



FAIR FINANCE ASIA

MODULE 4

OVERVIEW OF TAXONOMIES IN FFA COUNTRIES



The content in this module, takes into account the country level developments till June 2022, related to sustainable finance taxonomies and frameworks in FFA countries.

About this guidebook

This guidebook, commissioned by Fair Finance Asia (FFA), is made up of four separate modules, designed specifically for Asian civil society organizations (CSOs) that are interested to learn about frameworks and taxonomies for sustainable finance, and how to optimally leverage them when promoting greater transparency and accountability in the financial sector.

The guidebook was developed using all publicly available data and information as of end of January 2022.

About Fair Finance Asia

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This module describes per FFA country, with the exception of Pakistan, whether and how a taxonomy is being developed or agreed upon, as well as the objectives, the components that clarify how activities, projects or companies are defined under the taxonomy and the economic sectors that the taxonomy covers. In addition, this module explores whether other existing policies or regulations, such as green bond guidelines, provide lists of activities or projects that can be used to develop a taxonomy or can act as a substitute for a taxonomy when no taxonomy exists.



OVERVIEW

What a taxonomy can look like, what the decision-making process involves and how a taxonomy can be used, are all explained in the other modules.

In various FFA countries, authorities and/or the financial industry have started to develop or agree upon taxonomies as part of their new or evolving sustainable finance policies and frameworks.¹ They are introducing taxonomies to provide a standardised and harmonised definition of what is to be financed by banks, investors and, sometimes, governmental agencies to help meet commitments to tackle climate change, prevent further environmental degradation and achieve sustainable development.

In November 2021, ASEAN proposed a regional taxonomy that would provide a common framework for Member States to attract cross-border capital, but still allow for country-specific requirements and priority activities.

This overview reveals a variety of processes and taxonomies, as shown in the table below.

COUNTRY	NO TAXONOMY BEING DEVELOPED	TAXONOMY BEING DEVELOPED OR ANNOUNCED	LIST AND DEFINITIONS OF "GREEN" OR SUSTAINABLE ACTIVITIES EXIST
CAMBODIA	✘		Cambodian Sustainable Finance Principles and implementation guidelines by the Association of Banks of Cambodia (voluntary)
INDIA		A draft descriptive sustainability taxonomy developed by the Sustainable Finance Collaborative (a multi-agency task force), has not been published as announced on 15 December 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
INDONESIA		A green taxonomy developed by various ministries and authorities (OJK/financial authority) was published on 20 January 2022.	Activities list in Green Bond Regulation (OJK) in Sustainable Finance Roadmap: Phase 1; green projects identified for green bonds issued by the government; private sector Indonesia Sustainable Finance Initiative (ISFI)
JAPAN	✘		Japan Green Bond Guidelines; consultation on Social Bond Guidelines Japan Basic Guidelines on Climate Transition Finance;
PAKISTAN	✘		Pakistan Green Banking Guidelines
PHILIPPINES		Principles-based taxonomy proposal published in October 2021 as the Philippine Sustainable Finance Guiding Principles, endorsed by the Inter-agency Technical Working Group for Sustainable Finance (ITSF)	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
THAILAND		Recommendation for developing a practical and comprehensive sustainable finance taxonomy published in August 2021 by consultants endorsed by the Inter-agency Working Group on Sustainable Finance	
VIETNAM	✘	The National Green Growth Strategy for 2021-2030, vision towards 2050 identifies the tasks for formulating systems of 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
ASEAN		Proposed ASEAN green taxonomy published on 10 November 2021 by the ASEAN Taxonomy Board	ASEAN Green Bond Standards; ASEAN Social Bond Standards; ASEAN Sustainable Bond Standards

Source: Research by the author in 2021 and up to 20 January 2022.

¹ There are many overviews of how taxonomies are being developed by other countries and regions. See, for instance: <https://www.climatebonds.net/2021/09/taxomania-international-overview>.

CAMBODIA

At the official and regulatory level in Cambodia, no taxonomy is being developed as part of sustainable finance policies.

There are no sustainable finance laws and no sustainable finance regulations have been issued for banks by the central bank (National Bank of Cambodia, NBC), for financial markets and investors by the Securities and Exchange Regulator (SERC) or for the insurance sector by the Ministry of Finance.²

For instance, the Law on Environmental Impact Assessment (EIA, Sub-Decree No. 72, August 1999³, by the Ministry of Finance) is not legally required to be applied by banks and other financial institutions.⁴ There are no official standards on which a taxonomy could be built, such as standards for green bonds, or reporting requirements for banks or other financial institutions on how their financing aligns with sustainability, ESG, the Paris climate goals or the SDGs.⁵

The official authorities support the voluntary initiatives undertaken by the Association of Banks of Cambodia (ABC). In August 2019, ABC signed a memorandum of understanding (MoU) with the Ministry of Environment, the National Bank of Cambodia and USAID to cooperate on sustainable finance, such as avoiding the negative environmental impacts of lending.⁶

The voluntary initiative by the Association of Banks of Cambodia provides some elements on which to build a taxonomy. In February 2019, ABC issued revised implementation guidelines of the voluntary **ABC Cambodian Sustainable Finance Principles**.

These guidelines were to be used by signatory banks to develop their own approach to sustainable finance.⁷ The guidelines promote the application of a full range of national laws, policies and strategies, as well as international conventions and standards related to ESG impacts and risks. The purpose is to assess and report on risks and impacts related to those standards, to develop policies to integrate them and to demonstrate progress on mitigating negative risks and impacts in the many identified areas (“principles”), including: climate change, pollution, waste, natural resources, local communities, workers, minority populations, cultural heritage and financial inclusion.

The implementation guidelines of the ABC’s Cambodian Sustainable Finance Principles also promote the development of new “green” financial products and services to finance a green economy and contribute to the Cambodian National Strategic Plan on Green Growth 2013–2030.⁸

The listed potential activities to be financed under the Principles could be considered **activities and sectors** to be integrated in a taxonomy. They are:⁹

- **Climate change mitigation** and adaptation projects;
- **Resource efficiency and green manufacturing**, including through new technologies for energy and water use efficiency or recycling;
- **Protecting and enhancing biodiversity**;

2 An overview can be found in: Fair Finance Cambodia and the NGO forum on Cambodia, Report on Green Financing Policy Implementation in Cambodia, February 2022.

3 Government of Cambodia, Sub-Decree on Environmental Impact Assessment Process, 11 August 1999, <https://s3.amazonaws.com/rgi-documents/5c527d3e55eff909860db87bb2007439f6ee70ca.pdf>.

4 NGO Forum Cambodia, Launching of Study Reports on Cross Border Investment in Agriculture and Environmental Impact Assessment (EIA) Compliance with Banking Sectors in Cambodia, webinar, 28 April 2021, <https://www.ngoforum.org.kh/launching-of-study-reports-on-cross-border-investment-in-agriculture-and-environmental-impact-assessment-eia-compliance-with-banking-sectors-in-cambodia/?lang=kh>; Chanthy, S. The compliance of environmental and social impact assessment (ESIA) in finance and banking sector in Cambodia, NGO Forum on Cambodia, Fair Finance Cambodia, Oxfam, December 2020, <http://www.ngoforum.org.kh/wp-content/uploads/2021/05/Report-on-Compliance-of-ESIA-in-Finance-and-Banking-Sector-in-Cambodia-Eng.pdf>.

5 NGO Forum Cambodia, Launching of Study Reports on Cross Border Investment in Agriculture and Environmental Impact Assessment (EIA) Compliance with Banking Sectors in Cambodia, webinar, 28 April 2021, <https://www.ngoforum.org.kh/launching-of-study-reports-on-cross-border-investment-in-agriculture-and-environmental-impact-assessment-eia-compliance-with-banking-sectors-in-cambodia/?lang=kh>.

6 Chhut Bunthoeun, “Bank Association Bets on Sustainable Financing”, Khmer Times, 2 August 2019, https://www.khmertimeskh.com/629642/bank-association-bets-on-sustainable-financing/?__cf_chl_managed_tk__=pmd_9XNdK1wAPg1Fq0Wgn4mznBmlahIK20ffZ73mYrOctq4-1631522446-0-gqNtZGzNAyWjcnBszQfR; NGO Forum Cambodia, Launching of Study Reports on Cross Border Investment in Agriculture and Environmental Impact Assessment (EIA) Compliance with Banking Sectors in Cambodia, webinar transcript, 28 April 2021, <https://www.ngoforum.org.kh/launching-of-study-reports-on-cross-border-investment-in-agriculture-and-environmental-impact-assessment-eia-compliance-with-banking-sectors-in-cambodia/?lang=kh>.

7 Association of Banks of Cambodia, Cambodian Sustainable Finance Principles: Implementation Guidelines, 1 February 2019, <https://www.ifc.org/wps/wcm/connect/8ce9ddc0-2422-4e69-aa8b-e4f3c8cc3eec/Cambodia+SF+Principles++Implementation+Guidelines.pdf?MOD=AJPERES&CVID=mGdMKuz>.

8 Association of Banks of Cambodia, Cambodian Sustainable Finance Principles: Implementation Guidelines, 1 February 2019, <https://www.ifc.org/wps/wcm/connect/8ce9ddc0-2422-4e69-aa8b-e4f3c8cc3eec/Cambodia+SF+Principles++Implementation+Guidelines.pdf?MOD=AJPERES&CVID=mGdMKuz>, p. 15, footnote 10: The Cambodian National Green Growth Roadmap focuses on addressing the following seven goals: Access to clean water and sanitation; Access to renewable energy; Access to information and knowledge; Access to means for better mobility; Access to finance and investments; Access to food security (agriculture) and non-chemical products; and Access to sustainable land use.

9 Association of Banks of Cambodia, Cambodian Sustainable Finance Principles: Implementation Guidelines, 1 February 2019, <https://www.ifc.org/wps/wcm/connect/8ce9ddc0-2422-4e69-aa8b-e4f3c8cc3eec/Cambodia+SF+Principles++Implementation+Guidelines.pdf?MOD=AJPERES&CVID=mGdMKuz>, pp. 15–17.

- **Reduction of GHG emissions;**
- **Renewable energy**, including solar, wind, hydropower and geothermal energy;
- **Green buildings**, including efficient use of energy and water, use of renewable energy, use of non-toxic materials and adaptations for persons with disabilities and the changing environment;
- **Sustainable/climate-smart agriculture and fisheries**, including adaptation to changing climate conditions;
- **Low-carbon infrastructure** development and green transportation;
- **Eco/green tourism development**, including tourism that focuses on preserving and protecting the environment and improving the well-being of the local population;
- **Sustainable supply chains**, including integrating sound environmental practices and good labor practices; and
- **Health and safety conditions**, including technologies and methods that improve the working environment.

The above-mentioned ESG-related standards and references to laws and policies provide some details on how listed activities and sectors should be financed in practice. However, to develop a taxonomy, more details would be required with clear requirements and practical criteria to avoid sustainable financing that has little effect or is based on misleading claims.



