

The Berlin Seminar on Energy, Climate Policy and Sustainable Finance

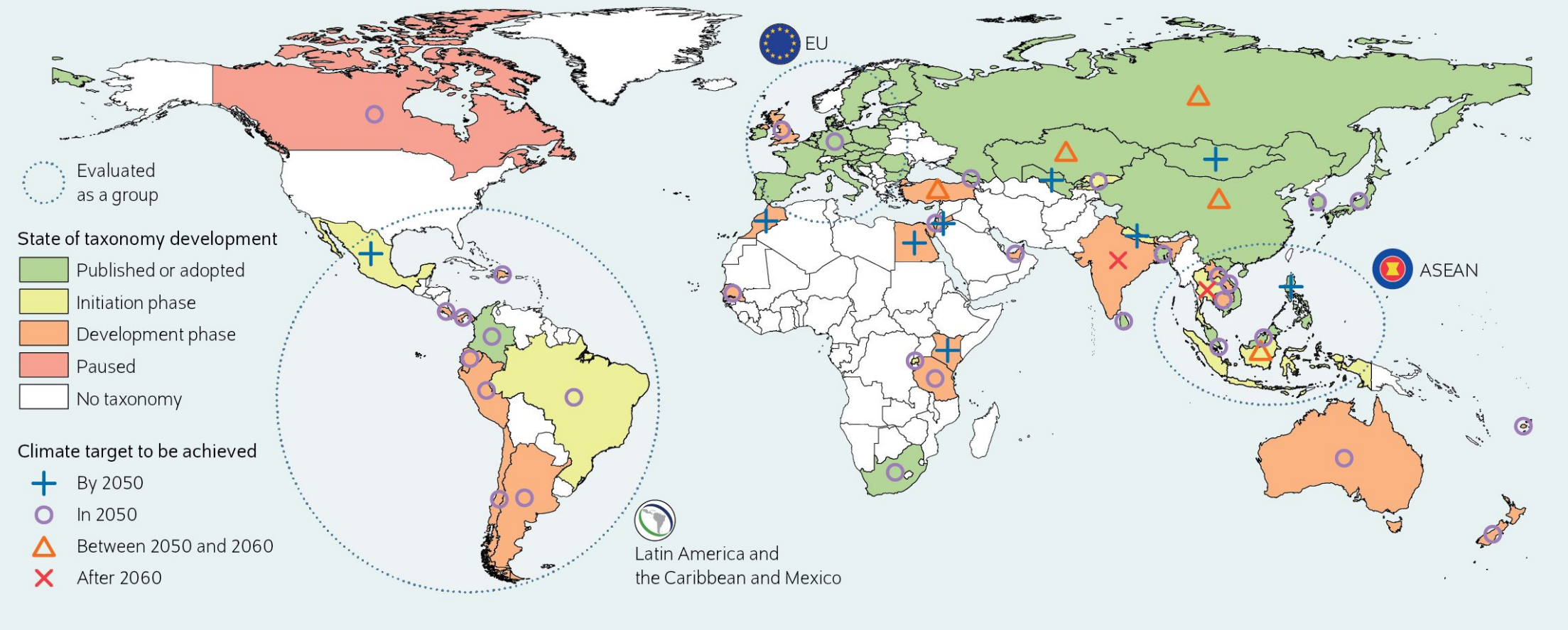
Sustainable finance taxonomies – enabling the transition towards net zero?

A transition score for international frameworks

July 18th, 2024

A plethora of green and sustainable finance taxonomies are emerging worldwide

State of sustainable finance taxonomy development worldwide



Criteria for estimating the transition potential of taxonomies

A “transition score” (TS) has been developed as an objective scoring system to enable a comparable assessment of transformation potential.

There are four stages of fulfillment for each criterion with assigned scores, here indicated in brackets:

- no contribution [1]
- little contribution [2]
- moderate contribution [3]
- or significant contribution [4].

Criterion	Definition
Policy embeddedness	This criterion captures whether a taxonomy refers to the climate targets in international frameworks such as the Paris Agreement and the SDGs as well as national or regional climate targets. It also assesses whether it includes more comprehensive sustainability goals
Sectoral coverage	This criterion refers to the share of emissions explicitly covered in a taxonomy, i.e., the sectors or technologies explicitly mentioned in the respective taxonomy framework. ¹
Screening approach	This criterion captures whether taxonomies define (technical) selection criteria or thresholds for including economic activities and whether these follow a credible, science-based decarbonization pathway.
Target group	This criterion refers to which market players in the financial sector and the real economy and which financial instruments (e.g. bonds, loans, guarantees, funds) are affected by the taxonomy.
Reporting and disclosure	This criterion assesses whether a taxonomy is linked to reporting obligations for countries in the respective country.

