



European  
Investment Bank

Coalition of Finance Ministers for Climate Action –  
Green Taxonomies Workshop, 11.07.23

**Experience working on EU Taxonomy; other climate and green finance tracking systems; and on wider transition finance**

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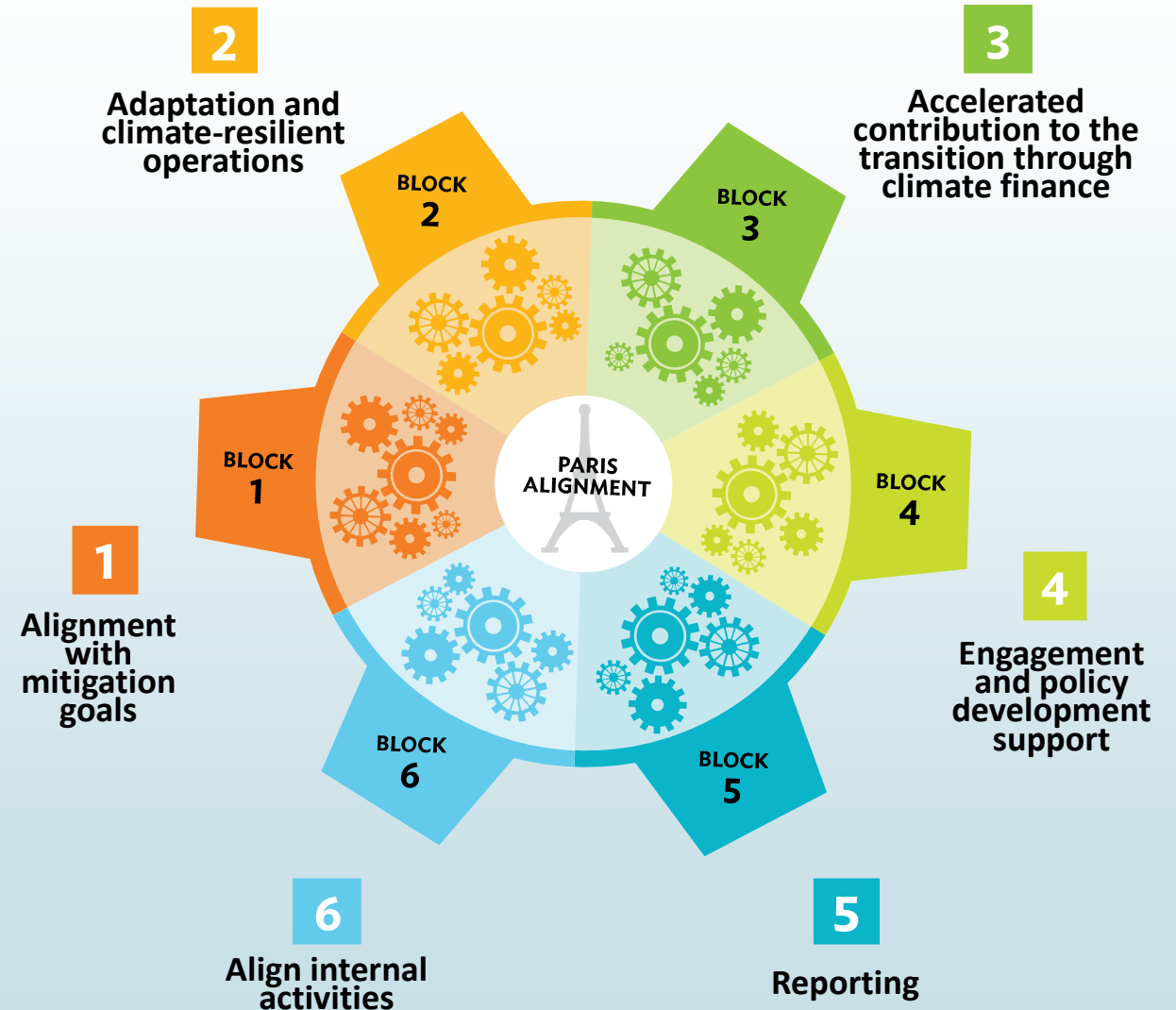
# Contents

**Presentation of key points from experience of working on Climate and Green Finance tracking, Taxonomies and wider Sustainable Finance issues, Paris alignment and MDB climate finance tracking – from EIB, MDB and Platform perspectives, covering:**

- **The difference and links between Paris Alignment of finance flows vs Climate Finance (or more widely between alignment of finance with environmental goals vs Green Finance)**
- **Green Finance, Green Transition Finance and wider transition finance**
- **Activities that cannot transition to a sustainable performance level – and the link to Just Transition**
- **Q&A**

# Joint MDB Paris alignment approach: background

- MDBs agreed on [6 core areas](#) for aligning their finance flows with the Paris Agreement launched at COP24 in 2018: [Microsoft Word - Joint Declaration MDBs Alignment Approach to Paris Agreement COP24 Final.docx \(eib.org\)](#)
- Approach covers all finance flows – with 6 Building Blocks (the BBs)
- **Paris alignment of finance – for all new operations is in BB1 and BB2**
- **Climate Finance is in BB3**  
[Multilateral development banks' climate finance in low and middle-income countries reaches \\$51 billion in 2021 \(eib.org\)](#)



# MDB/IDFC Common Principles for Climate Mitigation Finance Tracking updated to reflect the Paris alignment approach

- The Common Principles have been updated by the Climate Finance Tracking working group of the MDBs and a group of representatives of the International Development Finance Club (IDFC) member banks. Published 18 Oct 2021
- The updated Principles:
  - i. consider new mitigation activities that are required for structural economical changes, necessary to achieve the goals of the Paris Agreement;
  - ii. avoid identifying as climate mitigation finance activities that undermine the long-term temperature goal;
  - iii. provide greater granularity in the list of eligible activities;
  - iv. include additional specific criteria and guidance to promote greater harmonisation; and
  - v. take account of emerging international methodologies on sustainable finance;
- The Common Principles will be used for reporting on climate change mitigation finance in the MDBs' Joint Report on Climate Finance, which also links with the overall MDBs reporting on Paris alignment (BB5).