TO MONITOR: THE SECURITIES AND EXCHANGE REGULATOR OF CAMBODIA (SERC)

The Securities and Exchange Regulator of Cambodia (SERC) is cooperating with the Asian Development Bank (ADB) to develop sustainable finance solutions for Cambodia's capital markets. The World Bank has announced it will be providing support to build SERC's capacity to do so, from 2022 onward. No details are available on whether that will include the development of a taxonomy.¹⁰

¹⁰ Hin Pisei, "Securities Regulator Teams up with World Bank, ADB on Sustainable Finance, Capacity Building", Phnom Penh Post, 6 August 2021, <https://www.phnompenhpost.com/business/securities-regulator-teams-world-bank-adb-sustainable-finance-capacity-building>.

INDIA

A taxonomy has been drafted without much public notice or transparency. A draft taxonomy text was announced for 15 December, but its publication has been delayed.

GOVERNMENT-LED PROCESS

In January 2021, the Reserve Bank of India (RBI), India's central bank, published an article providing an overview of green finance progress and challenges in India. The article did not mention the need for a taxonomy [footnote 11]. However, since August 2020, the Department of Economic Affairs of the Indian Ministry of Finance had already launched a process to elaborate the broad scope of a sustainable finance architecture in India.¹² It initiated the **Sustainable Finance Collaborative**, which brings together leading stakeholders in the public and private financial arena to contribute to the government's sustainable finance agenda. The launch of the Collaborative started with a three-day consultation meeting that discussed a broad range of issues related to sustainable finance, including the need for a taxonomy covering environmentally sustainable activities. The approximately 220 participants at the consultation were representatives of different ministries and departments of the Government of India, Indian financial sector regulators, multilateral development banks, bilateral partner agencies, UN entities, financial institutions, commercial investors and investors seeking positive impacts, corporates, industry associations, CSOs and academia.

The Sustainable Finance Collaborative has continued as the **Sustainable Finance Task Force (SFTF)** under the leadership of the Department of Economic Affairs (DEA) at the Ministry of Finance (MoF). It is supported by the SDG Finance Facility (SDGFF) Platform at UNDP, which acts as the secretariat. It brings together stakeholders from the government, private sector, development and aid agencies, financial institutions and multilateral development banks, as well as research institutes. The participants have been developing, in different working groups, various aspects of a sustainable finance framework, such as regulatory changes, regulatory barriers for new/innovative financing, corporate disclosures and a taxonomy. Each working group has a core group to initiate and propose the issue, an advisory group

with sectoral experts, the UNDP secretariat and the MoF as the chair. UNDP also has processes in place to coordinate content among the working groups. The first outcomes were planned to be published at the end of 2021 and to be open for public consultation.¹³ However, just days before the expected publication date it was postponed.

One working group has been discussing and drafting the first proposal for a sustainability taxonomy. Participants in the **taxonomy working group** include the Climate Bonds Initiative (CBI) and the Centre for Responsible Business (CRB). The advisory group includes representatives of the private financial sector such as Rabobank, and international NGOs such as the WWF. The draft sustainability taxonomy developed prior to 15 December 2021 was **descriptive sustainability taxonomy** with environmental and social objectives and a just transition embedded in all the objectives. The taxonomy had the following characteristics (which might be changed before publication):¹⁴

- **Six environmental objectives** related to climate change mitigation and adaptation (as defined in phase I), land use, pollution, biodiversity and promoting a circular economy (as defined in phase II).
- **Three social objectives** (defined in phase II) related to decent work, access to basic needs and inclusion/inclusive growth.
- **The integration of international frameworks** adapted to Indian goals.
- **Seven or eight principles** that will guide the definition of covered activities that will have to disclose GHG emissions data.
- **Activities can focus on an environmental category**, a social category or both with technical screening criteria for “significantly contributing” and “do not significant harm”.
- **The minimum safeguard** or criterion is the application of the National Guidelines on Responsible Business Conduct.

11 S. Ghosh, S. Nath and A. Ranjan, “Green Finance in India: Progress and Challenges”, RBI Bulletin, January 2021, https://rbidocs.rbi.org.in/rdocs/Bulletin/PDFs/O4AR_2101202185D9B6905ADD465CB7DD280B88266F77.PDF: The authors are from the Strategic Research Unit of Department of Economic and Policy Research of RBI, but the views expressed in the article are those of the authors and do not necessarily represent the views of RBI.

12 Ministry of Finance [India], DEA holds Sustainable Finance Collaborative Consultation with UNDP, 28 August 2020, <https://pib.gov.in/PressReleaseframePage.aspx?PRID=1649406>.

13 UNDP, Individual Consultant for Sustainable Finance Regulations Report, 23 July 2021, https://jobs.undp.org/cj_view_job.cfm?cur_job_id=101451.

14 Based on an informal source of information.

- **Five sectors** will be covered: agriculture, financial sector, electricity, transport and storage.
- **The taxonomy will be implemented in a phased manner** with a sense of proportionality. Coverage of the value chain in these sectors will be phased in later since it will have to cover the informal sector, which is not transparent.

A dedicated institution is to be created that will be instrumental in developing the taxonomy, raising awareness and promoting uptake. Participants in the institution could be a multi-stakeholder group from the government, the financial and corporate sectors, CSOs and international organizations.

FINANCIAL INDUSTRY-LED PROCESS

A proposal to develop an industry-led taxonomy in India was made by the private sector **India-UK Sustainable Finance Working Group**, set up in 2019 by the City of London and the Federation of Indian Chambers of Commerce and Industry (FICCI). Its goal is to propose a “robust policy framework” to close “the funding gap from both domestic and international sources and support a sustainable recovery”.¹⁵

In January 2021, the working group’s second report claimed that “clear definitions for green, sustainable and transition technologies/activities/projects have a crucial role to play in guiding decision-makers and providing greater clarity to investors.”¹⁶ The report provided an overview of processes, options, objectives, screening criteria and sectors to guide the Indian Government on developing a taxonomy in a phased approach, starting with climate-related categories and activities and later covering those related to a just transition and broader sustainability aspects.¹⁷ The report advised that the SEBI Green Bond Guidelines, with tighter green definitions, could be used on an interim basis for defining sustainable infrastructure investment until the sustainable finance taxonomy is ready (see below).¹⁸

The FICCI and City of London report included a no-detailed overview of 27 sectors and their sub-sectors, technologies, products or project types, which could form part of a sustainable taxonomy for India. The 27 sectors range from air pollution prevention cities, biodiversity conservation, climate change adaption

and mitigation, the circular economy, ecotourism, conventional and renewable energy sectors, to safe and affordable housing, digital access and gender.¹⁹ Each of the 27 (sub-)sectors, technologies, services and projects are briefly described and mapped according to their ESG aspect(s) and which SDG(s) they align with.

In August 2021, the India-UK Sustainable Finance Working Group issued a third report on drivers of sustainable finance in India. It had organised three sub-working groups, including a taxonomy working group whose members²⁰ were also participating in the taxonomy working group of the Government of India-UNDP Sustainable Finance Task Force.²¹ The report recognised that the government had started to work on a taxonomy and that a sustainable finance taxonomy would “provide greater clarity”, including for lenders, and could bolster the attractiveness of India and expand investment into new sectors”.²² India now faces a major challenge to “unambiguously define what ESG is” through a taxonomy²³ that must:²⁴

- Cover all aspects of ESG and not be just one or a few ESG aspects.
- Take the best from existing global frameworks and adapt them to India’s development realities and context, including issues such as the use of fossil fuel, a just transition and human rights in supply chains.
- Build on existing standards in India, such as the National Guidelines on Responsible Business Conduct (NGRBCs), but go beyond the generic and become more sector specific.
- Not be a static document but continuously evolve and adapt to changing circumstances and realities.

The report proposed the same list of 27 sectors, sub-sectors, technologies, services and projects as in the second report for inclusion in India’s taxonomy of sustainable finance.²⁵

15 FICCI and City of London, Practical Actions to Finance India’s Sustainable Recovery – Report India – UK Sustainable Finance Working Group, January 2021, https://ficci.in/spdocument/23424/Sustainable-Recovery_IUKSFWG_Report.pdf, p. 14.

16 Ibid., p. 15.

17 Ibid., pp. 7-8, 16-24, 35-36.

18 Ibid., pp. 9, 24, 35.

19 Ibid., Annex 2, pp. 50-56.

20 For the names of the members of the taxonomy sub-working group, see: FICCI and City of London, Drivers of sustainable finance for India: Report of the India-UK Sustainable Finance Working Group, 31 August 2021, p. 74, https://ficci.in/spdocument/23537/Report_IUKSFWG_August%202021.pdf

21 Ibid., p. 2.

22 Ibid., p. 11, 18.

23 Ibid., p. 46.

24 Ibid., p. 56.

25 Ibid., p. 47-52.

EXISTING CATEGORIES OF GREEN ACTIVITIES

The Securities and Exchange Board of India (SEBI) issued **green bond guidelines** in 2017 via a Circular,²⁶ which is a regulation that does not have the status of a law, covering requirements for issuance, disclosure and reporting to be followed when green bonds are listed on India's stock exchanges.²⁷ The SEBI recognizes the following sectors as green projects that can be financed by green bonds:²⁸

- Renewable and sustainable energy (including wind, solar, bioenergy, etc.);
- Clean transportation (including public transportation);
- Sustainable water management (including clean and/or drinking water, water recycling, etc.);
- Climate change adaptation;
- Energy efficiency (including efficient and green buildings);
- Sustainable waste management (including recycling, waste to energy, etc.);
- Sustainable land use (including sustainable forestry and agriculture, afforestation, etc.); and
- Biodiversity conservation.

No more details are provided by SEBI although it requires green bond issuers to report on the objectives, processes, projects, verification, etc. If this categorisation is a starting point for developing a green taxonomy in India, many more details will need to be elaborated.



MEETING THE CHALLENGE: AVAILABILITY OF INFORMATION

One of the challenges for lenders and investors who would use a taxonomy is having reliable information on the performance of the businesses they finance. From 2022–23 onwards, companies are required to apply a **new Business Responsibility and Sustainability Reporting (BRSR)** format, issued by SEBI in April 2021.²⁹ These updated sustainability reporting standards require more transparent disclosure about various ESG behaviors of companies.

There is a simplified version of the BRSR and a comprehensive one. The simplified “lite” reporting requirement may be extended to unlisted companies above specified thresholds of turnover and/or paid-up capital. Smaller unlisted companies below this threshold may adopt a lite version of the format on a voluntary basis. The comprehensive BRSR requirements are based on nine principles of the National Guidelines on Responsible Business Conduct and their detailed guidelines and metrics, which include social, environmental and governance operational aspects such as energy consumption, recycling, well-being of the company's and suppliers' employees, gender-based information, availability of grievance mechanisms, environmental and social impact assessments, anti-corruption policies and sustainability commitments by management, among others.

These guidelines provide a broad range of ESG issues, and some could be used for the application of the principles or screening criteria for the development and verification of a sustainable taxonomy.

26 SEBI, Disclosure Requirements for Issuance and Listing of Green Debt Securities, CIR/IMD/DF/51/2017, 30 May 2017, https://www.sebi.gov.in/legal/circulars/may-2017/disclosure-requirements-for-issuance-and-listing-of-green-debt-securities_34988.html.