¹ We used the World Emissions Clock (WEC) to evaluate the percentual coverage of the country-specific greenhouse gas emissions per sector (available online).

Potential contribution of the taxonomies to the net-zero transition

Countries & jurisdictions	Policy embeddedness	Sectoral coverage	Screening approach	Target group	Reporting & disclosure	Overall score	Weighted score
ASEAN	4	4	4	2	2	3,2	3,2
Bangladesh	4	3	2	2	3	2,8	2,7
Brazil*	4	4	2	2	2	2,8	2,7
China	3	4	2	2	3	2,8	2,8
Colombia	4	4	4	2	1	3,0	3,0
EU	4	4	3	4	3	3,6	3,6
Georgia	4	3	3	2	3	3,0	2,9
Hong Kong*	4	2	4	2	2	2,8	2,7
Indonesia*	4	3	2	2	2	2,6	2,5
Israel*	3	3	3	2	1	2,4	2,4
Japan	3	3	4	2	2	2,8	2,9
Kazakhstan	4	3	2	2	2	2,6	2,5
LAC	4	4	1	2	2	2,6	2,5
Malaysia	4	3	1	2	2	2,4	2,2
Mexico*	4	3	3	2	2	2,8	2,7
Mongolia	4	4	2	2	1	2,6	2,5
Philippines	4	4	2	2	2	2,8	2,7
Russia	3	3	2	2	2	2,4	2,4
Rwanda*	3	3	3	2	2	2,6	2,6
Singapore*	4	4	4	2	2	3,2	3,2
South Africa	3	2	2	2	2	2,2	2,1
South Korea	4	4	3	2	2	3,0	3,0
Sri Lanka	4	3	4	2	2	3,0	3,0
Thailand*	4	2	4	2	2	2,8	2,7
Uzbekistan	2	2	2	3	1	2,0	2,0
Vietnam	3	3	3	3	2	2,8	2,8
Average	3,7	3,2	2,7	2,2	2,0	2,8	2,7

Contribution to transition

1 (low) 2 3 4 (high)

Source: Created by authors, based on the status quo of the documents as of December 31st, 2023.

* Frameworks are still in development phase. The assessment can therefore not be regarded as final.

Policy embedddness: Most taxonomies are well embedded in national and international climate policies and strive for a holistic sustainability approach



