bank
	Non-Bank Financial Services Authority of Cambodia
	Otoritas Jasa Keuangan Indonesia
	Bank of the Lao PDR
	Bank Negara Malaysia
	Securities Commission Malaysia
	Ministry of Planning and Finance, Myanmar
	Securities and Exchange Commission Philippines
	Monetary Authority of Singapore
	Bank of Thailand
	State Securities Commission of Vietnam
	Insurance Supervisory Authority of Ministry of Finance Vietnam

These representatives consult with their committee members, who provide feedback and input to the ATB and ATB working groups.

The ATB is comprised of representatives from all 10 ASEAN Member States and various financial authorities. As of April 2024:<sup>7</sup>

- The ATB chair is the Deputy Managing Director of Brunei Darussalam Central Bank (BDCB), who has held this position since the ATB began; and
- The vice-chair is the Executive Director (Insurance) of the Monetary Authority of Singapore (MAS).

### The other members of the ATB represent:

- The central banks of Lao PDR, Malaysia, Thailand, and Singapore;
- The financial market or services authorities of Cambodia (Non-Bank Financial Services Authority, NBFSA), Indonesia (OJK), Malaysia (Securities Commission), the Philippines (Securities and Exchange Commission) and Vietnam (State Securities Commission);
- Ministry of Planning and Finance of Myanmar; and
- Insurance Supervisory Authority (at the Ministry of Finance) of Vietnam .

**Three working groups** lead the development of the ASEAN Taxonomy, each of which is chaired and co-chaired by a member of the ATB:

- Working Group on Conceptual Framework and Principles (the “Foundation Framework”), chaired by a representative of Bank Negara Malaysia and vice-chaired by a representative of OJK;
- Working Group on the Plus Standard and Transition Standards, chaired by a representative of MAS and vice-chaired by a representative of Bank of Thailand; and
- Working Group on Market Facing and Resourcing, chaired by a representative of the Securities Commission Malaysia and vice-chaired by a representative of the State Securities Commission of Vietnam.

The ATB is hosted and supported by the Sustainable Finance Institute Asia (SFIA),<sup>8</sup> which provides secretariat services, expertise, and coordination for the ATB without being paid directly by them. SFIA claims to be an independent and neutral platform that facilitates various ASEAN Member States representatives and stakeholders to meet, discuss, and consult.<sup>9</sup> The SFIA staff who work for the ATB are supported by additional paid consultants who, among other tasks, help develop the technical criteria for the taxonomy and facilitate consultations (see below).<sup>10</sup>

<sup>6</sup> SFIA web page. The ASEAN Taxonomy Board. [bit.ly/SFIATaxonomyboard](https://bit.ly/SFIATaxonomyboard) (last viewed August 6, 2024).

<sup>7</sup> See the web page of Sustainable Finance Institute Asia (SFIA): ASEAN Taxonomy for Sustainable Finance. [bit.ly/SFIATaxonomy](https://bit.ly/SFIATaxonomy) (last viewed August 6, 2024). The names of each of the ASEAN Member States representatives are also mentioned.

<sup>8</sup> For more information about SFIA, see: [bit.ly/SFIASite](https://bit.ly/SFIASite) (last viewed August 6, 2024).

<sup>9</sup> SFIA web page: Our core values. [bit.ly/SFIASite](https://bit.ly/SFIASite) (last viewed August 6, 2024).

<sup>10</sup> Information obtained through an online meeting between SFIA staff, FFA Executive Team members and M. Vander Stichele on January 19, 2024: the consultants are paid by a budget from the Asian Development Bank (ADB) and ASEAN Member States.

## VERSIONS OF THE ASEAN TAXONOMY FOR SUSTAINABLE FINANCE

The ASEAN Taxonomy for Sustainable Finance is considered a living document. The ATB and its working groups continuously develop, add, and amend elements and clarifications in consecutive versions and updates.

The **first version** of the ASEAN Taxonomy for Sustainable Finance was released by the ATB in November 2021. It provided a general framework for four environmental objectives (EOs) and two essential criteria (EC). It introduced the “Foundation Framework” of the taxonomy, which allows users to identify sustainable finance activities based on general principles and guiding questions.<sup>11</sup>

The **second version** of the ASEAN Taxonomy was published by the ATB on March 27, 2023, followed by an update on June 9, 2023.<sup>12</sup> The second version officially went into effect with the latest update on February 19, 2024.<sup>13</sup> An important change from the first version is the introduction of a more ambitious “Plus Standard” with detailed prescriptions – or technical screening criteria (TSC) – for determining whether an activity is aligned with the Taxonomy. The focus of the second version is providing TSC for activities in the energy sector and the carbon capture, utilization, and storage (CCUS)-enabling sector. The second version also expanded the Foundation Framework to align with three additional EOs. The updates to the second version of the ASEAN Taxonomy provided clarifications, technical improvements, and other enhancements in response to requests made during consultations.

The **third version** of the ASEAN Taxonomy was released on March 27, 2024,<sup>14</sup> updated on April 25, 2024, and published thereafter.<sup>15</sup> This version introduces TSC for two new focus sectors: 1) transportation and storage; and 2) construction and real estate (added to Annex 1 of the Taxonomy). The original and updated third version provide clarifications and updated tools to assess whether an activity is aligned with the Taxonomy, such as the Climate Risk and Vulnerability Assessment (CRVA) checklist and updated lists of Member States’ national social legislation to which

taxonomy-aligned activities must adhere. The updated third version will be under consultation from July 2024 to the end of the year.<sup>16</sup> The ATB intends to incorporate comments in the next update of Version 3.

New versions and updates to the ASEAN Taxonomy will cover additional focus sectors and enabling sectors, provide TSC for EOs, and adapt to technological, scientific, and economic developments and the needs of ASEAN Member States.<sup>17</sup> New versions of the ASEAN Taxonomy are expected in 2025.<sup>18</sup>

## CONSULTATIONS FOR THE SECOND AND THIRD VERSIONS OF THE ASEAN TAXONOMY

After the first version of the ASEAN Taxonomy was published in November 2021, “[g]reat care was taken to obtain and incorporate useful input from stakeholders”.<sup>19</sup> The consultation process, held from May 23 to August 5, 2022, included webinars, online surveys with responses from 160 organizations, 20 roundtables with 393 registrants from various sectors and industries, and 27 interviews with organizations.<sup>20</sup>

Following the release of Version 2, “a targeted consultation with key stakeholders within the ASEAN region and beyond” took place between June 28 and November 30, 2023.<sup>21</sup> The consultants who support the SFIA team working on the Taxonomy organized consultations with key stakeholders: the financial industry, government authorities, companies, international experts, and non-governmental organizations (NGOs). No names or percentages of representation from these categories have been disclosed. The consultation focused on selected issues and was conducted in three consecutive phases: a written feedback survey; 10 roundtable discussions of technical issues; and interviews and direct consultations with “relevant” stakeholders to gather more technical details. Due to the number of technical details and complexity of the Taxonomy, which “overwhelmed” stakeholders, as well as language issues, response and inputs were “limited” (10% responded to the survey). Members of the financial sector were the most responsive and expressed the most interest.<sup>22</sup>

11 For a summary of the first version, see: Fair Finance Asia (2022, June), Sustainable Finance Taxonomy: A Guidebook for Civil Society Organizations, p. 25. [bit.ly/FFAguidebook](https://bit.ly/FFAguidebook) (last viewed August 6, 2024).

12 ATB (2023, June 9), ASEAN Taxonomy for Sustainable Finance Version 2, Updated as of June 9, 2023. [bit.ly/ASEANTaxonomy\\_V2](https://bit.ly/ASEANTaxonomy_V2) (last viewed August 6, 2024).

13 ATB (2024, February 19), “ASEAN Finance Sectoral Bodies Release ASEAN Taxonomy for Sustainable Finance Version 2”, Press release.

[bit.ly/ASEANMediaStatement](https://bit.ly/ASEANMediaStatement) (last viewed August 6, 2024); ATB (2024, February 19), ASEAN Taxonomy for Sustainable Finance – Version 2, Updated as of February 19, 2024. [bit.ly/ASEANTaxonomyV2\\_2024](https://bit.ly/ASEANTaxonomyV2_2024) (last viewed August 6, 2024).

14 ATB (2024, March 27), ASEAN Taxonomy for Sustainable Finance – Version 3, Updated as of March 27, 2024. [bit.ly/SFIATaxonomy](https://bit.ly/SFIATaxonomy) (last viewed August 6, 2024).

15 ATB (2024, April 25), ASEAN Taxonomy for Sustainable Finance – Version 3, Updated as of April 25, 2024, [bit.ly/ASEANTaxonomyV3\\_Updated](https://bit.ly/ASEANTaxonomyV3_Updated) (last viewed August 6, 2024).

16 ATB (2024, April 25), “ASEAN Taxonomy for Sustainable Finance Version 3”, PowerPoint presentation, slide 13. [bit.ly/TaxonomyWebinar](https://bit.ly/TaxonomyWebinar) (last viewed August 6, 2024).

17 ATB (2024, March 27), “ASEAN Taxonomy Board Releases ASEAN Taxonomy for Sustainable Finance – Version 3 for Transportation and Construction Sectors”, Press release. [bit.ly/ATBMediaStatement](https://bit.ly/ATBMediaStatement) (last viewed August 6, 2024).

18 OJK (2023, November), “Taksonomi Berkelanjutan Indonesia (TBI) version 1.0”, Presentation for Public Hearing, slide 6.

19 ATB (2023, June 9), ASEAN Taxonomy for Sustainable Finance – Version 2, Updated as of June 9, 2023, pp. 2, 112 (Consultation on Carbon-emitting Technology), 174 (Water Resources), 175 (Air Quality Management Plans), and 176 (Biodiversity Management Plans). [bit.ly/ASEANTaxonomy\\_V2](https://bit.ly/ASEANTaxonomy_V2) (last viewed August 6, 2024).

20 ATB (2024, April 25), ASEAN Taxonomy for Sustainable Finance – Version 3, Updated as of April 25, 2024, pp. 17–18 and 78–81. [bit.ly/ASEANTaxonomyV3\\_Updated](https://bit.ly/ASEANTaxonomyV3_Updated) (last viewed August 6, 2024).

21 ATB (2023, November 30), “ASEAN Taxonomy Version 2 Receives Broad Affirmation Following Stakeholder Consultation”, Press release.

[bit.ly/V2affirmation](https://bit.ly/V2affirmation) (last viewed August 6, 2024); ATB (2024, April 25), ASEAN Taxonomy for Sustainable Finance – Version 3, Updated as of April 25, 2024, pp. 17–18 and 82–85. [bit.ly/ASEANTaxonomyV3\\_Updated](https://bit.ly/ASEANTaxonomyV3_Updated) (last viewed August 6, 2024).

22 ATB (2024, April 25), ASEAN Taxonomy for Sustainable Finance – Version 3, Updated as of April 25, 2024, p. 85. [bit.ly/ASEANTaxonomyV3\\_Updated](https://bit.ly/ASEANTaxonomyV3_Updated) (last viewed August 6, 2024).

Written feedback on Version 2 was “*by invitation only*” and was initially scheduled to last from June 28 to July 24, 2023.<sup>23</sup> However, on July 31, Oxfam in Asia received an email requesting written comments to be submitted a few days later, by August 2. Although, the Oxfam in Asia secretariat transmitted the request to the Fair Finance Asia (FFA) executive team, the requested deadline was too short to be met.<sup>24</sup> Invitations for attending a roundtable were also sent to Oxfam in Asia in July and at the beginning of August but there was no follow-up to check whether it reached FFA, which it did not.

The ATB continued to receive feedback and suggestions until after November 2023, for example, to clarify definitions and assessment frameworks, which were integrated in the final update of Version 2 issued on February 19, 2024.

**Ongoing consultations and dialogues** were held with targeted stakeholders in 2023 and 2024 to include additional economic sectors in Version 3 of the ASEAN Taxonomy, first published on March 27, 2024. Stakeholders from the international community were consulted to help make the implementation of the Taxonomy effective – that is, attractive to international investors who use the EU Taxonomy as a standard and want to avoid the costs of various assessments.<sup>25</sup> Following the April 2024 update of Version 3, targeted and structured consultations will be held from July to the end of 2024.<sup>26</sup>

## OVERVIEW OF THE ASEAN TAXONOMY FOR SUSTAINABLE FINANCE

The overall goal of the ASEAN Taxonomy for Sustainable Finance is to provide ASEAN Member States with common definitions of activities that can attract financing to facilitate a transition to climate-resilient economies and achieve emission reduction targets in line with the Paris Agreement.

### PRINCIPLES FOR DESIGNING A NATIONAL TAXONOMY

For the ASEAN Taxonomy and national taxonomies of Member States to be useful and effective at attracting financing for sustainable finance activities, they should be designed with five principles in mind:<sup>27</sup>

- **Overarching:** common definitions that can guide all ASEAN Member States and complement their sustainability initiatives.
- **Interoperability:** consider widely used and relevant international taxonomies, such as the EU Taxonomy,

while also allowing ASEAN Member States to adapt the Taxonomy to a fair and orderly energy transition.

- **Inclusive:** beneficial and affordable for all ASEAN Member States at different levels of (sustainable) development.
- **Credible:** provide a clear framework and definitions, based on science where appropriate.
- **Usable by the financial industry:** aligned, “or at least not in conflict” with, the sustainability initiatives of capital markets, banks, and the insurance sector.

### THE ASEAN TAXONOMY HAS FOUR EXPLICIT ENVIRONMENTAL OBJECTIVES (EOs)<sup>28</sup>

For an activity to be defined as sustainable finance and classified under the ASEAN Taxonomy and its financing, it must be demonstrated to contribute to at least one of the following four environmental objectives:

- **Climate change mitigation (EO1):** aims to decarbonize economic activities by avoiding or reducing greenhouse gas (GHG) emissions, or enabling others to do so, according to national pathways and, where possible, in line with the Paris Agreement.
- **Climate change adaptation (EO2):** aims to reduce the negative impacts of climate change and increase resilience to adverse physical climate impacts through better management of these impacts.
- **Protection of healthy ecosystems and biodiversity (EO3):** aims to promote positive impacts and minimize or eliminate the negative impacts of an activity on natural ecosystems and biodiversity by protecting them and promoting sustainable use of natural resources, such as water and marine resources.
- **Resource resilience and the transition to a circular economy (EO4):** aims to minimize resource use, optimize resource yield, and close resource loops through effective waste management by adjusting business operations or implementing circular economy principles.

### OPERATIONALIZING AND EXPANDING THE ASEAN TAXONOMY

The first version of the ASEAN Taxonomy for Sustainable Finance set out the **Foundation Framework**, which included four EOs and two of the three essential criteria (EC), which are being further developed in the following versions of the Taxonomy.

23 SFIA: Stakeholder Consultation for ASEAN Taxonomy for Sustainable Finance Version 2: the consultation was published on the SFIA website but is no longer available on the website.

24 Email from [atbconsultations@sfstitute.asia](mailto:atbconsultations@sfstitute.asia) to [asia@oxfam.org](mailto:asia@oxfam.org), July 31, 2023, 4:25 PM, regarding ATB consultations and titled “Deadline extended: ASEAN Taxonomy for Sustainable Finance Version 2 – Written Feedback”, with a letter dated July 20, 2023 as an invitation to provide feedback.

25 ATB (2024, March 27), “ASEAN Taxonomy Board Releases ASEAN Taxonomy for Sustainable Finance – Version 3 for Transportation and Construction Sectors”, Press release. [bit.ly/ATBMediaStatement](https://bit.ly/ATBMediaStatement) (last viewed August 6, 2024).

26 ATB (2024, April 25), “ASEAN Taxonomy for Sustainable Finance Version 3”, PowerPoint presentation, slide 13. [bit.ly/TaxonomyWebinar](https://bit.ly/TaxonomyWebinar) (last viewed August 6, 2024).

27 ATB (2024, April 25), ASEAN Taxonomy for Sustainable Finance – Version 3, Updated April 25, 2024, p. 23. [bit.ly/ASEANTaxonomyV3\\_Updated](https://bit.ly/ASEANTaxonomyV3_Updated) (last viewed August 6, 2024).

28 ATB Idem, p. 27–31: describes comprehensive guiding principles per EO.

The Foundation Framework was introduced to provide a simple way to operationalize the Taxonomy. The framework provides general descriptions and principles-based questions on how sustainable finance activities should achieve each of the EOs in the Taxonomy and cover all focus sectors.<sup>29</sup> To make it practical, a “decision tree” and use cases (Appendix D) are provided to help users assess whether their activities meet the EOs and EC.<sup>30</sup>

The Foundation Framework is intended as a starting point for defining and identifying taxonomy-aligned activities. For ASEAN Member States at lower levels of economic development or with lower climate ambitions, the Foundation Framework can be used to create a national taxonomy. The Foundation Framework was developed and refined in the second and third versions of the ASEAN Taxonomy.

Version 2 introduced the **Plus Standard** (framework, which provides more detailed and stringent prescriptions for assessing whether an economic activity achieves one to four of the EOs in the ASEAN Taxonomy. Version 2 operationalized the Plus Standard for activities in the energy sector by providing technical screening criteria (TSC). Version 3 added prescriptive criteria for two other focus sectors: 1) transportation and storage; and 2) construction and real estate.

### ESSENTIAL CRITERIA (EC)<sup>31</sup>

Every activity, regardless of whether a Member State uses the Foundation Framework or the Plus Standard, must be assessed against the ASEAN Taxonomy’s three essential criteria. If one of the three EC is not met, the activity cannot be classified as aligned with the taxonomy. The three EC are:

- **Do No Significant Harm (DNSH)**

- » No activity should directly or indirectly harm the wider environment or negatively affect a contribution to the environmental objective it is targeting.
- » In addition, under the Plus Standard, each activity that is intended to meet one of the EOs must assess that no significant harm has been done to any of the EOs. The ASEAN Taxonomy provides comprehensive guidance and criteria for each EO and activity to identify whether significant harm is being done. In practice, each activity must be assessed for harm according to specific sections of Annex 2.<sup>32</sup> Every version and update of the Taxonomy provides additional details on how to operationalize the DNSH assessment. For instance, Version 3 revised the guidance on “lifecycle assessments” (LCAs).<sup>33</sup>

- » To assess whether an activity can be classified as contributing to climate change adaptation (EO2), a Climate Resilience and Vulnerability Assessment (CRVA), as described in Annex 3, must be conducted.<sup>34</sup>

- **Remedial Measures to Transition (RMT)**

When an activity is identified to do, or is foreseen to do, significant harm to one or more EOs, a realistic and comprehensive plan must be submitted with Remedial Measures to Transition (RMT), which remove or render significant harm insignificant within five years of the assessment date. An activity with a remedial plan is considered to align less stringently with the ASEAN Taxonomy and to be a “transition activity” (See page 19, Figure 1: labeled amber)

If there is no plan in place to remove the harm of an activity within five years, or the harm is not or cannot be removed within this timeframe, the activity cannot be classified as aligned with the Taxonomy (See Figure 1: labeled red).

- **Social Aspects (SAs)**

To avoid negative impacts on social conditions, employees and communities, the ASEAN Taxonomy requires that companies (including their subsidiaries or branches) undertaking taxonomy-aligned activities apply three social standards:

- » Promotion and protection of human rights and fundamental freedoms;
- » Prevention of forced labor and protection of children’s rights, including by promoting labor and migrant rights; and
- » Negative impacts on communities and vulnerable populations living close to taxonomy-aligned activities and in at-risk areas must be avoided, managed, and reduced, for example, by strengthening their institutional capacity so that they can address their needs.

ASEAN declarations related to the rights mentioned above are referred to as Social Aspects. At minimum, an activity must adhere to the legal social requirements of the ASEAN Member State in which the activity takes place (listed in Annex 5<sup>35</sup> for each ASEAN Member State).

The essential criteria also require that an activity implemented in an ASEAN Member State, at minimum, adheres to national legal requirements for environmental protection (listed in Annex 6)<sup>36</sup> and

29 ATB (2021, November 10), ASEAN Taxonomy for Sustainable Finance. [bit.ly/ASEANTaxonomyV1](https://bit.ly/ASEANTaxonomyV1) (last viewed August 6, 2024).

30 ATB (2024, April 25), ASEAN Taxonomy for Sustainable Finance – Version 3, Updated April 25, 2024, pp. 48–61 and 91–106. [bit.ly/ASEANTaxonomyV3\\_Updated](https://bit.ly/ASEANTaxonomyV3_Updated) (last viewed August 6, 2024).

31 ATB, *Idem*, pp. 32–34, 57–67, Annex 2.

32 ATB, *Idem*, pp. 235–259.

33 ATB, *Idem*, p. 236.

34 ATB, *Idem*, pp. 260–271.

35 ATB, *Idem*, pp. 274–292.

36 ATB, *Idem*, pp. 293–305.

technical regulations or permissions related to the activity (Annex 4).<sup>37</sup>

To help users assess whether each of the EC is applied, guiding questions are listed in the Taxonomy for both the Foundation Framework<sup>38</sup> and the Plus Standard.<sup>39</sup> Every new version and update of the ASEAN Taxonomy will review and refine the requirements and guidance for applying the three EC.

### FOCUS SECTORS AND ENABLING SECTORS

Activities that are classified as aligned with the ASEAN Taxonomy have been selected for: 1) their contribution to reducing GHG emissions; and 2) their economic relevance according to their gross value added (GVA) across ASEAN countries. These activities are categorized by economic sector.

#### The six focus sectors covered by the ASEAN Taxonomy are:<sup>40</sup>

- Energy (electricity, gas, steam and air conditioning supply);
- Agriculture, forestry, and fishing;
- Manufacturing;
- Transportation and storage;
- Water supply, sewerage, and waste management; and
- Construction and real estate.

Three **enabling economic sectors** are also covered by the Plus Standard (but not yet in detail):

- Information and communication technology (ICT);
- Professional, scientific, and technical activities; and
- Carbon capture, utilization, and storage (CCUS).

The updated Version 3 of the ASEAN Taxonomy covers all focus sectors for the Foundation Framework. Detailed criteria for applying the Plus Standard are being developed for all sectors with each new version and update. Updated Version 3 covers the energy, transportation and storage, construction and real estate sectors, as well as some activities related to CCUS.

### A CONTROVERSIAL ACTIVITY: COAL PHASE-OUT<sup>41</sup>

A new activity introduced since ASEAN Taxonomy Version 2 under the Plus Standard is **early phase-out of coal-fired power plants**, referred to as “coal phase-out”.

This activity is considered a tool for early action to reduce the region’s reliance on coal for energy and to encourage a swift transition to a less carbon-intensive energy system. Many ASEAN countries are highly dependent on recently built coal-fired power plants. By introducing a coal phase-out activity under the ASEAN Taxonomy, the ATB aims to support emissions reduction according to national plans and regulations and proposed phase-outs by ASEAN. This activity, unique to the ASEAN, supports related financing initiatives such as the Energy Transition Mechanism (ETM) developed by the Asian Development Bank, the Just Energy Transition Partnership (JETP) for Indonesia, and the Managed Phaseout program of the industry-led Glasgow Financial Alliance for Net Zero (GFANZ).