[mdb\\_idfc\\_mitigation\\_common\\_principles\\_en.pdf \(eib.org\)](https://www.eib.org/mdb-idfc-mitigation-common-principles-en.pdf)



# Updated Joint MDBs Methodology for Tracking Climate Change Adaptation Finance

**Published November 2022**

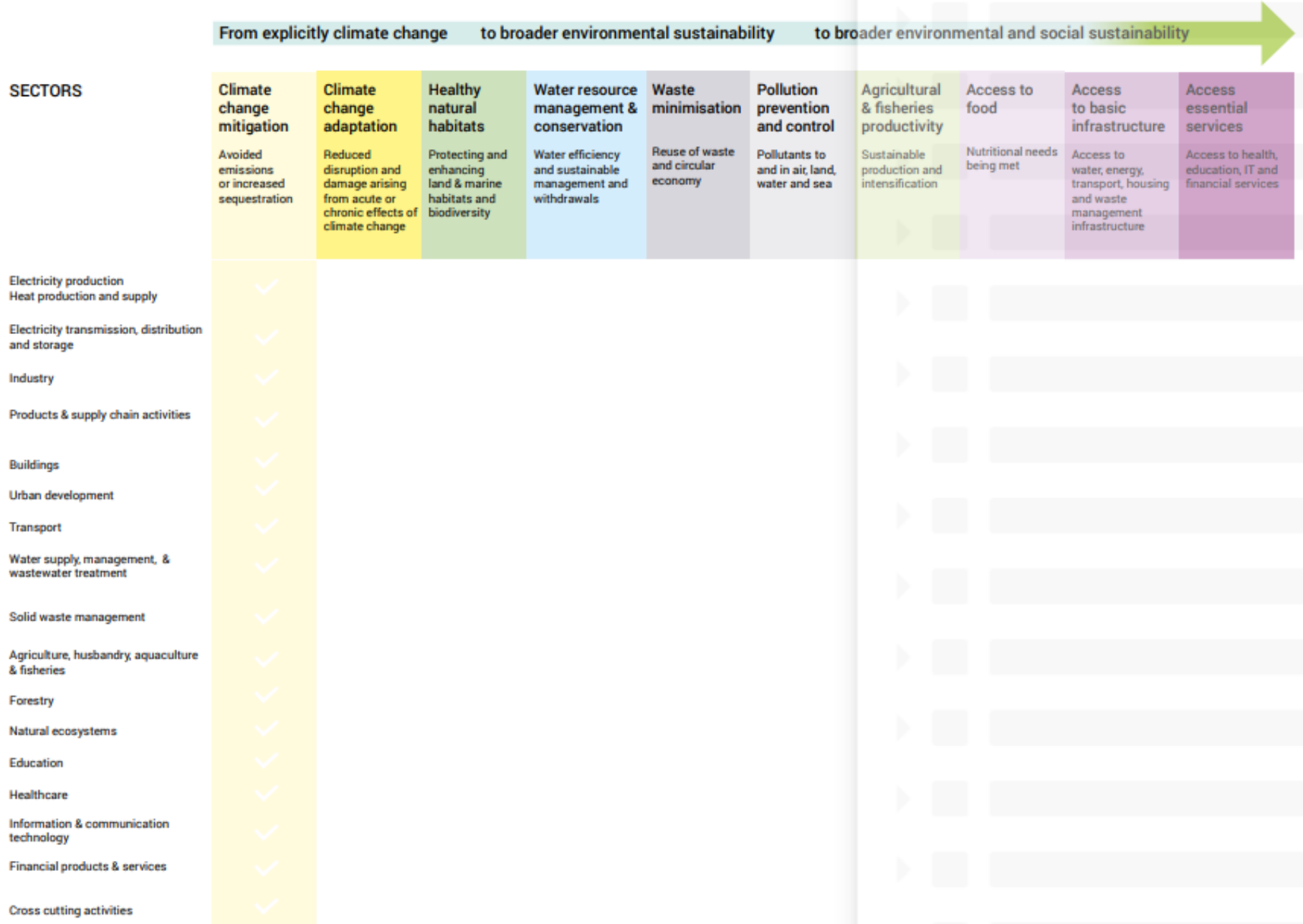
- Updated the MDB methodology dating from 2010-2011
- MDBs and IDFC are now working on updating the 2015 Common Principles for Adaptation finance

## A bit of history of EU Taxonomy

- **High Level Expert Group on Sustainable Finance** – the European Commission formed the HLEG in 2016
- EIB was invited to be an Observer in the HLEG – as EU Bank and as issuer of the first Green Bond in 2007 – the Climate Awareness Bonds: [Climate Awareness Bonds \(CAB\) \(eib.org\)](https://www.eib.org/press/2007/07-10-climate-awareness-bonds)
- The HLEG made several proposals that led to development of the first EU Sustainable Finance Strategy
- **HLEG made a proposal for an EU Sustainability Taxonomy (starting with Climate, then wider Green, then Social/all SDGs):** [Final Report 2018 by the High-Level Expert Group on Sustainable Finance - Secretariat provided by the European Commission - Financing a sustainable European economy \(europa.eu\)](https://ec.europa.eu/eip/eip-efsd/efsd-report-2018)

# The HLEG proposal 2018:

## Figure 1: The EU Sustainability Taxonomy Framework



# EU Taxonomy – Objectives and Framework

## Sustainability objectives

- (a) climate change mitigation,
- (b) climate change adaptation,
- (c) the sustainable use and protection of water and marine resources,
- (d) the transition to a circular economy,
- (e) pollution prevention and control, and
- (f) the protection and restoration of biodiversity and ecosystems.