Sectoral coverage: Share of emissions covered in taxonomies varies considerably

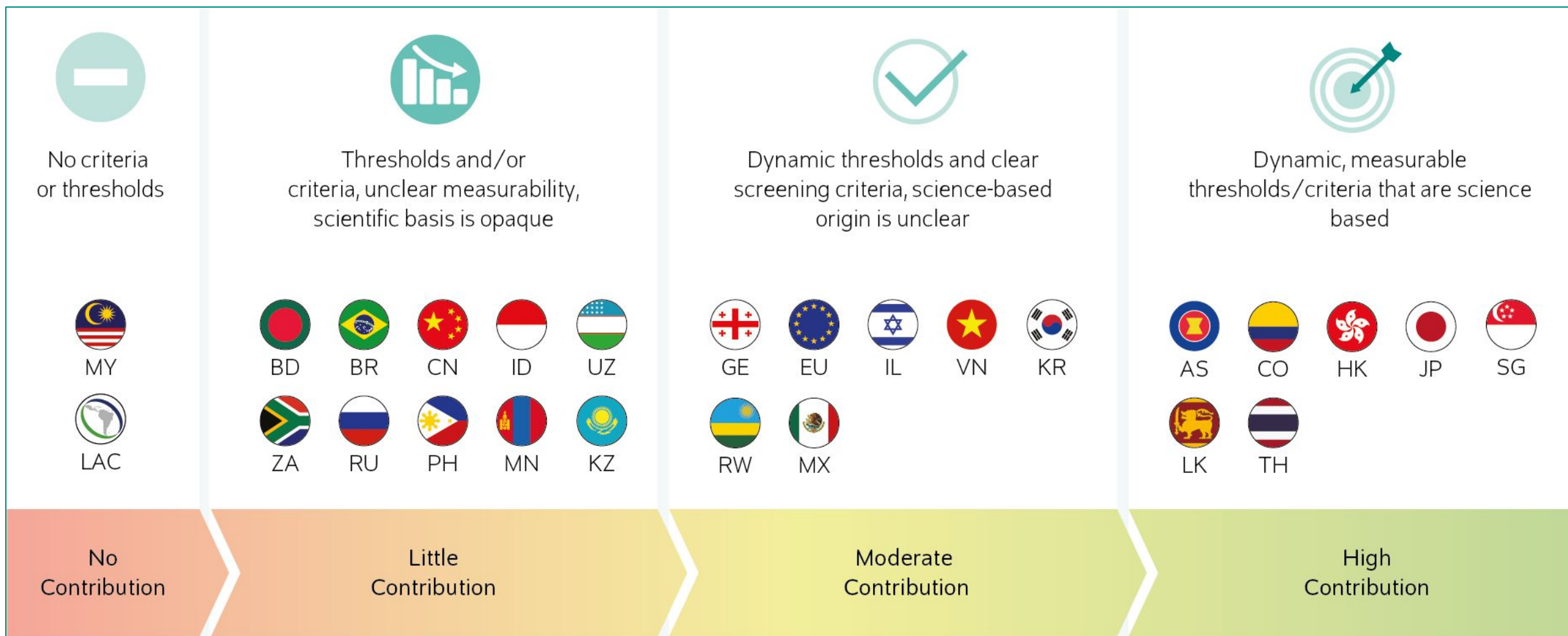


Source: Own graph based on taxonomy frameworks and emission data from 2022 from the WEC, available at: <https://worldemissions.io/>.

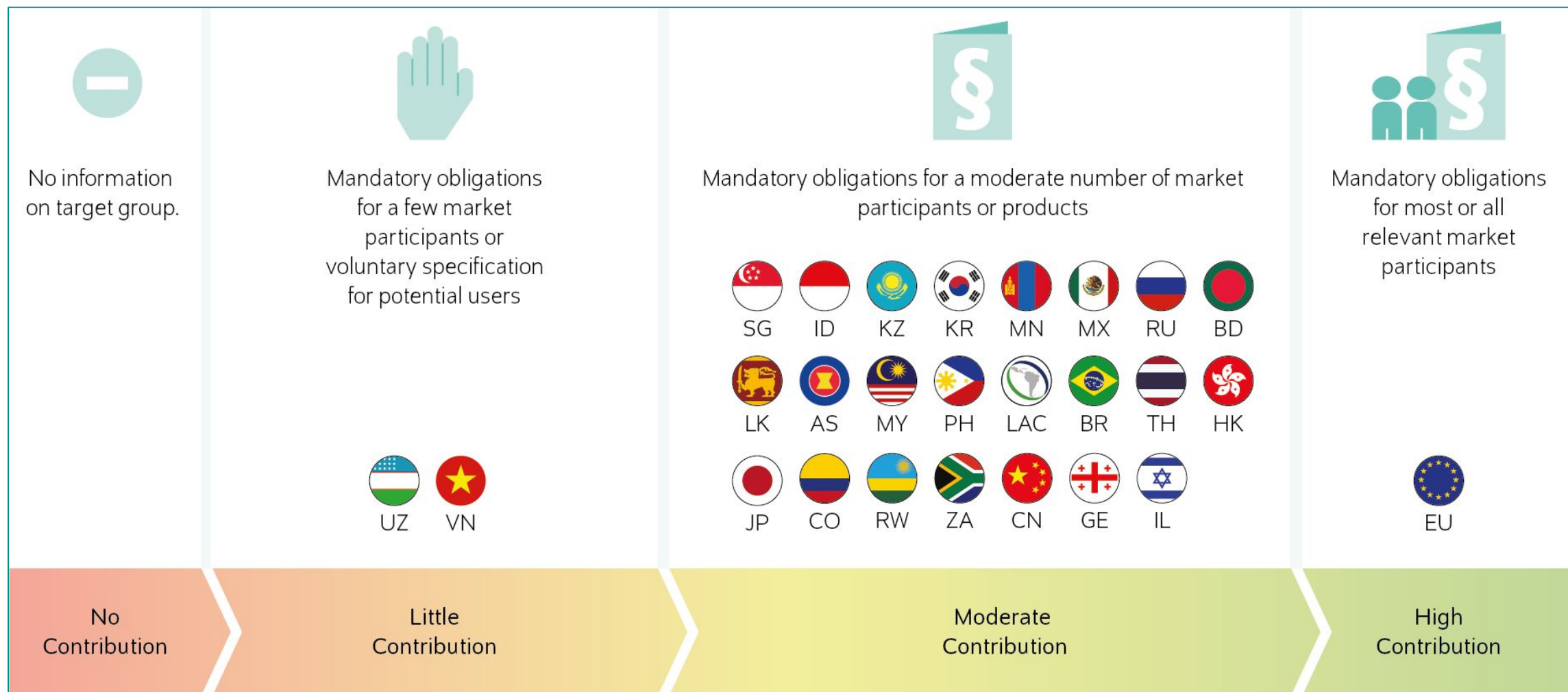
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**The Philippines is a special case as their approach is sector-agnostic and merely principle-based. Thereby, the framework indirectly covers all sectors without explicitly mentioning specific activities.

