

Common Framework of Sustainable Finance Taxonomies for Latin America and the Caribbean

Working Group on Sustainable Finance Taxonomies
of Latin America and the Caribbean

Interagency Technical Committee - Forum of
Ministers of Environment of Latin America and the
Caribbean



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the European Union



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the European Union



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State of play



Taxonomies are being developed globally at a rapid pace

More than

35



taxonomy projects worldwide, hence the importance of **interoperability**

Sustainable Taxonomy:

Existing

Developing

Private sector initiative



Source: UNEP FI, 2023

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**Working Group on Sustainable
Finance Taxonomies in LAC**



Working Group on Sustainable Finance Taxonomies in LAC¹

Objective

Created as part of the Interagency Technical Committee (ITC) of the Forum of Ministers of Environment of LAC with the aim of **promoting regional dialogue** to support LAC member states in developing **sustainable finance frameworks** that are **interoperable** across LAC jurisdictions and internationally, while considering local specificities

¹ UNEP, and its Finance Initiative (UNEP FI), UNDP, IFC, IDB, CAF, ECLAC FAO, the staff of the International Monetary Fund (IMF) and the World Bank and the European Commission



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Common Framework of Sustainable Finance Taxonomies for LAC

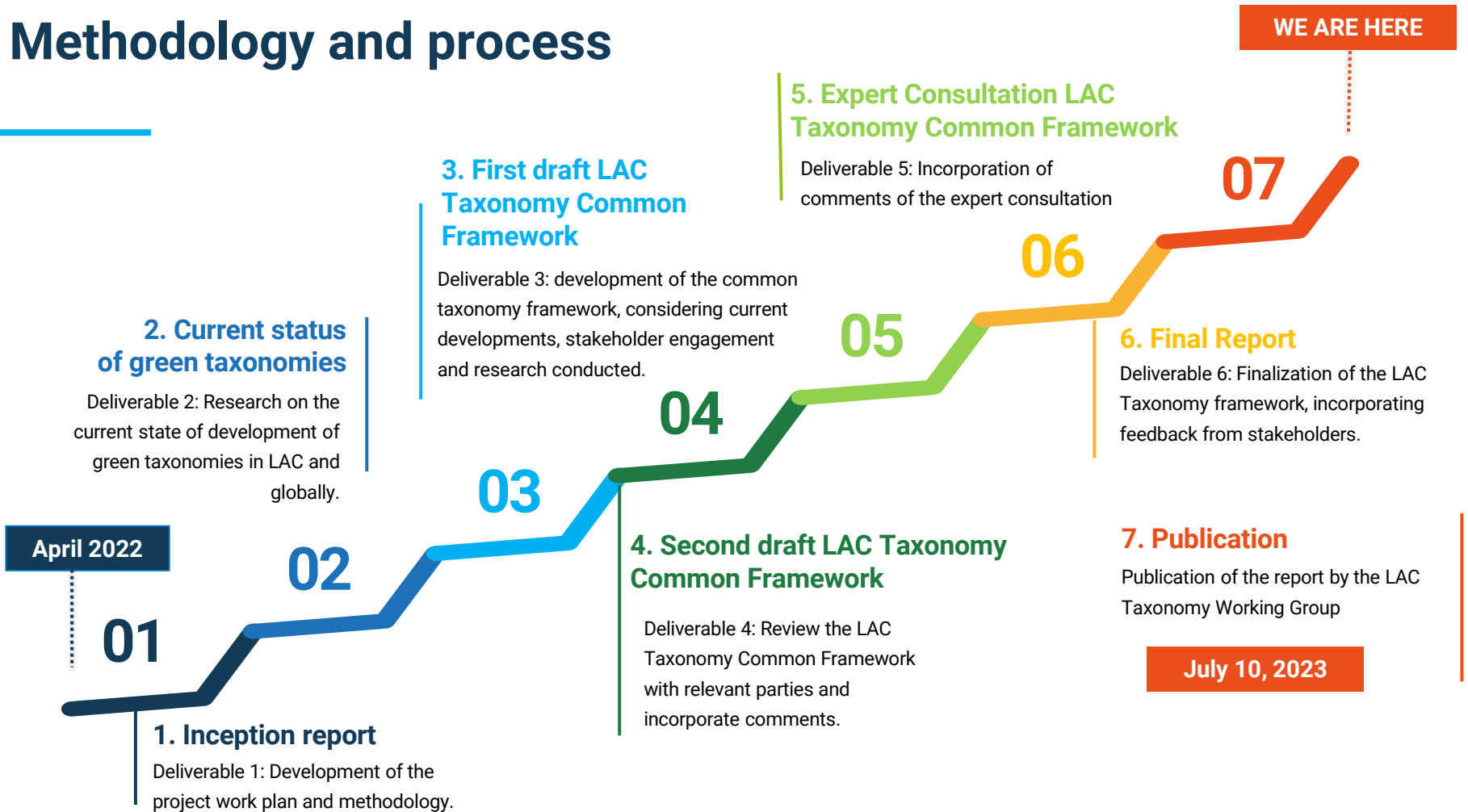


Common Framework of Sustainable Finance Taxonomies for LAC



1. Is a guidance document that can serve as a voluntary reference to orient LAC member states that are in the process of or intend to develop sustainable finance taxonomies;
2. Establishes a set of guiding principles that will improve comparability and ensure interoperability of sustainable finance taxonomies in LAC & internationally;
