
**TRENDS IN TAXONOMY
DEVELOPMENT AND LESSONS
FROM EMERGING MARKETS**

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OUR PRESENTERS



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Discussant



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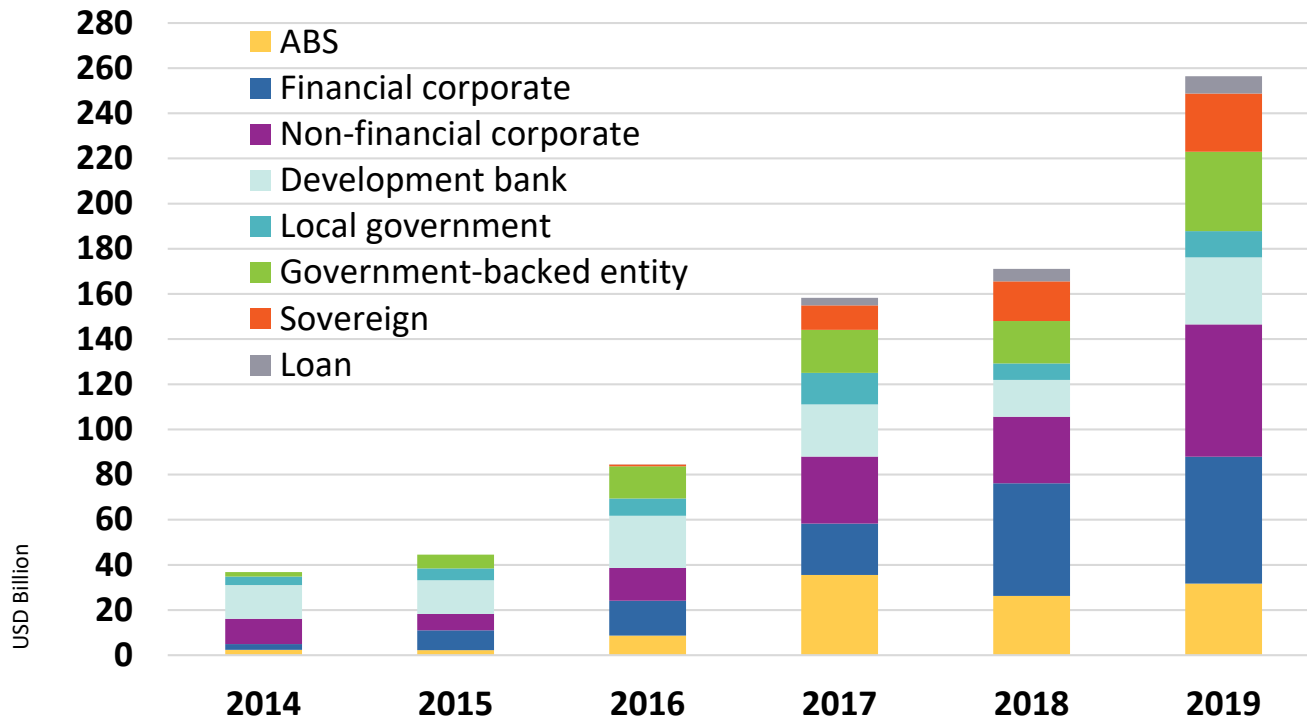
Discussant

Sustainable & Green Taxonomies



Sean Kidney, Climate Bonds Initiative

Background driver



Source: Climate Bonds Initiative. Data as of 31st Dec 2019.

Core principles of the EU taxonomy



Who will use the Taxonomy?

The proposed regulation has three mandatory users;

Disclosure obligations

1. Financial market participants

- Investors with more than 500 staff
- Corporations
- Banks

2. EU Member States

The Taxonomy can be used on a voluntary basis by credit institutions and other issuers, such as local authorities.