27 I. Verma, “Sustainable Finance Through Green Bonds: Green Bonds have Constituted only 0.7 per cent of all the Bonds Issued in India Since 2018”, Outlook, 13 May 2021, <https://www.outlookindia.com/outlookmoney/opinions-and-blogs/sustainable-finance-through-green-bonds-7221>.

28 A. Mehrotra, Green Bonds in India, presentation 2017, https://www.emergingmarketsdialogue.org/wp-content/uploads/2018/02/3_Asheesh_Mehrotra_SEBI_Green_Bonds_in_India.pdf, slide 14; Lexicology, Role of green bonds in India's climate change goals, 16 July 2021, <https://www.lexicology.com/library/detail.aspx?g=d2202ffb-ecff-4c77-b0c7-087d430790c8>

29 See SEBI, Guidance Note for Business Responsibility and Sustainability Reporting Format, [May] 2021, https://www.sebi.gov.in/sebi_data/commndocs/may-2021/Business%20responsibility%20and%20sustainability%20reporting%20by%20listed%20entitiesAnnexure2_p.PDF; I. Verma, “Sustainable Finance Through Green Bonds: Green Bonds have Constituted only 0.7 per cent of all the Bonds Issued in India Since 2018”, Outlook, 13 May 2021, <https://www.outlookindia.com/outlookmoney/opinions-and-blogs/sustainable-finance-through-green-bonds-7221>.

INDONESIA

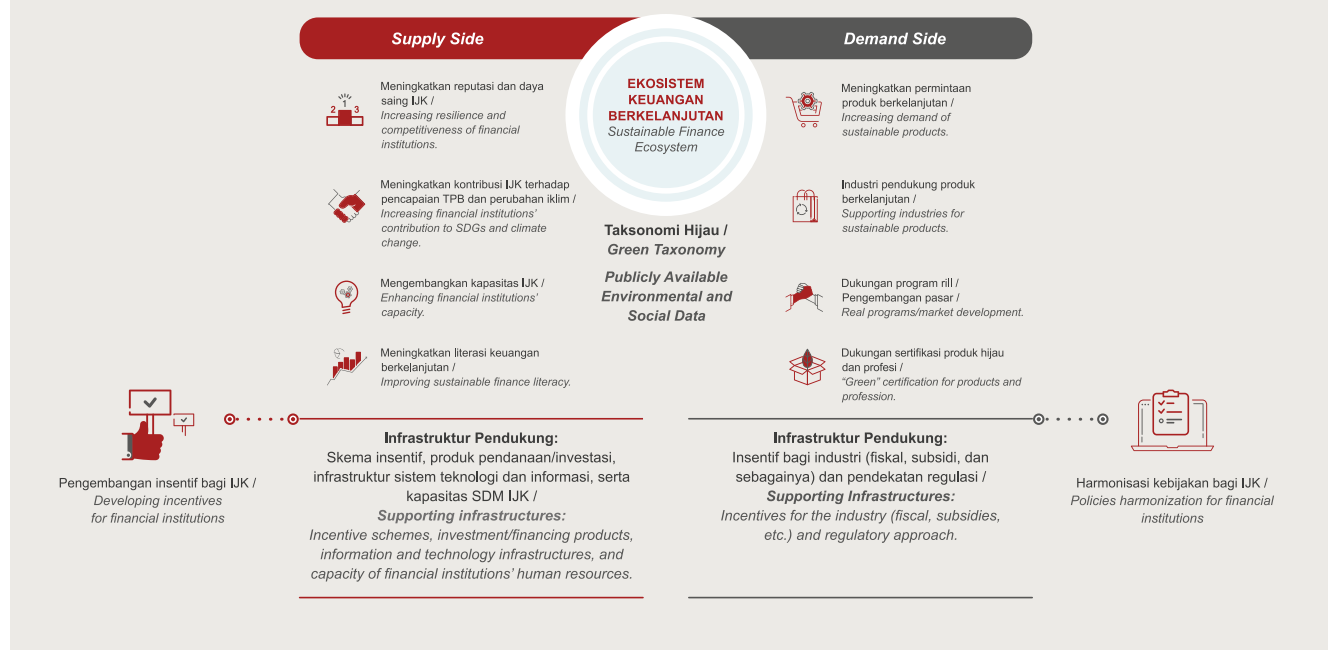
Phase II (2020–2025) of Indonesia’s Sustainable Finance Roadmap³⁰ was issued by the Indonesia Financial Services Authority (Otoritas Jasa Keuangan, OJK) in January 2021. It focuses on seven components supporting innovations, various instruments, capacity building, policies and incentives to create a “sustainable finance ecosystem” that should help the country achieve its SDG and Paris Agreement commitments through changes to business and its financiers.³¹

The development of a green taxonomy, together with availability of data, is a central pillar and one of the priorities of the second phase of the Sustainable Finance Roadmap (see the centre of Graph 1). The taxonomy’s classification “is the basis for all stakeholders in Indonesia in carrying out sustainable economic activities”.³² The Roadmap provides little details on how Indonesia’s green taxonomy would be developed, but that it would happen in 2021–2022. It referred,³³ among others, to the World Bank guidance report on developing a green taxonomy.³⁴

DEVELOPMENT OF THE FIRST DRAFT OF THE NATIONAL GREEN TAXONOMY

The drafting of the Indonesian green taxonomy took place behind closed doors throughout 2021, with the first draft published on 7 December 2021.³⁵ Indonesia’s Financial Services Authority (OJK) led eight ministries³⁶ that were involved in discussing and coordinating the green taxonomy’s criteria, thresholds (minimum levels) and sectors in line with policies, guidelines, plans, commitments and laws of each

FIGURE 1: CENTRAL ROLE OF A GREEN TAXONOMY IN PHASE 2 OF THE INDONESIAN FINANCE ROADMAP (2021–2025)



Source: OJK, Sustainable Finance Roadmap Phase II (2021–2025), January 2021, p. 28.

30 OJK, Sustainable Finance Roadmap Phase II (2021–2025), January 2021, <https://www.ojk.go.id/id/berita-dan-kegiatan/publikasi/Documents/Pages/Roadmap-Kuangan-Berkelanjutan-Tahap-II-%282021-2025%29/Roadmap%20Keuangan%20Berkelanjutan%20Tahap%20II%20%282021-2025%29.pdf>.

31 Ibid., p. 25–26.

32 Ibid., p. 13, 31.

33 Ibid., p. 31.

34 World Bank, Developing a National Green Taxonomy: A World Bank Guide, 2020, <http://documents1.worldbank.org/curated/en/953011593410423487/pdf/Developing-a-National-Green-Taxonomy-A-World-Bank-Guide.pdf>.

35 Indonesia Moves to Next Phase of Sustainable Finance Roadmap, 21 February 2021, <http://www.globalethicalbanking.com/indonesia-moves-next-phase-sustainable-finance-roadmap/>: According to OJK’s Deputy Commissioner International & Research, Hernawan B. Sasongko, OJK was, in February 2021, still in the process of finishing the taxonomy, had started with the green taxonomy and was coordinating with other institutions.

36 The main ministries involved were: 1. Ministry of Environment and Forestry (KLHK); 2. Ministry of Industry (Kemenperin); 3. Ministry of Marine Affairs and Fisheries (KKP); 4. Ministry of Energy and Mineral Resources (ESDM); 5. Ministry of Transportation (Kemenhub); 6. Ministry of Agriculture (Kementan); 7. Ministry of Tourism and Creative Economy (Kemenparekraf), and 8. Ministry of Public Works and Public Housing (PUPR). Source: OJK, Indonesia Green Taxonomy – Taksonomi Hijau – Edisi 1.0 -2022, January 2022, p. 2 and 14, https://www.ojk.go.id/keuanganberkelanjutan/Uploads/Content/Regulasi/Regulasi_22012011321251.pdf.

ministry related to greening of sectors and meeting Indonesia's national determined contributions (NDCs) for the Paris Climate Agreement.

The draft national green taxonomy integrated strategic domestic interests, and there were long internal discussions, for example, about what transition finance is. Namely, whether the fossil fuel sector and coal power plants on which Indonesia is heavily reliant, can be categorized as transitioning to green when it uses carbon capture sequestration (CCS) and other technologies.³⁷

The draft taxonomy was developed based on insights into developments in other countries, internal discussions and external advice. For instance, in June 2021, the SBFN facilitated an online knowledge and experience exchange session on developing a green taxonomy between the China Banking and Insurance Regulatory Commission (CBIRC) and Indonesia's Financial Services Authority (OJK) with more than 100 officials from OJK, various government ministries and Indonesia's central bank in attendance.³⁸ OJK is also actively involved in the development of a common ASEAN green taxonomy, which leaves room for the specific national needs of ASEAN Member States, and the Indonesian draft green taxonomy shows similarities with this taxonomy.

The first draft green taxonomy was published for consultation on 7 December 2021.³⁹ There was a very short consultation period to which the financial industry, academics, international institutions, NGOs and a few ministries responded.

CONTENTS OF THE FIRST GREEN TAXONOMY TEXT

The first official edition of the green taxonomy was published on 20 January 2022 by OJK.⁴⁰ It was quite different than the draft text that was presented for consultation, containing fewer details and less strict requirements but adding a detailed annex. Comments submitted by NGOs to incorporate social criteria were not accepted in the official edition.

The aim of the green taxonomy is to improve the understanding of the classification of green activities, avoid greenwashing, facilitate the reporting and periodic monitoring of the needs for green finance and promote climate-related and environmental risk assessments, including by authorities.⁴¹

The **application** of the green taxonomy is **voluntary, as a guideline**.⁴²

The taxonomy is **defined** as “an economic activity classification that supports environmental protection and management efforts, as well as mitigation and adaptation to climate change.”⁴³

The **main strategic objectives** are to:

1. Develop a standard definition and criteria for activities that support the Indonesian climate change mitigation and adaptation agenda and commitments, based on a science-based approach;
2. Encourage related innovations in green (investment/financial) products, projects and activities;
3. Encourage more funding for green economic activities; and
4. Provide a reference for reporting the financing of green economic activities.

Those using the green taxonomy are **expected to adhere to four principles** when applying the green taxonomy:

1. **Responsible investment principles** by integrating economic, environmental, social and good governance (EESG) considerations in economic activities;
2. **Sustainable business strategy** and practice principles in all decision-making;
3. **Social and environmental risk management principles**, including by using the precautionary principle against, and mitigation of, social and environmental risks; and
4. **Good governance principles**, including transparency, accountability, responsibility and fairness.

The **sectors covered** by the taxonomy are based on, among others, the 2017 OJK Regulation of Green bonds (see below).⁴⁴ The **broad six categories of sectors** classified by the green taxonomy are:

1. **Energy,**
2. **Forestry,**
3. **Agriculture,**
4. **Waste,**
5. **Processing industry,**

³⁷ Information gathered informally.

³⁸ SBFN, SBFN Peer Learning: Indonesia and China Knowledge Exchange on Green Taxonomy Development, Press release, June 2021, https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/company-resources/sustainable-finance/sbn_peer_learning_indonesia_china_june_2021.

