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Greening the Financial System and Developing a National Green Taxonomy

Climate Webinar #6: Green Finance – a Step Towards a Greener Economy
July 20, 2021

The Financial Sector has a Key Role to Play in Supporting the Paris Agreement

Paris Agreement
Sustainable Development
Goals



Financing needs

- Article 2.1c of the 2015 Paris Agreement "making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development"
- Still a \$7 trillion annual financing gap to meet Paris and SDG targets (OECD)

World Bank Approach to Sustainable Finance

World Bank Group Green, Resilient, and Inclusive Development (GRID) Framework.

- **Aligning Climate and Development:**
 - Climate Risks Diagnostics, planning and policies
 - Alignment with the Paris Agreement
 - Climate Finance and Impacts
- **Prioritizing Key System Transition:** Energy, Agriculture, Food, Land and Water, Cities, Transport, Manufacturing
- **Increasing Finance for the Transition:**
 - Greening the financial sector
 - Mobilizing capital at scale toward climate-informed activities

Main Actors in Sustainable Finance

Policy-making bodies and regulators:

- Ministries and government agencies
- Financial supervisory bodies

Financial sector:

- Financial intermediaries (e.g., banks)
- Insurers
- Investors

Private sector:

- Corporations
- Sectoral associations



Moving from Intention to Implementation

- Developing **national sustainable finance roadmaps**
- **Aligning national policies and initiatives** with the Global Development Agenda 2030 and Paris Agreement
- **Developing enabling regulatory and institutional environments**
- **Promoting sustainable capital markets and financial instruments**
- **Developing regulatory incentives**
- Developing national sustainable/green taxonomies
- Developing investor base for responsible investment
- **Promoting transparency and efficiency**



World Bank Toolkit for Greening the Financial System



- Menu of options
- High-level guidance
- Based on good practice and country experience



[World Bank Document](#)

Example: Green Finance in ASEAN Countries (1)

Enabling Policies, Standards, Incentives

- ASEAN Green, Social and Sustainability Bonds Standards by ASEAN Capital Markets Forum (2017 -2019)
- ASEAN Guidelines on Promoting Responsible Investment in Food, Agriculture and Forestry (2018)
- Asia Pacific Green Loan Principles (2018) by Asia Pacific Loan Market Association (APLMA)
- National green bond standards/guidelines: Indonesia, Singapore, Malaysia, Thailand
- ASEAN Green Taxonomy Board (2021)
- Sustainability reporting by publicly listed companies: Singapore, Malaysia
- Incentives/grants for green bond issuance: Singapore, Malaysia

Example: Green Finance in ASEAN Countries (2)

Products and investors

ASEAN green bond markets - First issuances



Responsible Investment by institutional investors:
Malaysian pension funds (EPF and KWAP) and SWF (Khazanah), Thailand GPF

- As of January 31, 2021, Green, Social, and Sustainability Bonds issued totaled US\$8.58 billion dollars
- Sovereign Green Sukuk : Indonesia
- Sovereign Sustainability Bond: Thailand
- Sovereign Sustainability Sukuk: Malaysia
- Green consumer loans: Singapore, Malaysia, 2019
- Sustainability-linked loans, Malaysia 2019

Greening the Financial System

- Policy and Regulatory Reforms at country level
- Integrating Climate Risks in Financial Stability Assessment
- Technical and advisory support on products and markets development
- Mobilizing donor financing for green finance: Climate Investment Fund, Pro-Green, Pro-Blue funds
- Knowledge sharing, training and capacity building

What is a Green Taxonomy?

A classification of environmentally sustainable economic activities to serve as a mandatory or voluntary guideline for green financing.



- **Rationale:** Addresses concerns about ambiguity in determining which investments qualify as green.
- **Global Trend:** Move from self-defined green categories towards standardized definitions and reporting.