3. Focuses on climate change objectives; prioritizes sectors that are important to these objectives for the LAC region

Methodology and process



Main foundations

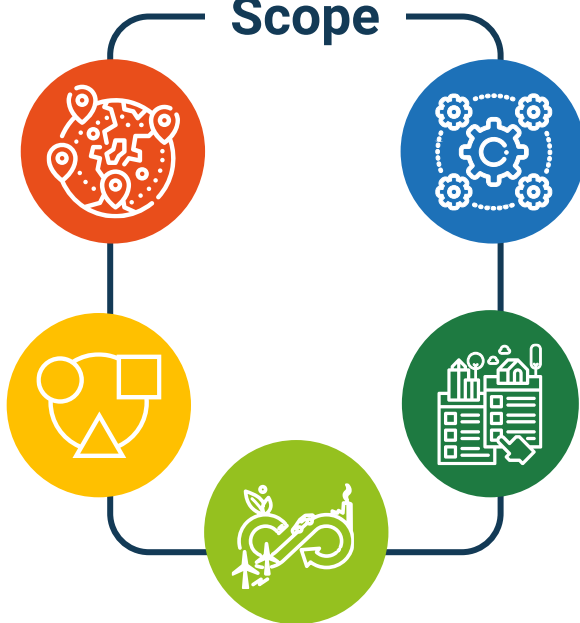
Scope

Aligned with regional work

The framework considers the work already done or is in progress with respect to frameworks for sustainable finance

Inclusive

The framework considers the diversity among countries in the region



Harmonization and interoperability

The framework is armonized with other internationa taxonomies

Science-based

The framework is based on scientific principles and helps avoid greenwashing

Decarbonization trajectory

The framework helps economic sector achieve decarbonization in-line with the Paris Agreement goals

Selected objectives

1. Climate change mitigation
2. Adaptation to climate change
3. Other environmental and social objectives (future phases)

Common Framework of Sustainable Finance Taxonomies for LAC

Guiding Principles



GP-1

Seek **interoperability** with other regional and global taxonomies



GP-3

Clear definitions that are **science-based** for the environment or **evidence-based** for other sustainability issues



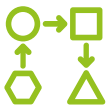
GP-5

Dynamic and subject to regular reviews



GP-2

Material positive contribution to well-defined objectives and **avoid damage**



GP-4

Credible transition of high-emission sectors with a **clearly defined final goal**, regardless of the pathway



GP-6

Ensure adequate **governance, transparency, and practical applicability** (usability)

Structural elements

1.



Objective

Helps define the ambition, selection, activities, and screening criteria

2.



Sectors

Economic sectors for which activities are selected and defined

3.



Activities

Economic activities under the selected sectors for which definitions and eligibility criteria are developed

4.