The technical screening criteria (TSC) specify the dates and deadlines by which coal power plants must be phased out. A coal phase-out activity is also capped at 35 years of operation and cannot be started after the end of 2022. In order to be classified as fully applying taxonomy requirements and “green” criteria (see Figure 1), the coal power plant needs to be phased out by 2040 and show positive absolute emissions savings that are independently verified. The ASEAN Taxonomy also classifies less stringent transition activities when the coal phase-out happens by 2050 according to regional- or country-specific pathways, or the coal power plant begins operating before 2027.<sup>42</sup>

The inclusion of the coal phase-out as a green or amber activity in the ASEAN Taxonomy is quite controversial and has been thoroughly debated among the ATB and with stakeholders in the region. The decision was made based on the diverse contexts of ASEAN Member States and the need to find financing for early phase-outs of coal-fired power plants. The ATB acknowledges that further discussions might be needed with the international community and stakeholders.<sup>43</sup> Indeed, the International Environmental Agency (IEA) advocates for the power sector to be completely decarbonized worldwide by 2040 to achieve the Net Zero Emissions by 2050 Scenario (NZE) that stabilizes the rise in global average temperatures at 1.5°C, and reduces coal use by 90% by 2050.<sup>44</sup> The application of this coal-phase out activity in Member States, such as Indonesia, might reveal whether it is useful for, and effective at, accelerating the phase-out of existing coal-fired power plants.

It should be noted that certain coal-related activities are not considered aligned with the Taxonomy. These are listed in Appendix G<sup>45</sup> as “red” activities (See Figure 1), for example, coal mining and coal-fired power generation without carbon capture.

<sup>37</sup> ATB, *Idem*, pp. 272–273: the updated Version 3 of April 25, 2024, does not list the national requirements and policies.

<sup>38</sup> ATB, *Idem*, pp. 57–61.

<sup>39</sup> ATB, *Idem*, pp. 62–67: the guiding questions for the social aspects are detailed on pp. 63–67.

<sup>40</sup> ATB, *Idem*, p. 23.

<sup>41</sup> ATB, *Idem*, pp. 3, 21–22, 84, 86–87, and 148–149.

<sup>42</sup> ATB, *Idem*, pp. 148–149.

<sup>43</sup> ATB, *Idem*, p. 3.

<sup>44</sup> International Environmental Agency (IEA) (2022, November), “Executive Summary”, *Coal in Net Zero Transitions: Strategies for Rapid, Secure and People-centred Change*, p. 14. [bit.ly/IEA\\_CoalReport](https://www.iea.org/reports/coal-in-net-zero-transitions) (last viewed August 6, 2024).

<sup>45</sup> ATB (2024, April 25), ASEAN Taxonomy for Sustainable Finance – Version 3, Updated April 25, 2024, p. 112. [bit.ly/ASEANTaxonomyV3\\_Updated](https://www.atb.gov.sg/asean-taxonomy-for-sustainable-finance-version-3) (last viewed August 6, 2024).

## TECHNICAL REQUIREMENTS AND SCREENING CRITERIA (TSC)

When applying the ASEAN Taxonomy's **Plus Standard**, each activity must adhere to specific quantitative and qualitative technical screening criteria. These TSC are based on different methods:

- **Quantitative criteria:** science-based or technical targets to be achieved regarding impact, level of improvement, metrics, and thresholds. For example, the maximum amount of GHG emissions, best in class as a minimum, performing a Climate Risk and Vulnerability Assessment (CRVA),<sup>46</sup> or a date by which the environmental objective must be met.
- **Qualitative criteria for practices or processes:** codes of conduct, certifications, laws or regulations, internationally recognized standards and sectoral guidelines, the precautionary principle, and the most effective contribution principle.
- **Nature of the activity:** some activities, such as solar or wind energy, are automatically considered aligned with the Taxonomy and may not require additional TSC.

In practice, the TSC for each activity differ depending on the environmental objective that the activity aims to meet, with DNSH criteria specified for each EO (Annex 2). The TSC for each activity are also classified according to three levels of ambition (see “traffic lights” below). The result is a long list of prescriptions for each activity (Annex 1),<sup>47</sup> which are updated and complemented in each new version and update of the Taxonomy to cover additional activities and sectors.

The updated Version 3 of the Taxonomy (issued April 25, 2024) describes the TSC for activities aiming to meet EO1 and EO2 (and, to a much lesser extent, EO3 and EO4) for the energy, transportation and storage, and construction and real estate sectors, as well as for coal phase-out, transport of carbon dioxide (CO<sub>2</sub>), and permanent geological carbon storage.

### TRAFFIC LIGHT CLASSIFICATIONS<sup>48</sup>

The ASEAN Taxonomy allows an activity to contribute to an EO at three levels of ambition. Each level is allocated a color on a traffic light. Green indicates that the TSC for the activity is strict, amber indicates that the TSC is less strict, and red indicates that the activity is not aligned with the Taxonomy and has been excluded.

The **Foundation Framework** classifies activities as Green, Amber, or Red.

The **Plus Standard** uses a combination of colors and “tiers” to classify the level of ambition of an activity:

- **Green Tier 1:** an activity clearly contributes to an EO of the Taxonomy by adhering to its most stringent TSC.
- **Amber Tier 2:** an activity contributes to an EO of the Taxonomy, but assessment and remediation measures are needed within five years to mitigate significant harm. It is referred to as a transition activity.
- **Amber Tier 3:** an activity contributes less stringently to an EO of the Taxonomy than an Amber Tier 2 activity (e.g., not all DNSH criteria are met) or over a longer period. It is referred to as a transition activity.
- **Red:** an activity does not contribute to an EO of the Taxonomy and is not aligned.

### FULL LIST OF EXCLUDED RED ACTIVITIES

Appendix G<sup>49</sup> of the updated Version 3 of the ASEAN Taxonomy includes a list of red activities by sector that clearly cannot be classified as taxonomy-aligned:

#### Energy:

- Coal or oil power generation without CCUS;
- Heat recovery from coal or oil-fueled power generation; and
- Coal mining or oil extraction, refining, processing or production, and associated supply chain infrastructure.

#### Transport:

- New roads, road bridges, road upgrades, parking facilities, fossil fuel filling stations, etc.; and
- Oil tankers or other ships solely transporting coal or oil.

#### Waste:

- Collection of waste that is going to landfill; and
- Landfill without gas capture.

Abated fossil fuels are not on the red list, but its technology is not considered a viable solution for transitioning or achieving a 1.5°C outcome. Upcoming versions of the ASEAN Taxonomy will review whether they are red activities. It should be noted, however, that some taxonomy-aligned activities, such as electricity generation using fossil fuel gas, are allowed when using underground carbon storage.<sup>50</sup>

The TSC for each activity also lists upfront which activities are clearly excluded from, and included in, the ASEAN Taxonomy.

<sup>46</sup> ATB, Idem, pp. 261–262, Annex 3.

<sup>47</sup> ATB, Idem, pp. 114–234.

<sup>48</sup> ATB, Idem, pp. 35–37.

<sup>49</sup> ATB, Idem, p. 112.

<sup>50</sup> ATB, Idem, p. 127.

FIGURE 1: STRUCTURE OF THE ASEAN TAXONOMY<sup>51</sup>

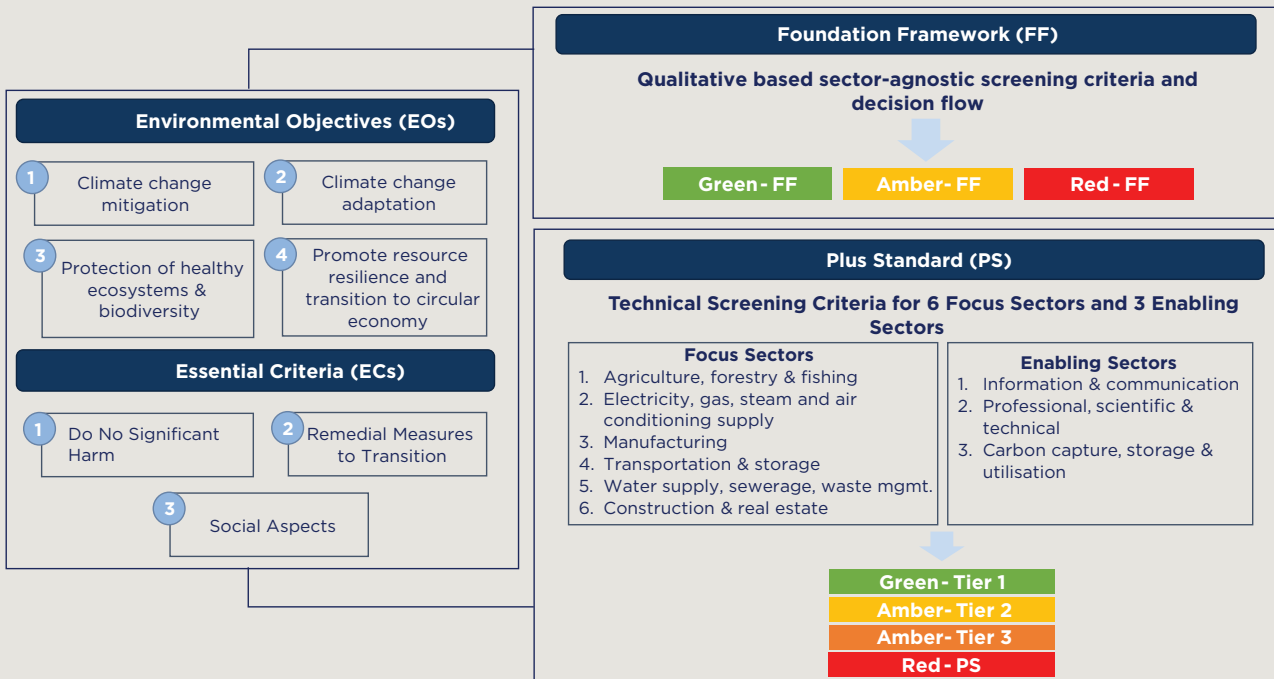


FIGURE 2: SHORT TSC FOR THE ACTIVITY ‘ELECTRICITY GENERATION FROM GEOTHERMAL ENERGY’ TARGETING CLIMATE CHANGE MITIGATION (EO1)<sup>52</sup>

**Green Tier 1:** Lifecycle GHG emissions from the generation of electricity by the entire facility <100 gCO<sub>2</sub>e/kWh;

**Amber Tier 2:** Lifecycle GHG emissions from the generation of electricity by the entire facility: ≥100 and <425 gCO<sub>2</sub>e/kWh;

**Amber Tier 3:** Lifecycle GHG emissions from the generation of electricity by the entire facility: ≥425 and <510 gCO<sub>2</sub>e/kWh



**Applicable standards:**

- Calculation of Lifecycle Emissions ISO 14067:2018 or ISO 14064-1:2018.
- To estimate the GHG intensity of cogeneration, 1 megajoule (MJ) of heat energy is equivalent to 0.277778 kWh of electricity:
  - > If used for heating, calculate at the point of discharge from the heat-producing facility.
  - > If used for cooling, calculate at the point of discharge to the equipment for producing a cooling medium.

**Note:** The activity “electricity generation from geothermal energy” has no TSC for the other three EOs, but has prescriptions for how to avoid significant harm to these EOs.

51 ATB, Idem, p. 24.

52 ATB, Idem, pp. 141-142.

## THE CHALLENGES OF IMPLEMENTING AND APPLYING THE ASEAN TAXONOMY

Since the ASEAN Taxonomy is voluntary, Member States are not required to apply it or impose its use on their (financial) industry. However, they can adapt the ASEAN Taxonomy to create a (voluntary) national taxonomy that reflects domestic transition policies, climate programs, readiness, and needs. Member States can choose between applying the Foundation Framework (as a first step) or the Plus Standard. In various ASEAN Member States, national taxonomies have adapted the requirements and criteria of the ASEAN Taxonomy. A comparison of the taxonomies of ASEAN Member States was conducted for the ATB during the development of Version 2 (September 2022–January 2023) and Version 3 (January–March 2024).<sup>53</sup> While the four EOs of the national taxonomies were found to be comparable with the ASEAN Taxonomy, there were especially important differences regarding the classification of amber activities.

The ASEAN Taxonomy can be implemented by numerous stakeholders for various reasons. For example:<sup>54</sup>

- By regulators to set standards for issuing green bonds;
- By banks to create green loans or report on financial products;
- By companies to issue green bonds or for corporate sustainability reporting;
- By asset managers to design green funds or benchmarks;
- By government agencies to design incentives for a swifter energy transition; and
- By (specialized) rating agencies to determine the extent to which a company or an investment is climate- or environmentally-friendly.

The ASEAN Taxonomy is intended to be easy to use and verify. In practice, the Taxonomy, especially the Plus Standard, is complex due to three detailed essential criteria and very technical screening criteria for meeting one environmental objective (Green Tier 1, Amber Tier 2, Amber Tier 3), as described in the long lists of activities in Annexes 1 to 6. Moreover, each new version and update of the ASEAN Taxonomy changes some of the details and enhances the requirements for new sectors.

During consultations following the publication of Version 1 (May–July 2022), stakeholders raised many challenges and issues regarding the application and use of the ASEAN Taxonomy, including:<sup>55</sup>

- The term “taxonomy for sustainable finance”, does not reflect the focus of the Taxonomy on climate change and other environmental EOs, and lacks a social objective (social aspects are only one of the essential criteria).
- Different interpretations of the amber classification, some of the environmental objectives, essential criteria, as well as the various metrics and thresholds adapted to domestic contexts, require users and financiers operating across the region to assess compliance in each country.
- The failure of companies to provide data for fear of losing competitiveness or risking their reputation, is the single greatest barrier for financiers to assess whether an activity is aligned with the ASEAN Taxonomy.
- International investors require alignment with internationally used taxonomies to reduce the cost of their compliance assessments. However, ASEAN Member States need to adapt the ASEAN Taxonomy to their national contexts.

The consultations that were held before finalizing Version 2 (June 28–November 30, 2023) exposed, among other issues:<sup>56</sup>

- The need to map a comparison between the ASEAN Taxonomy, the EU Taxonomy (preferred by international investors), and national taxonomies to enable an overview of the similarities and numerous variations.
- Investor concerns about the credibility of transition financing due to potential greenwashing and inconsistent guidelines.
- Views that a just transition and incorporating strong Social Aspects are crucial for a future taxonomy.
- The need for additional guidance on usability and implementation (by clarifying definitions and terms) and avoiding different interpretations of objectives, principles, criteria, and thresholds. Some stakeholders demanded to avoid criteria that were too strict. There was also disagreement on the coal phase-out criteria.

## FUTURE DEVELOPMENTS

The technical screening criteria (TSC) that each activity must meet to achieve an environmental objective (EO) are expected to become **more stringent over time** and adapted to new technologies. Activities that are not fully aligned with the ASEAN Taxonomy (Amber Tier 1 and Tier 2 activities) will be assigned more stringent quantitative and qualitative criteria, and gradually phased out from the Taxonomy starting in 2030 and every five years thereafter.<sup>57</sup>

<sup>53</sup> ATB, *Idem*, pp. 20–21.

<sup>54</sup> ATB, *Idem*, pp. 69–71.

<sup>55</sup> ATB, *Idem*, pp. 78–81: Appendix A1.

<sup>56</sup> ATB, *Idem*, pp. 82–85: new Appendix A2.

<sup>57</sup> ATB, *Idem*, pp. 38–43: phasing out of the Taxonomy is also referred to as “sunsetting”.

The ATB will make decisions about these changes to the TSC, and a schedule has already been published for the review, consultations, and the publication of final changes.<sup>58</sup> The ATB may establish a **TSC Review Body** to propose the changes and phase-out activities. This body should have a balance of representatives, including civil society experts, “*in the fields of environment, society, and labour*”.<sup>59</sup> The changes must be published at least one year before the new criteria and deadlines come into effect to allow the financial industry to implement them in a timely manner.

One of the problems with consecutive changes to the ASEAN Taxonomy is how to treat activities that are still being financed while aligned with the TSC of previous versions (“grandfathering” rules). The ASEAN Taxonomy’s updated Version 3 provides details regarding bonds that have Green Tier 1 activities: if the money raised by the bond has already been allocated, the activities do not need to change. If the money from the bond issuance still needs to be allocated, the TSC applicable at the date of issuance can be applied up to a maximum of seven years.<sup>60</sup> Other activities that have been financed according to Green Tier 1 TSC can be classified as taxonomy-aligned for seven years after the TSC were amended.<sup>61</sup> These grandfathering rules have been a subject of debate among stakeholders, including the need to avoid greenwashing.<sup>62</sup>

## GOVERNING NEW VERSIONS OF THE ASEAN TAXONOMY

To maintain, monitor, and improve the ASEAN Taxonomy, the ATB has been mandated to consult with representatives of ASEAN Member States and other stakeholders to delegate tasks and approve any changes to the Taxonomy. The ATB intends to “*continuously engage stakeholders throughout*” the process of updating and completing the Taxonomy to “*orient capital towards a more sustainable and resilient future*”.<sup>63</sup> This should enable the ATB to set TSC in a balanced way. In practice, representatives of the financial industry may have the strongest voice in consultations and reviews.

In 2025, TSC are expected to be defined for activities in the **agriculture, manufacturing, and waste sectors**.<sup>64</sup> New versions of the Taxonomy also intend to **expand Social Aspects** with issues such as poverty reduction, job creation, and human capital development, among

others.<sup>65</sup> The main components, such as guiding questions for the Foundation Framework or essential criteria, will also be reviewed by the ATB.<sup>66</sup>

## THE ASEAN TRANSITION FINANCE GUIDANCE

Companies and entities in the ASEAN region need vast amounts of financing to transition to a low-carbon economy. To guide and lend credibility to this transition, the ASEAN Capital Markets Forum (ACMF) published the ASEAN Transition Finance Guidance on October 17, 2023.<sup>67</sup> The aim of the Guidance is to define principles that provide a credible way for financiers to assess a company that claims to be in transition. It should be considered complementary to the ASEAN Taxonomy for Sustainable Finance. In addition, the ACMF provides information on how to facilitate transition planning and disclosure.

### The ASEAN Transition Finance Guidance is:

- **Voluntary:** Member States and national guidance are not required to follow the guidance;
- **Interoperable:** internationally used taxonomies and standards are taken into account;
- **Practical:** helping to navigate the diversity of existing tools and identify the most pertinent ones, such as taxonomies and reference pathways; and
- **Flexible:** taking into account that many ASEAN companies may not yet have sophisticated transition plans.

## ASSESSING THE CREDIBILITY OF A LOW-CARBON TRANSITION

For a transition to be accepted as credible by the market and financiers, the Guidance proposes adhering to the following **key principles or “elements”**:

- **Element 1:** A clear climate ambition with credible targets; and
- **Element 2:** A robust ability to deliver on the transition.

The Guidance provides comprehensive details on how to satisfy these two elements. They can be summarized as follows:

**Element 1: Climate ambition** can be clearly demonstrated through:

58 ATB, *Idem*, p. 42.

59 ATB, *Idem*, p. 40.

60 ATB, *Idem*, pp. 72–73.

61 ATB, *Idem*, p. 74.

62 ATB, *Idem*, pp. 79, 83, and 85.

63 ATB (2023, November 30), “ASEAN Taxonomy Version 2 Receives Broad Affirmation Following Stakeholder Consultation”, Press release. [bit.ly/V2affirmation](https://bit.ly/V2affirmation), (last viewed August 6, 2024).

64 OJK (2023, November), “Taksonomi Berkelanjutan Indonesia (TBI) version 1.0”, Presentation for Public Hearing, slide 6; ATB (2024, March 27), “ASEAN Taxonomy Board Releases ASEAN Taxonomy for Sustainable Finance – Version 3 for Transportation and Construction Sectors”, Press release. [bit.ly/ATBMediaStatement](https://bit.ly/ATBMediaStatement) (last viewed August 6, 2024).

65 ATB (2024, April 25), ASEAN Taxonomy for Sustainable Finance – Version 3, p. 33. [bit.ly/ASEANTaxonomyV3\\_Updated](https://bit.ly/ASEANTaxonomyV3_Updated) (last viewed August 6, 2024).

66 ATB (2024, February 19), ASEAN Taxonomy for Sustainable Finance – Version 2, Updated as of February 19, 2024, p. 42. [bit.ly/ASEANTaxonomyV2\\_2024](https://bit.ly/ASEANTaxonomyV2_2024) (last viewed August 6, 2024).

67 ASEAN Capital Markets Forum (2023, October 17), ASEAN Transition Finance Guidance – Version 1. [bit.ly/ASEANtransitionfinanceguide](https://bit.ly/ASEANtransitionfinanceguide) (last viewed August 6, 2024).

- An **assessment** of current GHG emissions (Scope 1 and 2, as well as Scope 3 where significant);
- A **transition pathway** to decarbonization applied in line with the Paris Agreement and adapted to different sector or geographical criteria; and
- Time-bound, absolute **emissions targets** and emissions intensity transition targets.

**Element 2:** A **robust ability to deliver** on the transition ambition and plan can be demonstrated through:

- **An implementation strategy** to make tangible progress (including an action plan with time-bound milestones, a capital allocation plan, risk assessment, and mitigation measures, and a supporting organizational structure that provides monitoring);
- **Disclosure** of targets and progress (on an annual basis at minimum) using international standards, such as international sustainability reporting standards;<sup>68</sup>
- **Independent verification** by third parties to verify the transition credibility, including sustainability-related metrics and targets;<sup>69</sup> and

- **Just transition considerations**, including adverse environmental and social impacts of transition plans.

To accommodate the different levels of development, climate ambitions, and market expectations of ASEAN Member States – and facilitate the financing of companies in the real ASEAN economy even if they do not meet all the transition requirements – the ASEAN Transition Finance Guidance proposes **three transition levels that can be financed:**

- **Alignment with a 1.5°C target** (gold standard, internationally credible);
- **Targets set well below 2°C** (ASEAN-level, National Determined Contributions to the Paris Agreement, or not locking in fossil fuel power projects); and
- **Alignment with 1.5°C or well below 2°C** within the next two years.

The ASEAN Transition Finance Guidance published in October 2023 is the first version. The ACMF intends to expand and refine the guidance over time and in line with changing expectations, needs, and technologies.



ASEAN flag (Source: Freepik).

68 The International Financial Reporting Standards (IFRS) are set by the IFRS Foundation, and the International Sustainability Reporting Standards are set by the International Sustainability Standards Board (ISSB), an independent standard-setting body within the IFRS Foundation. IFRS Sustainability Standards are developed by the ISSB to promote and create globally comparable sustainability-related disclosures that are useful for decision-making, see: [www.ifrs.org/](http://www.ifrs.org/) (last viewed August 6, 2024).

69 ASEAN Capital Markets Forum (2023, October 17), ASEAN Transition Finance Guidance – Version 1, pp. 41-42. [bit.ly/TransitionFinanceV1](https://bit.ly/TransitionFinanceV1) (last viewed August 6, 2024).

# INDONESIA

## INDONESIA ISSUES A NEW TAXONOMY FOR SUSTAINABLE FINANCE

Following the publication of the Indonesia Green Taxonomy in January 2022,<sup>70</sup> the Financial Services Authority (OJK) reviewed and updated it, issuing the Indonesia Taxonomy for Sustainable Finance on February 20, 2024.<sup>71</sup> This new Taxonomy is similar to the updated ASEAN Taxonomy for Sustainable Finance, but there are differences to protect Indonesia's economic interests. It focuses on sustainable activities to be financed in the energy and critical mineral sectors in order to decarbonize the Indonesian economy.