Users of the Taxonomy

Main actors	Potential uses
Banks and financial institutions	<ul style="list-style-type: none">• Originate and structure green banking products more easily and consistently• Boost efficiency of green lending and funding operations• Lower transaction costs through faster identification and verification of eligible assets• Reduce uncertainty and reputational risk• Understand and disclose exposure to sustainable investments required by regulators
Financial regulators	<ul style="list-style-type: none">• Facilitate climate- or sustainability-related reporting and disclosure guidelines for financial market actors• Measure financial flows toward sustainable development priorities at the asset, portfolio, institutional, and national levels• Avoid reputational risk by preventing “green-washing”• Support regulatory interventions

Users of the Taxonomy

Main actors	Potential uses
Investors	<ul style="list-style-type: none">• Disclose exposure to sustainable investments, as required by regulators• Understand the exposure of portfolios to green investments and design investment policies aligned with the preferences of clients and beneficiaries• Support investor engagement with investees with regard to business models and transition plans
Green bond issuers	Identify eligible activities that can be financed more easily and consistently with relevant thematic bonds
Policymakers	<ul style="list-style-type: none">• Identify areas of underinvestment and bridge the funding gap• Facilitate the development of a pipeline of green projects in accordance with national priorities for environmentally sustainable development• Provide a reference for policymakers as they develop strategies to achieve national sustainable development commitments, such as those in the country's Nationally Determined Contribution (NDC) targets and Sustainable Development Goal (SDG) agendas, and improve associated systems for tracking and measuring finance flows

Dimensions of Taxonomy

Design phase requires decisions along four areas

1 Priority Environmental Objectives

Which environmental goals should be used to organize Taxonomy?

2 Scope, Granularity in Setting Definitions and Risk

What level of detail?
How to treat risk?
Prescriptive or non-prescriptive?
Mandatory or Voluntary?

3 Target Users and Compliance

Who will use it and how?

4 Preparation Process

Who should participate in preparation, approval, and dissemination?

Preparation Principles to Consider

- **Coherence:** Does not contradict pre-existing definitions used in public and private investments addressing environmental issues.
- **Comparability:** Provides clarity as to differences and similarities with other international frameworks (i.e., EU Taxonomy, other international and regional guidelines).
- **Phasing:** Priority on sectors with highest contribution to environmental goals or readier to benefit from guideline.
- **Consultation:** Reaches out to internal and external parties for comments and contributions.