EU Taxonomy Approach

A list of economic activities considered environmentally sustainable for investment purposes

Substantially contribute to at least one of the six environmental objectives as defined in the proposed Regulation*



Do no significant harm to any of the other five environmental objectives as defined in the proposed Regulation*



Comply with **minimum safeguards**

EU Taxonomy = financial sector reporting on climate change

Already **low carbon**

Very low, zero or net negative emissions
Compatible with net zero CO2 economy by 2050

Likely to be stable
and long term

- Renewable energy
- Zero emissions transport
- Afforestation

Contributing to **transition**

...to a net zero emissions economy in 2050

Likely to be revised
regularly and
tightened over
time

- Building renovation
- Electricity generation up to 100g CO2/kWh
- Cars <50g CO2/km

Enabling emission reductions

...in the first two types of activities

Consistent with
those activities
being enabled

- Manufacture of wind turbines
- Installing efficient boilers in buildings

EU taxonomy guidance



Electricity: 100gms Coe/KWh

Solar, wind, **geothermal**, hydro

Gas only if with CCS

Storage, transmission



Transport Zero tailpipe
& very low emissions:
electric, hydrogen



Energy efficiency, adaptation



Buildings

Top 15%, or 30% improvements

Supply chain / SMEs



ICT



Landuse

Maintaining carbon

Improving carbon

Best practice farming



Manufacturing

Transitions

Components

Aluminium

Steel

Concrete

Plastics

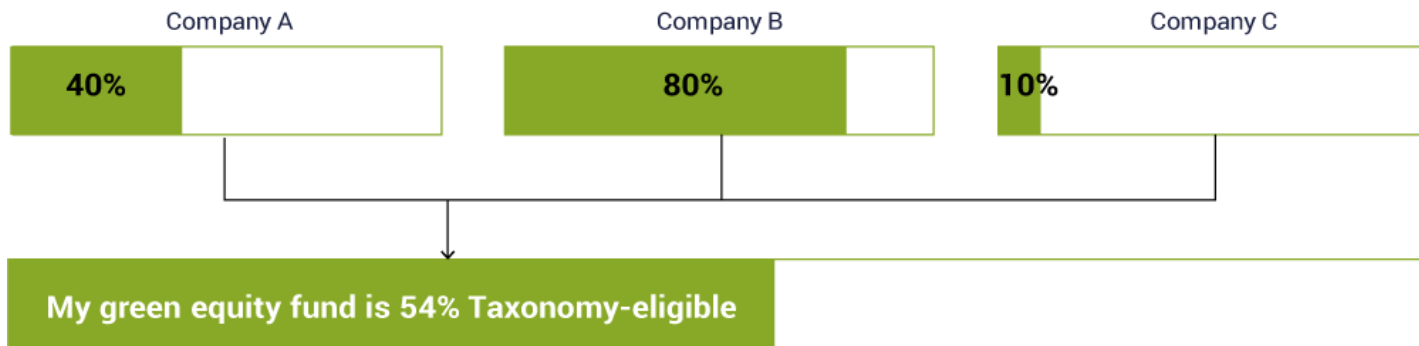


The Taxonomy in practice: Equities

How to apply the taxonomy to an equity portfolio