Screening Criteria

Metrics and thresholds which determine the eligibility of an economic activity under the taxonomy

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**Technical guidance
for the framework**



Structural element 2: Economic sectors

Prioritized sectors: Climate change mitigation and adaptation

Section	Name
A	Agriculture, forestry, and fishing
B	Mining and quarrying
C	Manufacturing
D	Electricity, gas, steam, and air conditioning supply
E	Water supply; sewerage, waste management and remediation activities
F	Construction
H	Transportation and storage
J	Information and communication
K	Financial and insurance activities
L	Real estate activities
M	Professional, scientific, and technical activities
N	Administrative and support services
P	Education
Q	Human health and social work activities



Structural element 3: Economic activities

Guidance for inclusion

Substantial contribution

Substantially contribute towards the taxonomy objectives

- Make a substantial contribution based on their own performance
- E.g., electricity generation through solar PV technologies is an activity with a direct substantial contribution to climate change mitigation.
- Eligibility criteria of the activities will help determine the substantial contribution.
- E.g., hydropower plants with a power density greater than 5 W/m²
- Help with decarbonization or improving adaptability to climate change.

Structural element 3: Economic activities

Guidance for inclusion

Enabling

Enable other activities in the same sector or other sectors to meet taxonomy objectives

- Has a substantial & positive environmental impact, based on life-cycle considerations and;
- Does not lead to a lock-in of assets that undermine long-term environmental goals, considering the economic lifetime of those assets.
- E.g., Manufacturing activities of low-carbon technologies, manufacturing low-carbon TIC, construction of dikes in coastal areas to prevent the risk of flooding of urban infrastructures.

Structural element 3: Economic activities

Guidance for inclusion

Transition

Must go through a **transition** to eventually meet the taxonomy ambition over a defined period

- Activities with no possible technological pathways for significantly improving their performance and hence needs to be phased out (e.g., decommissioning of fossil fuel plants)
- Activities that have potential technological pathways for significantly improving their performance and needs to be transitioned urgently to prevent negative damage (e.g., activities of high emission manufacturing processes: cement, chemicals, iron & steel)

Structural element 3: Economic activities

Guidance for inclusion

Activities with min. performance

Do not have a significant contribution but have a **low or minimal contribution** to the taxonomy objectives and do not cause harm

- Do not make a substantial contribution to any of the taxonomy objectives but neither cause negative damage
- Can have a low contribution to the taxonomy objectives and cannot be labelled as green but are essential to support the economy decarbonization
- E.g., activities in sectors such as engineering & architecture services undertaken in relation to the taxonomy objectives should be considered for inclusion in the taxonomy

Structural element 3: Economic activities

Non-aligned economic activities

1. **Activities that hinder the transition of other activities** (e.g., including fossil fuel-based passenger transportation when a viable decarbonized mode, such as electric vehicles or other low-carbon transportation systems, is available)
2. **Activities that do not have a viable transition pathway** to achieve the ambition of the taxonomy in a defined time period (e.g., new coal plants that cannot decarbonize to achieve net zero emissions in 2050 through their own performance)
3. **Activities that definitely harm or cause a negative contribution** to any of the taxonomy objectives.



Structural element 4: Eligibility criteria

- Guidance for **metrics and pathways** for some sectors with high GHG emissions
- **Mitigation metrics** options for key sectors
- Considerations for **adaptation criteria** for key sectors
- Do No Significant Harm Considerations (DNSH)

Pathways for eligibility criteria for the prioritized sectors (Pathways, why? what data do you need to apply?)

Example: Sector - Water

- Option-1: Energy efficiency or GHG reduction indicators
- Option-2: Water losses and leakage indices
- Option-3: Percentage of water savings
- Option-4: List of requirements to ensure process efficiency and reduce GHG emissions
- Option-5: Vulnerability and risk assessments (adaptation)



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Example – Sector: Water supply; sewerage, waste management and remediation activities