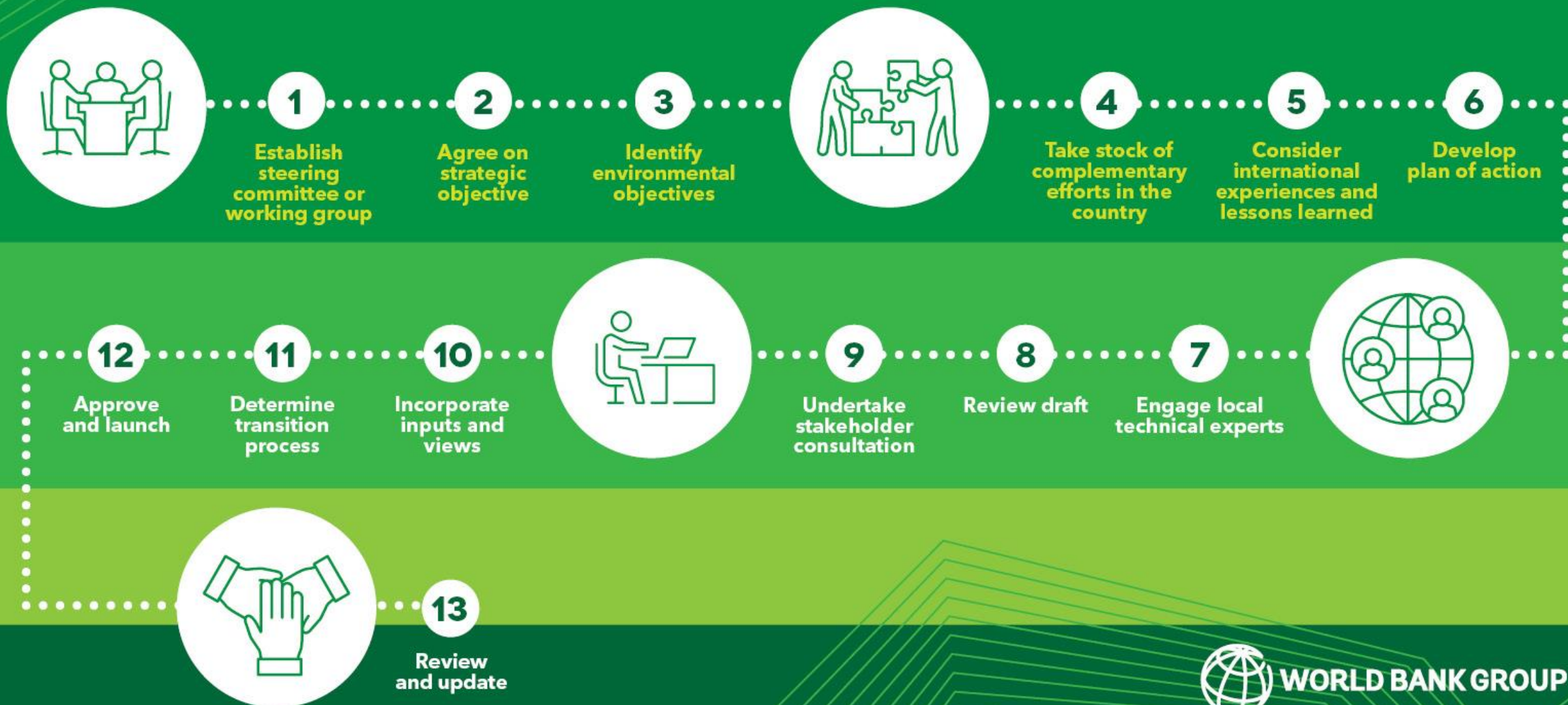


Other Key Considerations

- **Stature:** Stature of an official guideline or policy
- **Incentives:** Connect it existing and new incentives
- **Phasing:** Priority on sectors with highest contribution to environmental goals or readier to benefit from guideline.
- **Consultation:** Reaches out to internal and external parties for comments and contributions.



STEPS TO DEVELOP A NATIONAL GREEN TAXONOMY



EU Taxonomy Environmental Objectives

- Climate change mitigation
- Climate change adaptation
- The sustainable use and protection of water and marine resources
- The transition to a circular economy
- Pollution prevention and control
- The protection and restoration of biodiversity and ecosystems

EU Taxonomy Sectors

- Agriculture, forestry and fishing
- Manufacturing
- Electricity, gas, steam and air conditioning supply
- Water, sewerage, waste and the related remediation
- Transportation and storage
- Information and Communication Technologies (ICT)
- Buildings (construction and real estate activities, with application to other sectors where appropriate)

Comparison of Taxonomies

- **Taxonomy initiators vary: central bank/securities commission/Bankers' Association**
- **Strategic objective: Boosting green finance is common to all**
- **Environmental objective: Climate change mitigation and adaptation, but also local environmental quality**
- **Sectors vary**
- **Granularity varies**
- **Target users: Largely banks, financial institutions, investors, and businesses**
- **Supporting regulation varies**

Malaysia's Climate Change and Principle-based Taxonomy

- Developed by Bank Negara Malaysia with the support of the World Bank
- The World Bank acted as technical experts, explained value proposition, proposed methodologies, compared existing taxonomies, developed ToRs for working group members, reviewed drafts and provided feedback
- Currently the World Bank is supporting the expansion of the taxonomy for capital market participants

World Bank Advisory Support

Facilitate Dialogue:

Understanding guidelines and best practice
Analysis of pros-cons of alternative scopes.
Help creation of Working Group

Assist in Drafting:

Contract local experts for detailed drafting
Obtain profiles of private and public investments
Facilitate review and revision of draft

[Developing a National Green Taxonomy : A World Bank Guide](#)