### HOW THE NEW TAXONOMY WAS DEVELOPED

Following the publication of Indonesia's first official Green Taxonomy in January 2022, OJK sought to update and expand it to reflect national sustainability and economic strategies, economic interests and growth targets, financial stability, as well as the updated ASEAN Taxonomy for Sustainable Finance and climate change developments.

OJK collaborated with 13 government ministries and agencies and other stakeholders. It especially involved from an early stage associations and companies in the energy sector, which informed and shaped the technical screening criteria (TSC) for this focus sector of the new Taxonomy. Comments were also provided by national and international stakeholders from the financial sector, industry, researchers and sustainable finance institutions, and NGOs.<sup>72</sup> This input was collected by OJK from 2023 to early 2024 through *“activities such as courtesy meetings, technical meetings, workshops, focus group discussions, public discussions, and requests for feedback to the public through various media (online and offline).”*<sup>73</sup> Although a draft taxonomy was not published for wide and meaningful public consultation, written comments could be provided online.<sup>74</sup>

NGOs were involved to only a limited extent in the later stages, through offline consultation meetings with OJK and submission of formal written inputs through OJK's website until 8 December 2023. On November 15, 2023, NGO coalition ResponsiBank Indonesia held a meeting at OJK to discuss the contents of the new Taxonomy and submitted written recommendations based on an unpublished consultative paper by OJK (see Box 1).<sup>75</sup>

Meanwhile, the Director of Sustainable Finance at the OJK Department of Integrated Financial Service System Surveillance and Policy, Joko Siswanto, is a member of the ASEAN Taxonomy Board (ATB) and has been involved in developing the new versions of the ASEAN Taxonomy for Sustainable Finance.<sup>76</sup> OJK is the “principal representative” on the ATB for Social Aspects (SAs) and has worked on adding human and labor rights, community engagement, and other SAs (e.g., gender and poverty alleviation) to the ASEAN Taxonomy.<sup>77</sup>

On February 20, 2024, OJK published the new Indonesia Taxonomy for Sustainable Finance<sup>78</sup> with similarities and differences with the ASEAN Taxonomy.

70 Otoritas Jasa Keuangan (OJK) (2022, January), Indonesia Green Taxonomy – Edition 1.0 - 2022. [bit.ly/Indo\\_GreenTaxonomy\\_Bahasa](https://bit.ly/Indo_GreenTaxonomy_Bahasa) (last viewed August 6, 2024); see a short explanation at: Fair Finance Asia (2022, June), Sustainable Finance Taxonomy: A Guidebook for Civil Society Organizations, Module 4, pp. 10-13. [bit.ly/FFAGuidebook](https://bit.ly/FFAGuidebook) (last viewed August 6, 2024).

71 OJK (2024, February), Indonesia Taxonomy for Sustainable Finance. [bit.ly/IndonesiaTaxonomy](https://bit.ly/IndonesiaTaxonomy) (last viewed August 6, 2024); the version in Indonesian can be downloaded at: [bit.ly/BahasaVersion](https://bit.ly/BahasaVersion) (last viewed August 6, 2024) and explanatory materials at: [bit.ly/PR\\_Bahasa](https://bit.ly/PR_Bahasa) (last viewed August 6, 2024).

72 OJK (2022, June), Indonesia Taxonomy for Sustainable Finance, pp. 4 and 23. [bit.ly/IndonesiaTaxonomy](https://bit.ly/IndonesiaTaxonomy) (last viewed August 6, 2024).

73 OJK, *Idem*, p. 4.

74 Written feedback was to be provided through the online survey platform which is no longer available; various documents explaining the draft taxonomy (“TBI” in Bahasa) can be found here: [bit.ly/DraftCPTBI](https://bit.ly/DraftCPTBI) (last viewed August 6, 2024).

75 PRAKARSA (2023, November 16), “ResponsiBank Indonesia Coalition Holds Hearing with OJK Regarding Updating Indonesian Taxonomy”. [bit.ly/PrakarsaOJKHearing](https://bit.ly/PrakarsaOJKHearing) (last viewed August 6, 2024); OJK (2023, November), Consultative Paper – Taksonomi Berkelanjutan Indonesia (TBI) Version 1.0. [bit.ly/ConsultativePaper](https://bit.ly/ConsultativePaper), (last viewed August 6, 2024).

76 See the Sustainable Finance Institute Asia (SFIA)'s “ASEAN Taxonomy for Sustainable Finance” web page: [bit.ly/SFIAtaxonomyboard](https://bit.ly/SFIAtaxonomyboard) (last viewed August 6, 2024).

77 PRAKARSA (2023, November 16), “ResponsiBank Indonesia Coalition Holds Hearing with OJK Regarding Updating Indonesian Taxonomy”. [bit.ly/PrakarsaOJKHearing](https://bit.ly/PrakarsaOJKHearing) (last viewed August 6, 2024).

78 The English version was only released on April 4, 2024. See: OJK (2024, February), Indonesia Taxonomy for Sustainable Finance, [bit.ly/IndonesiaTaxonomy](https://bit.ly/IndonesiaTaxonomy) (last viewed August 6, 2024).

This version has been used for this summary, including references to the pages; the Indonesian version can be downloaded at: [bit.ly/BahasaVersion](https://bit.ly/BahasaVersion) (last viewed August 6, 2024).

## KEY ELEMENTS OF THE INDONESIA TAXONOMY FOR SUSTAINABLE FINANCE

### GOALS AND OBJECTIVES OF THE TAXONOMY

The overall goal of the new Indonesia Taxonomy for Sustainable Finance is to guide financial flows in support of Indonesia's sustainable development goals and transition to a low-carbon economy, and achieve Indonesia's net-zero emissions targets encompassing efforts related to economic, environmental, and social aspects.<sup>79</sup> By classifying economic activities according to their contribution to these goals, the Taxonomy aims to minimize multiple interpretations and avoid financing activities that falsely claim to have positive climate, environmental, or social impacts ("greenwashing").

The Taxonomy is based on the principles of being:

- **Scientific and credible:** by using the best policy, science, and technology available at the national or international level;
- **Interoperable and supporting national interests:** by considering both the taxonomies used by international and regional financiers and Indonesia's national interest in a fair and gradual energy transition ("just transition"); and
- **Inclusive:** applicable to both large companies and medium, small and micro-enterprises (MSMEs).

The foundations of the Taxonomy are Indonesia's laws and treaties, including its ratification of the Paris Agreement, and the Law Number 4 of 2023 to strengthen the financial sector, including by establishing a sustainable taxonomy. The framework, elements, and TSC stipulated in the ASEAN Taxonomy for Sustainable Finance have been taken into account, with adaptations to the national context, strategies, plans, and policies.

The Indonesia Taxonomy for Sustainable Finance covers economic activities that must achieve **one to four of the following environmental objectives (EOs)**:<sup>80</sup>

- **Climate change mitigation (EO1):** decarbonization activities that are in line to keep global temperature rise below 2°C, limit temperature increase to 1.5°C, and avoid, reduce, or enable others to avoid or reduce GHG emissions.
- **Climate change adaptation (EO2):** activities that reduce the negative impacts of climate change and improve resilience to withstand, reduce, and prevent current and future harmful physical impacts from climate change, such as through Climate Risk Vulnerability Assessments (CRVAs).

- **Protection of healthy eco-systems and biodiversity (EO3):** activities that minimize or eliminate negative impacts on natural ecosystems and biodiversity by incorporating conservation, restoration, and protection mechanisms (water, air, etc.).
- **Resource resilience and transition to a circular economy (EO4):** activities that focus on the materiality of, and the impact to, business operations, through the application of circularity principles such as minimizing resource use, optimizing resource yields, and closing resource loops through effective waste management.

It is important to note that the Taxonomy issued in February 2024 only provides details for EO1 and EO2.<sup>81</sup>

### THREE ESSENTIAL CRITERIA (EC) FOR ALL ACTIVITIES<sup>82</sup>

To align with the ASEAN Taxonomy for Sustainable Finance and be financed accordingly, all activities must be assessed as to whether they apply all **three of the following essential criteria (EC)**:

- **Do No Significant Harm (DNSH) (EC1):** An activity that contributes to one EO of the Taxonomy must not cause harm or damage to any of the other EOs. What constitutes significant harm, and general guidelines for applying the DNSH principle to each EO, are explained in detail in Annex 5 of the Taxonomy.<sup>83</sup>
- **Remedial Measures to Transition (RMT) (EC2):** If a DNSH assessment indicates that the activity would cause significant harm to other EOs of the Taxonomy, remedial measures must be taken. An RMT plan needs to be effective, realistic, and comprehensive to eliminate all significant harm within five years of the date of the DNSH assessment. The main principles of the RMT are accompanied by guiding questions listed in Annex 6 of the Taxonomy.<sup>84</sup> The overall aim is to minimize or eliminate any significant actual or potential harm.
- **Social Aspects (SAs) (EC3):** Companies operating activities that are aligned with the Taxonomy must comply with social criteria to avoid negative social impacts, above all, by respecting national social laws (as listed in Annex 11).<sup>85</sup> International social standards and policies, and the following SAs, are also explicitly mentioned (these SA criteria are explained in detail for both larger companies and MSMEs in Annex 7):<sup>86</sup>
  - » Protection of and respect for human rights and basic labor rights according to the International Labor Organization (ILO);

79 OJK (2024, February), Indonesia Taxonomy for Sustainable Finance, pp. 18-19. [bit.ly/IndonesiaTaxonomy](https://bit.ly/IndonesiaTaxonomy) (last viewed August 6, 2024).

80 OJK, Idem, pp. 36-39: see the details of the principles and examples of EOs.

81 OJK, Idem, pp. 72-73 and 80-129.

82 OJK, Idem, p. 39.

83 OJK, Idem, pp. 134-144.

84 OJK, Idem, pp. 39, 146.

85 OJK, Idem, pp. 207-227.

86 OJK, Idem, pp. 148-152.

- » Employment issues including workers' rights, decent work, prevention of forced labor including human trafficking, protection of women and child workers, and human resources development; and
- » Mitigating negative impacts and strengthening positive impacts on individuals and communities living close to taxonomy-aligned activities, including job creation, poverty alleviation, fostering inclusive economic growth, and strengthening the institutional capacity of communities.

Note: the inclusion of SAs in the Indonesia Taxonomy for Sustainable Finance is a significant change from the earlier Indonesia Green Taxonomy and very similar to those included in the ASEAN Taxonomy. However, like the ASEAN Taxonomy, the Indonesia Taxonomy does not include social objectives.

### TECHNICAL SCREENING CRITERIA (TSC)<sup>87</sup>

To clearly assess and define how an economic activity is aligned with the Taxonomy (by significantly contributing to an EO) and to minimize multiple interpretations and greenwashing, qualitative and quantitative criteria about emissions need to be used.

The following **technical screening criteria (TSC)** apply to every economic activity (see below for the sectors to which the taxonomy-aligned economic activities belong).

- **Quantitative criteria** include thresholds and targets (e.g., for emissions reductions), best-in-class environmental performance, or minimum requirements for impact on the environment, taking into account the current national transition roadmap and various ministerial policies.
  - » **Achieving a relative improvement:** complying with minimum impact requirements for emission reductions.
  - » **Environmental performance:** complying with a minimum threshold, such as for GHG emissions aligned with the net-zero target.
  - » **Best in class:** complying with minimum thresholds that are considered best in class (performed by the top 10% of market players).
- **Qualitative criteria include:**
  - » **Practice-based:** applying the criteria of best practices, such as certification, or applying the Indonesian Environmental Performance Assessment and Reporting Program (PROPER), as explained in Annex 9.<sup>88</sup>

- » **Process-based:** applying processes such as management and monitoring procedures to avoid harming the environment and climate.

- **Nature of the activity:** an activity is automatically considered aligned with the Taxonomy if it has a proven contribution to net-zero emissions (e.g., solar power).

The TSC only need to be applied to the economic activities of (large) companies. For an activity to be classified and financed as aligned with the Taxonomy, an assessment must ensure that the TSC are met. This assessment methodology follows the Plus Standard of the ASEAN Taxonomy for Sustainable Finance.

Detailed TSC are not required to assess whether MSME activities<sup>89</sup> are aligned with the Indonesia Taxonomy for Sustainable Finance. A simpler, principles-based approach should be applied instead. To assess whether an EO and EC are being met, MSMEs can use a decision-making process unrelated to the economic sector of the activity ("Sector-agnostic Decision Tree", or SDT) and guiding questions.<sup>90</sup> This assessment methodology follows the Foundation Framework of the ASEAN Taxonomy for Sustainable Finance.

### TAXONOMY-ALIGNED ACTIVITIES

The activities covered by the Indonesia Taxonomy for Sustainable Finance are in **economic sectors** that are part of the national energy transition agenda and the country's Nationally Determined Contribution (NDC) plan to implement the Paris Agreement:

- Energy;
- Construction and real estate (including infrastructure);
- Waste;
- Industrial processes and production use (IPPU, including manufacturing);
- Agriculture; and
- Forestry and other land use (FOLU).

The Indonesia Taxonomy issued in February 2024 **focuses on the energy sector**, providing detailed prescriptions using TSC for how an energy activity must **align with EO1 or EO2** (or both), the EC and the TSC of the Taxonomy. The energy sector is categorized into two main groups and enabling activities:

- **Electricity, gas, steam/hot water and cold air/air conditioning supply activities**, which include the early retirement of coal-fired power plants providing energy for transition purposes (see the next section).

<sup>87</sup> OJK, Idem, p. 41.

<sup>88</sup> OJK, Idem, pp. 163–176.

<sup>89</sup> OJK, Idem, p. 43: definition of each category of micro-, small and medium enterprises (MSMEs).

<sup>90</sup> OJK, Idem, pp. 25 and 54–55: the graphic representation of the decision-making tree appears on p. 54.

- **Mining and quarrying of 15 critical minerals**<sup>91</sup> that facilitate clean energy technology and the transition towards net-zero emissions.
- **Enabling activities**, which include carbon capture and storage (CCS), research and development for innovative CCS technology, and energy conservation/efficiency activities.

The development of criteria for Taxonomy alignment has resulted in 50 listed energy activities, each with detailed thresholds and other TSC that consider national laws related to each of the activities (see Annex 10),<sup>92</sup> climate initiatives, and the United Nations Sustainable Development Goals (SDGs). These are described in detail in Annex 3 of the Taxonomy.<sup>93</sup>

The Indonesia Taxonomy for Sustainable Finance will be updated with TSC for activities with other EOs and in other sectors from late 2024 onward (see the next section).

### DIFFERENT LEVELS OF CLIMATE AMBITIONS

Every activity can be categorized by its level of climate ambition: a fully compliant “green” activity, a non-fully compliant “transition” activity, or an “unqualified” activity. In the energy sector, activities belong to one of the following categories:

- **Green:** the activity is in line with the Paris Agreement commitment to keep global temperature rise below 1.5°C and the net-zero emissions target of Indonesia by 2060 (or earlier) and complies with all EC.
- **Transition:** the activity causes some harm and is not yet in line with a net-zero emission path, but is moving towards being a green activity, or facilitates significant emissions reduction within a specified timeframe or promotes sustainable activities. It also has a remediation plan (RMT) and fulfills all social aspects as part of the essential criteria.
- **Unqualified:** these activities are not listed as a separate category in the Indonesia Taxonomy, but they cannot qualify as green or transition activities after an assessment is made.

It should be noted that there is no category of activities explicitly excluded from being financed according to the Indonesia Taxonomy for Sustainable Finance, such as the “red” category in the earlier Indonesia Green Taxonomy (2022) and in the ASEAN Taxonomy for Sustainable Finance. Some activities are only listed in the Indonesia Green Taxonomy and are classified as “green, yellow, red”. These activities can continue to use this classification and do not need to use the “green, transition, unqualified” classifications of the Indonesia Taxonomy for Sustainable Finance issued in February 2024.<sup>94</sup>

One of the main criticisms of the new Taxonomy<sup>95</sup> is that **harmful and hazardous activities** might be included in the transition category if they are compatible with the EC (e.g., an RMT plan) and the (sometimes weak) TSC.<sup>96</sup> Among others, the **early retirement of coal-fired power plants that supply energy “for transition purposes”**, such as the production of electric vehicles (EVs), is categorized as **green** if the “coal phase-out” happens by 2040 and the plant is not more than 35 years old.<sup>97</sup> The inclusion of energy from coal-fired power plants, which contribute to the most harmful greenhouse gas (GHG) emissions, follows the coal phase-out activity in the ASEAN Taxonomy for Sustainable Finance, but contrasts with other taxonomies and science-based approaches. Similarly, the inclusion of **CCS**, the technology that is not yet proven or fully developed, **electricity from nuclear power and hydrogen gas power, and mining of critical minerals** for the production of ecofriendly products, can be too harmful to achieve the EOs and SAs in the long term. Although the inclusion of these activities is predicted to harm the reputation of the Indonesia Taxonomy for Sustainable Finance, OJK has justified it based on national energy plans and the ASEAN Taxonomy.<sup>98</sup>

91 OJK, Idem, pp. 76–78 and 79–80: provide a list of 15 critical minerals supporting clean energy technology and the transition towards net-zero emissions, including nickel, lithium, iron and cadmium.

92 OJK, Idem, pp. 178–205.

93 OJK, Idem, pp. 72–129.

94 OJK, Idem, p. 56.

95 See for instance: Satyadini, A. and Satriyo, K. (2023, November 11), “Indonesia’s new definition of climate-friendly investment risks greenwashing coal power”, East Asia Forum. [bit.ly/RisksGreenwashing](https://bit.ly/RisksGreenwashing) (last viewed August 6, 2024). See Box 1.

96 Satyadini, A. and Satriyo, K., Idem.

97 OJK, Idem, p. 62.

98 OJK, Idem, pp. 29–33.

## BOX 1: RESPONSIBANK RECOMMENDATIONS FOR A NEW INDONESIA TAXONOMY

On 15 November 2023, the ResponsiBank Indonesia coalition held a meeting at the OJK office to discuss the contents of the draft Taxonomy.<sup>99</sup> Among the input the coalition representatives provided was the need to provide more detailed and international social indicators and social objectives.

In written comments to OJK in November 2023, ResponsiBank proposed (among others) the following recommendations:

- The change in categories from “red, yellow, green” in the Green Taxonomy to “green and transition” in the new Taxonomy is a setback because it results in no clear category describing economic activities that are not in line with sustainable finance principles. The red, yellow, green categories should be returned, with “yellow” replaced by “transition”. Also, the criteria should be more strictly determined.
- The Taxonomy includes fossil fuel-based energy and “false solutions” for the energy transition, such as CCS, which are not effective enough to reduce emissions and therefore counter the spirit of sustainable finance.
- The Taxonomy should provide a complaint-handling mechanism (a grievance mechanism) that is easily accessible to the public, including vulnerable and marginalized groups. More details and criteria are needed on how grievance mechanisms will be applied, for example by banks, so that they can resolve the many problems people are experiencing due to the negative impacts of Taxonomy-aligned projects and activities financed by banks.
- All stakeholders should be part of the task force to design (and review) the new Taxonomy, including representatives of vulnerable and marginalized groups.
- The new Taxonomy should not include any mining activities in the green category.
- The implementation of the Taxonomy should be mandatory with sanctions for non-compliance.
- The Taxonomy needs to set clear and scientific thresholds for each category (green, transition, non-eligible) and align with Indonesia’s existing national commitments, energy transition plans, and regulations.
- The Taxonomy needs to determine a firm, ambitious, and realistic cut-off date for the transition category, adjusted to national commitments.
- OJK needs to develop a monitoring scheme for the implementation of the Taxonomy, which is transparent, accountable, and participatory.
- OJK must explain why MSMEs are automatically classified in the new Taxonomy.

As can be seen in the Indonesia Taxonomy for Sustainable Finance issued in February 2024, few of ResponsiBank Indonesia’s comments and recommendations have been taken into account.

## HOW THE INDONESIA TAXONOMY WILL BE USED AND APPLIED

No financier, company, or government agency is obligated to use the Indonesia Taxonomy for Sustainable Finance. However, the taxonomy and its detailed assessment and compliance requirements can be used by commercial and government stakeholders for different purposes. For example:<sup>100</sup>

- **Financial sector actors**, from banks to investors, can use the Taxonomy to issue or finance green bonds, develop innovative sustainable finance

products and services, report on their green or sustainable financing activities (sustainability report) without greenwashing, or perform their own climate risk assessments. This would lead to increased lending and investing in effective green and transition activities.

- **Financial authorities and regulators** can use the Taxonomy to create, monitor, and supervise the implementation of sustainable finance policies, determine climate or sustainability indicators for financial products and reporting, and conduct supervisory climate stress testing.

99 PRAKARSA (2023, November 16) “ResponsiBank Indonesia Coalition Holds Hearing with OJK Regarding Updating Indonesian Taxonomy”. [bit.ly/PrakarsaOJKHearing](https://bit.ly/PrakarsaOJKHearing) (last viewed August 6, 2024).

100 OJK, *Idem*, p. 67.

- **Government agencies** can formulate fiscal incentives and disincentives for businesses that apply the Taxonomy requirements. They can incorporate the Taxonomy in sustainable development planning and in tools to monitor the progress of climate change mitigation and adaptation commitments.
- **Companies** can use the Taxonomy to issue green or sustainable bonds, develop environmentally-friendly activities and products, and disclose their effective commitments to a net-zero transition.
- **Credit rating agencies** can use the Taxonomy to determine environmental, social, and governance (ESG) ratings and provide related data to investors and companies.

In practice, the use of the TSC of the Taxonomy, in addition to the EC, is quite complex. To support users, Annex 2 and Annex 8 of the Taxonomy provide some examples of how to apply the requirements.

## TAXONOMY UPDATES AND FUTURE DEVELOPMENTS

The Indonesia Taxonomy for Sustainable Finance is considered a “living document” that will change over time through periodic reviews. Updates to the first version will include TSC for the energy sector to meet the two remaining environmental objectives (EO3 and EO4). TSC will also be developed for the four EOs in other sectors. The timing for the updates is provisional and presented by OJK in March 2024 as follows:<sup>101</sup>

- 2025: **transportation, construction and real estate, and forestry and other land uses (FOLU)**
- 2026: **agriculture, waste management, and industrial processes and production use (IPPU).**

Future changes will also be based on new technologies, climate change events and science, changing national priorities and commitments, and the evolution of the ASEAN Taxonomy, other taxonomies, and sustainable finance policies. Such changes will be incorporated in the updates that will be published in the coming years.

While adaptations and updates might be needed, the question is what will happen with activities based on previous versions of the Taxonomy with older TSC. Future updates will provide the answer<sup>102</sup> to how long such activities can be considered aligned with the Taxonomy. Also, the deadline of some (transition) activities will expire, for example, by 2030, and the activities of previous Taxonomy versions might no longer be valid because their TSC have been replaced by more stringent criteria (referred to as “sunsetting”), for example, due to climate change resulting in higher temperatures.



Jakarta, Indonesia (Source: Freepik).

<sup>101</sup> OJK, Peran Taksonomi untuk Keuangan Berlanjutan Indonesia (TKBI) dalam Mendorong Transisi Energi Menuju Net Zero Emission Indonesia [The Role of the Indonesian Taxonomy for Sustainable Finance (TKBI) in Driving the Energy Transition Towards Net Zero Emissions in Indonesia], webinar, 24 March 2024, [bit.ly/OJKInstitute\\_Webinar](https://bit.ly/OJKInstitute_Webinar) (last viewed August 6, 2024) : see the slide at 59 minutes of the webinar presentation.