Sector: Water supply, sewerage, waste management and remediation activities

Ambition



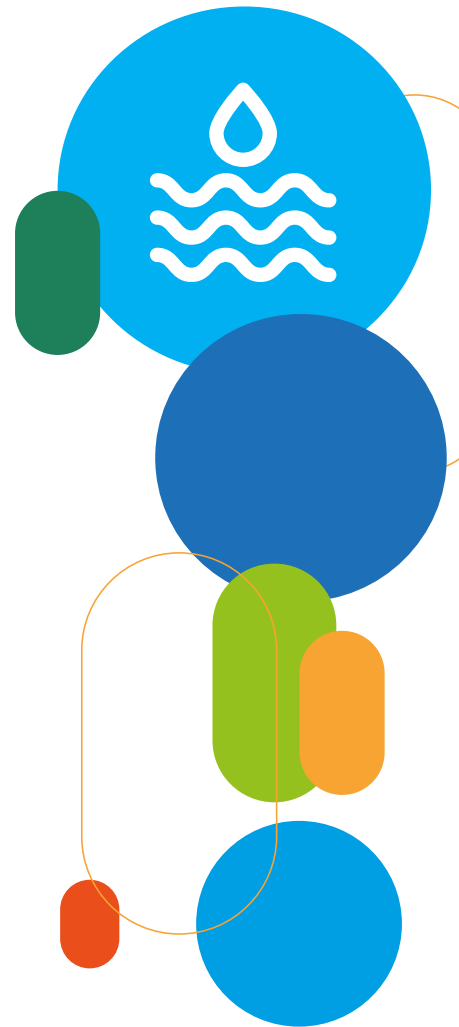
The ambition of the sector should be to ensure the following:

- Efficient and resilient water supply and sanitation systems
- Improve access to safe potable water and sanitation
- Efficient and resilient collection, distribution, and treatment systems
- Efficient management of water resources
- Protection of aquifers, catchments, river basins, and ecosystems

Metrics



- **Option-1**
Energy efficiency or GHG reduction indicators
- **Option-2**
Water losses and leakage indices
- **Option-3**
Percentage of water savings
- **Option-4**
List of requirements to ensure process efficiency
- **Option-5**
Vulnerability and risk assessments.



Sector: Water supply, sewerage, waste management and remediation activities

Option-1: Energy efficiency or GHG reduction indicators

Information necessary to choose the option

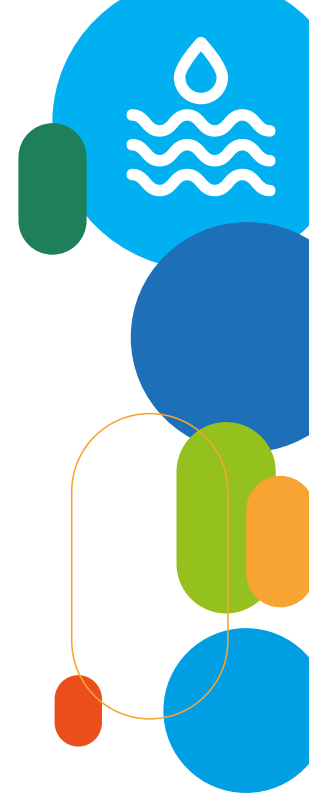
- Baseline data of energy consumption or GHG emissions of the top-class efficient systems
- Energy efficiency data for individual processes (e.g., water treatment and distribution)

Advantages:

- Thresholds will be directly linked to GHG reductions
- Easy to monitor progress and establish declining thresholds

Disadvantages:

- The metric is not applicable to all utility companies and systems because energy efficiency or GHG reduction is not always used as an indicator to measure efficiencies
- Efficiencies may depend on geography (e.g., mountainous regions require more energy to pump water compared to flat regions)



Sector: Water supply, sewerage, waste management and remediation activities

Option-2: Water losses and leakage indices

Information necessary to choose the option

- Baseline data of losses of water utility companies and distribution networks
- Availability of methodologies or standards to measure leakage data

Advantages:

- Positive impact on water resources and reduces wastage
- Acts as an indirect measurement of system efficiency and GHG emissions

Disadvantages:

- Measuring such indicators can lead to increased maintenance and operations costs, especially in existing systems due to the necessity of implementation of monitoring systems
- Difficult to detect and minimize leaks in large distribution networks



Sector: Water supply, sewerage, waste management and remediation activities

Option-3: Percentage savings of water consumption

Information necessary to choose the option

- Baseline data of water consumption that helps determine the water savings threshold
- Adequate information to determine reduction goals across sectors and activities (e.g., water consumption data for buildings, industrial processes, irrigation, etc.)

Advantages:

- Easy to implement
- Ensures promotion and development of new technologies that are efficient

Disadvantages:

- Difficult to define reduction targets when there is no baseline data available
- Reduction goals may vary for different activities (e.g., agriculture, buildings, textile industry, etc.)



