The Philippine Sustainable Finance Guiding Principles

Table of Contents

Acknowledgements

These Guiding Principles were developed through discussion and consultation with members of the Philippines Inter-Agency Technical Working Group for Sustainable Finance (ITSF).

This initiative was supported by the UK Government's ASEAN Low Carbon Energy Programme (LCEP), which provided technical input to the Philippine Sustainable Finance Guiding Principles. The ASEAN LCEP is an Overseas Development Assistance programme managed by the UK Foreign, Commonwealth, and Development Office.

1 Introduction to the Philippine Sustainable Finance Guiding Principles

1.1 Objective of the Sustainable Finance Guiding Principles

The Guiding Principles have been developed to establish a common understanding among various stakeholders of the economic activities in the Philippines that can be considered to be 'sustainable.' The Guiding Principles are aligned with the on-going efforts of the government to respond to the call for a more sustainable economy.

The Guiding Principles have been developed to provide principles-based guidance on identifying economic activities that contribute to supporting sustainable development, with a focus on addressing the impacts of climate change, and to encourage the flow of capital to these activities.

A principles-based approach seeks to set principles that specify the intention of regulation, rather than set rules detailing requirements for any target user. This approach also follows the current practices within the ASEAN Region to use a principles-based approach in developing national taxonomies.

1.2 Methodology in arriving at the Sustainable Finance Guiding Principles[1]

1. Define the strategic goals of the Sustainable Finance Guiding Principles
2. Identify environmental and social objectives relevant to the Philippines' sustainable development priorities and agenda
3. Create guiding principles that are aligned with other taxonomies and definitions on investments considered to be sustainable
4. Identify a sample of investments to provide guidance on how to operationalize the GP

[1]A number of Guiding Principles will overlap due to the interlinked nature of sustainable development

1 Introduction to the Philippine Sustainable Finance Guiding Principles

1.3 Target users of the Sustainable Finance Guiding Principles

Target users	Potential uses
Policy makers	• Identify relevant and additional areas where to focus investment to accelerate the achievement of the SDGs • Facilitate the development of a pipeline of sustainable projects in accordance with national priorities for sustainable development • Serve as 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) agenda, and improve associated systems for tracking and measuring finance flows
Financial Regulators	Help with the sustainable development of the financial sector by: • Supporting regulatory interventions (e.g., incentives, guidance and capacity building, etc.) based on the guiding principles to encourage banks to lend to eligible sustainable projects or economic activities aligned with the sustainable guiding principles • Assisting in the development of new climate- or sustainability-related reporting or disclosure guidelines for financial market actors or enhancing existing ones • Gauging financial flows toward sustainable development priorities at the transaction-level, investment and lending portfolio, institutional, and national levels • Protecting reputation of the financial sector/institution by preventing "green-washing" or "sustainability washing"
Banks and financial institutions	• Create and structure sustainable financial products (such as loans, credits, and guarantees) more easily • Support financing and investment decisions (e.g. asset acquisition, project financing and lending activities) • Understand and disclose exposure to sustainable investments and lending, as well as other exposures, as required by regulators • Can be used as a tool for evaluating existing products or exposure of banks and/or financial institutions (e.g., reorienting capital flows, increasing transparency and supporting risk management in a more holistic way)
Investors	• Identify opportunities that comply with sustainability criteria for high-impact investments • Disclose exposure to sustainable investments, as required by regulators

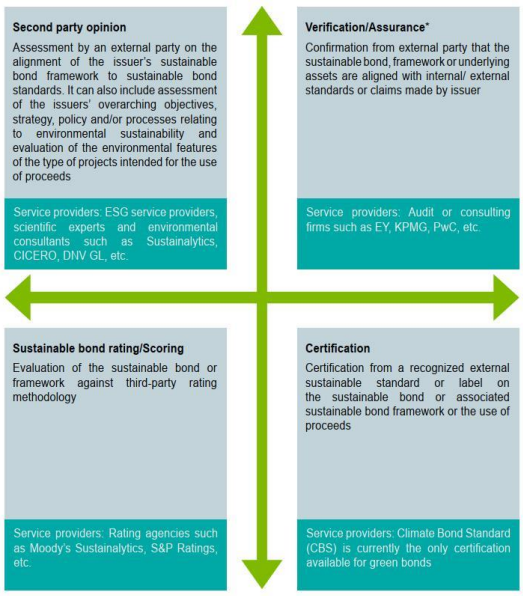
1 Introduction to the Philippine Sustainable Finance Guiding Principles

