

# Development of green and sustainable finance taxonomies and relation to the Paris Agreement

**Webinar - Advancing Net-Zero? The Role of Sustainable Finance Taxonomies**

**Worldwide**

Virtual, 18 July 2024

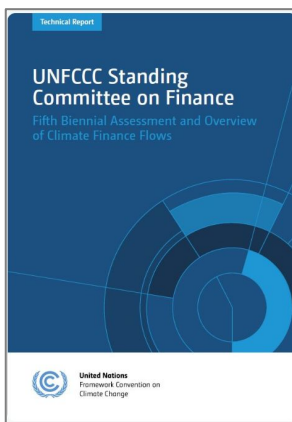


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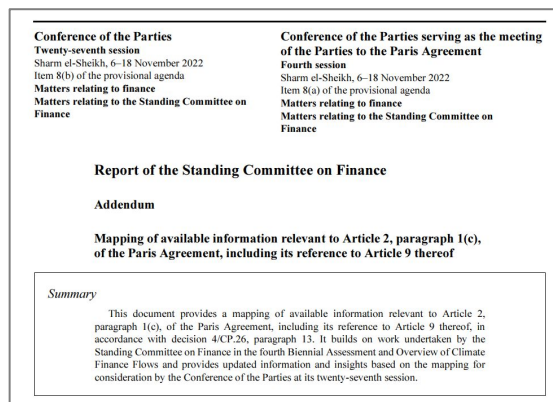
UNFCCC secretariat, Means of Implementation - Climate Finance Subdivision

**SCF:** The Standing Committee on Finance (SCF) was established at COP16 to assist the COP in exercising its function related to the Financial Mechanism of the Convention, including through functions such as:

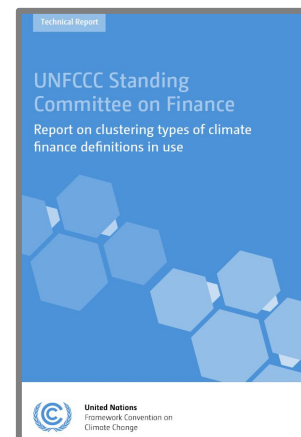
- improving coherence and coordination in the delivery of climate change financing;
  - measurement, reporting and verification of support provided to developing country Parties.
- Since 2020, various SCF reports contained insights on global taxonomy development (see last slide for references)



Biennial Assessment



Mapping of information on Article 2.1(c)



Definitions of climate finance

- **Timeline:** Since the early 2010s, development of taxonomies and eligibility lists for sustainable finance or bond issuances
  - a) Initially by MDBs and non-state actors (CBI)
  - b) Followed by national and regional jurisdictions (majority from 2020 onwards)
- **More than 60** sustainable finance taxonomies are in place, being developed, or under consideration **in all world regions**
  - a) Fifth BA (2022): +40 taxonomies identified, more than 10 published (draft or final)
  - b) *Sixth BA (2024, forthcoming): +60 taxonomies identified, more than 20 published*

- **Initial focus two-fold:**

- a) BA5 (2022) s
- b) Focus on climate

The most common mitigation activities across international, regional and nationally developed taxonomies or classification lists are;

**Most common**

- Renewable energy
- CCU/S
- Electric transport
- Energy efficiency in buildings
- Water management and supply