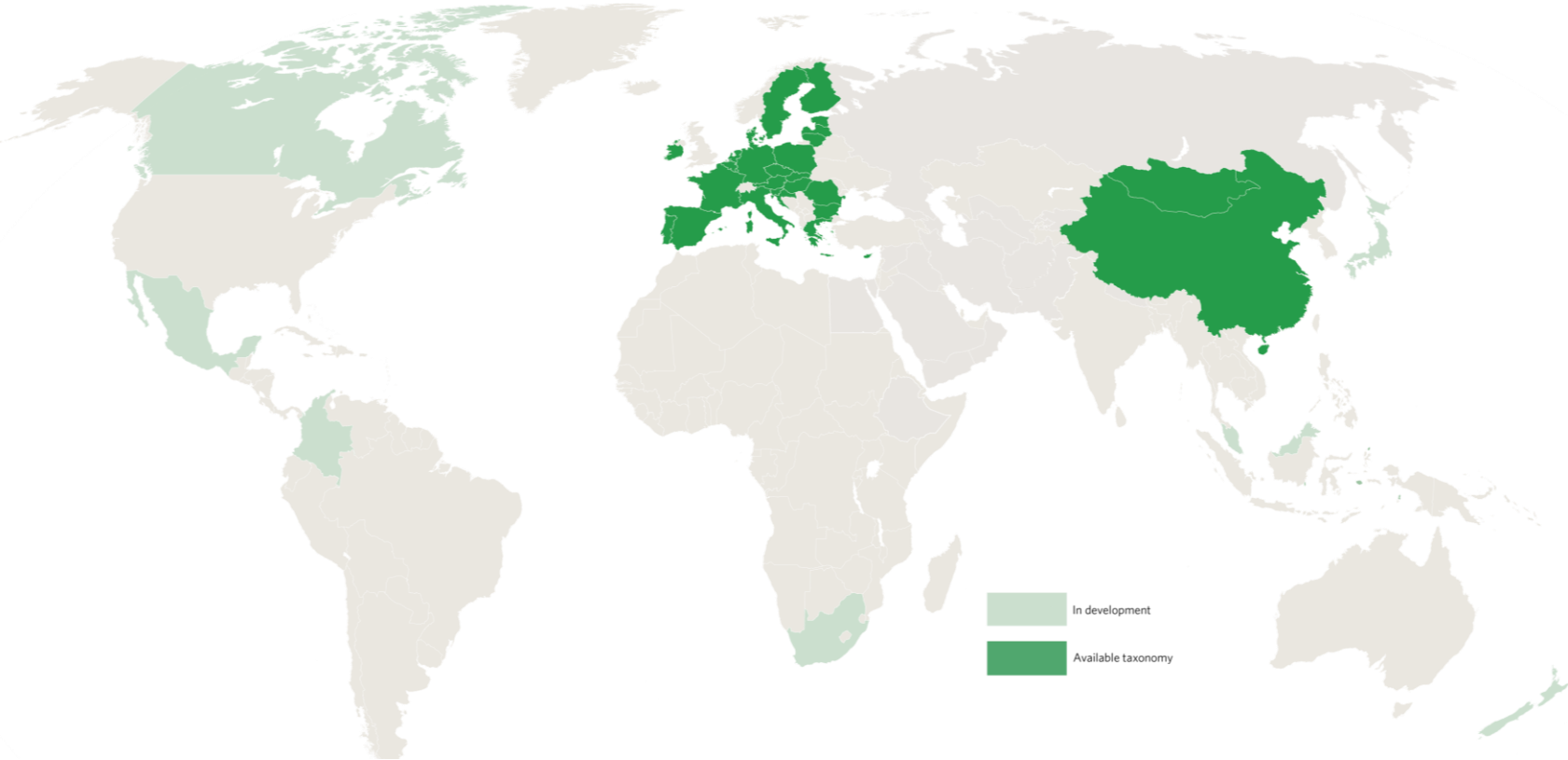


Proportion of the company revenue or turnover



Add each company's weighting in the portfolio

Global taxonomies



Question and Answer



Green Taxonomy: Sharing Mongolia's Experience

Sustainable Banking Network Webinar Series

Presented by:

Nomindari Enkhtur, Advisor

Oyungerel Munkhbat, Project and Partnership Manager

February 2020



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MONGOLIA**

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**LESSONS LEARNED &
RECOMMENDATIONS**

ABOUT MSFA

Vision:

Mongolia to become the
Regional Sustainable Finance
Knowledge Center

IFC- SBN:

Implementation > Advancing
Chair of Taxonomy working group
Co-chair for the IDA working group



Green Taxonomy Development process and timeline

- Coordination with Tsinghua team
- Meeting with key partners
- Desk review
- Drafting the Taxonomy
- Initial comments

2018.12 - 2019.03

- In-depth review of relevant documents
- Consultation #1



2019.03 – 2019.05

- One-on-one meetings with policymakers & partners
- Consultation #2



2019.05 – 2019.06

- Finalize draft
- Translate the Green Taxonomy
- Prepare for approval

2019.06 – 2019.10

- Central Bank of Mongolia directive for banks to send statistics

2019.10

2019.03 – 2019.10: Mail feedback from partners

2019.01 – 2019.10: Mail feedback from banks

2018.12.11
Launch

2019.12.10
Approval



Drivers of the Green Taxonomy



Environmental Issues

- **Climate change:** 2.1°C
- **Air pollution:** miscarriage is 3.6 times more likely in the winter
- **Soil pollution:** 88% of Ulaanbaatar soil is contaminated by bacteria