³⁹ Integrated Financial Services Sector Policy Group – GKKT, Taksonomi Hijau – Edisi 1/Draft, December 2021.

⁴⁰ OJK, Indonesia Green Taxonomy – Taksonomi Hijau – Edisi 1.0 -2022, 20 January 2022, https://www.ojk.go.id/keuanganberkelanjutan/Uploads/Content/Regulasi/Regulasi_22012011321251.pdf and <https://www.ojk.go.id/keuanganberkelanjutan/en/publication/detailsflibrary/2352/taksonomi-hijau-indonesia-edisi-1-0-2022>.

⁴¹ Ibid., pp. 17–18.

⁴² Ibid., pp. 18, 21.

⁴³ Ibid., p. 18.

⁴⁴ OJK, Regulation 60/POJK.04/ 2017, <https://www.ojk.go.id/id/regulasi/Documents/Pages/Penerbitan-dan-Persyaratan-Efek-Bersifat-Utang-Berwawasan-Lingkungan-Green-Bond/SAL%20POJK%2060%20-%20Green%20Bond.pdf>.

6. Others (including public and commercial services, such as construction, transportation, information and communication).

Of the 919 **sectors, sub-sectors, groups and business activities** that were selected after 2,733 were screened by the relevant sectoral ministry, only 15 can be fully categorized as green. Another 904 are “not yet able to be identified to be directly categorization as green sector”⁴⁵, i.e. not yet meeting the green threshold. An additional 198 sub-sectors have been identified for further development. The technical identification of these sub-sectors is based on the Indonesia Standard Industrial Classification and some activities still need to obtain a technical industrial standard classification.

The criteria to classify green activities are divided into three categories that are labelled with colours:

1. **Green:** all green criteria must be met, namely, do no significant harm, apply the minimum safeguard, provide a positive impact to the environment and align with the environmental objective of the taxonomy.
2. **Yellow:** meet the do not significant harm criteria
3. **Red:** activities that do significant harm.

The **technical screening criteria** by which an activity in a sub-sector is aligned with the categories of the green taxonomy include:

- Thresholds that are aligned with existing government policies, or other to-be-developed references;
- Clearly defining whether an activity is eligible, specific and measurable;
- Thresholds that distinguish between activities that meet the environmental requirement or those that minimise potential environmental damage;
- Science-based references; and
- The best regional and international standards.

The thresholds are to be revised periodically to achieve targeted results. OJK will develop documentation and a management system on its website to deal with the adjustment of thresholds, which affects the users of the taxonomy.

The taxonomy provides further details or list of aligned activities classified by sub-sector in an annex that is not available in English. The taxonomy text provides two examples⁴⁶ of how to screen an economic activity: the criteria and thresholds to categorize a palm oil plantation as green or yellow, and the thresholds and criteria to categorize coal mining as yellow (it is not possible to categorise it as green). More details are to be found in attachments.⁴⁷

The **targeted users** of the green taxonomy include:⁴⁸

- **The Indonesian financial sector**, including banking, capital market and non-banking finance sectors, to expand the financing of green activities.
- **National and international investors** in the territory of Indonesia.
- **The government**, to formulate a fiscal policy or development plans and oversee whether its climate and SDG commitments are being achieved.
- **National financial and monetary agencies** to create, monitor and supervise the implementation of sustainable finance policies.
- **International and regional institutions** or development cooperation organizations that require information about green economy activities based on a standardised government definition.

The green taxonomy **will be used** by many public authorities, the private financial sector and other economic sectors, including for the financial sector’s annual sustainability reporting to OJK on the proportion of financing based on the taxonomy and for target setting for upcoming years. The taxonomy will provide information to facilitate the financing of green activities and will be used for supervisory guidelines on climate risk management.

The taxonomy is considered a **living or dynamic document** that can be modified in the future, for example, to complement or reduce economic (sub-)sectors that contribute to the environmental objectives of the green taxonomy or to add new green targets.⁴⁹

45 OJK, Indonesia Green Taxonomy – Taksonomi Hijau – Edisi 1.0 -2022, 20 January 2022, p. 14.

46 Ibid., pp. 38–42.

47 Ibid., p. 48.

48 Ibid., p. 20: adjusted translation by the author as the official English translation was not clear.

49 OJK, Indonesia Green Taxonomy – Taksonomi Hijau – Edisi 1.0 -2022, 20 January 2022, pp. 21, 29, 36, https://www.ojk.go.id/keuanganberkelanjutan/Uploads/Content/Regulasi/Regulasi_22012011321251.pdf.

CATEGORIES OF GREEN AND SUSTAINABLE ACTIVITIES THAT CAN BECOME PART OF THE GREEN TAXONOMY

Given that the principle taxonomy text does not provide a list of sectors and activities, the categories of the green bond guidelines in Indonesia might provide some indications.

(A). During the first phase of the Sustainable Finance Roadmap (2015–2019),⁵⁰ some economic activities had already been identified as green (11) through OJK Regulation 60/POJK.04/ 2017,⁵¹ which defined which green activities can be covered when issuing green bonds. Another sustainable category, inclusiveness, was added later by targeting micro, small and medium enterprises (MSMEs). These 12 categories were further specified through technical guidelines in 2018 in cooperation with IFC,⁵² as a reference for banks and other financiers to improve their sustainable investment portfolios or lending.⁵³

These 12 categories of green activities in the green bond guidelines **will be updated** in line with the taxonomy to align the various green activities to be financed.

The 12 activity categories with clarifying detailed definitions, criteria (with references to laws, standards or certification) and examples⁵⁴ are:

1. **Renewable energy;**
2. **Energy efficiency;**
3. **Pollution prevention and control;**
4. **Management of biological natural resources and sustainable land use;**
5. **Conservation of land and water diversity;**
6. **Environmentally friendly transportation;**
7. **Sustainable water and waste water management;**
8. **Climate change adaptation;**
9. **Eco-efficient products/products that may reduce the use of resources and generate less pollution;**

10. **Green buildings/environmentally sound buildings that adhere to a nationally, regionally or internationally recognized standard or certification;**

11. **Other environmentally sound business activities; and**

12. **Business activities of MSMEs.**

(B.) The Government of Indonesia has been issuing green bonds and green sukuk (green bonds following Sharia laws). According to the government's own Green Bond and Green Sukuk Framework (2018)⁵⁵, "**Eligible Green Projects**" refer to nine sectors, i.e. the kind of projects, activities and processes that promote the transition to a low-emission economy and climate-resilient growth, identified with few details as:⁵⁶

1. **Renewable energy;**
2. **Energy efficiency;**
3. **Resilience to climate change for highly vulnerable areas and sectors/disaster risk reduction;**
4. **Sustainable transport;**
5. **Waste to energy and waste management;**
6. **Sustainable management of natural resources;**
7. **Green tourism;**
8. **Green buildings; and**
9. **Sustainable agriculture.**

The framework also clarifies which projects are excluded:

- New fossil fuel-based electric power generation capacity and expenditure related to efficiency improvements;
- Large-scale hydropower plants (>30 MW capacity); and
- Nuclear and nuclear-related assets.

50 Regulated by OJK Regulation 51/POJK.03/ 2017 regarding the implementation of sustainable finance for financial services institutions, issuer companies and public companies: Unofficial English translation: <http://forestsandfinance.org/wp-content/uploads/2017/09/POJK-51-Unofficial-English-Translation-2017.pdf>.

51 OJK, Green Bond Regulation, 21 December 2017, <https://www.ojk.go.id/id/regulasi/Documents/Pages/Penerbitan-dan-Persyaratan-Efek-Bersifat-Utang-Berwawasan-Lingkungan-Green-Bond/SAL%20POJK%2060%20-%20Green%20Bond.pdf>.

52 OJK, Technical Guidelines for Banks on the Implementation of OJK Regulation POJK Number 51/POJK.03/ 2017, 2018, https://www.ifc.org/wps/wcm/connect/13d863ef-b8cf-4584-8602-14a63f9b9ede/Technical+Guideline+on+the+Implementation+of+POJK+51+2017+on+SF_English.pdf?MOD=AJPERES&CVID=mGmKSQ-.

53 IFC and OJK, Raising the Bar on Environmental, Social, and Corporate Governance Standards, 2020, <https://www.ifc.org/wps/wcm/connect/8a1337a6-87cf-487d-964b-94b55cb45883/IFC-OJK+IFC+Collaboration+Case-Brochure-FIN.pdf?MOD=AJPERES&CVID=nvw4462>.

54 See OJK, Technical Guidelines for Banks on the Implementation of OJK Regulation POJK Number 51/POJK.03/ 2017, 2018, https://www.ifc.org/wps/wcm/connect/13d863ef-b8cf-4584-8602-14a63f9b9ede/Technical+Guideline+on+the+Implementation+of+POJK+51+2017+on+SF_English.pdf?MOD=AJPERES&CVID=mGmKSQ-, pp. 22–39.

55 <https://www.djppr.kemenkeu.go.id/uploads/files/dmodata/in/6Publikasi/Offering Circular/ROI Green Bond and Green Sukuk Framework.pdf>.

56 Republic of Indonesia, Green Bond And Green Sukuk Framework, <https://www.djppr.kemenkeu.go.id/uploads/files/dmodata/in/6Publikasi/Offering%20Circular/ROI%20Green%20Bond%20and%20Green%20Sukuk%20Framework.pdf>, pp. 3–5; see also Ministry of Finance [Indonesia], Indonesia's Green Bond & Green Sukuk Framework, no date: ca. 2018, <https://www.google.com/url?sa=t&rt=j&q=&esrc=s&source=web&cd=&ved=2ahUKEwj8gr6ovvnyAhXIDOWkHVojAFwQFnoECAM-QAQ&url=https%3A%2F%2Fwww.undp.org%2Fcontent%2Fdam%2FLECB%2Fdocs%2Fpubs-reports%2Fundp-ndcsp-green-sukuk-share.pdf&usq=AOVvWODRJsuf-14mJhz42HgWVp58>.

JAPAN

Japan's authorities have not issued nor are they planning to develop a taxonomy, and are in fact openly opposed to it. Various governmental initiatives, guidelines and activities on sustainable finance have focused on financing a transition to carbon neutrality. Such published guidance has been principles-based, providing categories but no quantitative details or (minimum) thresholds.⁵⁷

JAPAN'S POSITION AGAINST INTRODUCING A TAXONOMY

In June 2021, the Financial Services Agency (FSA) established an **Expert Panel on Sustainable Finance (EPFS)** and published the report, "**Building a Financial System that Supports a Sustainable Society**".⁵⁸ The panel promoted a market approach by which corporations and investors discuss and conclude how a corporation can transition to more carbon-free and socially sustainable activities. It also endorsed the idea that investors' fiduciary duty "required to aim for market-competitive financial return even in impact investment" unless their beneficiary prioritizes positive impact over financial return.⁵⁹

The panel monitored the EU taxonomy, but concluded **not to propose to adopt a taxonomy because** "some issues need to be solved to ensure the effectiveness". The Expert Panel had the following **comments** on a science-based taxonomy as a potential policy tool to promote sustainable finance:⁶⁰

- It is challenging to guarantee the scientific nature of taxonomy standards. While establishing and unifying these standards enable judgment on what can be categorized as green, and therefore strengthens credibility, setting centralised standards can have a high cost.
- Also, taxonomy standards need to be reviewed frequently, which could become costly for financial participants. There could be cheaper and more flexible alternatives, such as market-based ESG ratings.
- The stage of development, the geographical conditions, the energy situation and other factors vary among countries and should be taken into account.