1.3 Target users of the Sustainable Finance Guiding Principles

Target users	Potential uses
Green/sustainability bond issuers and other relevant users, such as certifiers and verifiers	• Identify eligible activities that can contribute to economic inclusion, climate change mitigation and adaptation, natural resource conservation, pollution control and prevention, and projects that address specific social issues.
Non-financial institutions (MSME and large enterprises)	• Enable them to translate long-term climate transition and environmental objectives into tangible business strategies • Communicate the degree of performance of their economic activities to financial institutions, stakeholders and other non-financial institutions • Compile disclosures against the sustainable finance guiding principles regarding capital expenditure, operational expenditure and turnover • Use as support on the basis of being taxonomically and thematically aligned

In the application of the Guiding Principles, from an investment perspective by government agencies, financial institutions and non-financial institutions, it is recommended that external reviews are used to ensure that the investments are aligned with the Principles. These external reviews will be most critical when investments fall under Guiding Principle 6: Promoting Transition to a Lower Carbon Economy, to ensure that the transition objectives are achieved.

External reviews can take a number of forms. However, the most common types of external reviews with these types of investments take the form of (1) second party opinion and (2) verification or assurance.



1 Introduction to the Philippine Sustainable Finance Guiding Principles

1.4 Introduction to Sustainability

The terms “sustainability” or “sustainable development” has been in existence for nearly 35 years. It was one of the key concepts that emerged from a report commissioned by the United Nations and led by Gro Harlem Brundtland, the former Prime Minister of Norway, to how the world should address the key challenges of increasing environmental threats and pervasive poverty in low-income countries.

Sustainability, in simple terms, is meeting human needs, while staying within the ecological limits of the planet. From a business perspective, it is measured as different aspects with each aspect having specific quantitative and qualitative metrics that companies can report on.

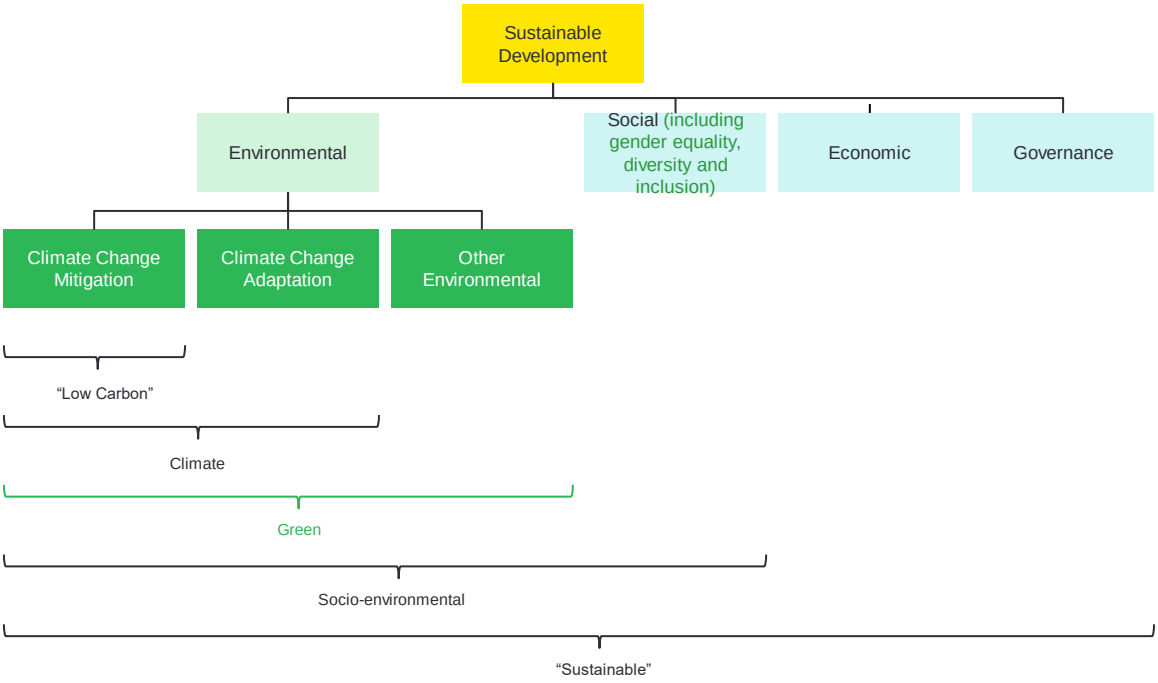


Figure 1. Sustainable development scope[2]

The interconnected nature of Sustainable Development Goals

The 17 Sustainable Development Goals (SDGs) under the 2030 Agenda for Sustainable Development covers social, economic, and environmental sustainability. These goals are highly interconnected and cannot be considered separately.

