Institute for Energy Economics and Financial Analysis

Fact Sheet:

Green Taxonomies Explained

A green taxonomy is a classification system that defines which economic activities and assets are "green" or environmentally sustainable

Taxonomies aim to increase investment in green activities or assets, and facilitate greenwashing detection

Companies, regulators and financial market actors (investors, lenders and insurers) use taxonomies to make informed decisions on sustainable economic activities which can help achieve net-zero or decarbonisation goals

Why have a green taxonomy?

Increase transparency for better risk assessment

Align financial markets with net-zero goals

Cultivate an environmentally sustainable economy

Reorient capital towards environmentally sustainable economic activities

To be taxonomy aligned, most taxonomies require an economic activity to meet necessary thresholds

Substantially contribute to one or more environmental objectives

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Do no significant harm to any other objectives defined in the taxonomy
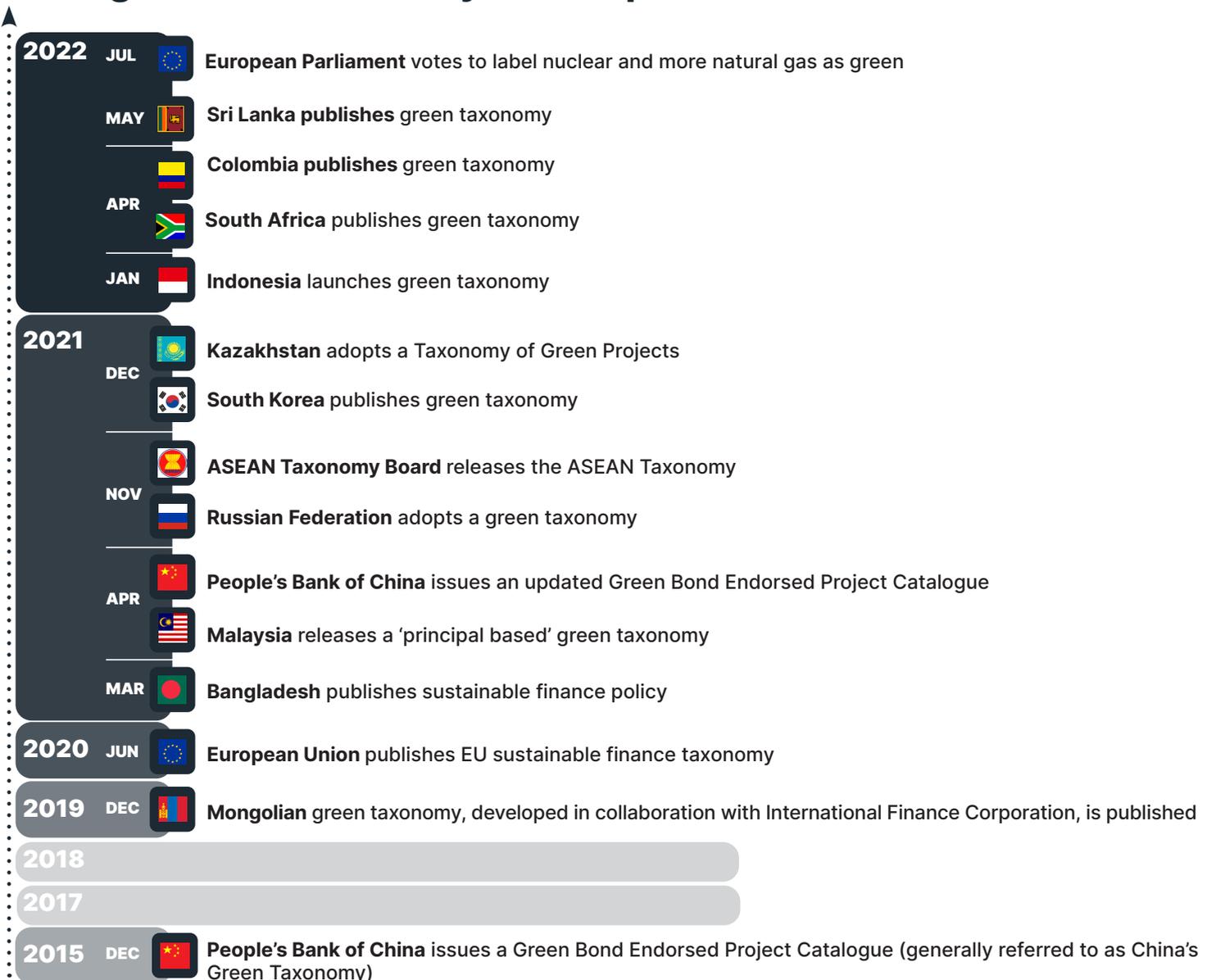
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Comply with minimum social safeguards

Determined through performance thresholds or technical screening criteria which need to be fulfilled for substantial contribution and doing no significant harm

Safeguards for international human and labour rights set by agencies such as the OECD and the UN

Progress on Taxonomy Development Worldwide

2022

JUL — **European Parliament** votes to label nuclear and more natural gas as green

MAY — **Sri Lanka publishes** green taxonomy

APR — **Colombia publishes** green taxonomy

South Africa publishes green taxonomy

JAN — **Indonesia** launches green taxonomy

2021

DEC — **Kazakhstan** adopts a Taxonomy of Green Projects

South Korea publishes green taxonomy

NOV — **ASEAN Taxonomy Board** releases the ASEAN Taxonomy

Russian Federation adopts a green taxonomy

APR — **People's Bank of China** issues an updated Green Bond Endorsed Project Catalogue

Malaysia releases a 'principal based' green taxonomy

MAR — **Bangladesh** publishes sustainable finance policy

2020 JUN — **European Union** publishes EU sustainable finance taxonomy

2019 DEC — **Mongolian** green taxonomy, developed in collaboration with International Finance Corporation, is published

2018

2017

2015 DEC — **People's Bank of China** issues a Green Bond Endorsed Project Catalogue (generally referred to as China's Green Taxonomy)

Other jurisdictions such as India, the UK, Singapore and Vietnam are also in the process of developing green taxonomies

How different stakeholders use taxonomies

Stakeholder Uses

Banks/Financial Institutions — Develop green financial products with lower transaction costs

Financial Regulators — Green the financial sector by encouraging lending to taxonomy aligned activities and facilitating sustainability disclosures

Policymakers — Facilitate the development of a pipeline of green projects and track progress on national energy transition goals

Investors — Disclose exposure to sustainable investments and identify opportunities that conform to the sustainability goals set by the investor

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