**Less common**

- Gas-fired power
- Waste to energy
- Sustainable logging
- ICT infrastructure

**Uncommon**

- Nuclear power
- Aviation
- Mining
- Desalination

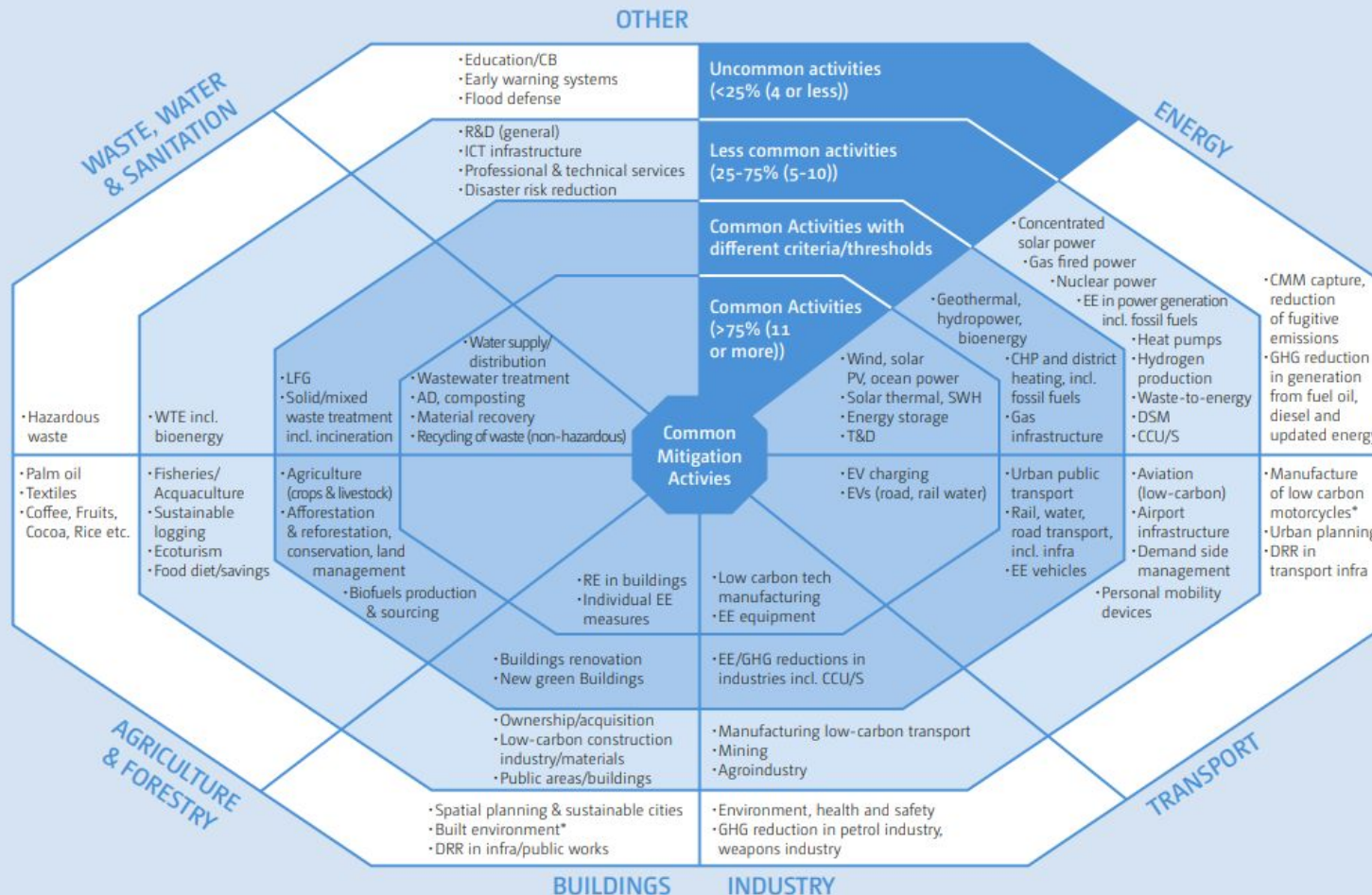
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taxonomies have exclusion lists for mitigation.



# Common Mitigation Activities in Sustainable Finance Taxonomies - 2023 version\*

## Mapping of common activities in eligibility lists and taxonomies relevant to mitigation activities



### EXCLUSION LISTS OR EXAMPLES

#### ENERGY

- Coal-fired power (EU, BGD, MOB), All solid fossil fuel (SGP)
- T&D dedicated exclusively to fossil fuel power (EU, COL, RSA, MOB, CBI, SGP, MEX)
- MDB: peat-fired power. Brownfield displacement of carbon intensive fuel with lower carbon fuel when electricity generation only. Fossil fuel upstream and midstream. Nuclear power. First generation biofuels unless sourced from waste. Utilisation of gas from oil or coal production.
- CBI: Coal or oil power or combined heat and power (CHP) without CCS; WHR from coal or oil power. coal mining or oil upstream
- SGP: New gas power plants, Power plants dedicated to support fossil fuel infrastructure or operations

#### TRANSPORT

- Fossil fuel dedicated infrastructure (MDB, EU, COL, RSA, CBI, SGP, KOR, MEX)
- New road infrastructure (CBI, SGP)
- MDB: transport of blended fossil fuels
- CBI: oil tankers or other ships solely transporting coal or oil, non zero-emissions HGVs, biofuel vehicles
- COL: Hybrid vehicles
- SGP: Infrastructure encouraging maintained / increased ICE vehicle use; Parking facilities; Fossil fuel filling stations