<sup>102</sup> OJK, (2024, February), Indonesia Taxonomy for Sustainable Finance, p. 58. [bit.ly/IndonesiaTaxonomy](https://bit.ly/IndonesiaTaxonomy) (last viewed August 6, 2024).

# PHILIPPINES

## NEW SUSTAINABLE FINANCE TAXONOMY GUIDELINES ISSUED IN THE PHILIPPINES

Financial authorities in the Philippines have been working on ways to increase the flow of financing to economic activities that are climate-friendly and environmentally and socially sustainable. One element of the Philippines' sustainable finance policy was to develop a taxonomy. The first version of the Philippine Sustainable Finance Taxonomy Guidelines (SFTG) was published on February 23, 2024. The SFTG is based on the simplified Foundation Framework of the ASEAN Taxonomy for Sustainable Finance and focuses on climate change mitigation in various sectors.

### DEVELOPMENT OF THE SUSTAINABLE FINANCE TAXONOMY GUIDELINES (SFTG)

In October 2021, the **Inter-agency Technical Working Group for Sustainable Finance (ITSF)**, a collaboration of Bangko Sentral ng Pilipinas (BSP), the Department of Finance (DOF) and 16 other key government ministries and government agencies, launched the **Philippines Sustainable Finance Roadmap (“the Roadmap”)**.<sup>103</sup> One recommendation was to provide a common principles-based definition (**taxonomy**) of sustainable activities that could be financed.

At the same time, a proposal for a general principles-based taxonomy was published in October 2021, the **“Philippine Sustainable Finance Guiding Principles” (Guiding Principles)**.<sup>104</sup> The **objectives** were to guide the identification of economic activities that contribute to sustainable development and climate change mitigation, and to attract financing for such activities.<sup>105</sup> The **seven Guiding Principles** were:

- Climate change mitigation and adaptation;
- Promoting the transition to a low-carbon economy;
- Resilient food systems;
- Sustainable cities;
- Sustainable and resilient infrastructure for inclusive growth and poverty reduction;
- Environmental management and conservation; and
- Prohibited activities.

The Guiding Principles also had **two general “contribute to” principles**:

- Contribute to gender equality; and
- Contribute to the United Nations Sustainable Development Goals (SDGs).

On September 15, 2023, a proposal for a **Philippine Sustainable Finance Taxonomy Guidelines (SFTG)** was released for public online consultation until October 6, 2023.<sup>106</sup> This draft of the SFTG was published by the Financial Sector Forum (FSF), comprised of the BSP, Securities and Exchange Commission (SEC), Insurance Commission (IC), and the Philippine Deposit Insurance Corporation (PDIC).<sup>107</sup> The FSF had set up a taxonomy sub-team to develop and recommend the draft taxonomy guidelines. In-person consultations also took place in September and October 2023.

<sup>103</sup> Inter-agency Technical Working Group for Sustainable Finance (ITSF) (2021, November), Sustainable Finance Roadmap. [bit.ly/SFRoadmap\\_Principles](https://bit.ly/SFRoadmap_Principles) (last viewed August 6, 2024).

<sup>104</sup> See Fair Finance Asia (FFA) (2023, June), Sustainable Finance Taxonomy: A Guidebook for Civil Society Organizations, Module 4, p. 16. [bit.ly/FFAguidebook](https://bit.ly/FFAguidebook) (last viewed August 6, 2024).

<sup>105</sup> Bangko Sentral ng Pilipinas (BSP) (2021, May 19), “Unlocking opportunities at the local level”, speech by BSP Governor Benjamin E. Diokno at the Investment Forum on Energy Transition. [bit.ly/DioknoSpeech](https://bit.ly/DioknoSpeech) (last viewed August 6, 2024).

<sup>106</sup> Financial Sector Forum (FSF) (2023, September 15), Proposed Philippine Sustainable Finance Taxonomy Guidelines: Consultation Document. [bit.ly/PHConsultationDoc](https://bit.ly/PHConsultationDoc) (last viewed August 6, 2024).

<sup>107</sup> The aim of the FSF, a voluntary interagency body, is (i) facilitating consultations and exchange of information among its members on matters relating to the supervision and regulation of financial institutions, and (ii) coordinating the regulatory and supervisory policies and efforts of the member agencies.

## BOX 2: RESPONSE BY FAIR FINANCE PHILIPPINES (FFPh) TO THE ONLINE PUBLIC CONSULTATION ON THE DRAFT PHILIPPINE SUSTAINABLE FINANCE TAXONOMY GUIDELINES

The coalition members of Fair Finance Philippines (FFPh) collaborated to prepare comments on the draft SFTG, which were submitted on October 6, 2023.<sup>108</sup> Some of the issues raised included:

- Prioritizing the principles for designing the SFTG: inclusivity, good governance, priority setting, practicality, and being dynamic.
- The urban sector should be a priority sector and forestry, coastal ecosystems and carbon capture, utilization, and storage (CCUS) should be enabling sectors although there are concerns from a sustainability perspective.
- Non-aligned and excluded activities should comprise certain illegal and massive destruction weaponry, such as cluster munitions and biological weapons.
- Non-aligned activities mentioned in the consultation should be clarified, such as conflict minerals.
- More elements of a just transition must be integrated, including specific gender and gender identity, Lesbian, Gay, Bisexual, Transgender, Queer, Intersex, Asexual (LGBTQIA), considerations.
- A “harmful” taxonomy that identifies potential sustainability-related risks and stranded assets should be created.
- To implement the SFTG, more emphasis should be placed on capacity building by financial authorities.
- To be inclusive, the SFTG should cover how MSMEs, given their significant role in the Philippine economy, can benefit from shifting financial flows to sustainability objectives.
- More input and greater involvement from civil society, especially representatives of Indigenous Peoples, are needed in the design and development processes to benefit the guidelines and equitable application of the SFTG.
- A principles-based taxonomy risks being less effective at contributing to climate change mitigation and adaptation activities than a prescriptive taxonomy.

After the consultations, the FSF approved the final version of the first principles-based SFTG, with the support of the taxonomy sub-team. The decision was taken after “extensive stakeholder engagement”,<sup>109</sup> which, in practice, meant closely consulting with the financial industry to secure its approval.

The Monetary Board of the BSP adopted the official SFTG on February 14, 2024.<sup>110</sup> The BSP published the SFTG, a stand-alone publication by the FSF, as an appendix to a circular that amends the Manual of Regulations for Banks.<sup>111</sup> The SEC issued the FSF publication of the SFTG as an annex to an SEC Memorandum Circular on February 23, 2024.<sup>112</sup> The FSF publication of the SFTG<sup>113</sup> and the two circulars are summarized as follows.

It is important to note that the SEC has been a member of the ASEAN Taxonomy Board that published an updated second version of the ASEAN Taxonomy for Sustainable Finance on February 19, 2024, and an updated third version on April 25, 2024.<sup>114</sup>

### KEY ELEMENTS OF THE SUSTAINABLE FINANCE TAXONOMY GUIDELINES

The first version of the **SFTG** adopts a principles-based approach without providing prescriptive details for each activity it covers.

The SFTG integrated existing national policies and plans, especially related to climate change, such as the Philippines’ plans to meet the Paris Agreement (the Nationally Determined Contributions (NDCs) and the need to increase related green investments up to

108 Fair Finance Philippines (2023, October 6), “Comments on BSP’s proposed Sustainable Finance Taxonomy Guidelines”. See: [bit.ly/FFPHcomments\\_BSPTaxonomy](https://bit.ly/FFPHcomments_BSPTaxonomy) (last viewed August 6, 2024) and [bit.ly/FFPHcomment\\_BSPTaxonomydocument](https://bit.ly/FFPHcomment_BSPTaxonomydocument) (last viewed August 6, 2024).

109 FSF (2024, February), Philippine Sustainable Finance Taxonomy Guidelines – Version 1, p. 13. [bit.ly/SECMC5](https://bit.ly/SECMC5) (last viewed August 6, 2024).

110 BSP (2024, February 22), “BSP Adopts the Philippine Sustainable Finance Taxonomy Guidelines”, Press release. [bit.ly/BSP\\_PR](https://bit.ly/BSP_PR) (last viewed August 6, 2024).

111 BSP (2024, February 21), Philippine Sustainable Finance Taxonomy Guidelines, February 2024, Circular No. 1187 (Series of 2024). [bit.ly/STFG\\_2024](https://bit.ly/STFG_2024) (last viewed August 6, 2024).

112 Securities and Exchange Commission (SEC) (2024, February 23), Guidelines on the Philippine Sustainable Finance Taxonomy, SEC Memorandum Circular No. 5. [bit.ly/SECMC5](https://bit.ly/SECMC5) (last viewed August 6, 2024) includes in the appendix the full Philippine Sustainable Finance Taxonomy Guidelines issued by the FSF.

113 The FSF publication, attached to the circulars, will be referred to in this SFTG summary as: FSF (2024, February), Philippine Sustainable Finance Taxonomy Guidelines – Version 1. [bit.ly/STFG\\_2024](https://bit.ly/STFG_2024) (last viewed August 6, 2024).

114 ASEAN Taxonomy Board (ATB) (2024, February 19), ASEAN Taxonomy for Sustainable Finance – Version 2, Updated as of February 19, 2024. [bit.ly/ASEANTaxonomyV2\\_2024](https://bit.ly/ASEANTaxonomyV2_2024) (last viewed August 6, 2024); ATB (2024, April 25), ASEAN Taxonomy for Sustainable Finance – Version 3, Updated as of April 25, 2024. [bit.ly/ASEANTaxonomyV3\\_Updated](https://bit.ly/ASEANTaxonomyV3_Updated) (last viewed August 6, 2024).

an estimated US\$ 168 billion by 2030).<sup>115</sup> The SFTG were developed “in accordance with the Philippine Sustainable Finance Guiding Principles”<sup>116</sup> although several of these principles have not been integrated.

Overall, the SFTG are a framework and a tool for **guiding financiers** and others to assess, determine, and classify whether an economic activity is environmentally and socially sustainable.

The **overall goals of the SFTG** are to:

- Orient and increase financial flows to economic activities that contribute to sustainable objectives, especially related to climate change;
- Promote transparency and credibility by minimizing the risk of greenwashing; and
- Support a just transition to a sustainable economy.

The **principles for designing the SFTG** are:<sup>117</sup>

- Taking a **phased approach** starting with introducing a qualitative assessment process to identify SFTG-aligned activities, and later introducing quantitative TSC for each activity. This is in line with the flexibility allowed in the ASEAN Taxonomy for Sustainable Finance to use only the Foundation Framework and not yet the Plus Standard.<sup>118</sup> This phased approach aims to give the financial sector enough time to modify its internal procedures.
- Being **inclusive and practical** so that it is clear to users what sustainable finance activities are and providing user-friendly tools.
- **Referencing** national strategy documents and other widely used taxonomies.
- **Greater transparency** by providing a thorough guidebook and **greater accountability** by linking the SFTG to existing policies and laws.
- Including **transition** activities for climate-resilient alternatives to high-carbon emissions.

The first version of the SFTG has **two environmental objectives (EOs)**<sup>119</sup> and lists activities that must achieve one or both:

- **Climate change mitigation (EO1)** is achieved by a taxonomy-aligned activity that:
  - » **Reduces** GHG emissions in a way that meets the 1.5°C target;

- » **Avoids or reduces** GHG emissions using best practices compared to cases without any mitigating action, while still not achieving low or zero-emissions; or
- » **Enables** others to reduce or avoid GHG emissions.

- **Climate change adaptation (EO2)** is a taxonomy-aligned activity that “*positively contribute[s] to a reduction in material physical climate risk and/or shall reasonably reduce material physical risk from current and future climate change*” on vulnerable people, ecosystems and economies, and increases resilience.

Activities that are aligned with the SFTG must apply the following **three essential criteria (EC)**.<sup>120</sup> When one of these criteria is not fulfilled, the activity cannot be classified as aligned with the SFTG:

- **EC1: Do No Significant Harm (DNSH)** to the other EO and do not (in)directly harm the intended EO. The SFTG provide guidance and questions to be answered to avoid significant harm.<sup>121</sup>
- **EC2: Remedial Measures to Transition (RMT)** are to be taken to remove or render insignificant any significant harm that is being done in order to be aligned with the SFTG. RMT must be fulfilled within five years, or within 10 years if supported by an independent external verification that fulfils the SFTG recommendations or uses industry standards.<sup>122</sup> The SFTG provide guiding questions on how to apply RMT.<sup>123</sup>
- **EC3: Minimum Social Safeguards (MSS)**<sup>124</sup> require that those engaged in SFTG-aligned activities – mostly companies and their subsidiaries – do not harm the following Social Aspects (SAs). At minimum, MSS must comply with Philippine social laws, international conventions ratified by the Philippines, and ASEAN declarations. The following SAs are listed in the SFTG:<sup>125</sup>
  - » Promotion and protection of human rights, including labor rights;
  - » Prevention of forced labor and protection of children’s rights and migrants’ rights; and
  - » Reducing the impact on (vulnerable) people living close to SFTG-aligned activities or operations, including through a Free, Prior and Informed Consent (FPIC) process with Indigenous communities, and through remedial actions.

115 Climate investments between 2017 and 2021 accounted for only 1% of total cross border investment. See: FSF (2024, February), Philippine Sustainable Finance Taxonomy Guidelines – Version 1, p. 12. [bit.ly/STFG\\_2024](https://bit.ly/STFG_2024) (last viewed August 6, 2024).

116 SEC, Idem, p. 1.

117 FSF, Idem, pp. 17–19.

118 ATB (2024, February 19), ASEAN Taxonomy for Sustainable Finance – Version 2, Updated as of February 19, 2024. [bit.ly/ASEANTaxonomyV2\\_2024](https://bit.ly/ASEANTaxonomyV2_2024) (last viewed August 6, 2024).

119 FSF, Idem, p. 19.

120 FSF, Idem, pp. 36–42.

121 FSF, Idem, pp. 36–38.

122 FSF, Idem, pp. 39, 42–43, Appendix 5.

123 FSF, Idem, pp. 38–40.

124 FSF, Idem, pp. 40–42.

125 FSF, Idem, p. 41 and Appendix 1.

If a company has a track record of not adhering to one or more of these SAs, it must prove that improved and remediation processes have been implemented to prevent a repeat violation or breach.

### WHAT ACTIVITIES ALIGN WITH THE SFTG?

The SFTG identify the following **priority sectors**<sup>126</sup> whose economic activities, if financed according to SFTG requirements, will be most effective at contributing to the two environmental objectives.

For the climate change mitigation objective (**EO1**), the sectors whose activities will most effectively reduce the GHG emissions of the Philippines when aligned with the SFTG are:

- **Energy**, including (renewable) electricity generation;
- **Transport**, including road transport, aviation, and shipping;
- **Waste management**, including landfill sites and waste incineration;
- **Industry**, including manufacturing, construction, and mining;
- **Agriculture, forestry, and other land use (AFOLU)**, including livestock and rice production, deforestation, and forest degradation; and
- **Coastal and marine resources**, including emissions from mangroves and seagrasses when they are destroyed.

For the climate change adaptation objective (**EO2**), there are **no priority sectors**, but “particular attention” should be given to adaptation activities in the following areas:

- Agriculture, fisheries and food security;
- Water resources;
- Health;
- Ecosystems and biodiversity;
- Cultural heritage, population displacement and migration;
- Land use and human settlements;
- Livelihood and industries; and
- Energy, transport, and communications.

In addition, the SFTG includes several “**enabling sectors**” whose activities “*improve the performance of other sectors and activities and do not themselves risk harm to environmental objectives*”:<sup>127</sup>

- Information and communication technology (ICT), including data-driven solutions, resource efficiency software, meteorological solutions for adaptation, and data centers;

- Professional, scientific, and technical activities, including solar water heater installations, retrofits of buildings, renewable energy installations, and feasibility studies; and
- CCUS, including the artificial capture, storage, and transformation of carbon emissions by high-emission sectors.

The SFTG includes “**transition activities**”, which are those that still cause significant harm, but have a plan to be remediated within five years or within 10 years if the plan is independently and externally verified according to SFTG recommendations and industry standards (see RMT above). It should be noted that the ASEAN Taxonomy Foundation Framework only allows five years for remediation.<sup>128</sup>

The SFTG has clearly identified “**excluded activities**” that cannot be classified under the SFTG but can nevertheless be financed as non-aligned activities:<sup>129</sup>

- Exploration, production, or transportation of fossil fuel and fossil-fuel power generation-related projects;
- Manufacture and production of finished alcoholic beverages;
- Lethal defense goods;
- Military contracting;
- Gambling;
- Weaponry;
- Non-RSPO-certified palm oil;
- Manufacture and production of finished tobacco products;
- Conflict minerals;
- Activities/projects associated with child labor/forced labor;
- Extractive mining, except for minerals critical for the transition;
- Production or trade in wood or forestry products other than from sustainably managed forests;
- Projects that cause significant harm and have negative social impacts beyond remediation, such as projects that involve involuntary resettlement or affect Indigenous Peoples and their land, and projects near protected areas; and
- Activities that do not comply with the environmental laws of the Philippines listed in the SFTG.

In addition to these activities, all activities that do not adhere to SFTG as described in the assessment guide (see the next section) are categorized and excluded from the SFTG. Note that activities that are categorized as excluded, or “red”, can still be financed but not labeled sustainable according to the SFTG.

<sup>126</sup> FSF, Idem, p. 24.

<sup>127</sup> FSF, Idem, p. 24.

<sup>128</sup> ATB, Idem, pp. 30–32.

<sup>129</sup> FSF, Idem, pp. 26–27.

## A PRACTICAL GUIDE FOR ASSESSING SFTG-ALIGNED ACTIVITIES

To make it practical and easy for banks, investors, and other users to assess whether an activity is aligned with the environmental objectives and essential criteria of the SFTG, a variety of guidance tools are provided. The tools also enable users to categorize an activity by level of ambition to achieve an EO.

### DECISION TREE: A STEP-BY-STEP ASSESSMENT

A first tool is a “**decision tree**” (see example in Figure 3) that poses a series of questions that users must answer to assess whether an activity can be classified and financed as aligned with the SFTG and one of its EOs.

For each activity and per EO, the user must answer the following five questions and in this order:<sup>130</sup>

- Is the activity an excluded activity (see the section above)?
- Is the activity in compliance with Philippine laws, as described in point 3.3 of the SFTG?
- Does the activity substantially contribute to at least one environmental objective (EO1 or/and EO2) and does it meet the three essential criteria (including the laws related to minimum social safeguards in Appendix 1 of the SFTG)?
- Does the activity avoid actual/potential harm to the other EO?

- If there is harm/potential harm, has it been remediated, or will it be remediated within the required defined period?

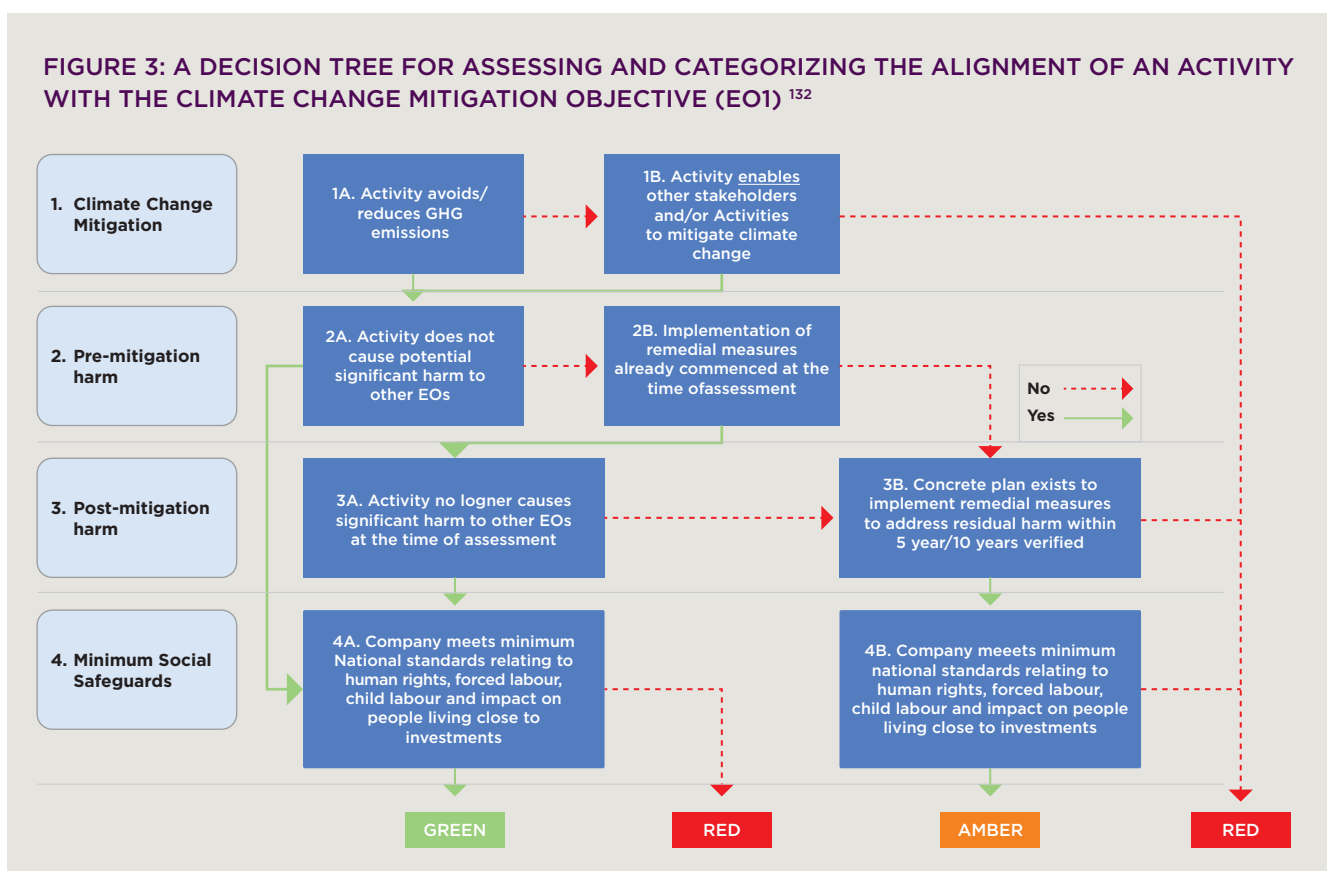
Each of these steps have quite detailed sub-questions and descriptive lists to verify whether an activity is aligned with the SFTG. The summary of guiding questions per EO for each of the steps in the decision tree is provided in Appendix 2 of the SFTG.<sup>131</sup>

### TRAFFIC LIGHTS: CLASSIFICATION COLORS

A second tool helps users categorize activities by the colors of a **traffic light**. Each traffic light color is assigned to an activity based on the result of the decision-tree assessment:

- **Green** activities are those that **fully adhere** to an EO and EC and make a “substantial contribution” to an EO.
- **Amber** activities are **transition** activities that make a substantial contribution to an EO and adheres to EC, but still causes harm to the other EO and is being remediated according to RMT criteria.
- **Red** activities are those that do not adhere to any of the above and are **excluded**.

An overview of these two tools is provided in Figure 3.



130 FSF, Idem, pp. 26–41.  
131 FSF, Idem, pp. 48–56.  
132 FSF, Idem, p. 31.

### USE CASES: CONCRETE EXAMPLES

A third tool is “use cases”, which provide concrete examples of how to assess an activity using the decision tree and how to use the categorization colors.

