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The taxonomy development process: Lessons from GIZ partner countries

Angela Saul - Advisor Sustainable Finance, GIZ



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GIZ activities in the area of Sustainable Finance Taxonomies

Capacity building:

- *Introductory trainings* that cover e.g. rationale, key principles, and development process
- More *advanced trainings* on the implementation of a taxonomy, covering e.g. disclosure practices and sustainable product standards

Drafting support:

- Stakeholder mapping
- Sector selection
- Development of screening criteria and thresholds

Governance support:

- Coordinating technical expert group
- Facilitating dialogue with international experts





Lesson 1: Consider the implementation of taxonomies early in the design process

This lesson has two components:

- a) Consider how implementation is facilitated *domestically*; and
- b) Consider how implementation is facilitated *globally*.



- a) Consider how implementation is facilitated *domestically*:
 - Ensure that taxonomy **links to existing Sustainable Finance (SF) frameworks** (e.g. standards & regulations) to improve usability, acceptance and adherence to taxonomy.
 - Example: EU Green Bond Standard (forthcoming) & financial and non-financial disclosure requirements.
 - Existing SF frameworks and taxonomy should interact to:
 - 1) make sure that taxonomy is **consistent** with available SF frameworks, or
 - 2) **raise the ambition** of existing frameworks.





Lesson 1: Consider the implementation of taxonomies early in the design process (cont'd)

- b) Consider how implementation is facilitated *globally*:
- Ensure that taxonomy is **interoperable** with other taxonomies to reduce transaction costs and facilitate cross-border financial flows.
 - Consider jurisdictions where their taxonomy is applicable but also those jurisdictions, where investors are and the taxonomies they are familiar with.
 - Facilitators:
 - International Standard Industrial Classification (ISIC);
 - Common Technical Screening Criteria (TSC).



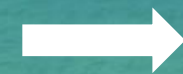


Lesson 2: Include the Do No Significant Harm Principle

- This principle is commonly applied in case a taxonomy has **multiple objectives**.
- Taxonomy-alignment is defined through:
 - Economic activity **substantially contributes** to one (or more) of the taxonomy's objectives.
 - Economic activity does **not cause harm** to any of the other taxonomy's objectives.
- Adherence to principle helps to **address sustainability** more **holistically**.
 - Example: Hydro-power generation



Economic Activity	Principle	Climate Change Mitigation	Biodiversity conservation
Electricity generation through hydropower	Contribution to environmental objective	✓	-
	Do No Significant Harm	NA	✗



Carry out impact assessment



Lesson 3: Determine taxonomy-alignment through Technical Screening Criteria

- TSCs should be quantitative, science-based and ambitious
 - **Quantitative:** For neutrality and comparability
 - **Science-based:** For improved credibility
 - **Ambitious:** Incentivising a transition
- Where data is scarce, **proxy indicators** can be used until data is more readily available.
 - Example: Adherence to local policies or regulations.
- Important not to „reinvent the wheel“:
 - Leverage already existing science, research and literature on taxonomies.
 - Identify suitable thresholds and metrics (*adopt*) and adjust them based on the local context (*adapt*).





Summary:

1. Consider the **implementation** of taxonomies early in the design process



2. Include the **Do No Significant Harm Principle**



3. Determine taxonomy-alignment through **Technical Screening Criteria**





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CONTACTO

Deutsche Gesellschaft für
Internationale Zusammenarbeit (GIZ) GmbH

Angela.Saul@giz.de

Registered offices
Bonn and Eschborn, Germany

Friedrich-Ebert-Allee 32 + 36
53113 Bonn, Germany
T +49 228 44 60 - 0
F +49 228 44 60 - 17 66

E info@giz.de
I www.giz.de

Dag-Hammarskjöld-Weg 1 - 5
65760 Eschborn, Germany
T +49 61 96 79 - 0
F +49 61 96 79 - 11 15