Contacts

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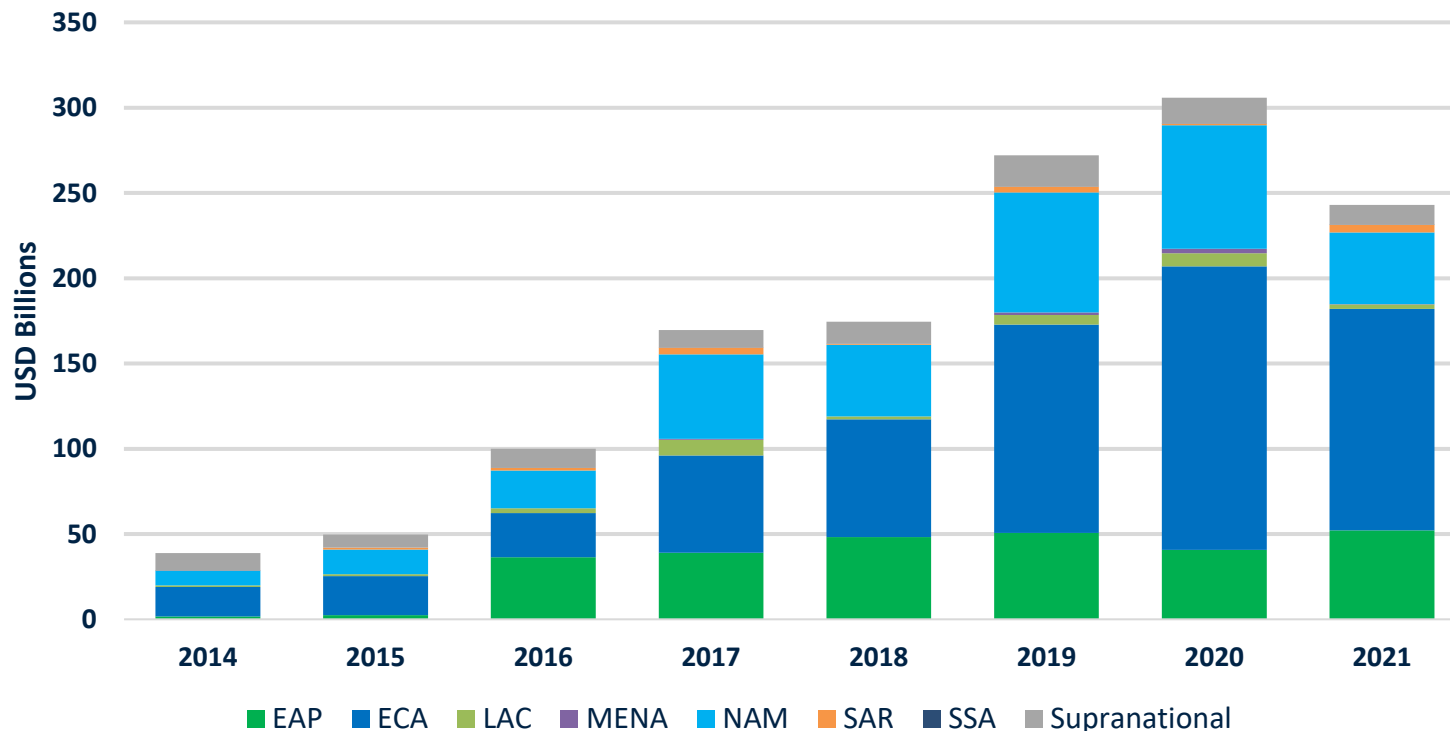
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Green Finance Globally

Global Green Bonds Issuance by Region (by end of Q2 2021)



Source: BloombergNEF, as of July 2021

- Globally, about 79% of the overall green bonds were issued by developed markets (DM) in the first 6 months of 2021, compared to 84% in 2020.
- Emerging markets (EM) accounted for 16% in the first 6 months of 2021 versus 11% in 2020, the growth mainly came from China as its green debt financing issuance went back to pre-2020 level.
- Green debt financing has a stable presence (57% and 55% respectively of overall ESG issuance in 2020 and first 6 months of 2021) in EAP countries.

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