- Japan should closely observe how taxonomies are evolving in the EU and elsewhere, and participate in international discussions, such as the International Platform on Sustainable Finance (IPSF, administered by the EC), to consider the effects on Japan.
- Since it is necessary to decarbonize industries that are major GHG emitters, including those that find it difficult to "leap" to achieve the net-zero goal, funding should be encouraged based on assessments of transition efforts "to finally achieve carbon neutrality".⁶¹

In general, the EPSF focused⁶² on:

- Corporate disclosure regarding sustainability "for constructive dialogue with investors and financial institutions";
- How market-based tools could be improved (e.g. improving skills and reporting); and
- Improving understanding and risk management of investors, investees and borrowers.

Keidanren, a leading Japanese business organisation, was one of the participants in the EPSF alongside corporate, financial and academic participants.

THE POSITION OF JAPANESE BUSINESS AGAINST A TAXONOMY

Keidanren had already been heavily **lobbying at the EU level against an EU taxonomy** together with other Japanese business groups, but were the most opposed of all detractors.⁶³ Keidanren claimed that:⁶⁴

- The EU taxonomy could "(destabilize) international financial markets";
- "Business-led disruptive innovation" would be stifled as the taxonomy would result in standardization;

57 OECD, Sustainable Finance Definitions in Japan, <https://www.oecd-ilibrary.org/sites/f88d7688-en/index.html?itemId=/content/component/f88d7688-en> viewed 8 September 2021; OECD has not yet included the 2021 FSA report.

58 FSA [Japan], Report by the Expert Panel on Sustainable Finance: Building A Financial System that Supports a Sustainable Society, 18 June 2021, <https://www.fsa.go.jp/en/news/2021/20210618/04.pdf>. See also: Report by the Expert Panel on Sustainable Finance (Japanese), Report by the Expert Panel on Sustainable Finance (Overview).

59 Ibid., p. 6.

60 Ibid., p. 7.

61 Ibid.

62 FSA [Japan], Report by the Expert Panel on Sustainable Finance: Building A Financial System that Supports a Sustainable Society (Overview), 18 June 2021, <https://www.fsa.go.jp/en/news/2021/20210618/03.pdf>.

63 InfluenceMap, How Japanese Industry Lobbied Against a Strong EU Taxonomy, 2 April 2020, https://content.influencemap.org/report/-2a321cd8bdc7bd87c6a41a86fbfe62e9#_blank.

64 Ibid.

- The EU taxonomy did not reflect the concerns of non-EU countries;
- Identified activities that contribute to climate change could create “reputational risk” for certain sectors, i.e. the GHG and fossil fuel sectors; and
- The taxonomy should not be “arbitrarily eliminating specific economic activities, and the use of technologies and products, particularly fossil fuel”.

Keidanren’s position was clearly to avoid that a taxonomy would discourage or devalue coal and fossil fuel sectors, which represent a large share of the loans, investments and profits of the Japanese financial industry.⁶⁵ The result has been that the Japanese position has been to prioritise market mechanisms and market return, and using market-led standards, such as those developed by the ICMA and Task Force on Climate-related Financial Disclosures (TCFD).

In October 2020, Keidanren published the report, **“Basic Approach to Sustainable Finance on Climate Change and Concrete Actions”**.⁶⁶ Its position on sustainable finance was that Japanese business wants new technologies for decarbonization, transition finance and achievement of the SDGs to be encouraged by the government through several measures to attract finance and reduce the costs. It emphasizes the need for, and to encourage, better disclosure by companies, especially according to the TCFD recommendations. Keidanren wants the government to take an active part in (international) discussions, such as IPFS (International Platform on Sustainable Finance) and the International Capital Markets Association (ICMA) or in the EU and Malaysia, to explain its views and promote understanding of its approach. Keidanren has established business partnerships with other corporate groups, such as the Asia Business Summit and the business group engaging with the G20 (B20), and addressed various international conferences in countries and regions in Asia, Europe and the US.

SOME ALTERNATIVE MARKET-BASED APPROACHES

In 2017 and 2020, the Ministry of the Environment launched **Japan’s green bond guidelines**,⁶⁷ which provided an overview of projects that could be financed by green bonds. The proposed projects are identical to those in the non-exhaustive list identified by the Green Bond Principles of the ICMA.

The Japanese green bond guidelines are principles-based and do not contain strict eligibility criteria or thresholds, but provide some clarifications, for example, on how the financed projects should avoid having “serious negative social impacts”.⁶⁸ On 26 October 2021, the Financial Services Authority (FSA) published **social bond guidelines**⁶⁹ following a draft that had been submitted for consultation.⁷⁰

The **“Declaration for Creating Positive Impact through Developed Finance” (October 2020)** by the ESG Finance High Level Panel set up by the Ministry of the Environment, stated that in order to create a positive impact on the environment and society through ESG finance, each financial entity should work in collaboration with stakeholders on the practice of impact finance.⁷¹

In May 2021, the FSA, Ministry of Economy, Trade and Industry (METI) and the Ministry of the Environment of Japan (MOE) published the **Japan Basic Guidelines on Climate Transition Finance**. “Transition finance” is defined as “a financing means to promote long-term, strategic GHG emissions reduction initiatives that are taken by a company considering to tackle climate change for the achievement of a decarbonized society” by 2050. A roadmap for decarbonization is to be developed by each industrial sector. The Guidelines recommend reporting on transition finance using the ICMA Handbook on Transitional Finance and to disclose:⁷²

- The issuer’s climate transition strategy and governance;
- The business model’s environmental materiality or environmental impact;
- A climate transition strategy that is science-based, including targets and pathways; and
- The implementation.

The Ministries stated “[w]e believe that financing in accordance with the provisions of these Guidelines can be recognized as transition finance domestically and internationally”.⁷³ This reflects the Japanese position to prioritize market mechanisms and market return, and use market-led standards, such as those developed by the ICMA and TCFD.

65 The Asian Web - Tracking Regional Financial Flows – Executive Summary, 2020, <https://www.profundo.nl/download/ffa2009-summary>.

66 Keidanren, Policy Proposals Environment and Energy Basic Approach to Sustainable Finance on Climate Change and Concrete Actions: Working Group on Global Environment Strategy, Committee on Environment and Safety, 9 October 2020, https://www.keidanren.or.jp/en/policy/2020/094_proposal.html.

67 OECD, Sustainable Finance Definitions in Japan, <https://www.oecd-ilibrary.org/sites/f88d7688-en/index.html?itemId=/content/component/f88d7688-en> viewed 8 September 2021: OECD has not yet included the 2021 FSA report.

68 Ministry of the Environment [Japan], Green Bond Guidelines: Green Loan and Sustainability Linked Loan Guidelines, 2020, https://www.env.go.jp/policy/guidelines_set_version_with_cover.pdf, p. 17.

69 FSA [Japan], Publication of the “Social Bond Guidelines”, 26 October 2021, <https://www.fsa.go.jp/en/news/2021/20211026-2en.html>

70 ICMA, Newsletter, July 2021, <https://www.icmagroup.org/Emails/quarterly-newsletter/2021/07/15/quarterly-newsletter-gsb.html>

71 FSA [Japan], Report by the Expert Panel on Sustainable Finance: Building A Financial System that Supports a Sustainable Society, 18 June 2021, <https://www.fsa.go.jp/en/news/2021/20210618/04.pdf>, p. 6.

72 FSA, METI, and Ministry of the Environment [of Japan], Japan Basic Guidelines on Climate Transition Finance, May 2021, <https://www.meti.go.jp/press/2021/05/20210507001/20210507001-3.pdf>.

73 Ibid.

THE PHILIPPINES

The central bank of the Philippines, Bangko Sentral ng Pilipinas (BSP), has been active in promoting sustainable finance and related implementation instruments for banks since its mandate is to regulate and supervise the banks.

In April 2020, the BSP released the Sustainable Finance Framework, a regulation (“circular”) that encourages green banking and sustainable finance with a focus on ensuring that banks integrate and manage risks from climate change impacts, to which the Philippines is extremely vulnerable, to avoid financial instability, as well as integrate sustainable principles.⁷⁴

More detailed requirements were issued in October 2021.⁷⁵ This regulation did not aim to orient lending toward sustainability objectives but aimed to avoid financial losses..

The BSP has been co-chairing with the Department of Finance (DOF) the so-called “Green Force”, now known as the **Inter-agency Technical Working Group for Sustainable Finance (ITSF)**, a collaboration platform with 16 other key government ministries and government agencies. The purpose is to create a cohesive plan to mainstream green and sustainable finance in the country and facilitate the mobilization of funds toward green and sustainable projects.⁷⁶

In March 2021, the BSP announced that one of the activities of the Green Force would be to start developing a principles-based taxonomy⁷⁷ and developing a Sustainable Finance Roadmap.⁷⁸ Both were published in October 2021.

The **Philippines Sustainable Roadmap** was produced by consultants based on discussions with the ITSF and financed by the UK Government ASEAN Low Carbon Energy Programme.⁷⁹ It contains advice and ideas on (a) how to promote sustainable finance

by creating an enabling policy framework; (b) encouraging sustainable finance, among others, by providing a common definition (taxonomy) of sustainable activities that the ITSF wants to be principles-based, and; (c) increasing the sustainable activities to be financed.

A PROPOSAL FOR A PRINCIPLES-BASED TAXONOMY

A proposal for a principles-based taxonomy was published in October 2021 titled the “**Philippine Sustainable Finance Guiding Principles**”. The publication did not indicate whether the proposal is up for consultation or application.⁸⁰ The report states that it was developed through discussion and consultation with ITSF members and was financed and supported by the UK Government’s ASEAN Low Carbon Energy Programme, which provided technical expertise. It seems to have been written by the same consultants as the Philippines Sustainable Roadmap.⁸¹

The Sustainable Finance Guiding Principles provide a very broadly defined (non-descriptive) taxonomy, which specify the intention of the covered activities and provide examples.

The objectives of the principles-based taxonomy are:

- To provide guidance on identifying economic activities that contribute to **sustainable development** in the Philippines, with a focus on addressing the impacts of **climate change**; and
- Encourage and attract financing of activities that promote the **transition** to carbon-free energy while not endangering financial stability.⁸²

74 BSP, Unlocking Opportunities at the Local Level, speech by BSP Governor E. Diokno at the Investment Forum on Energy Transition, Governor of BSP, 19 May 2021, <https://www.bis.org/review/r210609e.pdf>; see also V. Caranay, What Philippines’ New Sustainable Finance Framework Means for Local Finance, 18 May 2020, <https://fairfinanceasia.org/us/post/what-philippines%E2%80%99s-new-sustainable-finance-framework-means-for-local-finance>.