Industry Demand

- Investment required to achieve NDC (22.7%): 11.7 billion USD
- Lack of definition limits access to green financing
- Banks: E&S Capacity
Businesses: Potential green products



Policy

- National Green Development Policy
- NDC
- Monetary Policy of 2019
- National program to develop financial market until 2025
- National Sustainable Finance Roadmap

Partners

KEY PARTNERS:



MONGOLBANK
CENTRAL BANK OF MONGOLIA



**MINISTRY OF ENVIRONMENT
AND TOURISM**



**清华五道口
TSINGHUA PBCSF**



IFC | International
Finance Corporation
WORLD BANK GROUP

TECHNICAL PARTNERS:

A. Regulators

1. Ministry of Construction and Urban Development
2. Ministry of Agriculture and Light Industry
3. Ministry of Energy
4. Ministry of Road and Infrastructure
5. Ministry of Finance
6. Energy Regulatory Commission
7. Financial Regulatory Commission
8. General Agency for Specialized Inspection
9. Mongolian Agency for Standardization and Metrology
10. Ulaanbaatar Municipality Office
11. National Development Agency
12. GCF Focal Point - NDA

B. Private Sector

1. Commercial banks (10)
2. Industry non-government organizations (18)
3. Businesses (12)
4. Universities (3)
5. International development organizations and project units (8)
6. IFIs (4)

APPROVED BY:

Financial Stability Commission of Mongolia

1. Minister of Finance
2. Governor of the Central Bank of Mongolia
3. Head of Financial Regulatory Commission
4. CEO of Deposit Income Corporation

Overview of the Mongolia Green Taxonomy

Overall objective: “To develop a nationally agreed classification framework of activities that contribute to climate change mitigation, adaptation, pollution prevention, resource conservation, and livelihood improvement in the context of green finance.”

Specific objectives:

1. Provide **common understanding and approach** to identify, develop, and finance green projects
2. **Enhance investors’ confidence and prevent “green washing”**
3. **Boost green financial flows** from various sources
4. **Track private sector investments** into green projects
5. **Inform national policies and strategies** on green finance

Users	Examples of application
Financial institutions	Use as a <u>guide</u> to i) develop green finance strategies, ii) identify/compare green finance opportunities, iii) design green criteria, iv) measure and report green finance flows, v) educate clients.
Bond issuers (corporate, municipal, government)	Use as a <u>reference</u> to i) develop eligibility criteria of the projects, ii) assess and select green projects/activities, iv) tracking of the proceeds, v) reporting on the allocation of proceeds.
Industry (corporate, SMEs, start-ups etc.)	Use as a <u>guide</u> to identify opportunities to i) develop green strategies, ii) review/compare green technology options, iii) develop new green projects, iv) understand eligibility for green finance options.
Verification and standard-setting companies	Use as a <u>reference</u> to conduct pre- and post-issuance impact assessments, define baselines, certify and label green projects, and conduct verifications of the use of proceeds.
Policy makers	Use as a <u>basis</u> for further policy action in the area of green finance, including standards, labels, incentive mechanisms, and any potential changes to prudential rules.

Overview of the Mongolia Green Taxonomy

Principles



PRINCIPLE 1:
Contribute to national policies and targets

National Green Development Policy

Sustainable Development Vision

Nationally Determined Contributions



PRINCIPLE 2:
Address key sustainability challenges

- i) Climate change mitigation & adaptation
- ii) Pollution prevention
- iii) Resource conservation
- iv) Livelihood improvement



PRINCIPLE 3:
Cover high-emitting, key economic sectors

Energy
Agriculture
Waste
Construction
Manufacturing
Services



PRINCIPLE 4:
Align with international standards

- i) Broad conceptual definitions
- ii) Regulatory and legislative approaches
- iii) Market-led standards
- iv) Financial institutions' definitions