#### INDUSTRY

- CBI: Products dedicated to clean-up or efficiency of fossil fuel energy

#### BUILDINGS

- SGP: Buildings dedicated to extraction, storage, manufacturing, transport of fossil fuels\*

#### AGRICULTURE & FORESTRY

- CBI: agriculture/timber production on peatland
- MDB: Activities leading to deforestation
- MYS: illegal deforestation leading to soil degradation and release of CO<sub>2</sub>
- MEX: animal husbandry if outside agricultural frontiers, on wetland, or natural protected areas/with land use change

#### WASTE, WATER & SANITATION

- CBI: Landfill waste collection facilities, Landfill without gas capture

Sources: AfDB et al., 2021; ASEAN, 2021; Bangladesh Bank, 2020; Bank Negara, 2021; CBI 2021; Central Bank of Sri Lanka, 2022; EU COM, 2022; Financial Stability Commission of Mongolia, 2021; Gobierno de Colombia, 2022; Gobierno de Mexico, 2023; Government of Republic of Korea, 2022; Nation al Treasury RSA, 2022. GFIT, 2022; Indonesian Financial Services Authority (OJK), 2022 PCOB, 2021.

#### Note

1. Common activities are those in 75 per cent of taxonomies reviewed (11 out of 15); 2. Less common activities are those between 25-75 per cent of taxonomies viewed (5-11); 3. Uncommon activities are those in 1-25 per cent of taxonomies reviewed. In the case of Malaysia, the mapping is restricted to the common climate change mitigation activities as stated under Guiding Principle 1 (GP1), climate change mitigation of the document. \*Activities to be developed in the future- are mapped as indicative activities for the South Africa Green Finance Taxonomy. While technical screening criteria are under development, the ASEAN Taxonomy-Version 2 has been included only for the assessment of common or uncommon activities in scope, as they are indicated in the ASEAN Taxonomy- version 2 document through the provided activity list of selected focus sectors.

#### Note: Data as of 11 August 2023

Abbreviations: AD=Anaerobic digestion, ASEAN=Association of South-East Asian Nations, BGD=Bangladesh, CBI=Climate Bonds Initiative, CCU/S= carbon capture and storage CHN=China, CHP=combined heat and power, CMM=Coal mine methane, COL=Colombia, DRR=Disaster risk reduction, DSM=Demand side management, EE=Energy efficiency, EU=European Union, ICT=Information and communication technologies, IDN=Indonesia, KOR= Republic of Korea, LFG=Landfill gas, LKA=Sri Lanka, MDB=multilateral development bank, MYS=Malaysia, MEX= Mexico, MNG=Mongolia, PMD=Personal mobility devices, PV=Photovoltaic, RE=Renewable energy, RSA=South Africa, SGP=Singapore, SWH=solar water heaters, T&D=transmission and distribution, WHR=Waste heat recovery.

\* 6<sup>th</sup> BA (2024, forthcoming will entail an updated figure including 20+ taxonomies

### Transition finance and taxonomies:

- a) Recognition of whole-of-economy transitions and accompanying the decarbonization of emissions-intensive sectors
- b) Consideration of regional and/or national context and circumstances