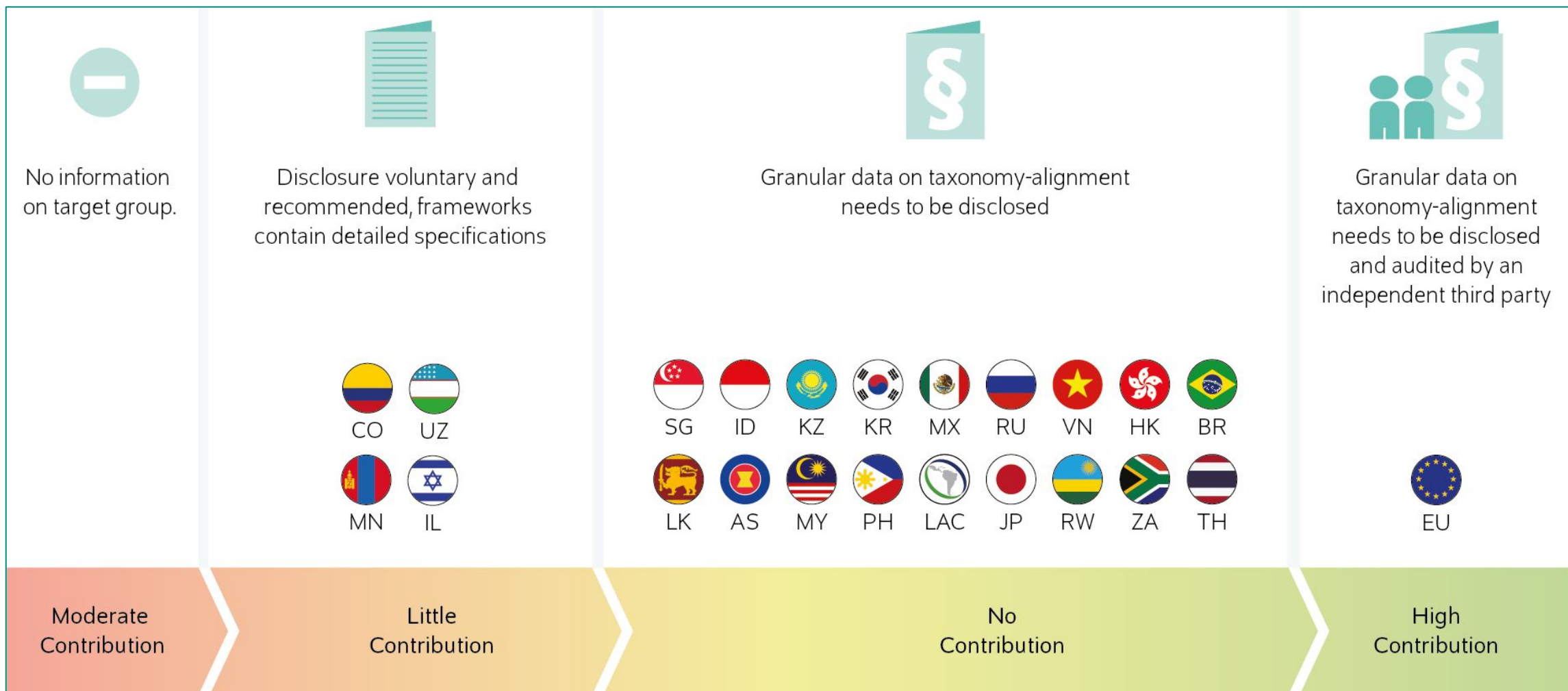
Screening approach: Different approaches to determining taxonomy-aligned activities



Target group: Taxonomies often only apply to a limited group of market participants and financial products



Disclosure and reporting: Taxonomies rarely linked to reporting obligations



Transitioning to Net Zero: Full potential of sustainable finance taxonomies not yet exhausted

Most taxonomies

- are **well embedded in** national and international **environmental and sustainability policy goals**, (however social issues are still somewhat neglected)
- **cover mostly the important sectors** in terms of emissions.

However,

- the **screening approach is often not stringent enough** to ensure full decarbonization. They often lack a dynamic or transition approach.
- it is **frequently not clear whether the thresholds are science-based**.
- taxonomy should **target all relevant financial instruments and actors in the financial sector and in the real economy**
- information on taxonomy alignment is not properly disclosed, as the taxonomies are not directly linked to the reporting requirements of firms and financial institutions.

Outlook: Alignment, scope and overall harmonization of taxonomies should be improved

Alignment with climate neutrality: a clear pathway is needed, continuous revision and adjustment of the framework based on novel scientific findings or technology development, hence a more dynamic approach is needed.

Harmonization remains challenging: overcoming differences in terms of scope and stringency of the taxonomies, common metrics to be developed

Broader coverage: a taxonomy should be applied to all relevant financial instruments and actors in the financial sector and in the real economy and be a part of corporate reporting.

Thank you for your attention

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