Appendix 3 of the SFTG provides examples of how an activity can be assessed and financed according to the climate change mitigation objective (EO1), for example, hydropower or biogas power plants.

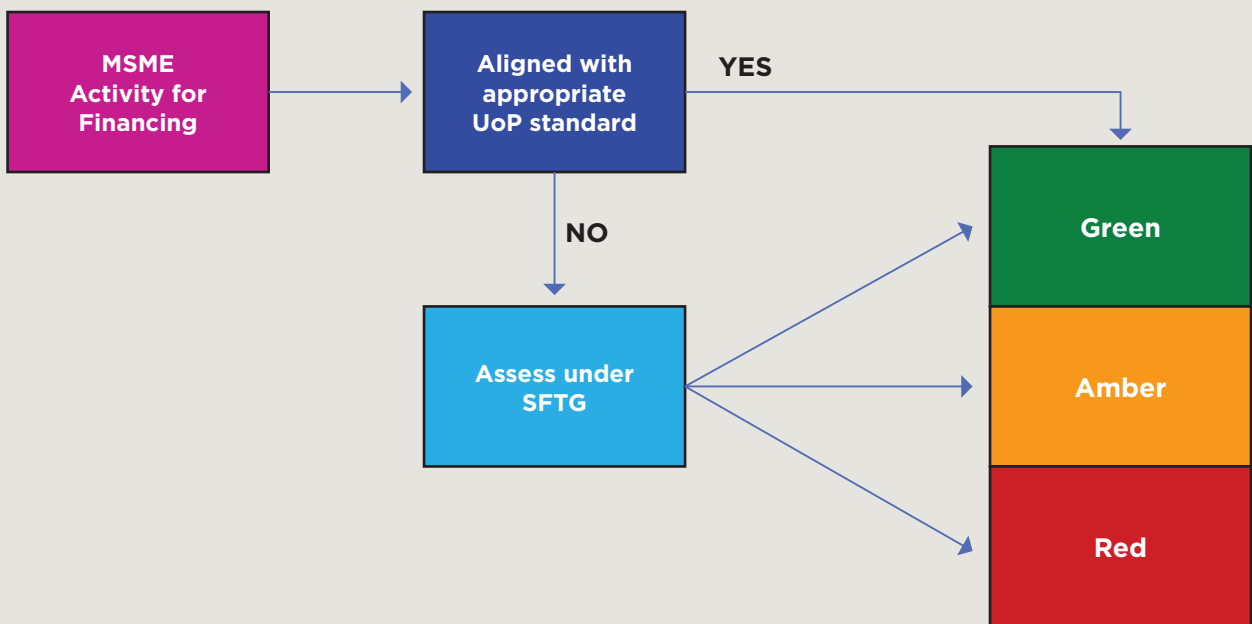
Appendix 4 of the SFTG provides examples of the criteria an activity must meet to contribute to the climate change adaptation objective (EO2), for example, real estate and construction.

### MORE SIMPLICITY FOR MSMEs

As an inclusivity principle, the SFTG aim to ensure that sustainable financing is directed to MSMEs

since they constitute 99.5% of businesses in the Philippines.<sup>133</sup> Therefore, the steps for assessing whether an activity is aligned with the SFTG have been somewhat simplified for MSMEs. After ensuring an MSME activity is not an SFTG-excluded activity, the allocated money (“use of proceeds” or UoP) for the activity must adhere to environmentally-focused international sustainable certifications and standards (see Appendix 5 of the SFTG). For MSMEs, the International Finance Corporation (IFC) Sustainable MSME Finance Reference Guide can be used.<sup>134</sup> Otherwise, the assessment must be made using the decision tree and colors described by the SFTG. In addition, the financier should check whether the MSME does not significantly harm the EO. Appendix 6 of the SFTG provides a non-exhaustive list of potentially eligible MSME projects and activities.

FIGURE 4: DECISION TREE FOR ASSESSING AN MSME ACTIVITY<sup>135</sup>



133 FSF, Idem, p. 43.

134 IFC (2023), Sustainable MSME Finance Reference Guide. [bit.ly/IFC\\_MSMEFinance](https://bit.ly/IFC_MSMEFinance).

135 FSF, Idem, p. 45.

## USE AND IMPLEMENTATION OF THE SFTG

The BSP circular that introduces the SFTG requires that banks “shall use the SFTG when extending credit, making investment decisions, or designing sustainable financial products and services”.<sup>136</sup> When issuing sustainable bonds, “banks shall comply” with the relevant regulatory requirements set by the SEC.

The circular stipulates that banks “shall be given until end-December 2024 to deepen [their] understanding and familiarity” of how to apply the SFTG. From 2025 onwards, the BSP “shall collect information” on how banks use the SFTG.

The SEC circular that published the SFTG requires that those who issue financial products or services or make investment decisions, “shall refer” to the SFTG and “are directed” to deepen their understanding of the SFTG. When issuing green, social, sustainability, sustainability-linked or similar bonds, the issuers are “encouraged to take into consideration” the SFTG standards to determine eligible green projects financed by the bonds.<sup>137</sup>

## USERS AND USES OF THE SFTG

Given that the SFTG was created by financial authorities in response to growing private-sector demand to identify standardized sustainable economic activities in which to invest, the SFTG may be used by a variety of actors in the sustainable finance space.<sup>138</sup>

In addition to banks, which must use the SFTG, and bond issuers, which must refer to the SFTG, other private sector and government actors can use the SFTG to improve the financing and application of sustainability activities, including:<sup>139</sup>

- **Policymakers/government** – for example, to facilitate the development of a pipeline of sustainable projects or use as a reference to develop the NDCs.
- **Financial regulators and supervisors** – for example, to support interventions such as incentives, or to design sustainable reporting and supervisory guidelines.
- **Insurance companies and other financial institutions** – for example, to more easily create and label SFTG-eligible sustainable financial products such as loans, investments and insurance.
- **Investors and providers of capital such as asset managers** – for example, to identify sustainability impact investment opportunities or disclose effective sustainable investments.
- **Green/sustainability certifiers and verifiers** – for example, to identify SFTG-aligned activities to be financed by bonds.

- **Non-financial companies, from MSMEs to large enterprises** – for example, to create new sustainable business strategies and disclose them.
- **Bank clients and depositors with environmental and social concerns** – for example, to be offered taxonomy-aligned deposit products that are channeled into green loans.

## LITTLE CERTIFICATION AND VERIFICATION REQUIRED

One way to build trust among investors that the activity they are financing is aligned with the environmental objectives of the SFTG, is to use third-party monitoring, verification, and certification. However, those using the SFTG and sustainable finance-aligned activities in the Philippines are “not required to use third-party verifications or recognized certifications by local agencies, national authorities, or international accreditation bodies to inform their internal screening and assessment process.”<sup>140</sup> The only certification needed is when a remedial action plan (required by the RMT) lasts five to 10 years and when used for assessing MSME activities. The verifiers can undertake the assessment according to industry or international standards and certifications, which are listed in Appendix 5 and can be used as benchmarks. Verifiers can also use Philippine sustainability reporting disclosure obligations, which were issued by the SEC for listed companies and by the BSP for financial institutions it supervises, as well as internationally recognized disclosure standards.

## FUTURE DEVELOPMENT AND UPDATES

The SFTG is intended to be reviewed regularly. The use and implementation of the SFTG will be continuously tested, adjusted, and improved to meet the changing demands of users. For instance, in 2024, the BSP will undertake a pilot testing exercise in partnership with the banking industry. “The results of the exercise will also inform the development of additional guidance on the use of the taxonomy.”<sup>141</sup>

The first version of SFTG (February 2024) is considered an essential first step towards a taxonomy that prescribes, for each activity, TSC, metrics, and thresholds in line with science-based evidence and government plans, priorities, and activities to achieve climate- and sustainability-related commitments.<sup>142</sup>

<sup>136</sup> BSP, Idem, p. 1.

<sup>137</sup> SEC, Idem, pp. 1-3.

<sup>138</sup> FSF, Idem, p. 17.

<sup>139</sup> FSF, Idem, pp. 15-17.

<sup>140</sup> FSF, Idem, pp. 42-43, Appendix 5.

<sup>141</sup> BSP (2024, February 22), “BSP Adopts the Philippine Sustainable Finance Taxonomy Guidelines”, Press release. [bit.ly/BSP\\_PR](https://bit.ly/BSP_PR) (last viewed August 6, 2024).

<sup>142</sup> FSF, Idem, p. 17.

Two additional environmental objectives have already been identified for a future iteration of the SFTG:<sup>143</sup>

- **EO3:** Protection of healthy ecosystems and biodiversity; and
- **EO4:** Promotion of resource resilience and transition to a circular economy.

The consultation document recommended appointing a financial sector technical working group for a fixed term with FSF members and experts with appropriate knowledge in the fields of climate, environment, social, regulatory, data, and taxonomy.<sup>144</sup> In addition, sector- and subject-specific working groups and forums were suggested to provide input to the FSF and technical working group, and to hear feedback from stakeholders affected by the SFTG.



Makati City, Manila, Philippines (Source: Freepik).

<sup>143</sup> FSF, *Idem*, p. 4.

<sup>144</sup> FSF (2023, September 15), Proposed Philippine Sustainable Finance Taxonomy Guidelines: Consultation Document. [bit.ly/PHConsultationDoc](https://bit.ly/PHConsultationDoc) (last viewed August 6, 2024).

# THAILAND

## THE FIRST VERSION OF THE THAILAND TAXONOMY FOCUSES ON A CLIMATE CHANGE MITIGATION OBJECTIVE

The first version of the Thailand Taxonomy was released on June 30, 2023.<sup>145</sup> Its focus is on defining activities with a climate mitigation objective for the energy and transport sectors. The Thailand Taxonomy is partially compatible with the ASEAN Taxonomy for Sustainable Finance, but more closely follows the objectives and structure of the EU Taxonomy, which are considered a global benchmark and able to attract international sustainable finance.<sup>146</sup>

The process of Phase 2 of the Taxonomy began in February 2024 and is expected to continue throughout 2024, with consultations to be held at the end of the year.

### THE DEVELOPMENT OF THE FIRST PHASE OF THE THAILAND TAXONOMY

In August 2021, an advisory report for Thailand's financial authorities recommended that a key strategic initiative for the country's sustainable finance initiatives was to develop a practical and comprehensive taxonomy.<sup>147</sup>

Phase 1 of the Thailand Taxonomy was led by the Thailand Taxonomy Board, which is comprised of public and private sector agencies and organizations including:

- Bank of Thailand (BOT), also a member of the Working Group on Sustainable Finance (WG-SF);
- Securities and Exchange Commission, Thailand (SEC), also a member of the WG-SF;
- Office of Natural Resources and Environmental Policy and Planning (ONEP), Ministry of Natural Resource and Environment;
- Department of Alternative Energy Development and Efficiency (DEDE), Ministry of Energy;
- Energy Policy and Planning Office (EPPO), Ministry of Energy;
- Office of Transport and Traffic Policy and Planning (OTP), Ministry of Transport;
- Thailand Greenhouse Gas Management Organization (TGO), Ministry of Natural Resources and Environment;

- Federation of Thai Industries (FTI);
- Renewable Energy Industry Club, Federation of Thai Industries (RE-FTI);
- Thai Chamber of Commerce and Board of Trade of Thailand;
- Thai Bankers' Association (TBA);
- Association of International Banks (Thailand) (AIB); and
- Government Financial Institutions Association (GFA).

It should be noted that no academics, consumers, trade unions, or civil society organizations (CSOs) were represented on the Thailand Taxonomy Board.

The actual drafting of the Taxonomy and the final version of Phase 1 were completed by the Climate Bonds Initiative (CBI), which has experience in developing the EU Taxonomy and taxonomies in many other (Asian) countries.<sup>148</sup> The development of the Thailand Taxonomy was supported by the Green Bond Technical Assistance Program<sup>149</sup> of the International Finance Corporation (IFC) and financed by the governments of Sweden and Denmark.

During the drafting period, the Assistant Governor of the BoT was a member of the ASEAN Taxonomy Board (ATB) that developed and updated the ASEAN Taxonomy for Sustainable Finance, which inspired the Thailand Taxonomy Phase 1.<sup>150</sup>

<sup>145</sup> Thailand Taxonomy Board (2023, June), Thailand Taxonomy Phase 1, June 2023. [bit.ly/THTaxonomy2023](https://bit.ly/THTaxonomy2023) (last viewed August 6, 2024). More information and explanations can be found at: [bit.ly/BOTTaxonomyInfo](https://bit.ly/BOTTaxonomyInfo) (last viewed August 6, 2024).

<sup>146</sup> Thailand Taxonomy Board (2023, June), Thailand Taxonomy Phase 1, June 2023, p. 13. [bit.ly/THTaxonomy2023](https://bit.ly/THTaxonomy2023) (last viewed August 6, 2024).

<sup>147</sup> The Thailand Taxonomy published in June 2023 is quite different from what was proposed in 2021. See: Fair Finance Asia (FFA) (2023, June), Sustainable Finance Taxonomy: A Guidebook for Civil Society Organizations, Module 4, pp. 20–21. [bit.ly/FFAGuidebook](https://bit.ly/FFAGuidebook) (last viewed August 6, 2024).

<sup>148</sup> See: [www.climatebonds.net/](https://www.climatebonds.net/) (last viewed August 6, 2024) : CBI is a non-profit organization that works with the private and public sectors, establishes and assesses criteria for climate change mitigation bonds, and offers consultancy services.

<sup>149</sup> International Finance Corporation (IFC), Green bond technical program. [bit.ly/GreenBondTAP](https://bit.ly/GreenBondTAP) (last viewed August 6, 2024).

<sup>150</sup> Sustainable Finance Institute Asia, "ASEAN Taxonomy Board", web page: [bit.ly/SFIAtaxonomyboard](https://bit.ly/SFIAtaxonomyboard) (last viewed August 6, 2024); the Assistant Governor of the Bank of Thailand is a member of the ASEAN Taxonomy Board.

Before the final text of the Thailand Taxonomy was published, a draft was released on December 26, 2022. A short consultation period ran until January 26, 2023.<sup>151</sup> Given that the draft taxonomy was only in English, wide public engagement was not possible. Fair Finance Thailand submitted comments, including on the need to reference the Paris Agreement directly rather than Thailand's plans to achieve the Paris Agreement (Nationally Determined Contributions or NDCs), stricter conditions for electricity generation with gas, references to more human rights conventions and international standards for Minimum Social Safeguards (MSS), and impact assessments for cross-border projects. It also complained that the draft for consultation was only in English.<sup>152</sup>

The final **version 1 of the Thailand Taxonomy** was published on **June 30, 2023**. Fair Finance Thailand issued a paper<sup>153</sup> on the extent to which its comments were taken into account. It also made suggestions to improve the use and transparency of the Taxonomy, for instance, by establishing a public database of projects that are using the Taxonomy, including those with remedial plans to apply the Do No Significant Harm (DNSH) and the MSS requirements, by promoting third-party evaluators and by setting up a stakeholder engagement group to advise on periodic reviews of the Taxonomy.

## MAIN ELEMENTS OF THE THAILAND TAXONOMY

The **overall aim** of the Thailand Taxonomy is to attract financing to support Thailand's efforts to achieve the Paris Agreement and the United Nations Sustainable Development Goals (SDGs).

**Phase 1 of the Thailand Taxonomy** focuses on technical screening criteria (TSC) for activities in the **energy and transport sectors** with the **environmental objective (EO) of climate change mitigation**. This EO, and related activities covered by the Taxonomy, were developed in line with international obligations (such as the Paris Agreement and the SDGs), as well as national climate and environmental strategies (such as the NDCs<sup>154</sup> and Climate Change Master Plan) specifically relevant to Thailand.

The Thailand Taxonomy has six EOs, which should be covered and defined in the successive phases of the Taxonomy:

- **Climate change mitigation** by avoiding or reducing GHG emissions;
- **Climate change adaptation** to substantially reduce the adverse impacts of climate change in Thailand;

- **Sustainable use and protection of marine and water resources**, such as coastal areas and water treatment;
- **Protection and restoration of biodiversity and ecosystems**;
- **Pollution prevention and control** at all levels, including industrial, agricultural, and household pollution; and
- **Resource resilience and the transition to a circular economy** that increases the efficient use of scarce and more expensive natural resources.

An economic activity can meet the **EO of climate change mitigation if it substantially contributes to:**

- Avoiding GHG emissions by having very low or near-zero emissions;
- Reducing GHG emissions while not (yet) being carbon neutral (e.g., the production of steel, cement, aluminum) is classified as a transitional activity; and
- Enabling GHG-reducing activities (e.g., carbon capture, data-driven solutions).

The greenhouse gas (GHG) emissions to be avoided or reduced are only those generated from one's own production assets (Scope 1) or from the purchase of energy for one's own production (Scope 2). In other words, the Taxonomy does not cover the avoidance or reduction of emissions by customers or suppliers of a particular product (Scope 3) related to taxonomy-aligned activities.

The climate change mitigation activities covered by the Thailand Taxonomy must apply **two principles**. These principles do not need to be applied immediately, but do need to be achieved through a **remediation plan** (preferably publicly available) within three years:

- **Do No Significant Harm (DNSH)** to any of the other five EOs in the Taxonomy<sup>155</sup> and abide by national laws and international rules and norms, such as the Basel Convention on the Control of Transboundary Movements of Hazardous Waste and their Disposal, the Convention on International Trade in Endangered Species of Wild Fauna and Flora, and the Convention on Biological Diversity.
- **Minimum Social Safeguards (MSS)** must be observed to avoid negative social impacts. This includes having a social management system in place and observing domestic social regulations and international standards, such as the core International Labor Organization (ILO)

<sup>151</sup> See the BOT's "Thailand Taxonomy – A Reference Tool for Sustainable Economy" web page: [bit.ly/BOTTaxonomySummary](https://bit.ly/BOTTaxonomySummary) (last viewed August 6, 2024).

<sup>152</sup> See: [bit.ly/FFTTaxonomyComments](https://bit.ly/FFTTaxonomyComments) (in Thai) (last viewed August 6, 2024).

<sup>153</sup> See: [bit.ly/FFTTCommentsPhase1](https://bit.ly/FFTTCommentsPhase1) (in Thai) (last viewed August 6, 2024).

<sup>154</sup> Thailand Taxonomy Board (2023, June), Thailand Taxonomy Phase 1, June 2023, p. 13. [bit.ly/THTaxonomy2023](https://bit.ly/THTaxonomy2023) (last viewed August 6, 2024): "Thailand's Second Updated NDC aims to increase emission reductions to 30-40% by 2030 in order to achieve carbon neutrality by 2050 and net zero GHG emissions by 2065."

<sup>155</sup> Thailand Taxonomy Board, Idem, pp. 61-63: details on how to apply the DNSH for each EO are described on these pages.

Conventions, the International Bill of Human Rights Conventions, and the IFC Performance Standards on Environmental and Social Sustainability.<sup>156</sup>

If some of the conventions or standards are not applicable, this must be explained by the company or other agent carrying out the activity.

The **technical screening criteria (TSC)** that apply to each activity covered by the Taxonomy are guided by the following **principles**:

- Based on scientific findings and recommendations and updated accordingly;
- Aim to achieve Paris Agreement; and
- Do not rule out the use of any type of technology (“technologically neutral”) that meets the TSC.

For each activity, the TSC describe **thresholds** for GHG emissions and intensity in carbon dioxide equivalent per kilowatt hour (kg CO<sub>2</sub>/kWh) that are permitted by the activity. For transitional activities, a deadline is added for when the thresholds must be achieved.

## ECONOMIC ACTIVITIES COVERED BY THE TAXONOMY

Every activity listed in the Thailand Taxonomy are from two sectors that have been assessed as the biggest current contributors to climate change (66% of all GHG emissions in Thailand).<sup>157</sup> These sectors have the greatest potential to reduce GHG emissions when their activities are financed and meet the criteria of the Taxonomy. They are also considered economically attractive and technically viable. The two sectors are:

- The **energy sector**, primarily activities such as electricity generation from various sources, energy transmission and distribution, gas manufacturing and distribution, steam and air conditioning, and energy storage; and
- The **transportation sector**, covering the activities of different transport modes, including the transport of passengers and freight via rail, land, water or pipeline, as well as machinery repair services (but not the manufacturing of vehicles).

Classified under these two sectors, the Taxonomy describes **23 energy and transportation activities**, each with their own TSC and thresholds for achieving the climate change mitigation objective (EO1).<sup>158</sup>

To easily identify whether an activity is aligned with the taxonomy, **“traffic lights”** are used to assign a color to each activity described:

- **Green** activities are those already at or near net-zero emissions (e.g., solar or wind power generation, electric vehicles) or those that need to decarbonize to stay within a 1.5°C temperature rise by 2050 (e.g., shipping).
- **Amber** activities are **transitional** or hard-to-abate activities that are in the process of reducing emissions by a certain date, at the latest 2040, and by an established percentage, and monitored through best-in-class installations.
- **Red** activities are not and will never be compliant with the objective of reducing GHG emissions to net zero. These non-aligned energy and transport activities are clearly listed in the Taxonomy (e.g., electricity generation using fossil fuels, transporting fossil fuels by ship, rail, or road transport using biofuels).<sup>159</sup>

## VOLUNTARY APPLICATION AND EASY-TO-USE TOOLS

It is important to note that the application of the Thailand Taxonomy is **voluntary**. No one is required to use it when operating or financing activities in the two sectors covered by the taxonomy (energy and transportation).

To facilitate the application of the Taxonomy, it is accompanied by a usability guide, a business guide with case studies, answers to frequently asked questions, and a spreadsheet with TSC for each activity listed in the Taxonomy.<sup>160</sup>

The Thailand Taxonomy is considered a **guideline for banks** to develop financial products that enhance climate change mitigation. It should be noted that the BOT has issued a separate policy statement on how it expects private financial institutions to incorporate climate change and environmental impacts in their governance, strategy, risk management, and disclosure.<sup>161</sup>

In the draft **Climate Change Act**, for which the Department of Climate Change and Environmental Affairs began public consultations in early 2024, the Thailand Taxonomy is mentioned as a reference *“for policy development, plans, and greenhouse gas reduction measures, adaptation, or promotion of nationwide climate change-related activities, including reporting corporate greenhouse gas activities”* (see Category 13 of the draft). It is

<sup>156</sup> Thailand Taxonomy Board, Idem, pp. 64–65: each of the conventions and standards are specified.

<sup>157</sup> Thailand Taxonomy Board, Idem, p. 20.

<sup>158</sup> Thailand Taxonomy Board, Idem, p. 39–58.

<sup>159</sup> Thailand Taxonomy Board, Idem, p. 58–60.

<sup>160</sup> For access to those documents, see: [bit.ly/BOTTaxonomySummary](https://bit.ly/BOTTaxonomySummary) (last viewed August 6, 2024). In addition, on August 23, 2023, the BOT issued the directional paper, Transitioning towards Environmental Sustainability under the New Thai Financial Landscape. [bit.ly/BOTDirectionalPaper](https://bit.ly/BOTDirectionalPaper) (last viewed August 6, 2024).

<sup>161</sup> BOT (2023, February 15), “Policy Statement of the Bank of Thailand – Re: Internalising Environmental and Climate Change Aspects into Financial Institution Business”. [bit.ly/BOTPolicyStatement](https://bit.ly/BOTPolicyStatement) (last viewed August 6, 2024).