## Taxonomy framework



Make a **Substantial** contribution

(a) **Substantial contribution**  
to at least one of the six  
environmental objectives



Avoid **significant** harm

(b) **Do no significant harm**  
to any of the other five  
environmental objectives



**Social safeguards**

(c) Comply with  
**minimum  
safeguards**



# Technical Screening Criteria in EU Taxonomy

- The Technical screening criteria provide investors, financial institutions, companies, issuers and public entities with clarity across the EU on
  - The environmental performance level for included activities to **substantially contribute** to **climate and other environmental goals** – activities are identified based on environmental impact (e.g. GHG emissions for climate change mitigation) and potential for delivering a substantial positive contribution
  - The conditions each activity has to meet in order to qualify as **GREEN and environmentally sustainable** “taxonomy-aligned” (TR Art. 3) – so-called Technical screening criteria (TSCs)



## For substantial contribution (SC)

- TSCs derived from EU policy, and science - for example for CCM, the TSC are driven by the ambition to limit global warming to 1.5 degrees
- Meant to ensure **SUBSTANTIAL CONTRIBUTION** to sustainability at both activity and system levels (including transitional activities)

**Do No Significant Harm (DNSH) TSCs** are meant to ensure overall environmental integrity of the activity performance

# Platform 2020-22 – the Extended Taxonomy, Amber (Intermediate) transition and other PSF recommendations

- Many are calling for increased **transparency on the “non-green” space** to
  - Support better **environmental-related risks management, risk differential analysis, transition risks**
  - Support **transition finance products** and the design and disclosure of **transition plans**
  - Address risk of confusion **between low impact activities and harmful activities**
- The Taxonomy Regulation (TR) requires the EC to publish a report on the **extension of the EU Taxonomy**
  - **Mandate given to the EU Platform on SF (PSF) 2020-2022** to conduct preparatory work

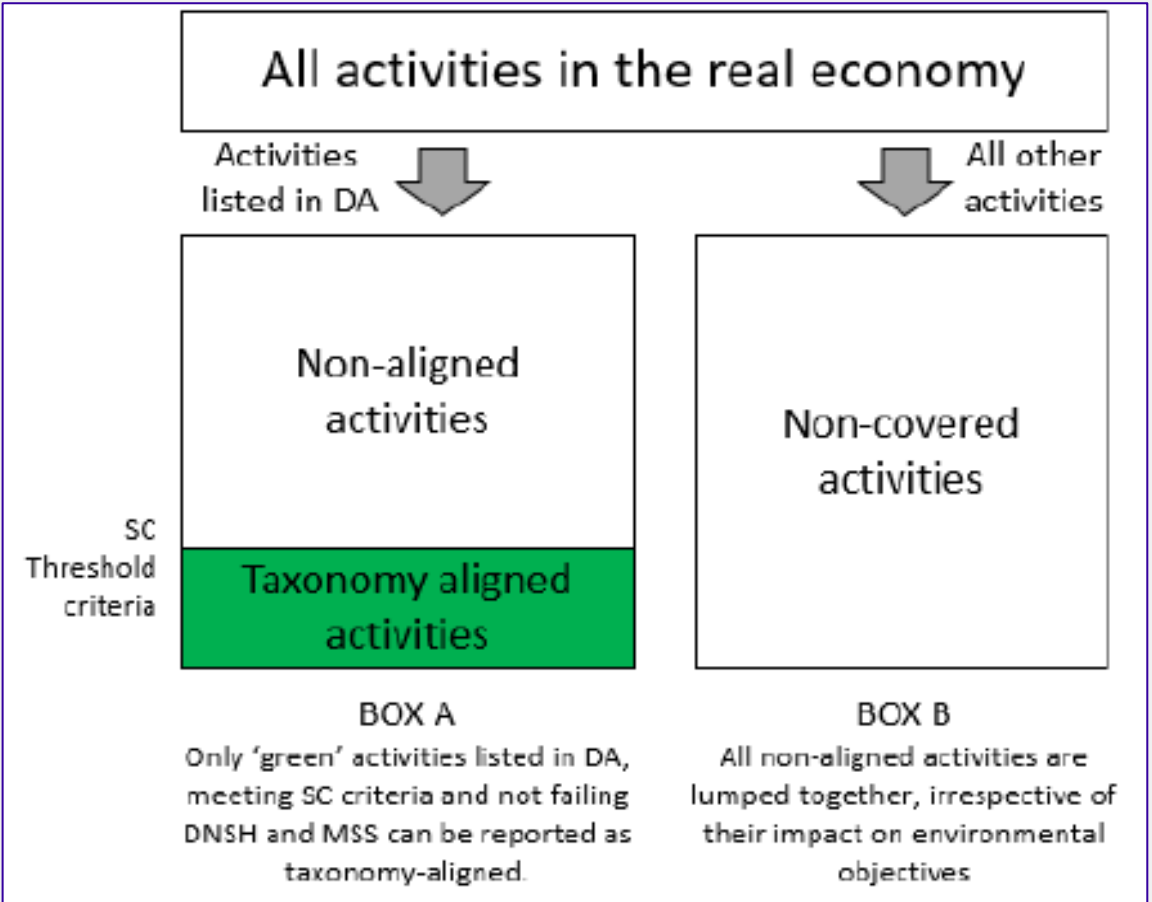
SG3 on extension to activities with **no significant environmental impact (NSI)** and those causing **significant harm (SH)** implying and **intermediate performance (IP)** space

SG4 on extension to social objectives – [Final report](#) (Feb 2022)