### Take-aways and developments over time:

**1) “Transitional” activities** already form part of green (binary) taxonomies  
- e.g. EU, South Africa, Colombia, etc

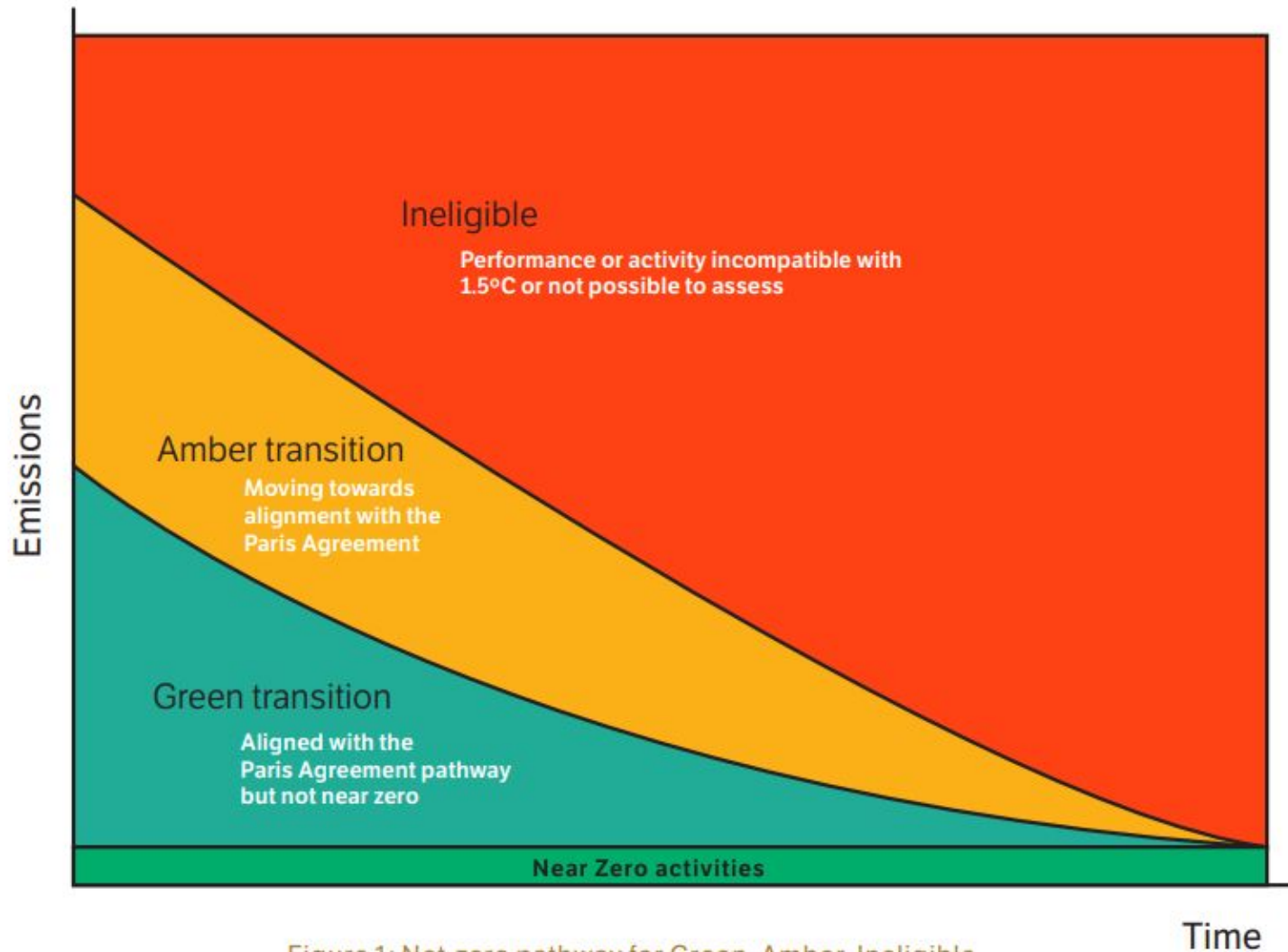
**2) Dedicated Transition Finance frameworks** developed by state & non-state actors  
- e.g. *Japanese Basic Guidelines on Climate Transition Finance, 2021*; *DBS Sustainable & Transition Finance Framework & Taxonomy, 2022*; *Shades of Green*

**3) “Traffic light taxonomies”**: Green, amber (transition) + red/ineligible activities  
- e.g. ASEAN etc.

**4) Enable transition but also phase-out**: Eligibility for phasing out fossil fuels introduced  
- e.g. Singapore taxonomy (decommissioning fossil fuel power plants), joint MDB-IDCF list (Cross sectoral list, Activity 12.4), GFANZ (transition finance consultation, 2023)



## Example Application of Transition Concept within Sustainable Finance Taxonomies



## Various Remaining Considerations in Taxonomy Development

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- **Adaptation:**
  - Phase 2 extensions to adaptation activities
  - Potential transition planning for adaptation?
- **Addressing concerns about credibility and greenwashing** - Appropriate safeguards for credible 1.5 and well below 2C pathways
  - Performance or emission-reduction levels
  - Sunset dates
  - Activity and/or entity-level approaches
- **Usability and inclusiveness**
  - Balancing stringency and technical soundness with ease of application (>scale)
  - MSMEs: capacities for implementation and reporting
- **Just Transition**
  - Minimum social safeguards (MSS) or further considerations (social taxonomies)?

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- **Impact**



- Voluntary or mandatory use by market actors (disclosure)

Prospective req. tool to actively steer financial markets towards climate outcomes?

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