“expected that once the Act is enforced, relevant regulatory oversight agencies will issue guidelines to operationalize the classification”.<sup>162</sup> For instance, the Taxonomy will likely be used as a basis for upgrading the regulatory requirements for financial institutions’ reporting to the BOT.

## THE START OF THE SECOND PHASE OF THE THAILAND TAXONOMY

On February 26, 2024, a kick-off meeting with experts from more than 30 institutions launched **Phase 2 of the Thailand Taxonomy**.<sup>163</sup> The **working group** that will develop Phase 2 consists of the Bank of Thailand (BOT), the Securities and Exchange Commission (SEC), the Stock Exchange of Thailand (SET), and the Department of Climate Change and Environment (DCCE), as well as 26 government agencies and private companies (see Box 3). Phase 2 will be “collaboratively developed by a consortium of consultants from the Climate Bonds Initiative (CBI), Det Norske Veritas (DNV), and the Thailand Development Research Institute (TDRI)”<sup>164</sup> with the (financial) support of the IFC, the Asian Development Bank (ADB), and German Cooperation Agency (GIZ) Thailand’s Climate Coastal and Marine Biodiversity (CCMB) Project.<sup>165</sup>

Thailand Taxonomy Phase 2 will develop TSC for the **objective of climate change mitigation** (EO1) to reduce GHG emissions in sectors with high emissions that were not covered in Phase 1, namely:<sup>166</sup>

- **Manufacturing/industry sector**, such as manufacturing of cement, iron and steel, and basic chemicals;
- **Agriculture sector**, with specific sectors for Thailand such as rice, rubber, and sugar cane;
- **Real estate and construction sector**, which includes the construction of new buildings, renovation of existing buildings, and energy systems; and
- **Waste management sector**, including the reuse, recycling, repurposing, and disposal of waste.

Throughout 2024, “international and national experts are going to work together in **four sectoral working groups** to define technical screening criteria for approx. 30 economic activities.”<sup>167</sup>

The Thailand Taxonomy working group for Phase 2 is expected to “engage in discussions and solicit feedback from sector experts, including the Thai government, business, civil society, academia, the financial sector, and international organizations. A public **consultation** on the draft Thailand Taxonomy Phase 2 is expected to take place in the 4<sup>th</sup> quarter of 2024.”<sup>168</sup> The release of the updated Thailand Taxonomy is expected in **2025**.<sup>169</sup>

How activities can contribute to the other five EOs identified in the Thailand Taxonomy will be developed in future taxonomy phases and versions through technical details, such as DNSH criteria per activity.<sup>170</sup>

162 Vongvitayapirom, B. and Lawseriwanich, T. (2024, February), Thailand Taxonomy Phase II in a bird’s eye view: Scope, Impacts, and What’s Next. Deloitte. [bit.ly/DeloitteTaxonomyPhase2](https://bit.ly/DeloitteTaxonomyPhase2) (last viewed August 6, 2024). Also see: [bit.ly/DeloitteArticle](https://bit.ly/DeloitteArticle) (last viewed August 6, 2024).

163 Kern, T. (2024, February 16), “GIZ supports the initiation of Thailand Taxonomy Phase 2”. [bit.ly/GIZsupportsPhase2](https://bit.ly/GIZsupportsPhase2) (last viewed August 6, 2024).

164 Kern, T., Idem.

165 The Climate, Coastal and Marine Biodiversity (CCMB) project is a bilateral cooperation program between Thailand and Germany on climate and biodiversity policies and instruments in Thailand, with an implementation period of 2022–2027. See the CCMB web page: [bit.ly/GIZCCMB](https://bit.ly/GIZCCMB) (last viewed August 6, 2024).

166 Vongvitayapirom, B. and Lawseriwanich, T., Idem; BOT’s “Thailand Taxonomy: A Reference Tool for Sustainable Economy” web page: [bit.ly/BOTTaxonomySummary](https://bit.ly/BOTTaxonomySummary) (last viewed August 6, 2024).

167 Kern, T., Idem.

168 Kern, T., Idem.

169 Vongvitayapirom, B. and Lawseriwanich, T., Idem.

170 Thailand Taxonomy Board (2023, June), Thailand Taxonomy Phase 1, June 2023, p. 61. [bit.ly/THTaxonomy2023](https://bit.ly/THTaxonomy2023) (last viewed August 6, 2024).

**BOX 3: THE 26 ORGANIZATIONS PARTICIPATING IN THE WORKING GROUP TO DEVELOP PHASE 2 OF THE THAILAND TAXONOMY WITH THE BOT, SEC, SET, AND DCCE<sup>171</sup>**

- Greenhouse Gas Management Organization
- Department of Alternative Energy Development and Efficiency
- Energy Regulatory Commission
- Thai Industrial Standards Institute
- Department of Industrial Works
- The Industrial Estate Authority of Thailand
- Office of Agricultural Economics
- Department of Agriculture
- Department of Rice
- Royal Forest Department
- Department of National Parks, Wildlife and Plant Conservation
- Department of Livestock Development
- Department of Fisheries
- Department of Marine and Coastal Resources
- Department of Public Works, Town and Country Planning
- Pollution Control Department
- Department of Local Administration
- Federation of Thai Industries
- Thai Renewable Energy Association
- Thai Chamber of Commerce
- Thai Energy Service Companies Association
- Thai Condominium Association
- Council of Engineers Thailand
- Thai Bankers' Association
- Association of International Banks
- Government Financial Institutions Association

<sup>171</sup> Kern, T., Idem.

# VIETNAM

## AWAITING A FINAL DECISION ON A DRAFT GREEN TAXONOMY DECREE WITH CERTIFICATION PROCEDURES

Vietnam has issued ambitious climate change mitigation commitments with the aim to reduce its reliance on coal power plants and increase various sources of renewable power.<sup>172</sup> A draft decree has been published “*regarding regulations on environmental criteria and validation for projects granted green credit and [financed by] issued green bonds*”, with a list of projects, detailed technical screening criteria (TSC), and clear procedures for validating green projects. The decree has many similarities to a taxonomy. The draft decree was submitted to the Prime Minister at the end of 2022, but no final decision was made by the beginning of May 2024.

Various international advisors and experts have warned that the lack of clear and official definitions in a national taxonomy is preventing the financing of Vietnam’s climate ambitions. It also increases the risk of “greenwashing”, making it more difficult for green and sustainable ambitions to be realized.<sup>173</sup> In 2023, officials from the State Bank of Vietnam (SBV) admitted that existing regulations and criteria were not conducive to attracting finance for green projects.<sup>174</sup> A vice-director in the Ministry of Natural Resources and Environment (MoNRE) acknowledged that a taxonomy “is very necessary” and an important basis to mobilize and allocate green finance sources, but needs to accommodate specific national environmental goals and development priorities.<sup>175</sup>

### DEVELOPMENT OF THE DRAFT TAXONOMY DECREE

To initiate the development of a taxonomy, a decree of January 10, 2022 assigned MoNRE to lead and coordinate with relevant ministries and sectors on the development of environmental criteria for projects or activities to be financed by green loans or green bonds, and to submit them to the Prime Minister to be published as an official decree.<sup>176</sup>

In 2022, MoNRE produced various drafts of a decree detailing regulations on environmental criteria and validation for projects granted green credit and for

the issuance of green bonds. The content of the draft decrees was very similar to a green taxonomy.

The draft taxonomy decree was developed through a long process in which MoNRE formed a team with representatives of MoNRE units and several other ministries and relevant agencies.<sup>177</sup> MoNRE coordinated closely with the Ministry of Finance and the SBV to provide overviews of its research and the ongoing process of consultations with experts in a wide range of fields. It conducted research on the experiences of the European Union, China, Bangladesh, India, and Mongolia, as well as international organizations such as the World Bank, Organization for Economic Co-operation and Development (OECD), and the Association of Southeast Asian Nations (ASEAN). It received recommendations from the Climate Bonds Initiative (CBI).<sup>178</sup> It also researched green credit granting and green bond issuance and made policy impact assessments to align them with existing legislation.

MoNRE conducted two direct consultations with more than 80 leading experts and scientists in the fields of economics, finance, environment, energy, transportation, construction and urban areas, water resources management, agriculture, forestry, fishery and biodiversity conservation, waste management, and communication. It also coordinated workshops to consult with relevant agencies, organizations, and experts specializing in projects that implement environmental criteria (EC).<sup>179</sup>

<sup>172</sup> Cheok, M. (2023, September 21), “Lack of policy support slows Vietnam’s green transition”, Sustainable Fitch. [bit.ly/SFitchPolicySupportVN](https://www.sustainablefitch.com/insights/vietnam-policy-support-slows-green-transition/) (last viewed August 6, 2024).

<sup>173</sup> Cheok, M., Idem; Lenain, P., et al. (2023, August 7), “Unleashing strong, digital and green growth in Viet Nam”, OECD Economics Department Working Papers No. 1770. [bit.ly/OECDWorkingPaper](https://www.oecd.org/economics/working-papers/2023/08/07/unleashing-strong-digital-and-green-growth-in-vietnam/) (last viewed August 6, 2024); Vietnamnet Global (2023, December 5), “Expectations great for green taxonomy in Vietnam”, [bit.ly/VNGlobalGreenTaxonomy](https://www.vietnamnet.com.vn/global/2023/12/05/expectations-great-for-green-taxonomy-in-vietnam/) (last viewed August 6, 2024); Duong, H.M. (2023, February 10), “Vietnam needs a green bond legal framework”, [bit.ly/VNNeedsGreenBondLaws](https://www.vietnamnet.com.vn/global/2023/02/10/vietnam-needs-a-green-bond-legal-framework/) (last viewed August 6, 2024).

<sup>174</sup> Vietnamnet Global, Idem.

<sup>175</sup> Vietnamnet Global, Idem.

<sup>176</sup> Relates to Decree No.08/2022/ND-CP.

<sup>177</sup> Ministry of Finance (2022, December 16), Draft Report to the Prime Minister. [bit.ly/DraftReportVN](https://www.vietnamnet.com.vn/global/2022/12/16/draft-report-to-the-prime-minister/) (last viewed August 6, 2024).

<sup>178</sup> See [www.climatebonds.net/](https://www.climatebonds.net/) (last viewed August 6, 2024): CBI is a non-profit consultancy and bond verification organization.

<sup>179</sup> Ministry of Justice (2022, November 30), Draft Decision to promulgate regulations on environmental criteria and validation for projects granted green credit [and for] issuing green bonds: [bit.ly/DraftDecisionVN](https://www.vietnamnet.com.vn/global/2022/11/30/draft-decision-to-promulgate-regulations-on-environmental-criteria-and-validation-for-projects-granted-green-credit-and-for-issuing-green-bonds/) (last viewed August 6, 2024).

Fair Finance Vietnam (FFV) participated in a workshop in late April 2022 organized by MoNRE and GIZ, where the draft green taxonomy decree was presented for consultation and discussed. In response, FFV produced a policy brief that provided recommendations for a green taxonomy, referencing the ASEAN Taxonomy for Sustainable Finance.<sup>180</sup>

A draft green taxonomy decree was released on the Electronic Information Portal of the Government of Vietnam and MoNRE from August 17 to November 28, 2022, to solicit widespread public comments. MoNRE directly requested the opinions of various ministries and provinces. Overall, by 28 November MoNRE had received more than 100 written comments, including 24 opinions from ministries and government agencies, 48 from provinces and 63 from cities, 16 from units of the MoNRE, and 13 from businesses, scientists, and experts.<sup>181</sup>

The result of the consultation process was a draft decree of what can be called a “green taxonomy”, with detailed prescriptions and criteria, options for validating green projects to be financed, and background documents. The draft was published via the website of the Ministry of Justice (December 2022) for submission to the Prime Minister.<sup>182</sup> However, no decision has been made by the Prime Minister as of the beginning of May 2024.

On April 3, 2024, experts at a webinar on the need for a green taxonomy, co-organized by MoNRE, emphasized the urgency of issuing a legal framework with classification details and criteria to develop green credit and green bonds to attract funding for sustainable development.<sup>183</sup> At the webinar, the reason for the draft taxonomy decree not being adopted was attributed to “disagreements among agencies”, especially determining which governmental agencies would be responsible for validating green projects and setting suitable fines for violators.<sup>184</sup> The certification processes must be approved by the Prime Minister by choosing one of the two proposed options. During the webinar, the representative of the SBV called on relevant agencies to collaborate and finalize a legal framework for a green taxonomy.

Since 2021, high-level representatives of the State Securities Commission of Vietnam and the Insurance

Supervisory Authority of the Ministry of Finance Vietnam, have been members of the ASEAN Taxonomy Board (ATB), which developed and published several versions of the ASEAN Taxonomy for Sustainable Finance.<sup>185</sup> However, MoNRE has so far been the main Ministry responsible for developing the draft taxonomy decree.

## CONTENT OF THE DRAFT TAXONOMY DECREE

The text of the draft taxonomy decree is called **“regulations on environmental criteria and validation for projects granted green credit and [financed by] issued green bonds”**. The draft decree includes a Green Classification List in Annex 1, which lists detailed technical requirements for each project. The draft green taxonomy decree and Annex 1 appear very similar to green or sustainable finance taxonomies developed by ASEAN and other countries that have defined activities with technical screening criteria (TSC). However, this draft decree also includes prescriptions and documents that regulate the validation or certification of proposed green projects to be financed by green credit or green bonds in alignment with the draft taxonomy decree (Annex 2 to 5 of the draft decree). While internationally used standards have been integrated, they have been adapted to the Vietnamese context.

The main articles of the draft taxonomy decree with **“regulations on environmental criteria and validation for projects granted green credit and [financed by] issued green bonds”** are:<sup>186</sup>

- Article 1: The scope of the decree covers environmental criteria for projects financed by green credit or green bonds (hereinafter referred to as Green Classification List (Annex 1), and also covers the validation of projects belonging to the Green Classification List.
- Article 2: List of (private) financial institutions, organizations and (government agencies) to whom the decree would apply (see below: Application).
- Article 3: Definitions of terms used in the taxonomy.
- Article 4: The environmental criteria to be respected by green projects financed by green credit and green bonds include:

<sup>180</sup> Fair Finance Vietnam (2022, November), “Policy briefing”. [bit.ly/FFVPolicyBrief](https://bit.ly/FFVPolicyBrief) (last viewed August 6, 2024).

<sup>181</sup> Ministry of Resources and Environment (Vietnam) (MoNRE) (2022, November 30), “Regarding synthesizing, receiving, explaining comments and suggestions for completing the draft document of the Prime Minister’s Decision promulgating regulations on environmental criteria and validation for projects granted green credit [and for] issuing green bonds”. [bit.ly/MoNRE2022](https://bit.ly/MoNRE2022) (in Vietnamese) (last viewed August 6, 2024).

<sup>182</sup> Ministry of Justice (Vietnam) (2022, December), “Documents for appraisal of the Draft Decision of the Prime Minister promulgating regulations on environmental criteria and validation for projects granted green credit and for issuing green bonds”. [bit.ly/MoJ2022](https://bit.ly/MoJ2022) (in Vietnamese) (last viewed August 6, 2024). For details, see the files attached to the letter to the Prime Minister, in Vietnamese.

Most of the information in this document is based on the final draft taxonomy decree prepared by the MoNRE and published by the Ministry of Justice (November 30, 2022), Draft Decision to promulgate regulations on environmental criteria and validation for projects granted green credit [and for] issuing green bonds. [bit.ly/DraftDecisionVN](https://bit.ly/DraftDecisionVN) (in Vietnamese: Dự thảo Quyết định) (last viewed August 6, 2024).

<sup>183</sup> Duc, T. (2024, April 3), “Green taxonomy certification can help Vietnam attract funds for sustainable development: experts”, The Investor, [bit.ly/GreenTaxonomyCert](https://bit.ly/GreenTaxonomyCert) (last viewed August 6, 2024).

<sup>184</sup> Duc, T., Idem.

<sup>185</sup> Sustainable Finance Institute Asia, “ASEAN Taxonomy Board” web page: [bit.ly/SFIAtaxonomyboard](https://bit.ly/SFIAtaxonomyboard) (last viewed August 6, 2024). Members of the ASEAN Taxonomy Board from Vietnam are the Director General (International Cooperation) of the State Securities Commission of Vietnam, and the Director General of the Insurance Supervisory Authority of Ministry of Finance Vietnam.

<sup>186</sup> MoNRE, published by the Ministry of Justice (November 30, 2022), Draft Decision to promulgate regulations on environmental criteria and validation for projects granted green credit [and for] issuing green bonds. [bit.ly/DraftDecisionVN](https://bit.ly/DraftDecisionVN) (in Vietnamese: Dự thảo Quyết định) (last viewed August 6, 2024).

- » Environmental technical and screening criteria, requirements and indicators to meet the environmental goals of the project as stipulated in Annex 1; and
- » A requirement not to cause significant harm to other environmental protection goals;
- Article 5: Refers to the Green Classification List (see below) as a basis for assessing whether a project is aligned with the draft taxonomy decree.
- Article 6: How creditors themselves should identify green projects and how green bond issuers should design green projects based on honest, green project proposals.
- Article 7: Official validation is not needed except for transition investment projects.
- Article 8: Processes, documents, and organizations to voluntarily validate green projects on the Green Classification List, to be reviewed and confirmed by a certifying organization.
- Article 9: Processes and documents (Annexes 2–5) for validation and certification by a state agency of transition projects on the Green Classification List.
- Article 10: Organization of the implementation of the draft taxonomy decree with explicit roles for the MoNRE, the Ministry of Finance, and the SBV.

## THE GREEN CLASSIFICATION LIST WITH PROJECT PRESCRIPTIONS

**Annex 1** of the draft taxonomy decree, the **Green Classification List**, provides detailed prescriptions for 80 aligned projects that are eligible for financing by green credit or green bonds. It includes similar requirements and TSC as existing taxonomies, but is not fully aligned with the ASEAN Taxonomy for Sustainable Finance.

The **goals** of the Green Classification List are to:

- Regulate the classification of projects and activities through the development of screening criteria, thresholds, and targets that promote environmental protection; and
- Mobilize and regulate domestic and foreign capital flows to green projects and activities.

The 80 projects and activities on the Green Classification List protect the environment or provide environmental benefits while not causing significant harm to other environmental protection objectives. They also include green transformation projects that have high greenhouse gas (GHG) emissions but apply technical solutions and technologies to minimize these emissions and meet environmental protection requirements.<sup>187</sup>

The **economic sectors** and related projects with prescriptive criteria covered in the draft Green Classification List are:

- Energy (19 projects);
- Transport (3 projects);
- Construction (3 projects);
- Water resources (7 projects);
- Agriculture, forestry, fisheries, and biodiversity conservation (19 projects);
- Processing and manufacturing industries (5 projects);
- Waste management (11 projects);
- Information, communication, and services (8 projects); and
- Green transformation to reduce high GHG emissions (5 projects), which could include iron and steel production and cement production.

Each project on the Green Classification List includes:

- The main environmental protection **goals** and environmental benefits;
- Environmental **screening criteria**, including the requirement not to cause significant harm to other environmental protection goals;<sup>188</sup>
- Thresholds and indicators or targets; and
- Standards and legal regulations and legal documents.

## POTENTIAL IMPLEMENTATION AND APPLICATION OF THE GREEN TAXONOMY DECREE

Article 2 of the draft taxonomy decree stipulates that the green taxonomy should **be applied by**:

- Organizations and individuals wishing to be granted a green loan;
- Issuers of a green bond;
- Domestic and foreign banks and credit institutions in Vietnam that are providing green loans;
- Auditing organizations operating legally in Vietnam;
- Other than auditing organizations that provide services to validate green investment projects;
- Government agencies with competency to validate and certify projects being in accordance with the taxonomy; and
- Any other agency involved in providing green credit, issuing green bonds or certifications, or undertaking legal activities.

<sup>187</sup> As defined in Art. 3 of the draft taxonomy decree.

<sup>188</sup> As mentioned in clause 2 of Art. 4.

An important aspect of the draft taxonomy decree is the regulation of how to validate or certify that a to-be-financed project or activity is aligned with the criteria in the Green Classification List. The draft taxonomy stipulates the processes and provides the documents (Annex 2–5) to be used by government agencies to validate and certify a green transition project (Art. 9) before they can be financed. Other green projects must submit forms that explain how those proposing the project have identified and validated that a green project is aligned with the Green Classification List, including an environmental impact assessment, and receive confirmation from a certifying (government) organization.

The final decision to adopt these validation mechanisms is to be part of the decree by the Prime Minister.<sup>189</sup> Different options for validating and certifying projects and activities have been considered, and there is disagreement among the ministries over who should certify and sanction in case of non-compliance.<sup>190</sup>

Responsibility for ensuring the **taxonomy is implemented** lies with MoNRE, in coordination with relevant agencies, especially the Ministry of Finance and the SBV (Art. 10):

- MoNRE is responsible for producing technical documents guiding the application of the taxonomy decree and developing and organizing training programs.
- The Ministry of Finance must monitor and report on difficulties with issuing green bonds based on the taxonomy decree and publish related annual statistics.
- The SBV is responsible for monitoring and reporting difficulties experienced by green credit providers with the taxonomy decree, and publishing related annual statistics.

Since no final decision by the Prime Minister has been taken as of May 2024, based on the draft taxonomy decree described here and the various accompanying background documents, it is not clear whether the proposed taxonomy will undergo additional changes, for example, to be more closely aligned with the ASEAN Taxonomy for Sustainable Finance, before it is published and implemented.



Ho Chi Minh city, Vietnam (Source: Freepik).

<sup>189</sup> MoNRE, published by the Ministry of Justice, Idem.

<sup>190</sup> Duc, T., Idem.

# CAMBODIA

## THE INITIAL STAGES OF A GREEN TAXONOMY

**After several voluntary initiatives to promote sustainable finance in Cambodia,<sup>191</sup> the National Bank of Cambodia (NBC) signed a technical assistance cooperation agreement with the International Finance Corporation (IFC) on December 19, 2023 to develop a Green Finance Taxonomy by 2025.**

The purpose of the technical cooperation with the IFC is to develop a “Green Finance Taxonomy and Market”,<sup>192</sup> the aim of which is to promote green investments that address the growing climate change impacts on Cambodia and accelerate its transition to a green economy. The NBC-IFC cooperation will “improve the capacity for financial institutions, prepare relevant guidelines including reporting and disclosure requirements on green lending and environmental, social, and governance (ESG) risks”.<sup>193</sup> The IFC-NBC advisory service project will last for three years with an estimated budget of US\$ 972,081.<sup>194</sup>

The project will help the NBC create a supportive financial regulatory and business environment for more investment in green projects since the private financial sector is expected to play an important role and contribute up to \$36 billion needed to achieve

Cambodia’s climate goal of carbon neutrality by 2050 in line with the Paris Agreement.<sup>195</sup>

A lack of clear definitions on what qualifies as green finance and the limited green policies by domestic financial institutions are considered to have delayed green financing in Cambodia. The IFC-NBC cooperation agreement is expected to result in the development of a national taxonomy that defines green assets. The national taxonomy will be in line with “best international practices”.<sup>196</sup> The IFC’s Facility for Investment Climate Advisory Services (FIAS)<sup>197</sup> will advise on the development of a national taxonomy. The three-year project is expected to deliver and adopt a national green taxonomy by 2025.<sup>198</sup>

Details of the NBC-IFC contract are not public, but the activities have been disclosed by the IFC as follows:<sup>199</sup>

INDICATOR	CUMULATIVE
Number of participants in workshops, training events, seminars, conferences, etc.	26
Value of financing facilitated (US\$)	0
Number of procedures/firm-level policies/practices/standards recommended for improvement or elimination	1
Number of reports (assessments, surveys, manuals, Phase I/strategic option reports, research, analytical, evaluations, etc.) completed	1
Number of women participants in workshops, training events, seminars, conferences, etc.	14
Number of workshops, training events, seminars, conferences, etc.	3
Implemented reforms supporting private sector development	0
Number of recommended procedures/firm-level policies/practices/standards that were improved or eliminated	0

191 ESG guidelines, reporting standards, green bond guidelines, and similar initiatives have been created, and Cambodia has established definitions and criteria to determine what is considered green, sustainable, and aligned with ESG principles. Measures are also implemented to address greenwashing, including verification, disclosure requirements, regulatory oversight, and industry collaboration; See Fair Finance Asia (FFA) (2023, June), Sustainable Finance Taxonomy: A Guidebook for Civil Society Organizations, Module 4, p. 5. [bit.ly/FFAGuidebook](https://bit.ly/FFAGuidebook) (last viewed August 6, 2024).

