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 'principle-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

About IEEFA

The Institute for Energy Economics and Financial Analysis (IEEFA) examines issues related to energy markets, trends and policies. The Institute's mission is to accelerate the transition to a diverse, sustainable and profitable energy economy.

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