75 BSP, Environmental and Social Risk Management Framework, October 2021, [https://www.bsp.gov.ph/Regulations/Issuances of Policy Exposure Drafts/Draft_Circular-Environmental_and_Social_Risk_Management_Framework.docx](https://www.bsp.gov.ph/Regulations/Issuances%20of%20Policy%20Exposure%20Drafts/Draft_Circular-Environmental_and_Social_Risk_Management_Framework.docx).

76 BSP, Unlocking Opportunities at the Local Level, speech by BSP Governor E. Diokno at the Investment Forum on Energy Transition, Governor of BSP, 19 May 2021, <https://www.bis.org/review/r210609e.pdf>.

77 L. Agcaolli, “BSP leads in mobilizing funds for green projects”, The Philippine Star, 10 March 2021, <https://www.philstar.com/business/2021/03/10/2083154/bsp-leads-mobilizing-funds-green-projects>.

78 To be financed by the United Kingdom Prosperity Fund’s ASEAN Economic Reform Programme and the ASEAN Low-Carbon Energy Programme: BSP, Unlocking Opportunities at the Local Level, speech by BSP Governor E. Diokno at the Investment Forum on Energy Transition, Governor of BSP, 19 May 2021, <https://www.bis.org/review/r210609e.pdf>.

79 The Philippines Sustainable Finance Roadmap, October 2021, [https://www.bsp.gov.ph/Media_And_Research/Media_Releases/2021_10/Sustainable Finance Roadmap.pdf](https://www.bsp.gov.ph/Media_And_Research/Media_Releases/2021_10/Sustainable_Finance_Roadmap.pdf).

80 Ibid.

81 Ibid.

82 BSP, Unlocking Opportunities at the Local Level, speech by BSP Governor E. Diokno at the Investment Forum on Energy Transition, Governor of BSP, 19 May 2021, <https://www.bis.org/review/r210609e.pdf>.

Potential users and use of the Sustainable Finance Guiding Principles include:

- Policymakers: to use as a reference and to promote investment in priority projects.
- Financial regulators: to undertake regulatory interventions, incentivize and encourage sustainability/climate-related lending and prevent greenwashing.
- Banks (private and public): to provide sustainability/climate-related financial products and services on which to base their financing decisions and to report on sustainability/climate related lending.
- Investors: to identify activities with positive sustainability/climate impacts to invest in and report on them.
- Issuers of green, social or sustainability bonds: to provide a list of eligible activities.
- Verifiers, certifiers, (ESG) rating companies: to check and compare the impact of financing against the claimed intention.
- All companies: to identify what to transition to and report how much they spend on taxonomy-aligned activities.

The principles-based taxonomy has seven Guiding Principles:

- 1: Climate change** mitigation and adaptation;
- 2: Promoting the transition to a low-carbon economy;**
- 3: Resilient food** systems;
- 4: Sustainable cities;**
- 5: Sustainable and resilient infrastructure** for inclusive growth and poverty reduction;
- 6: Environmental** management and conservation; and
- 7: Prohibited** activities.

The sustainable taxonomy guidelines have **two general “contribute to” principles** that are mainstreamed throughout the six of the seven guiding principles and must:

- **Contribute to gender equality; and**
- **Contribute to the SDGs (see Figure 2).**

Each of these seven guiding principles have their own specific objectives, which are illustrated by examples, as follows.

GUIDING PRINCIPLE 1: CLIMATE CHANGE MITIGATION AND ADAPTATION

1.1. Climate change mitigation objectives are to:

1. Avoid GHG emissions by promoting “green” activities with very low or zero emissions; and
2. Reduce GHG emissions.

1.2. Climate change adaptation objectives are to:

1. Better withstand the impacts of climate change; and

2. Enable other economic activities to adapt to climate change.

Examples of activities to achieve the objectives are:

- Optimising energy consumption;
- Low-carbon mobility;
- Expanding the use of renewable energy/clean energy;
- Promoting green buildings (e.g. use of low-carbon building materials);
- Adapting crop fertilizers to the best amount of nitrogen; and
- Raising building heights above projected sea level rise.

GUIDING PRINCIPLE 2: PROMOTING THE TRANSITION TO A LOW-CARBON ECONOMY

The objective is to have an orderly transition from economic activities with high emissions to a low-carbon economy. Examples of activities to achieve the objective are:

1. Research and development aimed at decarbonisation by companies;
2. Products with the “best level of low GHG emissions”; and
3. Reduction of emissions throughout the product life cycle

GUIDING PRINCIPLE 3: RESILIENT FOOD SYSTEMS

The objective is to have the capacity to provide food security over time, despite disturbances, through resilience that relates to:

1. **Robustness;**
2. **Absorptive capacity, being replaceable to provide food security;**
3. **Flexibility and swift recovery capacity; and**
4. **Resourcefulness and adaptability.**

Examples of activities to achieve the objective are:

- Reducing food loss and waste;
- Training of women farmers;
- More effective practices and technologies; and
- Integrated water resource management.

GUIDING PRINCIPLE 4: SUSTAINABLE CITIES

Objectives and criteria are:

1. **Achieving social development (e.g. green housing);**
2. **Economic development (e.g. innovation);**
3. **Environmental management (e.g. waste, energy efficiency); and**
4. **Urban governance (e.g. strong political rights).**

Examples aligned with the objectives and criteria are:

- Clean cities by minimizing waste and overconsumption;
- Gender-smart infrastructure; and
- Safe places for women street vendors.

**GUIDING PRINCIPLE 5:
SUSTAINABLE AND RESILIENT INFRASTRUCTURE
FOR INCLUSIVE GROWTH AND POVERTY
REDUCTION**

Objectives and criteria are:

1. Affordable and reliable facilities for companies, women and marginalized groups; and
2. Alleviating poverty by increasing employment and income opportunities.

Examples aligned with the objectives and criteria are:


















- Decreasing production costs by lowering transport costs and improving access to transport by women;
- Improved access to key facilities, such as child care facilities; and
- Basic infrastructure for home-based workers and with women-friendly design.

**GUIDING PRINCIPLE 6:
ENVIRONMENTAL MANAGEMENT AND
CONSERVATION**

Objectives for the wider ecosystem are:

1. Preventing and controlling pollution;
2. Ensuring a healthy ecosystem and biodiversity; and

FIGURE 2: MAINSTREAMING THE CONTRIBUTION TO GENDER EQUALITY AND THE SDGS WITH SIX PRINCIPLES OF THE PRINCIPLES-BASED SUSTAINABLE FINANCE TAXONOMY

SUSTAINABLE DEVELOPMENT GOALS			GUIDING PRINCIPLES					
			1	2	3	4	5	6
	SDG 1	No Poverty	●		●		●	
	SDG 2	Zero Hunger			●		●	
	SDG 3	Good Health and Well-Being			●			
	SDG 4	Quality Education			●			
	SDG 5	Gender Equality	●	●	●	●	●	●
	SDG 6	Clean Water and Sanitation					●	●
	SDG 7	Affordable and Clean Energy	●	●		●	●	
	SDG 8	Decent Work and Economic Growth			●			
	SDG 9	Industry, Innovation and Infrastructure	●	●	●	●	●	
	SDG 10	Reduced Inequalities			●		●	
	SDG 11	Sustainable Cities and Communities	●			●	●	●
	SDG 12	Responsible Consumption and Production	●		●	●		●
	SDG 13	Climate Action	●	●	●	●	●	●
	SDG 14	Life Below Water	●		●			●
	SDG 15	Life on Land	●		●	●		●
	SDG 16	Peace, Justice and Strong Institutions				●		
	SDG 17	Partnerships for the Goals	●	●	●	●	●	●

3. Promoting resource resilience through resource efficiency, a circular economy and waste management.

Examples of activities to achieve the objectives are:

- Promoting air, water and land pollution control measures; and
- Promoting a circular economy (e.g. by recovering waste).

GUIDING PRINCIPLE 7: PROHIBITED ACTIVITIES

The criteria or objectives are:

1. Not be illegal under any Philippines law and environmental regulations;
2. Not negatively impact the socio-economic well-being of communities in the long term;
3. Not negatively impact the mitigation and adaptation efforts of others; and
4. Not negatively impact the other principles.

Examples of prohibited activities are (full list):

- Open burning of solid waste;
- Open dumping, burying of biodegradable or non-biodegradable materials in flood-prone areas;
- Importing of toxic waste misrepresented as “recyclable” or “with recyclable content”;

- Discharging or depositing water pollutant to a water body, or something that will impede the natural flow in the water body.
- Constructing or operating landfills or any waste disposal facility on any aquifer, groundwater reservoir, or watershed area and or any portions thereof;
- Single-use plastic; and
- Use of exotic and/or bioinvasive plant species in any reforestation and afforestation activity.



HOW TO GET CORPORATE SUSTAINABLE-RELATED DATA

Before the Guiding Principles were published, there were hardly any concrete definitions that could inform an environmentally and socially sustainable taxonomy, except for the list of activities by the **Guidelines on the Issuance of Green/Social/Sustainability Bonds Under the ASEAN Green/Social/sustainable Bonds Standards in the Philippines** (2018-2019).⁸³

Since those who want to use a principles-based taxonomy will need information from companies, the **Sustainability Reporting Guidelines for Publicly-listed Companies** issued by the Securities and Exchange Commission in February 2019 provides useful information. The requirements and proposed format according to which listed companies must report their economic, environmental and social impact, are very detailed. They include information on how a company can manage and minimize its negative environmental impacts related to, for instance, ecosystems and biodiversity, GHG emissions or water, or how a company can behave in a socially responsible way, for example, by providing equal opportunities for vulnerable groups and upholding human rights and labour standards.⁸⁴

⁸³ <http://www.sec.gov.ph/wp-content/uploads/2019/10/2019MCNo08.pdf> and <https://www.sec.gov.ph/wp-content/uploads/2019/11/2018MCNo12.pdf>.

⁸⁴ Securities and Exchange Commission [Philippines], Sustainability Reporting Guidelines for Publicly-listed Companies, SEC Memorandum Circular number 4, Series 2019, 15 February 2019, <https://www.sec.gov.ph/mc-2019/mc-no-04-s-2019-sustainability-reporting-guidelines-for-publicly-listed-companies/>, pp. 1-47.

THAILAND

In August 2021, the “Sustainable Finance Initiatives for Thailand” were published as a strategy advisory report by the Working Group on Sustainable Finance, consisting of the Fiscal Policy Office, the Bank of Thailand, the Securities and Exchange Commission, the Office of Insurance Commission and the Stock Exchange of Thailand.

The report was prepared by the IFC and a consultancy with inputs from, among others, international organizations, government agencies, financial and listed companies and the Thai General Insurance Association, with financing from Australian Aid⁸⁵

This strategy report recommends a work plan to enhance sustainable finance throughout the financial sector. It recommends five **Key Strategic Initiatives**, the first of which is to develop a “practical taxonomy”.⁸⁶ The other four strategies could, among others, enhance the promotion, quality and use of the taxonomy and deal with:⁸⁷

- Improving the availability and quality of data through high-standard ESG disclosure on the business conduct of companies that receive financing;
- Implementing effective incentives;
- Encouraging and creating demand-led sustainable finance products and services “with a minimised level of regulatory roadblocks for new products and services”; and
- Building skills, competencies and values of staff to accelerate the sustainable transformation of the financial sector.