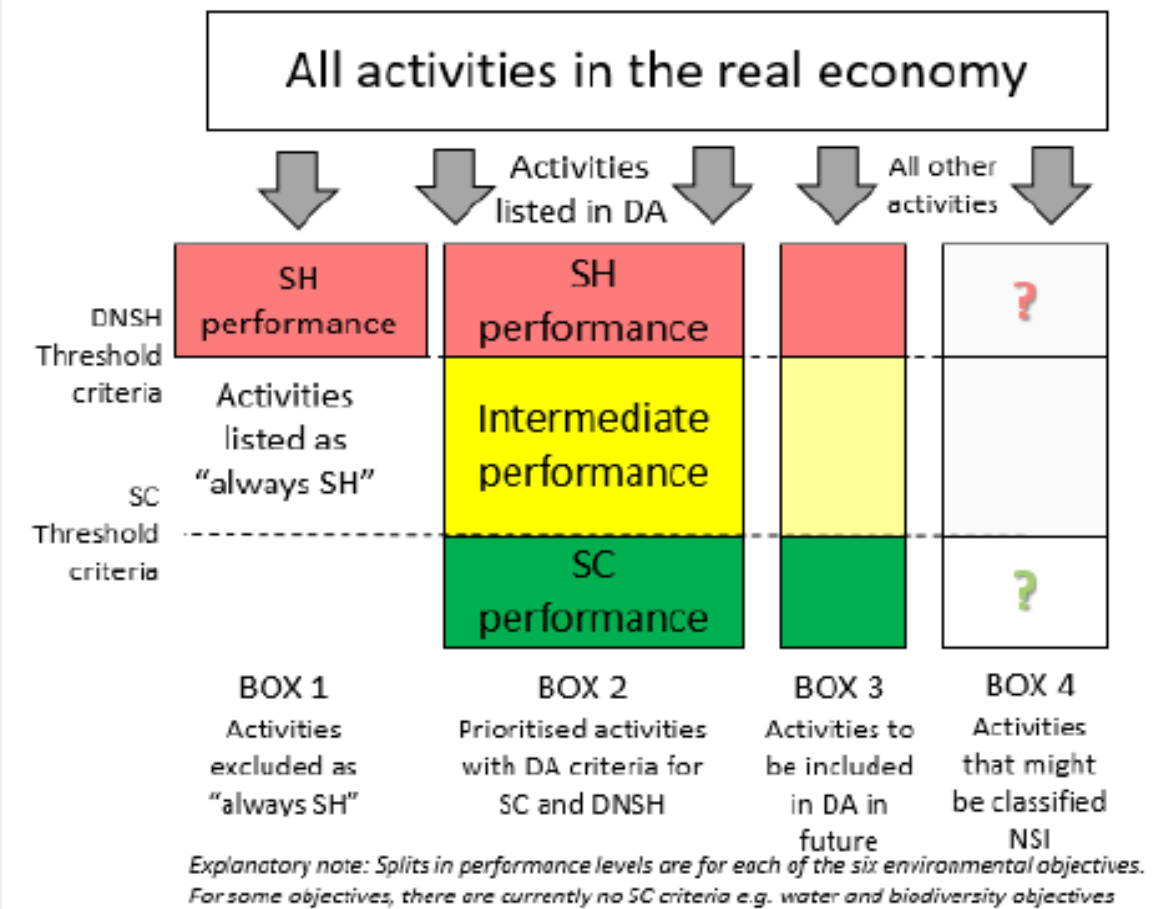
# Extended Taxonomy framework proposed by the EU PSF Subgroup 3 provides transparency on non-green space and wider transitions

Platform on Sustainable Finance's report on environmental transition taxonomy (europa.eu)

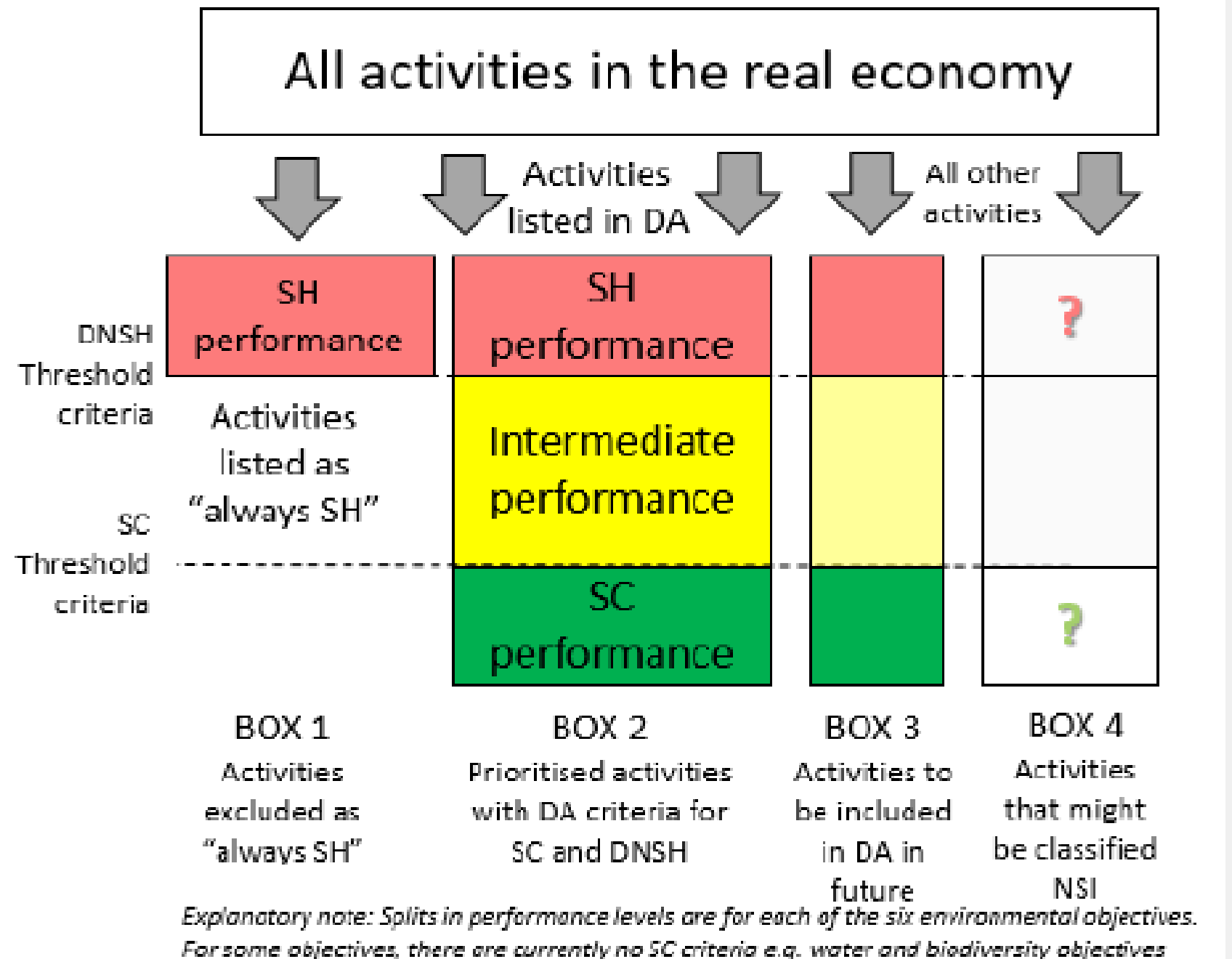
## Transparency on Taxonomy-eligible and -aligned activities