192 National Bank of Cambodia (2023, December 19), “Signing Ceremony on a Cooperation Agreement on the Development of the Cambodia Green Finance Taxonomy and Market”. [bit.ly/NBCSigningCeremony](https://bit.ly/NBCSigningCeremony) (last viewed August 6, 2024).

193 National Bank of Cambodia and IFC (2023, December 19), “National Bank of Cambodia Partners with IFC to Boost Green Finance, Support Climate Action”, Joint Press Release. [bit.ly/NBC\\_PR](https://bit.ly/NBC_PR) (last viewed August 6, 2024).

194 IFC project and information and data portal, “Cambodia Green Finance”, web page: [bit.ly/KHMGreenFinance](https://bit.ly/KHMGreenFinance) (last viewed August 6, 2024); the advisory services project by the IFC/FIAS was agreed by the IFC on March 25, 2023.

195 National Bank of Cambodia and IFC. Idem; Mathias, G. (2024, January 4), “National Bank of Cambodia & IFC to boost Green Finance”, IBS Intelligence. [bit.ly/IbsIntelligenceGreenFin](https://bit.ly/IbsIntelligenceGreenFin) (last viewed August 6, 2024).

196 National Bank of Cambodia and IFC, Idem.

197 The Facility for Investment Climate Advisory Services (FIAS) of the IFC is explained at: [www.thefias.info/](https://www.thefias.info/) (last viewed August 6, 2024).

198 National Bank of Cambodia and IFC, Idem.

199 IFC project and information and data portal, Idem.

The IFC organized an initial consultation workshop, “Development of Cambodia Green Finance Taxonomy” on May 3, 2024, to which Fair Finance Cambodia was invited.<sup>200</sup> The IFC clarified that developing a green finance taxonomy in Cambodia would consider the national context part of a multi-stakeholder initiative and be aligned with the ASEAN Taxonomy for Sustainable Finance. The main purpose of the consultative workshop was to:

- Provide an overview of the scope of developing a taxonomy in Cambodia;
- Present an overview of regional and global trends in taxonomy development;
- Discuss key aspects of choosing priority sectors to be covered by a Cambodian taxonomy; and
- Begin formulating a work plan to develop a green finance taxonomy.

The steps to be undertaken after the workshop by the IFC are:<sup>201</sup>

- Collecting related economic and emissions data, reports, and national policies, including Cambodia’s national determined contributions to the Paris Agreement;
- Setting up a governance structure to develop and agree on a taxonomy;
- Drafting the green finance taxonomy, including selecting which economic sectors to cover and defining the screening criteria and other alignment criteria;
- Sharing the draft with relevant key stakeholders; and
- Finalizing the taxonomy by early 2025.

It should be noted that the Secretary General of the Non-Bank Financial Services Authority (NBFS) of Cambodia at the Ministry of Economy and Finance has been part of the ASEAN Taxonomy Board (ATB), which has been developing the ASEAN Taxonomy for Sustainable Finance since 2021.<sup>202</sup>



Phnom Penh, Cambodia (Source: Freepik)

200 IFC (2024, April 12), Invitation letter to consultation workshop on the development of the Cambodia Green Finance Taxonomy.

201 IFC (2024, May 9), “Cambodia Taxonomy Development”, PowerPoint presentation; information provided to participants at the IFC consultation workshop.

202 Sustainable Finance Institute Asia, “ASEAN Taxonomy Board” web page: [bit.ly/SFIAtaxonomyboard](https://bit.ly/SFIAtaxonomyboard) (last viewed August 6, 2024); The Secretary of State of Ministry of Economy and Finance and Secretary General, General Secretariat of Non-Bank Financial Services Authority (NBFS) of Cambodia, is a member of the ASEAN Taxonomy Board (ATB); ATB (2024, April 25), ASEAN Taxonomy for Sustainable Finance – Version 3. Updated as of April 25, 2024. [bit.ly/ASEANTaxonomyV3\\_Updated](https://bit.ly/ASEANTaxonomyV3_Updated) (last viewed August 6, 2024).

# LAO PDR

## EXPLORING A GREEN TAXONOMY

Since October 2022, the country’s central bank, the Bank of Lao PDR (BOL), has received technical assistance from the International Finance Corporation (IFC) to develop a government-led green finance framework, as well as a market for green finance in Lao PDR, which would include a green taxonomy.

A technical assistance agreement signed in September 2022 between the BOL and the IFC supported an assessment of the existing market and framework for green finance, the identification of opportunities for green finance products, and the development of a road map for green finance. The technical assistance would also help explore “a harmonized green taxonomy” as well as regulations and guidelines on green lending and banking (e.g., developing a climate risk assessment) and green bonds.<sup>203</sup> This was seen as a way to achieve sustainability, economic growth, and the climate-related goals of Lao PDR.

A second phase of technical assistance to BOL by the IFC was agreed in mid-December 2023 to last from December 2023 to 2027.<sup>204</sup> The goal is to accelerate the contribution of the domestic private financial sector to the green and sustainable transition of the Lao PDR economy.<sup>205</sup> The focus of the technical assistance is, among others, the development and promotion of green lending and the issuance of green, social, or sustainable bonds by companies in Lao PDR. In particular, the technical assistance

will “develop and define green activities for Lao PDR to be in line with the green activities of ASEAN (ASEAN Taxonomy) and to reach the international standards”.<sup>206</sup>

The development of a **national green taxonomy** to identify “green” activities to be financed is part of creating a sustainable finance policy and regulations, including a road map, standards, and guidelines for green lending and bond issuance. The taxonomy is considered a tool for monitoring, verifying, and regulating green loans and bonds.<sup>207</sup> The policies and taxonomy are to be in line with the sustainability and climate change-related plans and policies of Lao PDR.<sup>208</sup>

The Asian Development Bank (ADB) has advised that the development of a national green taxonomy in Lao PDR should be informed and guided by the ASEAN Taxonomy.<sup>209</sup> The Director General of the Lao Securities Commission Office at the BOL has participated in the development of the ASEAN Taxonomy for Sustainable Finance.<sup>210</sup>

203 Bank of the Lao PDR (BOL) (2022, September 29), “A New Partnership between the Bank of Lao PDR and International Finance Corporation to Boost Green Finance”, Press release. [bit.ly/BOLGreenFinPR](https://bit.ly/BOLGreenFinPR) (last viewed August 6, 2024).

204 BOL (2023, December 18), “The Bank of Laos PDR, and International Finance Corporation Cooperate Signing Agreement on the Laos Green Finance Project”, Press release. [bit.ly/BOL\\_IFC\\_PR](https://bit.ly/BOL_IFC_PR) (last viewed August 6, 2024).

205 ESG News (2023, December 12), “Strengthen Partnership to Boost Green Finance, Achieve Climate Goals”. [bit.ly/ESGNewsLaoPDR](https://bit.ly/ESGNewsLaoPDR) (last viewed August 6, 2024): Lao PDR has set a mid-term target of reducing greenhouse gas (GHG) emissions by 60% by 2030. Achieving this will require almost US\$ 4.8 billion in mitigation measures by 2030 as outlined by Lao PDR’s National Determined Contribution (NDC). Given public budget constraints, the much-needed funding is expected to come mostly from the private sector.

206 Bank of Lao PDR, Idem.

207 Asian Development Bank (ADB) (2023, December), “Strengthening Foundations to Unlock Green Finance in the Lao People’s Democratic Republic”, ADB Briefing No. 278, p. 6. [bit.ly/ADB\\_Brief278](https://bit.ly/ADB_Brief278) (last viewed August 6, 2024).

208 Among others, according to the IX 5-year national economic-social development plan (2021–2025); BOL (2023, December 18), “The Bank of Laos PDR, and International Finance Corporation Cooperate Signing Agreement on the Laos Green Finance Project”, Press release. [bit.ly/BOL\\_IFC\\_PR](https://bit.ly/BOL_IFC_PR) (last viewed August 6, 2024).

209 ADB. Idem, pp. 5–6; ASEAN Taxonomy Board (ATB) (2024, April 25), ASEAN Taxonomy for Sustainable Finance – Version 3. Updated as of April 25, 2024. [bit.ly/ASEANTaxonomyV3\\_Updated](https://bit.ly/ASEANTaxonomyV3_Updated) (last viewed August 6, 2024).

210 Sustainable Finance Institute Asia, “ASEAN Taxonomy Board” web page: [bit.ly/SFIAtaxonomyboard](https://bit.ly/SFIAtaxonomyboard) (last viewed August 6, 2024): the Secretary General of the Lao Securities Commission Office at the Bank of the Lao PDR is a member of the ASEAN Taxonomy Board.

# BANGLADESH

## A GREEN BOND TAXONOMY

Since 2011, the central bank of Bangladesh, Bangladesh Bank, has developed sustainable finance policies, rules, and publications, including lists of activities to be classified and financed as “green”. Following the publication of a draft in November 2020, Bangladesh Bank finalized and published the Green Bond Taxonomy in September 2022.<sup>211</sup> The taxonomy has a number of similarities with the EU Taxonomy.

### DEVELOPMENT OF THE GREEN BOND TAXONOMY

Bangladesh Bank has developed a variety of sustainable finance policies, rules, and publications, including the Green Banking Policy Guidelines (2011), Guidelines on Environmental and Social Risk Management (2015), and Sustainable Finance Policy for Banks and Financial Institutions (2020). These guidelines, lists of initiatives, activities, or projects to be classified and financed as “green” covered 49 products, initiatives, projects, or activities in 2020.<sup>212</sup>

In November 2020, as part of the Sustainable Finance Policy for Banks and Financial Institutions, Bangladesh Bank proposed a draft Green Bond Taxonomy as a way to upgrade the list of green projects and activities and further clarify which activities are eligible for financing by green bonds.<sup>213</sup> Comments on the draft Green Bond Taxonomy were received from various stakeholders during a lengthy series of consultations, with technical assistance from international development partners.

The Taxonomy was developed with an advisory committee comprising representatives of relevant regulatory bodies, related ministries and authorities, and other government institutions and agencies. The Bangladesh Securities and Exchange Commission (BSEC), which is responsible for regulating and supervising the issuance and trading of debt securities, including green bonds, was also involved since the Taxonomy would upgrade the BSEC’s 2021 rules for green bonds and listed eligible sectors. Other contributors were the Federation of Bangladesh Chambers of Commerce and Industry (FBCCI), Bangladesh Climate Change Trust, and three members of banks and financial institutions.

To meet (foreign) investor expectations, the Taxonomy considered global green bond standards, especially the International Capital Market Association (ICMA) Green Bond Principles, the Climate Bond Initiative (CBI) standards and certification requirements, and other international green standards.

The final decision on the Green Bond Taxonomy rules was made by Bangladesh Bank and deviated from the draft taxonomy. In September 2022, the Sustainable Finance Department of Bangladesh Bank issued the Policy on Green Bond Financing for Banks and Financial Institutions.<sup>214</sup> This policy regulates the Green Bond Taxonomy for use by banks and financial institutions to classify and identify activities or projects to be financed through green bonds. This means that the Taxonomy was developed particularly for investment in green bonds by banks and other financial industry actors. Banks and financial institutions can also issue taxonomy-aligned green bonds themselves to access finance to support a national transition to a low-carbon economy. Banks can also issue green taxonomy bonds to fulfil green lending quotas.<sup>215</sup> The objectives and some of the criteria of the Green Bond Taxonomy, as explained in the next section, are aligned with the EU Taxonomy,<sup>216</sup> which is often considered an international standard.

### OVERVIEW OF THE GREEN BOND TAXONOMY

The Green Bond Taxonomy has two main **purposes**:

- **Clarity:** to help green bond issuers easily and clearly identify and define activities and projects to be financed, in line with Bangladesh’s climate, environmental, and social priorities.

211 Bangladesh Bank (2022, September), “Policy on Green Bond Financing for Banks and FIs”. [bit.ly/BB\\_PolicyGreenBonds](https://bit.ly/BB_PolicyGreenBonds) (last viewed August 6, 2024): most of the information in this overview is from this publication, unless stated otherwise.

212 Hassan, M. (2024, January 10), “In Bangladesh, financial inclusion is driving climate resilience” web page: [bit.ly/AFI\\_Bangladesh](https://bit.ly/AFI_Bangladesh) (last viewed August 6, 2024): By January 2024, Bangladesh Bank identified a list of 94 green products/projects across 14 sectors, according to Mahbub Hassan, Deputy Director of Sustainable Finance at Bangladesh Bank, which is more green products/projects and sectors than those covered by the Green Bond Taxonomy (see below).

213 Alliance for Financial Inclusion (AFI) (2022, November), Roadmap for Inclusive Green Finance Implementation, p. 24. [bit.ly/AFI\\_Roadmap](https://bit.ly/AFI_Roadmap) (last viewed August 6, 2024).

214 Bangladesh Bank, Idem.

215 AFI, Idem, p. 24.

216 European Commission, “EU Taxonomy for Sustainable Activities” web page: [bit.ly/EU\\_TaxonomySustainableActivities](https://bit.ly/EU_TaxonomySustainableActivities) (last viewed: August 6, 2024).

- **Transparency:** to support disclosure by issuers of, and investors in, green taxonomy bonds with reference to standardized, regulated criteria of the Taxonomy, which promotes trust in the green credentials of the bonds and avoids false claims (“greenwashing”).

The **focus** of the Green Bond Taxonomy is to finance activities that achieve climate change mitigation and adaptation, energy and resource efficiency, and a green economy. The Taxonomy objectives and criteria are based on Bangladesh’s context and policies to achieve the United Nations Sustainable Development Goals (SDGs) and its Intended Nationally Determined Contribution (INDC) to reduce greenhouse gas (GHG) emissions in specific economic sectors.

The Green Bond Taxonomy supports **six environmental objectives (EOs)**:

- Climate change mitigation;
- Climate change adaptation;
- Sustainable use of water and marine resources;
- Transition to a circular economy;
- Pollution prevention and control; and
- Protection and restoration of biodiversity and ecosystems.

To ensure that an activity financed by a green bond aligns with one of the Taxonomy’s EOs and does not harm one of the other five EOs, the Taxonomy provides five broad **Do No Significant Harm (DNSH)** criteria. The following criteria must be applied to ensure that an activity or project financed by a green taxonomy bond fulfils the requirements of the Taxonomy:

- An Environmental and Social Due Diligence (ESDD) assessment needs to be undertaken and conditions complied with, and an Environmental Clearance Certificate needs to be acquired.
- Relevant standards related to air quality, water quality, noise, emissions from motor vehicles or mechanized vessels, odor, sewage discharge, waste from industrial units, gaseous emissions, industrial effluent and emissions, need to be met.
- A climate risk vulnerability screening and/or assessment needs to be undertaken and any requirements to improve climate resilience need to be incorporated.
- Issues around water quality and water stress need to be identified and managed in consultation with stakeholders.
- A waste management plan needs to be developed and implemented in accordance with the waste hierarchy.

To meet the **criteria** for how much a green bond-financed activity or project should **reduce emissions**, a “*recognized methodology by an independent third party*” should be used.<sup>217</sup> The emissions reduction should cover the three phases of a value chain or life cycle according to international standards or a methodology approved by the government, i.e., emissions by suppliers, emissions during production, and emissions during distribution, storage, consumption, and disposal (also called the “upstream, production, and downstream” of a life cycle, and known respectively as Scope 2, Scope 1, and Scope 3).

The **priority sectors** covered by the Green Bond Taxonomy are energy, transport, and industrial sectors, but other important ones have also been added. The **eight sectors** whose activities or projects are described in detail in the Taxonomy are:

- Low-carbon electricity, heating, and cooling;
- Green housing and building;
- Energy and resource efficiency in industry;
- Low-carbon transport;
- Circular economy, wastewater, and water management;
- Green agriculture and land use;
- Climate resilience and climate change adaptation measures; and
- Services associated with a low-carbon, climate-resilient, and green economy.

The Green Bond Taxonomy **provides a list of 88 activities and projects** classified under each of the eight sectors. A detailed definition is provided for each one, as well as requirements that must be met (see example in Box 4).<sup>218</sup> Money that comes from selling green taxonomy bonds (“the proceeds” to be put in a separate account) can only be allocated to activities or projects that align with all the criteria of the Green Bond Taxonomy.

<sup>217</sup> Bangladesh Bank, *Idem*, p. 14.

<sup>218</sup> Bangladesh Bank, *Idem*, pp. 24–47.

## BOX 4: EXAMPLE OF A DESCRIPTION IN THE LIST OF ACTIVITIES ALIGNED WITH THE GREEN BOND TAXONOMY<sup>219</sup>

### 3. ENERGY AND RESOURCE EFFICIENCY IN INDUSTRY

#	ACTIVITY	DEFINITION	CRITERIA
20	<b>Industrial energy efficiency</b>	Investment in and operation of energy efficiency or other process improvements associated with emission reductions in existing industrial facilities through the installation of more efficient equipment, changes in processes and management, reduction in heat losses and/or utilization of residual heat and pressure, including through new motors, pumps, fans, etc	Lifecycle GHG emissions and/or energy use reduced by [20]% over the lifetime of the change
21	<b>Co-generation plants</b>	Construction and/or operation of co-generation plant that generate electricity as well as heating or cooling	Lifecycle impacts for producing 1 kWh of electricity from the cogeneration facilities are lower than [100] gCO <sub>2</sub> e
22	<b>Manufacturing and/or assembly of energy efficient product/technology</b>	Manufacturing and/or assembly of products that, when applied other sectors of the Bangladeshi economy, will allow significant lifecycle GHG emission reductions compared to standard market practice. This includes auto-sensor power switch assembly plant, energy efficient cook stove manufacture, improved rice parboilers, and LED bulb/tube manufacturing, LED bulb panels, solar PV, energy efficient fan, energy efficient air conditioner, refrigerator, ovens manufacturing and sensor water taps	The energy efficiency products deliver lifecycle GHG emission reduction or applicable for the product that satisfy Minimum Energy Performance Standard if applicable.

### IMPLEMENTATION AND FURTHER DEVELOPMENTS

National and international banks and other financial institutions operating in Bangladesh need to develop their own green bond financing policy, which will need to be approved by the competent financial authorities. For both the issuance of, and investment in, green bonds, banks and financial institutions will need to follow regulated procedures and secure agreements from their respective financial authorities.

For every green taxonomy bond that is issued, the issuer is advised to follow five steps: assessment, verification, and certification before and during the duration of the bond, and submission of a regular report to the BSEC. A summary report needs to describe the beneficial environmental and climate impacts, as well as the social benefits, of the aligned activities.<sup>220</sup>

Bangladesh's authorities will update the Green Bond Taxonomy to reflect newly adopted policies and investment mobilization efforts for climate change adaptation with the support of the International Monetary Fund (IMF).<sup>221</sup> The United Nations Development Programme (UNDP) is providing technical support to the BSEC to design a Sustainable Development Goals Thematic Bond Framework as part of upgrading the existing Taxonomy.

<sup>219</sup> Bangladesh Bank, Idem, p. 29.

<sup>220</sup> Bangladesh Bank, Idem, p. 16.

<sup>221</sup> IMF (2023, December 14), "Bangladesh: 2023 Article IV Consultation", Press release. [bit.ly/BangladeshArt4](https://www.imf.org/en/News/Articles/2023/12/14/bd2023-iv-consultation); IMF (2023, December 3), "Bangladesh and its Partners are Launching the Bangladesh Climate and Development Platform to Leverage Adaptation and Mitigation Investments", Press release. [bit.ly/IMFBangladesh](https://www.imf.org/en/News/Articles/2023/12/03/bd2023-climate) (last viewed August 6, 2024).

# PAKISTAN

## NO DEVELOPMENT OF A TAXONOMY YET

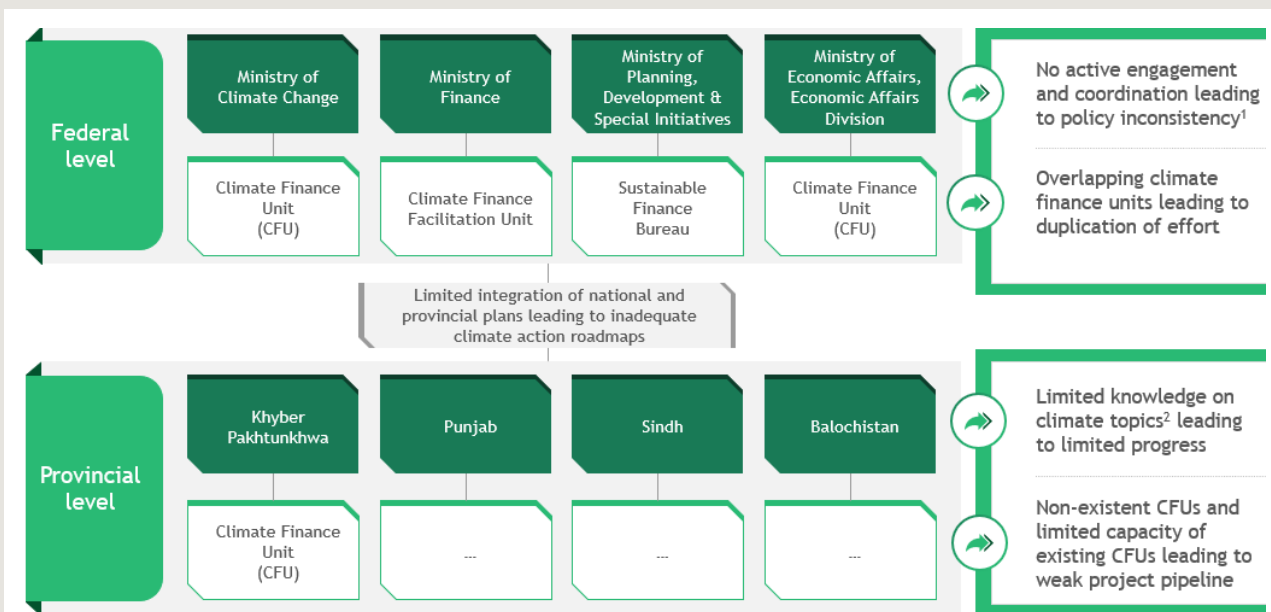
Few policies and measures have been put in place by Pakistan’s authorities to finance climate change mitigation and adaptation activities or sustainable development. No taxonomy is being developed to identify what climate-related or sustainable activities are to be financed, despite concrete international advice to introduce a green taxonomy.