PLAN TO DEVELOP A PRACTICAL COMPREHENSIVE SUSTAINABLE TAXONOMY

The **first Key Strategic Initiative** in the report recommends that Thailand adopts a practical comprehensive sustainable taxonomy with the following characteristics:

1. **Practical:** suitable for the Thai context and adapted to the needs and commitments of Thailand,

including the Paris climate goals and SDGs, and implemented cost-effectively by the Thai financial and business sectors, while also being sufficiently able to facilitate cross-border, sustainability-linked financial flows.⁸⁸

2. **Comprehensive:** with a holistic sustainable goal, including the broad ESG criteria and social justice criteria covered by the SDGs (i.e. not limited to environmental or climate concerns as is the case with non-Thai taxonomies).⁸⁹
3. **Compatible with international standards:** while the comprehensive sustainable taxonomy should be practical for Thailand, it should also be “relatively compatible” and interoperational with major international financial centers and globally accepted standards (to attract foreign sustainability-oriented funding and to avoid being at a competitive disadvantage).⁹⁰ The Thai taxonomy could also take direction from the ASEAN green taxonomy.⁹¹
4. **Serving SMEs:** it is crucial that the taxonomy improves access to finance for SMEs, rural and agribusinesses and small financial institutions, and does not create “unreasonable extra costs for SMEs”, while additional resources might be required for smaller businesses to adapt to sustainability requirements.⁹²

The **objective** of the development of a comprehensive practical taxonomy is to be instrumental in building a “thriving sustainable finance sector” that results in:⁹³

- Establishing a “**common language**” between investors and investees to easily classify financial flows.

84 Sustainable finance initiatives for Thailand, joint publication of Fiscal Policy Office, Bank of Thailand, Securities and Exchange Commission, Office of Insurance Commission and Stock Exchange of Thailand, 18 August 2021, pp. 1, 55, https://www.bot.or.th/Thai/SustainableBanking/Documents/Sustainable_Finance_Initiatives_for_Thailand.pdf.

85 Joint Statement on Sustainable Finance Initiatives for Thailand by the Fiscal Policy Office, Bank of Thailand, Securities and Exchange Commission, Office of Insurance Commission and Stock Exchange of Thailand, 18 August 2021, pp. 20–24, https://www.bot.or.th/English/AboutBOT/Activities/Pages/JointPress_18082021.aspx.

86 Joint Statement on Sustainable Finance Initiatives for Thailand by the Fiscal Policy Office, Bank of Thailand, Securities and Exchange Commission, Office of Insurance Commission and Stock Exchange of Thailand, 18 August 2021, https://www.bot.or.th/English/AboutBOT/Activities/Pages/JointPress_18082021.aspx.

87 Sustainable finance initiatives for Thailand, joint publication of the Fiscal Policy Office, Bank of Thailand, Securities and Exchange Commission, Office of Insurance Commission and Stock Exchange of Thailand, 18 August 2021, p. 21, 23,

88 https://www.bot.or.th/Thai/SustainableBanking/Documents/Sustainable_Finance_Initiatives_for_Thailand.pdf.

89 Ibid., p. 24.

90 Ibid., pp. 21, 24.

91 Ibid., p. 24.

92 Ibid., p. 25.

93 Ibid., pp. 20–25.

- **Aligning sustainable finance policies among regulators** in a consistent manner, monitoring and measuring finance flows toward sustainable development and refining policy as a result.
- **Encouraging innovative financial products and services** (such as green loans, bonds and index-linked capital market products) and the related skill development within the financial sector.
- The development of a large number of **companies requiring ESG funding**, and a large number of investors willing to put new capital in ESG-related efforts to achieve Thailand's sustainability goals.
- **Improving the objectivity of ESG verification methodologies** and the development of a group of actors that undertake reliable monitoring, reporting and verification, which should contribute to "robust mechanisms for ESG verification".

The strategy report, "Sustainable Finance Initiatives for Thailand", provides a **comparison of existing taxonomies with international influence** (EU, China, CBI, IFC) in terms of:⁹⁴

- Main objectives;
- Minimum ESG safeguards;
- Transition activities that are included and excluded;
- The statistical codes used for the classification of sustainable activities;
- Performance criteria, thresholds and technical standards;
- Agency issuing the taxonomy and voluntary or mandatory applicability;
- Mandatory users; and
- Consideration of the use of the taxonomy in practice.

To develop a practical and comprehensive sustainable taxonomy, the Key Strategic Initiative in the report recommends an **action plan with the following steps (in chronological order)**:⁹⁵

- First, in the short term, a specialist "**taxonomy working group**" is to be established.
- The taxonomy working group is to examine the options available and **propose a range of strategic options** with their advantages and disadvantages. The specialist taxonomy working group should consult and analyze the future users of the taxonomy (investors, financial industry, consumers of financial services, policymakers; note that civil society and those impacted by ESG factors are not mentioned).
- The paper with strategic options proposed by the specialist working group should be considered by the **Three Regulators Steering Committee** (i.e. the Bank of Thailand, the Securities and Exchange Commission and the Office of Insurance Commission). That committee is to **determine the preferred option**, which it should use to **develop the mission and vision of the taxonomy**.
- The taxonomy is thereafter to **be developed by the taxonomy working group** based on the established vision, mission and key strategic objectives, and a plan for the necessary tasks and activities to **realise the taxonomy in the medium term**.
- Once the taxonomy is implemented, it should **be evaluated regularly** to address practical problems and to adapt and refine it over time.

Given that this plan to develop a taxonomy is being formulated as advice endorsed by the inter-agency Working Group on Sustainable Finance, it is not clear how it will be implemented.



NEEDED: INFORMATION AND DATA FOR APPLYING THE TAXONOMY

The ESG data to implement a taxonomy will need new sources of information. Some data can be drawn from existing statistical frameworks for economic, industrial and trade data statistics, integrating other public and private data centres (e.g. the Office of Natural Resources and Environmental Policy and Planning (ONEP)). Improving the availability and quality of corporate data through high-standard ESG disclosure is one of the Key Strategic Initiatives.

⁹⁴ Ibid., pp. 22–23.

⁹⁵ Ibid., p. 25.

VIETNAM

The Vietnamese authorities have undertaken different initiatives that promote financing “green growth” as part of the National Green Growth Strategy for 2011–2020 with a vision to 2050. None of the initiatives have resulted in the development of a taxonomy.

The National Green Growth Strategy was promulgated in October 2021 and contained updates for 2021–2030.⁹⁶ Initiatives include the central bank’s directive to scale up green credit and environmental and social risk management by banks and creditors, action plans for the banking industry to implement the National Strategy on Green Growth and strategies to implement financial inclusion.⁹⁷

While these initiatives have not resulted in the formulation of a taxonomy, a process to develop a taxonomy has taken some initial steps. The **National Green Growth Strategy** for 2011–2020 with a vision to 2050 identifies the tasks of formulating systems for national and sectoral **green classification standards** and criteria. Earlier, in January 2021, the CBI advised the State Securities Commission of Vietnam (SSC) with its Vietnam handbook on “How-to Issue Guide for Green Bonds, Social Bonds and Sustainability Bonds”.

CBI recommended implementing the steps elaborated in the World Bank guide, “**Developing a National Green Taxonomy: A World Bank Guide**”⁹⁸ as an instrument to implement Vietnam’s commitment to the Paris climate agreement and a low-carbon economy.⁹⁹

ALTERNATIVE IDENTIFICATION AND CLASSIFICATION OF GREEN ACTIVITIES

While there is not yet a taxonomy that defines which activities have positive climate impacts, there are **guidelines for classifying public investment for climate change and green growth** issued by the Minister of Planning and Investment in July 2018.¹⁰⁰ An overview is provided in Figure 3.

The **Handbook on Environmental Related Criteria for Green Projects** provides some details on what is to be considered climate and environmentally beneficial (see Figure 4).

One initiative has been the **regulation for issuing and trading bonds**, including green bonds, first in December 2018 and updated in December 2020 (Decree 153/2020/ND-CP¹⁰¹). That regulation provided a framework to raise capital for implementing green projects,¹⁰² which can be those already identified by the above-mentioned Ministry of Planning and Investment.

Another initiative related to the classification and identification of green activities is the **2020 guidelines** by the Ministry of Finance on how listed companies, bond issuers, stock exchanges and investment funds listed on the stock exchange must **disclose** information and produce an annual report, effective from 1 January 2021.¹⁰³

96 Government of Vietnam, National Green Growth Strategy for the period 2011–2020 with a vision to 2050, 19 October 2021, <https://en.baochinhphu.vn/national-green-growth-strategy-for-2021-2030-vision-towards-2050-11142515.htm>.

97 State Bank of Vietnam, Decision No. 1552/QĐ-NHNN on Banking Industry’s Action Plan on the implementation of the National Strategy on Green Growth to 2020, 2015; Directive No. 03/CT-NHNN (Directive 03) on promoting green credit growth and managing environmental and social risks in credit activities, dated March 24, 2015; Decision No. 1731/QĐ-NHNN on Banking Industry’s Action Plan on the implementation of the 2030 Agenda for Sustainable Development, 31 August 2021; Decision No. 1309/QĐ-NHNN on the Banking Industry’s Action Plan on the implementation of the National Financial Inclusion Strategy, July 2020.

98 World Bank, Developing a National Green Taxonomy: A World Bank Guide, July 2020, <https://documents.worldbank.org/en/publication/documents-reports/documentdetail/953011593410423487/developing-a-national-green-taxonomy-a-world-bank-guide>.

99 Climate Bonds Initiative (CBI) for the State Securities Commission of Vietnam, How-to Issue Guide for Green Bonds, Social Bonds and Sustainability Bonds, January 2021, <https://www.ifc.org/wps/wcm/connect/62360f48-af20-485c-882d-aa190051e1a6/Issue+bonds+-+Guide+English.pdf?MOD=AJPERES&CVID=nAiPeP1>, p. 14: the handbook was financed by the International Finance Corporation (IFC) and the Swiss State Secretariat for Economic Affairs.

100 Minister of Planning and Investment, Decision No. 1085/QĐ BKHDĐT, 16 July 2018, <http://qpp.l.vpubnd.quangnam.vn/QTIUpload/VB/2018/7/27072018500710/QD%201085%20-%20huong%20dan%20phan%20loai%20dau%20tu%20cong%20cho%20Bien%20doi%20khi%20hau%20va%20Tang%20truong%20xanh.pdf>.

101 http://vanban.chinhphu.vn/portal/page/portal/chinhphu/hethongvanban?class_id=1&mode=detail&document_id=202224.

102 Climate Bonds Initiative (CBI) for the State Securities Commission of Vietnam, How-to Issue Guide for Green Bonds, Social Bonds and Sustainability Bonds, January 2021, <https://www.ifc.org/wps/wcm/connect/62360f48-af20-485c-882d-aa190051e1a6/Issue+bonds+-+Guide+English.pdf?MOD=AJPERES&CVID=nAiPeP1>, p. 13.