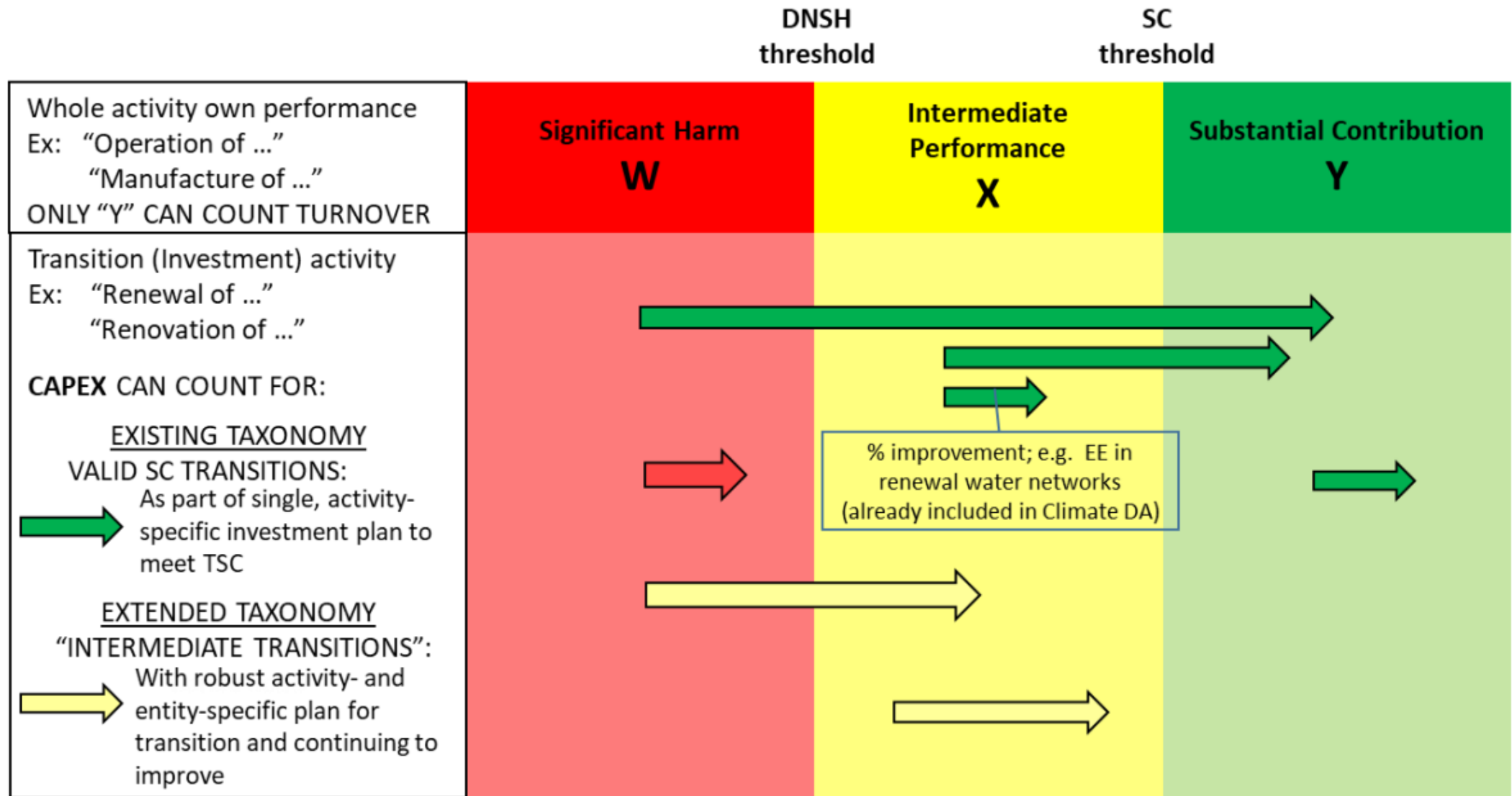
## Framework developed by Platform 1.0



# Looking at environmental transition across the whole economy

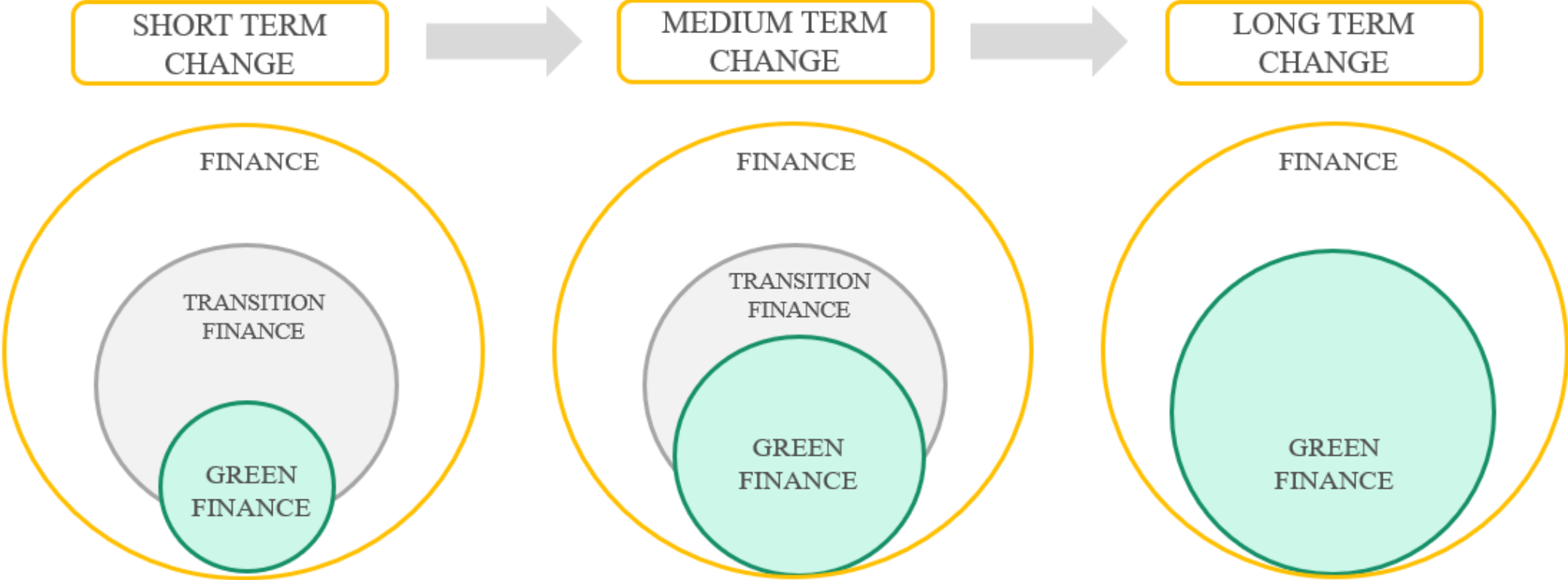


# Transition Finance is needed for both Green transition and wider transition to do no significant harm to climate and environmental goals.

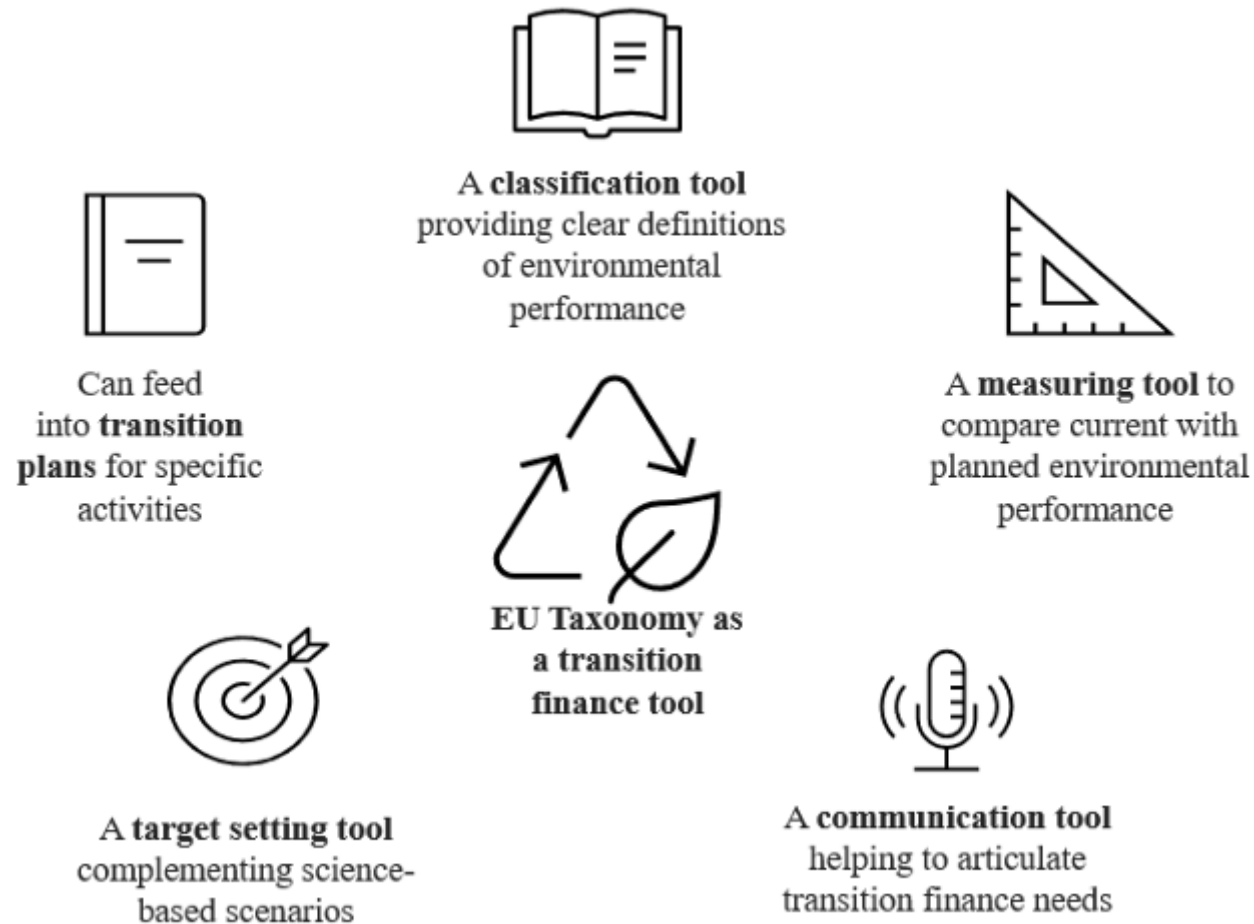


# Graphic from June 2023 European Commission Recommendation on transition finance

- Green Finance overlaps/includes some Transition Finance – i.e. “Green transition” or “transitional” finance. Example: energy efficiency measures.
- However Transition Finance is generally seen as wider than Green Finance



# What Taxonomies can be used for



# A personal view on some ongoing taxonomy challenges (many of these are being worked on by EU PSF and IPSF):

- Ensuring taxonomies work for all types of sustainable finance and all types of financing instruments and products – **public and private, large and small, equity and debt markets.**
- Ensuring the criteria are well understood and usable, including addressing comparability across **global markets.**
- Ensuring sustainable finance flows are also accelerated to non-corporate “non-reporting” entities (including **public** bond issuers such as cities, or **small companies**)
- Identifying activities that cannot transition – and proactively following up the related **Just Transition** issues (including in supply chains)
- Resolving some Terminology issues and associated misunderstandings – Green Finance must of course be environmentally sustainable. In fact **all finance needs to be environmentally sustainable and Paris-aligned. But not all finance needs to be Green.**
- International efforts on properly defining **Social Finance** – building on the SLBs and on EU PSF recommendations? If not tackled, could this be the next “greenwashing” problem area?