PRINCIPLE 5:
Comply with ESG standards

Mongolian Sustainable Finance Principles and Sector Guidelines

Banks' own E&S policies



PRINCIPLE 6:
Continuous review and development

Review and update the taxonomy every **2 years** in line with market, technology and policy developments

Stock-taking of existing international practices

4 Types of General Approaches (examples)

Broad conceptual definitions

- Regulators, bankers associations
- DFIs, local financial institutions

Regulatory and legislative approaches

- EU Taxonomy
- China Green Bond Endorsed Project Catalogue
- Bangladesh Bank Green Finance Taxonomy

Market-led standards

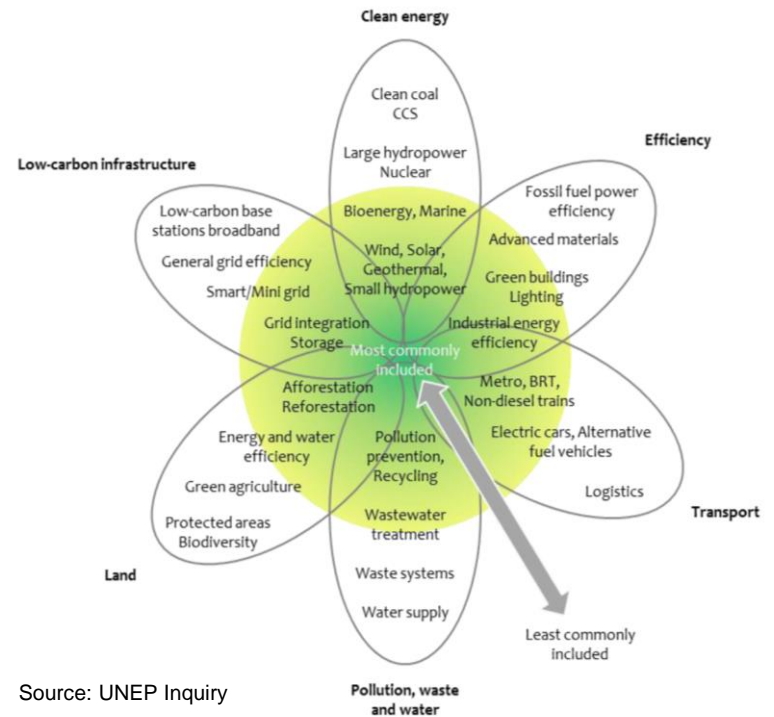
- Green Bond Principles (GBP)
- Climate Bonds Initiative Taxonomy

Financial institutions' definitions

- MDBs (IFC Climate Taxonomy, GCF, ADB)
- Local commercial banks, funds

Commonalities & Inconsistencies

Clusters of categories



Source: UNEP Inquiry

Categories of the Mongolia Green Taxonomy

1. Renewable Energy
solar, wind, geothermal,
transmission distribution

3. Energy Efficiency
Industrial, utility, public
services, buildings

5. Pollution prevention & control
Air and soil

7. Sustainable agriculture, land use, forestry, and eco-tourism

2. Low pollution energy
Bio-energy, coal alternatives,
waste to energy, fuel switch

4. Green Building
Buildings, building products and
materials, infrastructure

6. Sustainable water and waste use
water efficiency, treatment &
recycling, resource recovery

8. Clean Transport
public transportation, freight,
private vehicles, infrastructure,
supply chain, ICT

Level 1: the main taxonomy categories
Level 2: sector/sub-sector scope of green activities for investment purpose
Level 3: typical examples and technologies to demonstrate what is eligible under each category

Level 1: Category	Level 2: Sub-category	Level 3: Technologies	Example
1. Clean energy	1.1 Wind	1.1.1 Energy generation facilities	Onshore wind generation facilities for power
	1.2 Solar	1.2.1 Electricity generation facilities	Centralised and distributed solar power facilities, including concentrated solar power, photovoltaic power
		1.2.2 Small-scale distributed solar systems	Small-scale portable solar home systems, mini grid and other types of stand alone systems to power small communities
		1.2.3 Solar thermal application facilities	Facilities for application and generation of solar thermal energy, including solar water heating and other thermal applications of solar power in all sectors
	1.3 Geothermal	1.3.1 Heat & power generation facilities	Facilities for electricity generation and thermal applications of geothermal power in all sectors