Sector: Water supply, sewerage, waste management and remediation activities

Option-4: List of requirements to ensure process efficiency

Information necessary to choose the option

- Information about current practices and technologies for economic activities
- Information about the impact of processes on climate change mitigation and adaptation (e.g., GHG reduction due to anaerobic digestion of sewage sludge, flood defense systems for coastal infrastructure)
- References and benchmarks (e.g., treated water discharge limits)
- Local context for including the activities (e.g., information about the common processes and practices in the country)

Advantages:

- Easy to implement
- No data is required for establishing thresholds
- Substantial contribution is implicit

Disadvantages:

- Does not consider process efficiencies of activities
- Risk of implementation of low-quality technologies



Sector: Water supply, sewerage, waste management and remediation activities

Option-5: Vulnerability and risk assessments

Information necessary to choose the option

- Catchment, river basin, aquifer, topography, and hydrological data
- Information about ecosystems and settlements that are affected by the activity
- Information on governance and water allocation
- Climate and hydrological models
- Risk assessment due to different climate events

Advantages:

- Detailed assessment that can help plan resilient systems
- Considers all potential climate events and reduces risks to the assets
- Typically considers long-term resilience for infrastructure
- Positive impact on society and reduction of economic losses

Disadvantages:

- Time consuming
- Difficulty in obtaining required data for the assessments
- Requires specialists to conduct such assessments
- Vulnerability assessments can be expensive
- Can be difficult for small users and projects

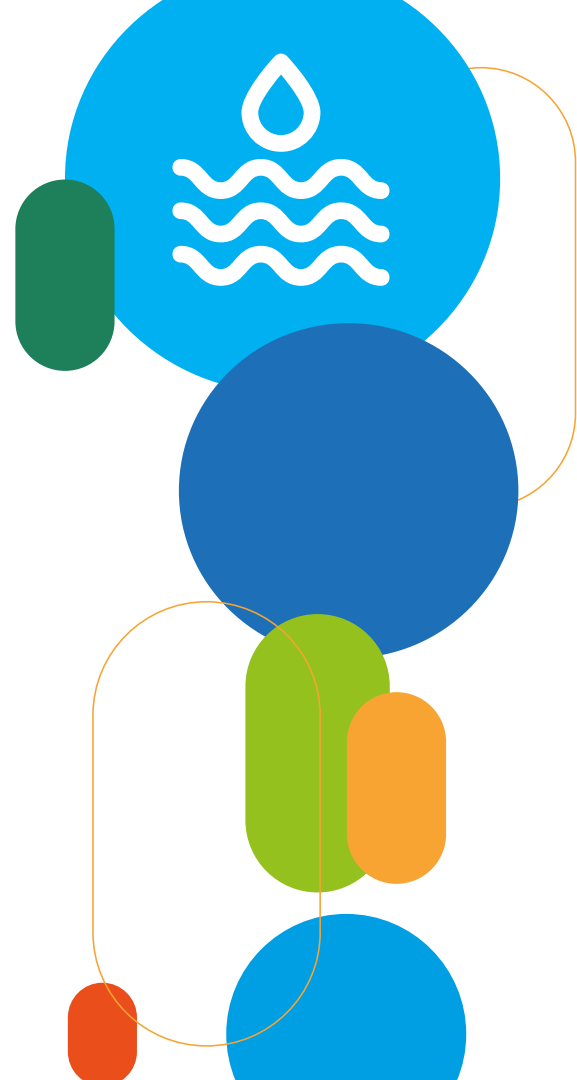


Sector: Water supply, sewerage, waste management and remediation activities



Considerations to avoid harm to other objectives

- Avoid damage to other environmental objectives, especially pollution and protection of water resources
- Wastewater treatment and proper discharge to avoid downstream contamination
- Sludge management and prevention of contamination to soil due to its application
- Proper handling of lubricants, oils and other hazardous waste generated in the operation of treatment systems
- Proper disposal of separated waste from sewer networks and wastewater treatment plants
- Prevention of methane leakage (for treatment using anaerobic systems)