### NO COORDINATED POLICY TO DEVELOP A GREEN OR SUSTAINABLE TAXONOMY

The extreme floods that submerged a third of the country and affected 33 million people in 2022 exposed how vulnerable Pakistan is to harm and devastation from climate change. However, governance in Pakistan to introduce measures to promote financing and reporting on climate-related activities

is fragmented (see Figure 5). At the federal level, different climate finance units have overlapping responsibilities across several ministries, with no coordination at the provincial level. This fragmentation has hampered coordination with national climate strategies, as well as plans and cooperation with stakeholders and international partners.

FIGURE 5: PAKISTAN’S CLIMATE FINANCE INSTITUTIONS AT FEDERAL AND PROVINCIAL LEVELS<sup>222</sup>



1. Climate Finance Development Partners Coordination Group (CFDPCG); 2. Across different topics - policy, coordination, capacity building, financing, project development, data and reporting, etc.  
Source: Expert interviews; BCG analysis

222 Boston Consulting Group (BCG) (2023, November), Accelerating Green and Climate Resilient Financing in Pakistan, p. 36. [bit.ly/ClimateResilientFinancingPakistan](https://bit.ly/ClimateResilientFinancingPakistan) (last viewed August 6, 2024).

The central bank of Pakistan, the State Bank of Pakistan (SBP), has developed a sustainable bank strategy with the Green Banking Guidelines (GBGs), launched in 2017,<sup>223</sup> and the related Environmental and Social Risk Management Implementation Manual released in November 2022.<sup>224</sup> These guides prioritize the protection of banks from the risk of financial losses due to harm from climate change events. In addition, financial institutions are encouraged to develop green bonds, green loans, and investments to finance clean energy projects and develop procedures to reduce negative impacts on sustainability.<sup>225</sup> There are no clear definitions or measures for what needs to be financed to contribute to climate change mitigation and adaptation and sustainability.<sup>226</sup> In general, implementation has been poor, consultation with the banks and stakeholders is almost non-existent, and green finance is not well integrated at Pakistan's commercial banks.<sup>227</sup>

At the state level, the Governor of the SBP announced in November 2022 that the “next milestone” would be a “**national green taxonomy**” to be developed “in coordination with relevant stakeholders”.<sup>228</sup> He stated that the purpose would be to identify and finance green projects and to report on them to the SBP and publicly. He also stated that a national green taxonomy would be the basis for the development of a green bond standard and a Sukuk market in Pakistan.

By the beginning of May 2024, no green taxonomy has been officially developed in Pakistan.<sup>229</sup> The SBP has no binding measures to prevent greenwashing, notwithstanding some initial work that began in 2017, and there has been little public or financial industry discussion on a green taxonomy.<sup>230</sup> Raising awareness among investors and policymakers about the benefits of green finance, and building institutional capacity and regulatory frameworks to promote access to the financing of environmentally-friendly activities and projects, is considered essential to move forward.<sup>231</sup>

## ADVISED TO DEVELOP A TAXONOMY

Pakistan has been advised to develop a green taxonomy in various reports financed by development donors. This advice included concrete steps on how to develop a green taxonomy, as illustrated below.

However, banks in Pakistan see many regulatory and domestic hurdles to building a business case for sustainability.<sup>232</sup>

In 2022, the German Cooperation Agency (GIZ) and the Sustainable Development Policy Institute (SDPI, Pakistan), critically assessed the green finance policies of Pakistan. They advised the SBP to cooperate with the Ministry of Climate Change and the Ministry of Energy to provide an official “*suitable and transparent*” definition for green finance “*along with a **green taxonomy** to avoid greenwashing*”, as the basis for an official green financing framework, strategy, and financial product development.<sup>233</sup> To develop a national taxonomy, the government was advised to set up a technical expert group “*that defines and steers sustainable activities and investment practices across all sectors within the country*”. Such a group could include representatives of the chambers of commerce, microfinance associations, and agriculture and technology incubators, along with regulators, policymakers, and academia. Civil society was not mentioned in the advice and has had little contact with the SBP. The SBP would be the authority in charge of administering and making final decisions about the development and content of the green taxonomy for financial institutions.

In November 2023, a consultancy report sponsored by the UK Government recommended to “*develop a **green taxonomy** that aligns with the pressing climate priorities*” and the growing need to promote standardization and a common understanding of what needs to be financed.<sup>234</sup> The report highlights that “*[t]he main benefits of a national green taxonomy are supporting the development of a robust and reliable green finance market (i.e., sustainable funds, green mortgages etc.); informing the development of policies & regulations (e.g., taxonomy-aligned disclosure regulations); offering a structured approach for banks and asset managers to identify, evaluate and promote green projects; and enabling the identification and tracking of climate financing flows.*”<sup>235</sup> The report clearly explains the steps and activities needed to develop a green taxonomy (see Figure 6) and provides a precise timeline for the preparation, design, consultation, implementation, and review of a green taxonomy (see Figure 7).

223 State Bank of Pakistan (2017, October 9), Green Banking Guidelines (GBG), IH&SMEFD Circular No. 08 of 2017, [bit.ly/SBP\\_Circular8\\_2017](https://bit.ly/SBP_Circular8_2017) (last viewed August 6, 2024).

224 State Bank of Pakistan (2022, November), Environmental and Social Risk Management: Implementation Manual, [bit.ly/SBP\\_CL12\\_2022](https://bit.ly/SBP_CL12_2022) (last viewed August 6, 2024).

225 Zubair Mumtaz, M. (2023, August 28), “Finance: Taxonomy of green finance”, Dawn, [bit.ly/Dawn\\_GreenFinTaxonomy](https://bit.ly/Dawn_GreenFinTaxonomy) (last viewed August 6, 2024).

226 Fair Finance Pakistan (2023, December 4), “Fair Finance Pakistan Launches Policy Assessment of 5 Pakistani Banks”, Press release, [bit.ly/SBP\\_CL12\\_2022](https://bit.ly/SBP_CL12_2022) (last viewed August 6, 2024); Fair Finance Pakistan (2023, December), Benchmarking the Sustainability Policies of Banks in Pakistan, [bit.ly/FFP\\_PA\\_2023](https://bit.ly/FFP_PA_2023) (last viewed August 6, 2024).

227 Fair Finance Pakistan (2023, December), Benchmarking the Sustainability Policies of Banks in Pakistan, [bit.ly/FFP\\_PA\\_2023](https://bit.ly/FFP_PA_2023) (last viewed August 6, 2024).

228 State Bank of Pakistan (2022, November 9), “Launch of Environmental and Social Risk Management Manual”, keynote address by Mr. Jameel Ahmad, Governor, State Bank of Pakistan, at the Sustainable Banking Conference, p. 6, [bit.ly/SBP\\_ESRM\\_Keynote2022](https://bit.ly/SBP_ESRM_Keynote2022) (last viewed August 6, 2024).

229 Boston Consulting Group (BCG), *Idem*, p. 13.

230 Information from Fair Finance Pakistan.

231 Salih Hussain, F. (2024, February 29), “Pioneering sustainability in Pakistan’s financial landscape”, Pakistan Today, [bit.ly/PakistanTodaySustainability](https://bit.ly/PakistanTodaySustainability) (last viewed August 6, 2024).

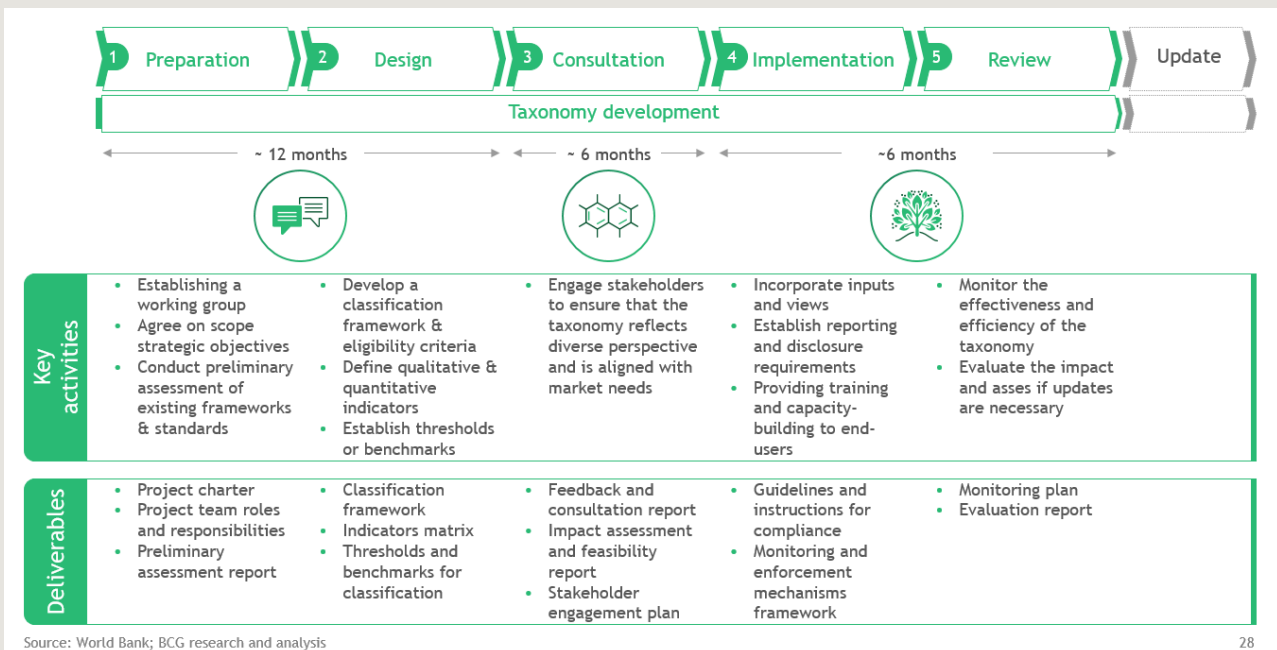
232 Information from Fair Finance Pakistan.

233 GIZ and Sustainable Development Policy Institute (SDPI) (2022), Green Finance Frontiers in Pakistan: Charting the Course towards a Sustainable Future, p. 28, [bit.ly/SDPI\\_GreenFinance](https://bit.ly/SDPI_GreenFinance) (last viewed August 6, 2024).

234 Boston Consulting Group (BCG), *Idem*, pp. 14, 44, and 67, [bit.ly/BCG\\_PakistanReport](https://bit.ly/BCG_PakistanReport) (last viewed August 6, 2024).

235 Boston Consulting Group (BCG), *Idem*, p. 14.

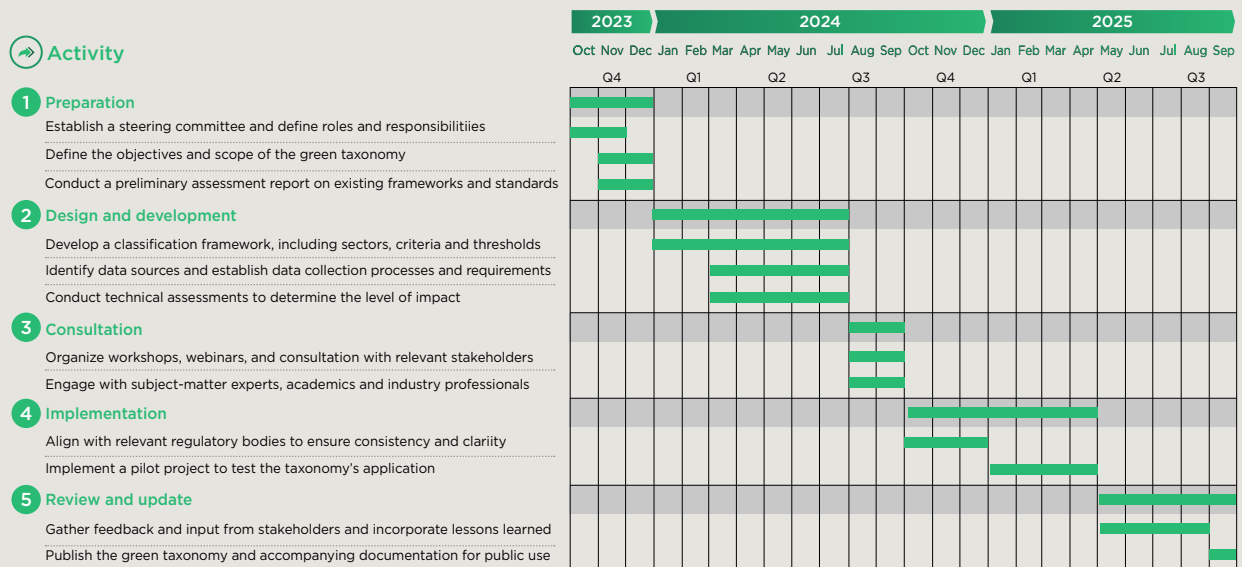
**FIGURE 6: STEPS IN THE GREEN TAXONOMY DEVELOPMENT PROCESS<sup>236</sup>**



Source: World Bank; BCG research and analysis

28

**FIGURE 7: A WORK PLAN TO DEVELOP A TAXONOMY<sup>237</sup>**



236 Boston Consulting Group, Idem, p. 63.  
237 Boston Consulting Group, Idem, p. 63.

# JAPAN

## NO OFFICIAL POLICY ON CREATING A TAXONOMY WHILE INVESTOR SUPPORT IS GROWING

In line with previous sustainable finance policies, initiatives, standards, and guidelines by the Japanese government and supported by the Japanese Business Federation Keidanren,<sup>238</sup> Japan’s government continues to oppose the creation of a taxonomy for green or sustainable finance and has not initiated a taxonomy development process.

Japan has focused on financing an energy transition and reduction of emissions, including through controversial “innovative” technologies, such as ammonia, hydrogen co-firing, and carbon capture, utilization, and storage (CCUS), which critics say are unproven and extend the use of fossil fuels. Japanese financial institutions like Mitsubishi UFJ Financial Group (MUFG) would like to see gas-as-transition activities to be financed in Japan and Asia.<sup>239</sup>

### FINANCIAL INSTITUTIONS EXPRESS SUPPORT FOR A GREEN OR SUSTAINABLE TAXONOMY

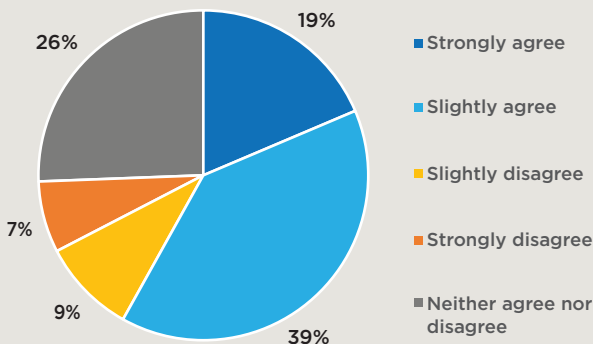
From February to April 2022, Principles for Responsible Investment (PRI),<sup>240</sup> together with CSR Design Green Investment Advisory (CSR Design), conducted an online survey of financial institutions with exposure to the Japanese market to investigate their needs and

expectations for a sustainable taxonomy in Japan (86% were Japanese).<sup>241</sup> The survey revealed that:

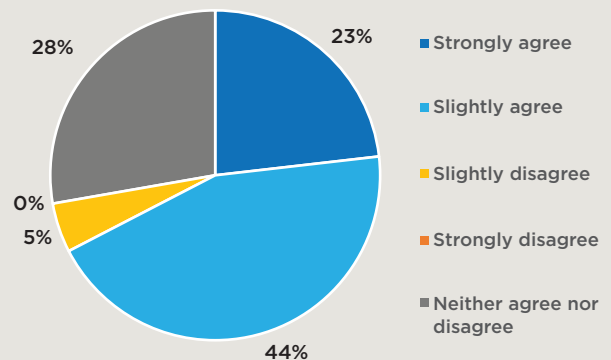
- Around 60 of the responding financial institutions supported the development of a sustainable finance taxonomy in Japan, with 68% saying that the criteria should take the Japanese context into account.
- More than two-thirds of respondents (67%) perceived the absence of a sustainable finance taxonomy for Japan as a potential risk for investors.
- 62% of responding financial institutions agreed that if a taxonomy were introduced in Japan, it would be obligatory for companies to disclose information according to the taxonomy’s requirements.

FIGURE 8: PRI-CSR DESIGN SURVEY: RESPONSE FROM FINANCIAL INSTITUTIONS (2022)<sup>242</sup>

To what extent do you agree that Japan should develop a sustainable taxonomy?



To what extent do you agree that the continued lack of a sustainable taxonomy in Japan could pose risks for investors when trying to align reporting and activities with global market practices?



238 See Fair Finance Asia (2022, June), Sustainable Finance Taxonomy: A Guidebook for Civil Society Organizations, Module 4. [bit.ly/FFAguidebook](https://bit.ly/FFAguidebook) (last viewed August 6, 2024).

239 MUFG (2023), Asia Transition Whitepaper 2023. [bit.ly/MUFG\\_WhitePaper](https://bit.ly/MUFG_WhitePaper) (last viewed August 6, 2024).

240 Principles for Responsible Investment (PRI) is an international network of signatories to put the six Principles for Responsible Investment into practice. For more information, see: [www.unpri.org](https://www.unpri.org) (last viewed August 6, 2024).

241 PRI (2023, March), Does Japan need a sustainable finance taxonomy? Results from an investor survey and stakeholder interviews, pp. 10-15. [bit.ly/PRI\\_JPN\\_SF](https://bit.ly/PRI_JPN_SF) (last viewed August 6, 2024): The online survey “retrieved 43 responses: 28 (65%) investment managers, 9 (21%) asset owners and 6 (14%) service providers. Among the 43 responses, 37 respondents (86%) were from Japan, five respondents (12%) claimed that their primary office was located in Europe, and one respondent’s primary location was in North America”.

242 PRI, Idem, p. 12.

Although Japan has various sustainable finance instruments, only 35% of the surveyed financial institutions stated that existing financial disclosure regulations and frameworks supported sustainability-related investment objectives. In contrast, senior representatives from the Financial Services Agency (FSA), Ministry of Economy, Trade and Industry (METI), Ministry of Environment (MoE), and Keidanren (Japan Business Federation) who were interviewed by PRI and CSR Design, were of the opinion that:<sup>243</sup>

- More discussion was needed before deciding on developing and introducing a sustainable taxonomy.
- A taxonomy could place a heavy burden on those responsible for developing and maintaining the taxonomy and that political compromises would be needed.
- A green taxonomy would limit financing for the transition and technological innovations needed to achieve zero emissions.
- A taxonomy would need to be linked to disclosure and other financial regulations to be effective.
- Corporate reporting on emissions aligned with sector-specific reduction pathways would be more practical than introducing a taxonomy and could be used for dialogues between investors and issuers of (green or transition) bonds.

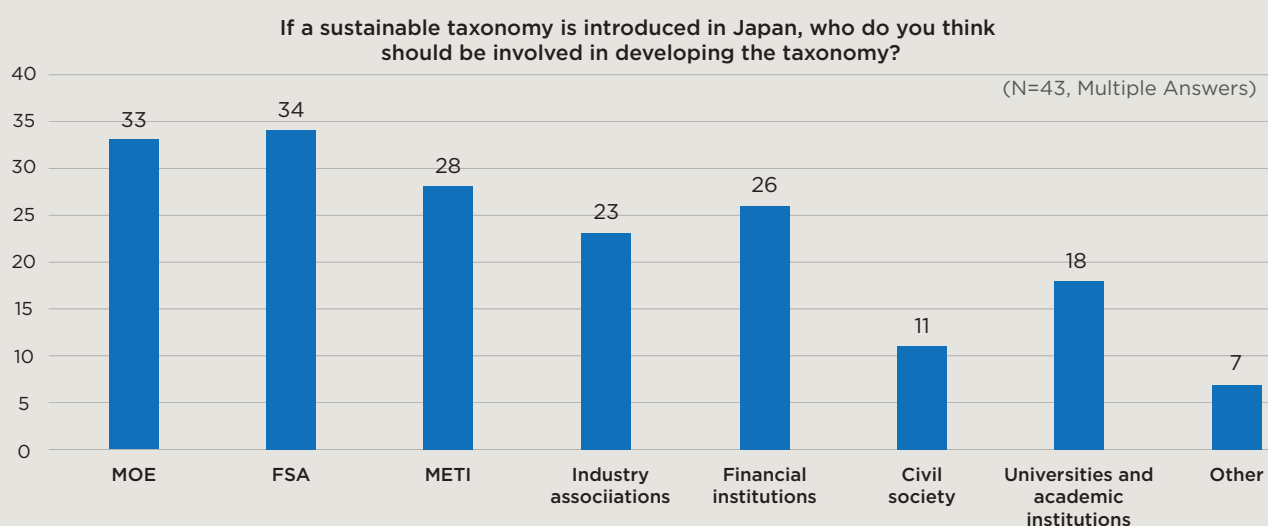
- Regulations to prevent greenwashing in investments in shares were delayed but needed, and would be more effective than a taxonomy.
- Any taxonomy would need to be adapted to the Japanese context and needs, but still be internationally interoperable and supported by global harmonization efforts.

### EXISTING SUSTAINABLE FINANCE TOOLS NOT A SUBSTITUTE FOR A TAXONOMY

The sustainable finance instruments developed by various Japanese ministries and agencies were considered too vague by many investors and did not have the technical, quantitative, standardized, and comprehensive criteria that would make them suitable replacements for a taxonomy.

The PRI report recommended that the Japanese Financial Services Agency (FSA) should take the lead in exploring and developing a sustainable finance taxonomy for Japan, taking existing sustainable finance tools into account. Other agencies and actors could also be involved, but there was little backing for the participation of non-governmental organizations (NGOs) (see Figure 9).

FIGURE 9: PRI-CSR DESIGN SURVEY: RESPONSE FROM FINANCIAL INSTITUTIONS (2022)<sup>244</sup>



243 PRI, Idem, pp. 15-16.

244 PRI, Idem, p. 12.

## NO TAXONOMY ANNOUNCED AMONG NEW SUSTAINABLE FINANCE MEASURES

Despite these recommendations, Japan's government has not indicated an intention to develop a green or sustainable taxonomy. In October 2023, Japan's Prime Minister<sup>245</sup> announced various sustainable finance policy measures as part of a national green transition strategy, the Green Transformation Plan, or GX. These included the issuance of climate transition bonds that would finance renewable and new energy

sources like hydrogen. Other sustainable finance measures announced by the Prime Minister included a "dialogue on enhancing sustainability investment products" and a regulation to facilitate investments in tackling social challenges at companies. He also announced an Asia Green Transformation Consortium by mid-2024 to promote the implementation of transition finance in line with a country's strengths and characteristics, in cooperation with the GFANZ<sup>246</sup> Japan coalition.



Tokyo, Japan (Source: Freepik)

245 Azizuddin, K. (2023, October 3), "Japan unveils plan to create Asian transition finance coalition", Responsible Investor. [bit.ly/JPN\\_TransitionCoalition](https://bit.ly/JPN_TransitionCoalition) (last viewed August 6, 2024).

246 Glasgow Finance Alliance for Net Zero ([www.gfanzero.com/](http://www.gfanzero.com/)) (last viewed August 6, 2024), a financial industry umbrella organization promoting voluntary measures to align with the Paris Agreement.



SUPPORTED BY

---