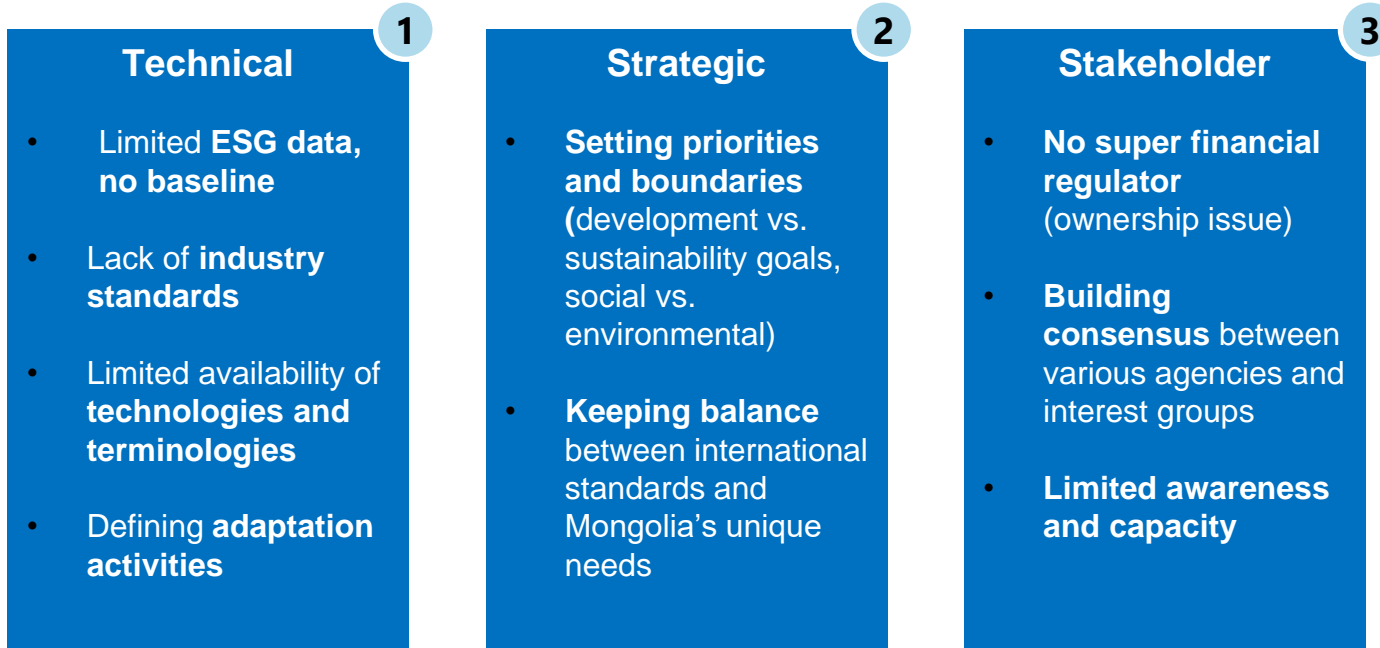
Categories of the Mongolia Green Taxonomy

Examples of activities/eligible assets included in the taxonomy specific to Mongolia's context:

Sub-categories	Sustainability issue addressed
Clean heating appliances	air pollution, livelihood
Clean ger area fenced plot	air pollution, soil pollution, livelihood, waste
Eco-sanitation toilets	soil pollution, water pollution, waste
Sustainable pasture management	climate mitigation, climate adaptation, resource conservation
Sustainable cashmere production	climate mitigation, climate adaptation, resource conservation



Key Challenges in the Process



MOVING TOWARDS IMPLEMENTATION



- **PILOT PHASE:** Based on the feedback and results of the pilot phase, make necessary amendments to the taxonomy and develop implementation guidelines



- **INDUSTRY-GUIDELINES:** Develop industry-specific guidelines in support of the taxonomy (e.g. energy efficient housing criteria)