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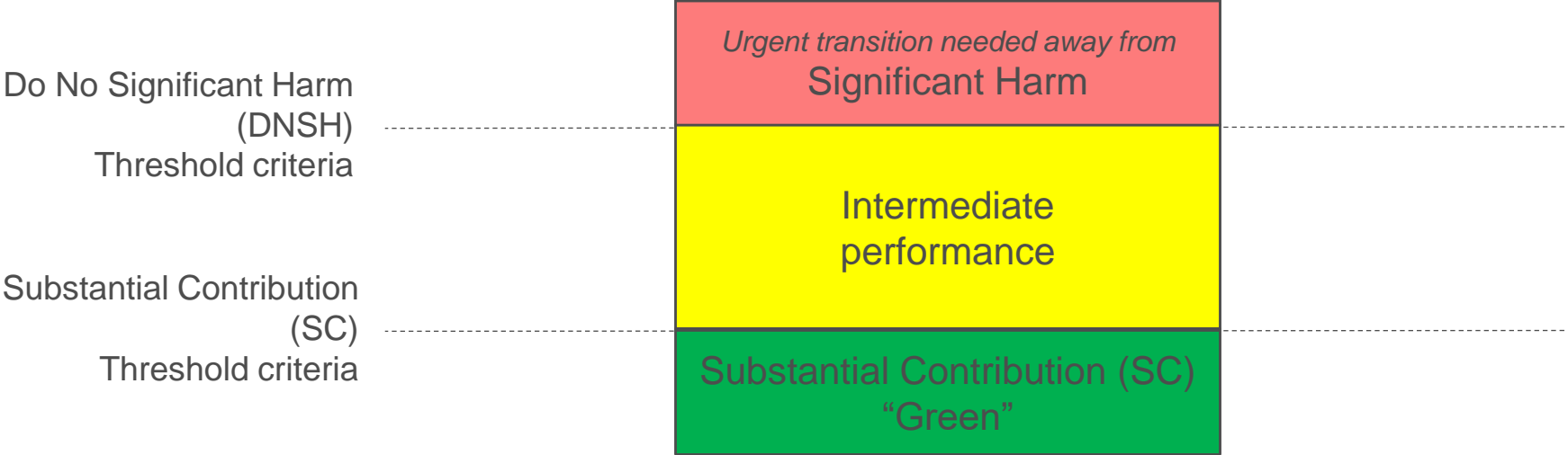
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[www.eib.org](http://www.eib.org)