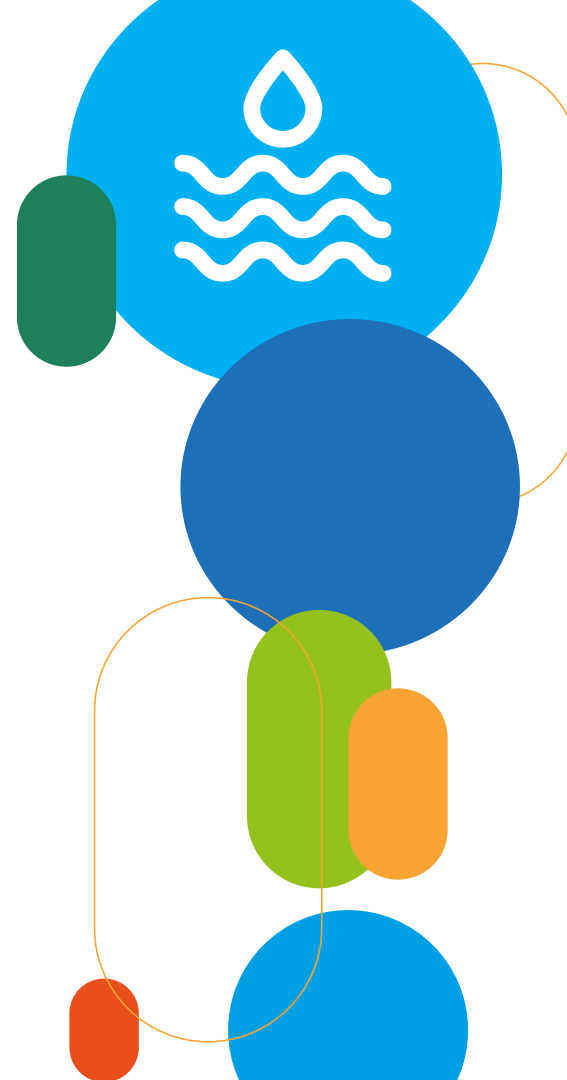


Sector: Water supply, sewerage, waste management and remediation activities



Climate change adaptation

- Preference for nature-based solutions (e.g., Sustainable drainage systems (SuDS))
- Protection of nature and natural capital (e.g., wetlands, mangroves)
- Protection and effective management of watersheds and aquifers (e.g., groundwater protection and allocation)
- Promotion of blue and green infrastructure (e.g., bioswales and green urban spaces)
- Improvement of stormwater drain capacities, especially for urban infrastructure
- Water management and storage (e.g., reservoirs)
- Monitoring and meteorological systems (e.g., for monitoring weather events)
- Resilience of potable and wastewater infrastructure, among others



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Next steps



2023/2024 Workplan

Provide policy advice to LAC policymakers, financial supervisors and regulators, and central banks that are developing their taxonomies and disclosure frameworks on how to use the LAC Taxonomy Common Framework (the importance of interoperability);

1.

Capacity building and dissemination activities for LAC policymakers, financial supervisors and regulators, and central banks on sustainable finance taxonomies and disclosures frameworks, includes an interoperability module based on the use of the LAC Taxonomy Common Framework

2.

Increase the scope of the current Common Framework of Sustainable Finance Taxonomies to other environmental objectives (eg. Biodiversity, circular economy, water conservation, among others)

3.

Organize high-level policy dialogues: Roadmap through 2023 to COP28 - from a technical work (LAC Taxonomy Common Framework) towards a regional political endorsement.

4.



Thank you!

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Thank you!



Annex. LAC Taxonomy Common Framework

IS/Covered in scope	IS NOT/Not covered
 Set of principles and framework for national and regional taxonomies in LAC	Not a regional taxonomy
 Focused on objectives of climate change mitigation and climate change adaptation	The other environmental and social objectives will be developed in future. However, guidance has been provided from a DNSH perspective and minimum social safeguards
 Provides an assessment and prioritisation of key economic sectors	Does not select sectors or activities for national taxonomies
 Provides guidance on selection of activities	Does not establish metrics or thresholds for taxonomies
 Provides guidance on methodologies for selection of metrics for defining screening criteria	Does not establish metrics or thresholds for taxonomies
 Provides guidance on process of taxonomy development and governance structures	Does not prescribe processes or governance structures for LAC countries