- **TOOLS & TRAINING:** Develop impact assessment (e.g. GHG quantification) tools for financial institutions and organize technical trainings for various stakeholders



- **VERIFICATION CAPACITY:** Build local green project verification capacity

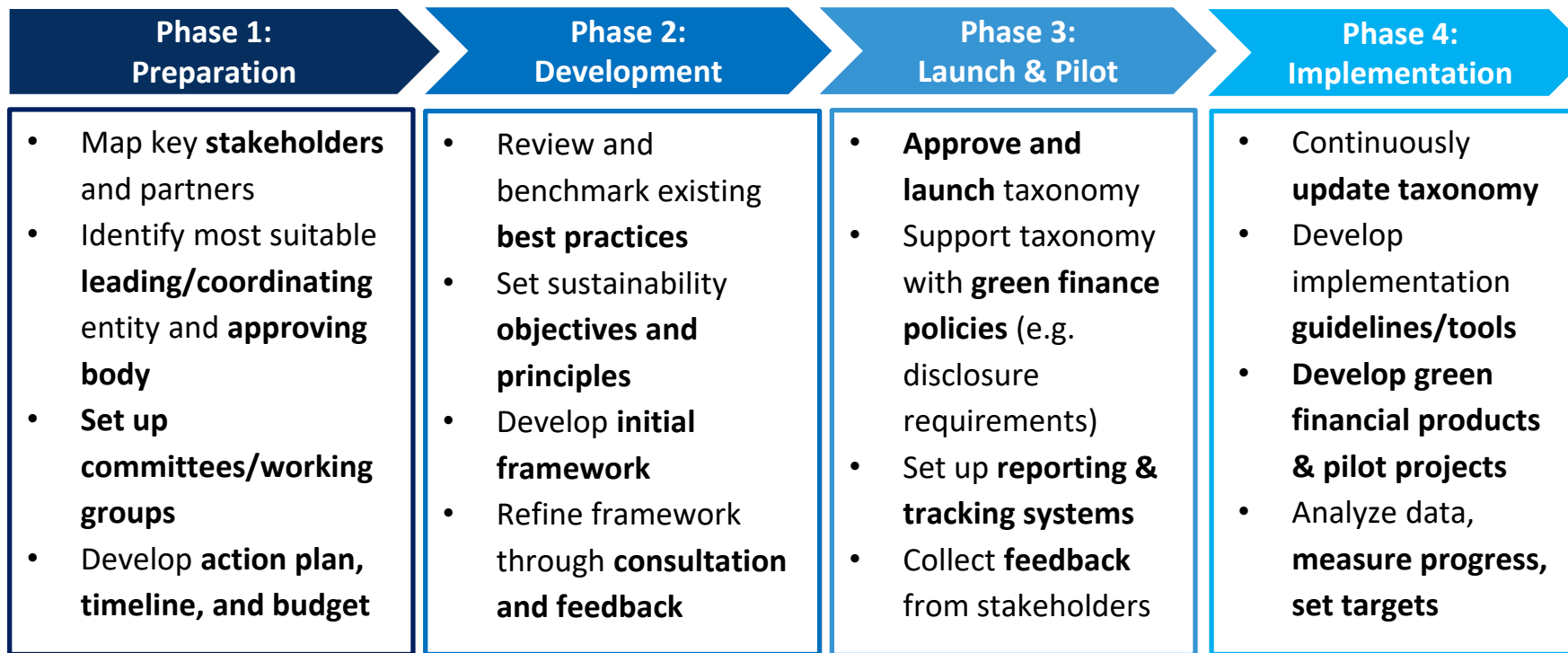


- **PILOT PROJECTS:** Implement pilot projects with the application of the taxonomy (e.g. green affordable housing, sustainable cashmere production)



- **GREEN FINANCE POLICIES:** Support the development of green finance policies in support of the implementation of the taxonomy

Recommended step-by-step approach for SBN members



Capacity building, awareness & stakeholder buy-in

Question And Answer



Discussant

Ms. Bolu Wang

**Sr. Researcher and Green Project
Team Lead**



Discussant

Mr. Francisco Avendano

**Global Focal Point of Green Finance,
IFC**