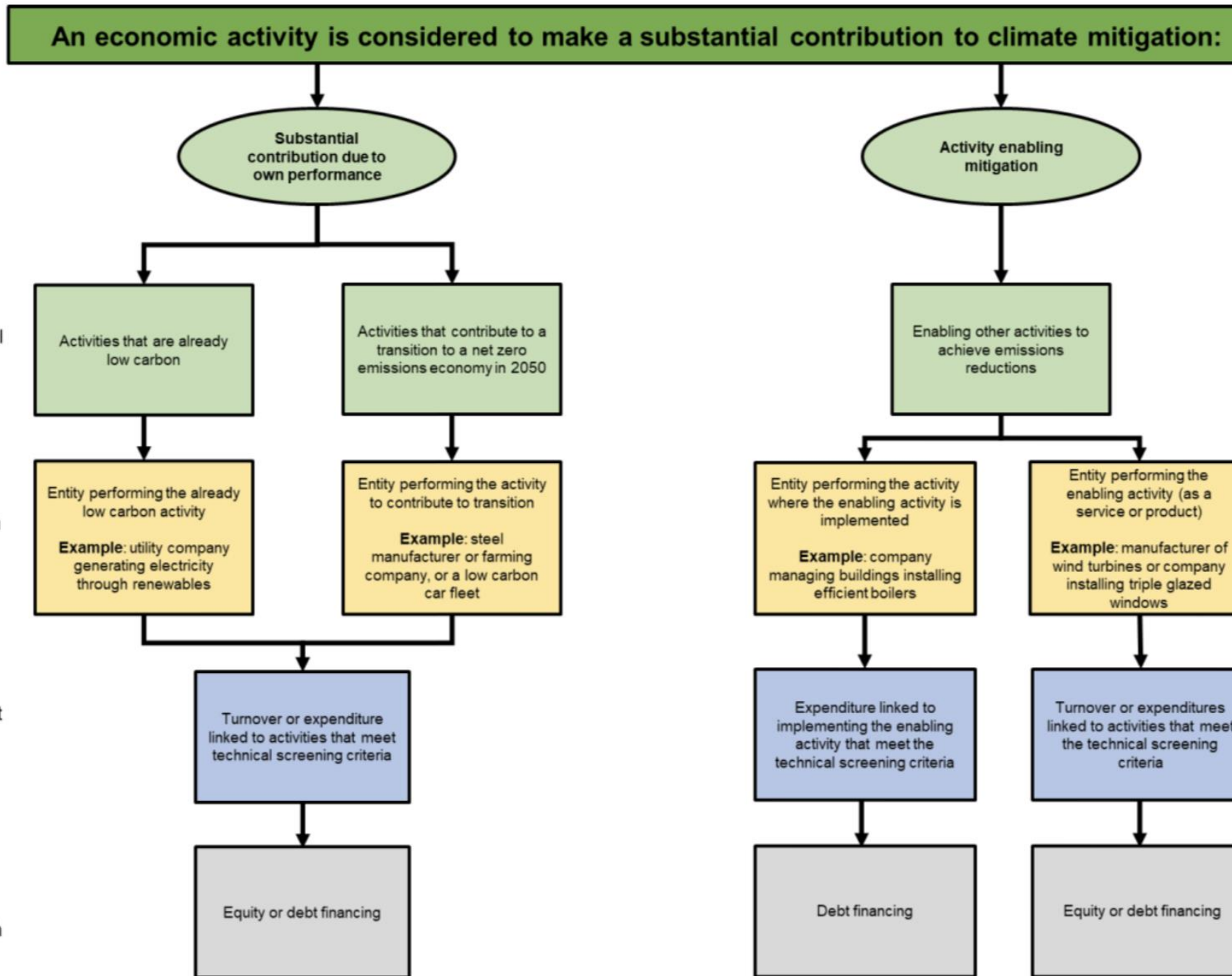
Additional slides as needed

# Building on the Green Taxonomy: Understanding different performance levels in the extended environmental taxonomy

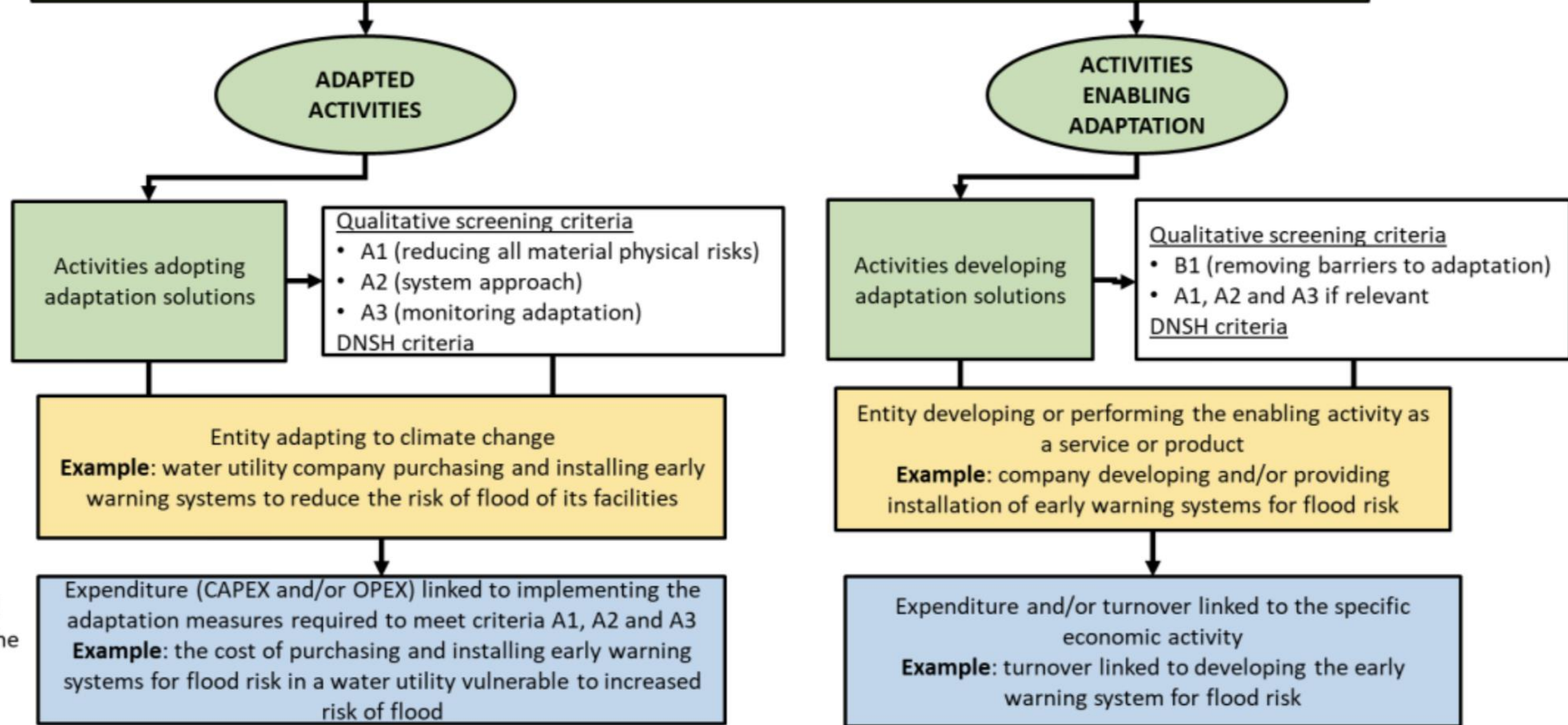
Using technical screening criteria listed in Taxonomy Delegated Act(s)



TEG flow chart for CCM



An economic activity is considered to make a substantial contribution to climate change adaptation by:



TEG flow chart for CCA

What would count under the taxonomy?

Figure 3 Decision tree for substantial contribution to climate change adaptation

# Type 1&2 – adapted activities – count >100% of the overall finance



1. Adjusted design of culverts required in a road project to cope with increased risk of extreme rainfall and flooding



2. Adaptation and development. Diversification of water sources in a city's water supply system to meet the increased demand of growing population and to reduce risks to the water supply system resulting from droughts

# Type 3 – activities that enable adaptation



Research and development of crop breeds more resilient to drought



Fund providing financing to SMEs to accelerate the development, application and transfer of adaptation solutions



Levee system to protect a region including town, businesses, infrastructure and agricultural land from the increased risk of flooding



Introduction of crop breeds to increase small farmers' resilience to drought in a region with high risk of precipitation, as part of an integrated agriculture project

# EU's Joint Research Centre (JRC) flow chart on types of Substantial Contribution for TAXO4 objectives (in short: water, Biodiversity, Circular economy and depollution)