103 Ministry of Finance, Circular 96/2020/TT-BTC, 16 November 2020, <https://vanbanphapluat.co/circular-96-2020-tt-btc-providing-guidelines-on-disclosure-of-information-on-securities-market>: effective from 1 January 2021 onward; the format is described in Appendix 4 (see Article 10, item 2 for environment related disclosures: the appendix is not translated in English).

FIGURE 3: VIETNAM'S RELATED GUIDELINES

A. CLIMATE-RELATED EXPENDITURE CRITERIA BY THE MINISTER OF PLANNING AND INVESTMENT

PURPOSE	SCOPE OF ACTIVITIES	PURPOSE	SCOPE OF ACTIVITIES
Reduction	<ul style="list-style-type: none"> • Efficient energy • Low-carbon manufacturing and electricity • Sustainable manufacturing in industry • Building and developing sustainable urbanization • Sustainable agriculture and livestock farming • Sustainable forestry management • Sustainable transportation development • Sustainable waste management • Medical and social service • Irrigation • Water supply & drainage quality • Sustainable fish farm and aquaculture • Eco diversity and preservation 	Adaptation	<ul style="list-style-type: none"> • Promoting information about meteorology, hydrology and climate and alert • Manufacturing, transmitting and distributing low-carbon electricity • Disaster reduction • Building, developing sustainable urbanization • Sustainable transportation development • Sustainable waste management • Sustainable agriculture and livestock farming • Sustainable forestry management • Medical and social service • Irrigation • Water supply & drainage quality • Sustainable fish farm and aquaculture • Eco diversity and preservation • Sustainable water resources management • Seaside protection

Source: Climate Bonds Initiative (CBI) for the State Securities Commission of Vietnam, How-to Issue Guide for Green Bonds, Social Bonds and Sustainability Bonds, January 2021, <https://www.ifc.org/wps/wcm/connect/62360f48-af20-485c-882d-aa190051e1a6/Issue+bonds++Guide+English.pdf?MOD=AJPERES&CVID=nAiPeP1>, p. 14.

FIGURE 4: VIETNAM'S RELATED GUIDELINES

B. ENVIRONMENTAL CRITERIA FOR GREEN PROJECTS

CRITERIA	PROJECTS
1 Energy efficiency	<ul style="list-style-type: none"> • Energy efficiency improvements in new or existing facilities through the installation of more efficient equipment and technology for reduction of heat losses, and greater waste heat recovery • Energy efficiency improvements in new or existing building facilities • Energy efficiency improvements in new or existing production, public service facilities through installation of more efficient lighting technology and systems • Energy efficiency improvements in existing facilities through changes in management processes to save energy and reduce heat losses • Researches and pilot production of innovative energy efficiency products
2 Production and/or use of clean energy, renewable energy	<ul style="list-style-type: none"> • Wind energy • Solar energy • Energy from biomass sources • Energy from biofuel, biogas captured through waste treatment • Geothermal energy • Marine energy (tidal and wave energy) • Hydropower including reservoir hydropower with storage of up to 100,000m³ and generating capacity of up to 10 megawatts
3 Use of environmentally friendly materials	<ul style="list-style-type: none"> • Projects using materials for production business or service which are certified or labelled as environmentally friendly (materials) by authorised organizations
4 Conservation of natural resources and ecosystem	<ul style="list-style-type: none"> • Projects with investment components aimed at conserving natural resources and/or the natural ecosystem
5 Efficient and effective use of natural resources	<ul style="list-style-type: none"> • Adoption of clean technology in recovering or reusing materials and waste • Recycle and reuse wastewater for production, business or service towards saving water resources • Researches and planning for more productive land use • Researches of new technologies for efficient and effective use of natural resources and for environmental conservation • Installation of new more-efficient equipment and change in production processes to save production inputs
6 Climate adaptation	<ul style="list-style-type: none"> • Lower-carbon fuels replacing carbon-intensive fuels • Installation of new technologies and equipment to reduce GHG emissions • Afforestation/Reforestation along the coastal line for environmental conservation • Installation of livestock management technology and/or process towards reducing GHG emission • Adoption of advanced agricultural production techniques and practices to reduce GHG emissions • Integration of transport: to effectively connect the road-to-railway or road-to-waterway transport system to reduce GHG emissions (improvement of existing infrastructure or construction of new infrastructure) • Low-carbon or carbon-free transport to replace traditional carbon-intensive transport • Livestock and aquaculture projects adopting technology
7 Other environmental benefits	<ul style="list-style-type: none"> • Productions of products which are certified as organic or environmentally friendly by authorised organizations
8 Pollution prevention and control	<ul style="list-style-type: none"> • Early warning technologies/systems for natural hazards, floods and fires • Technologies to monitor environmental and natural resource quality (soil, water, air) • Waste collection, recycling, and management facilities with backup system to prevent environmental related incidents • Waste collection, recycling, and management facilities with online energy-consumption monitoring system, and can be identified by local environmental authorities • Installation of environmental management component for waste collection, recycling, and management facilities to prevent climate change related incidents.

ASEAN GREEN TAXONOMY

The ASEAN Taxonomy Board has been working on an ASEAN taxonomy in 2021.

On 10 November 2021, the ASEAN Taxonomy Board released the first version of the **ASEAN Taxonomy for Sustainable Finance**, which is a green taxonomy.¹⁰⁴

The Board was a collaboration of four ASEAN sectoral bodies, namely: the ASEAN Capital Markets Forum (ACMF), the ASEAN Insurance Regulators Meeting, the ASEAN Senior Level Committee on Financial Integration, and the ASEAN Working Committee on Capital Market Development.

The aim of the ASEAN green taxonomy is to attract investment flows for sustainable projects in the ASEAN region by providing a credible and common ASEAN classification system for sustainable activities, particularly those with positive climate and environmental impacts and promoting a transition to low-carbon practices.

The taxonomy stipulates four **environmental objectives**. Taxonomy-aligned activities must substantially contribute to at least one of them:

1. **Climate change mitigation and climate change adaptation**
2. **Protection of healthy ecosystems and diversity**
3. **Promotion of resource resilience**
4. **Transition to a circular economy**

The environmental taxonomy requires the application of **two principles**, referred to as two **essential criteria**:

1. **Do no significant harm (DNSH)** to the other three environmental objectives when substantially contributing to one or more environmental objective, and to the broader environment; and
2. **Undertake remedial measures to transition** from originally higher emissions to lower emissions in a particular year, with clear stipulations on how to progress.

The ASEAN taxonomy has a **two-tiered approach**:

1. **A principles-based Foundation Framework (FF)** requires qualitative assessments of activities to fulfil at least one of the environmental objectives and the two essential criteria stipulated in the taxonomy. The the FF is to be applied by all ASEAN member states.
2. **A Plus Standard (PS)** applies additional metrics and thresholds that further qualify green activities

for taxonomy alignment, which can be decided by each ASEAN Member State.

Activities under each of the Foundation Framework and the Plus Standard can be **labelled** or classified as:

- **Green:** clearly contributing to (a) taxonomy objective(s);
- **Amber:** contributes to (a) taxonomy objective(s) but further assessment is needed to avoid harm; and
- **Red:** does not contribute to the objectives.

The ASEAN green taxonomy has identified **six focus economic sectors** that are having a major impact in achieving the environmental objectives of ASEAN, especially to reduce GHG emissions. They will be prioritized for coverage by the Plus Standard and are:

1. Agriculture, forestry, and fishing;
2. Electricity, gas, steam and air conditioning;
3. Manufacturing;
4. Transportation and storage;
5. Water supply, sewerage and waste management; and
6. Construction and real estate.

In addition, **three enabling sectors** will be covered by the Plus Standard:

1. Information and communication;
2. Professional, scientific and technical; and
3. Carbon capture, storage and utilisation.

Thresholds and technical screening criteria for each activity **under the Plus Standard** will be developed in the next phase in a “stacked approach”.¹⁰⁵ They will need granular data and time to be developed.

The ASEAN green taxonomy is **a flexible**, or living, document that is regularly reviewed in accordance with technological and scientific sustainable development processes.

The first version of the ASEAN green taxonomy will be the basis for discussions among officials “and private sector stakeholders to work together on the development of the ASEAN Taxonomy.”¹⁰⁶ In other words, ASEAN countries are not yet compelled to apply the ASEAN taxonomy.

¹⁰⁴ ASEAN, ASEAN Taxonomy for Sustainable Finance, November 2021, <https://asean.org/wp-content/uploads/2021/11/ASEAN-Taxonomy.pdf>.

¹⁰⁵ Regulation Asia, “ASEAN Sectoral Bodies Publish Taxonomy for Sustainable Finance”, 11 November 2021, <https://www.esginvestor.net/asean-sectoral-bodies-publish-taxonomy-for-sustainable-finance/>: a stacked approach “means that for each activity there are multiple decarbonisation pathways and therefore there could be more than one threshold that can be referenced at a single point in time.”

¹⁰⁶ ASEAN, ASEAN Sectoral Bodies Release ASEAN Taxonomy for Sustainable Finance – Version 1, Press release, 10 November 2021, <https://asean.org/asean-sectoral-bodies-release-asean-taxonomy-for-sustainable-finance-version-1/>.

ANNEX I: FRAMEWORK FOR UPDATING THE FFA COUNTRY OVERVIEW

To update the status and process of (developing) a taxonomy, questions in the following framework could be answered.

ISSUE	DETAILS
Tool of a sustainable finance strategy	<ul style="list-style-type: none"> • Did (a) government agency(ies) or a financial sector body recently develop or change a sustainable finance policy? Did that policy include the introduction, development or change of a taxonomy?
Timing	<ul style="list-style-type: none"> • When did the development or review of the taxonomy take place? • When are consultations taking place? • When are decisions taking place?
Decision-making	<ul style="list-style-type: none"> • Who has been involved in developing the draft taxonomy or changing the existing taxonomy? • Has there been an opportunity for consultation at that stage of development? When and how have civil society organisations been involved or consulted? • Has a donor been financing the development of the taxonomy and has that influenced the content of the taxonomy? Has the format of the taxonomy been influenced by taxonomies in other countries? • Who makes the final decisions about the taxonomy?
Content of the taxonomy	<ul style="list-style-type: none"> • What are the objectives of the taxonomy? • Is the focus on climate change (mitigation and adaptation), social rights or broad sustainability goals? • Is the taxonomy general and principles-based or prescriptive with technical criteria and thresholds? • What are the principles, technical criteria and requirements? • Is there a minimum safeguard clause? • Does the taxonomy include a list of sectors or activities (with statistical codes) that are aligned with the taxonomy or will they be developed later? If not, does the taxonomy provide examples of what activities are aligned with the taxonomy?
Alternatives	<ul style="list-style-type: none"> • Are there other sustainability policy instruments or ESG criteria by the government or the financial sector that can be considered as (potentially) taxonomy-aligned?
Application and use of the taxonomy	<ul style="list-style-type: none"> • Are there other sustainability policy instruments or ESG criteria by the government or financial sector that can be considered (potentially) taxonomy-aligned? • Is the application of the taxonomy compulsory or voluntary and for whom? Which users are the target group? • Are there examples of how the taxonomy will be used?

SUPPORTED BY