An SDG model developed by Carl Folke and his team from the Stockholm Resilience Center shows the SDGs clustered into four layers: (1) biosphere, (2) society, (3) economy and (4) partnership. A stable biosphere is needed to build a functioning society, which in turn will build an economy that works for all.

[2]2016. United Nations Environment Programme (UNEP). Definitions and Concepts.

1 Introduction to the Philippine Sustainable Finance Guiding Principles

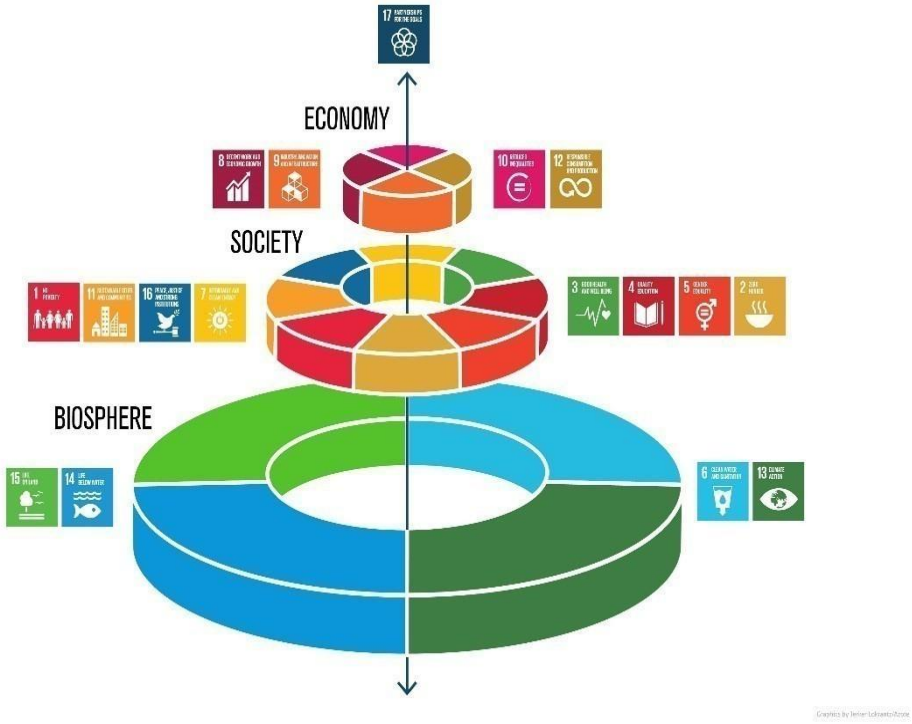


Figure 2. Interconnected nature of the SDGs[3]

Layers	Description
Biosphere	• Foundation of economies and societies and basis of all SDGs • Protecting the biosphere is an essential precondition for social justice and economic development. • Goals related to life on land, life below water, clean water and sanitation and climate action should be achieved to be able to attain the remaining goals.
Society	• The goal addressing the societal issues, call for the eradication of poverty, and the improvement of social justice, peace and good health, gender equality, diversity and inclusion. • Social development depends upon a protected biosphere. • The goals on clean energy, no poverty, zero hunger, peace and justice, sustainable cities, education, gender equality and good health are the foundation for the goals related to the economy.
Economy	• Building on the biosphere and society, the economic goals direct attention towards industry, innovation and infrastructure; reduced inequalities, responsible consumption and production; and decent work and economic growth that is decoupled from environmental degradation.

[3] Stockholm Resilience Centre

1 Introduction to the Philippine Sustainable Finance Guiding Principles

The Emergence of Environmental, Social, and Corporate Governance (ESG)

The World Economic Forum releases an annual Global Risks Report. The risks reported have changed significantly from 2012 to 2021. From being mostly economic in nature in 2012, they have now shifted to mostly environmental in nature by 2021.

	1ST	2ND	3rd	4th	5th
2021	Extreme weather	Climate action failure	Human Environmental damage	Infectious diseases	Biodiversity loss

	1ST	2ND	3rd	4th	5th
2020	Extreme weather	Climate action failure	Natural disasters	Biodiversity loss	Human-made environmental disasters
2019	Extreme weather	Climate action failure	Natural disasters	Data fraud or theft	Cyberattacks
2018	Extreme weather	Natural disasters	Cyberattacks	Data fraud or theft	Climate action failure
2017	Extreme weather	Involuntary migration	Natural disasters	Terrorist attacks	Data fraud or theft
2016	Involuntary migration	Extreme weather	Climate action failure	Interstate conflict	Natural catastrophes
2015	Interstate conflict	Extreme weather	Failure of national governance	State collapse or crisis	Unemployment
2014	Income disparity	Extreme weather	Unemployment	Climate action failure	Cyberattacks
2013	Income disparity	Fiscal imbalances	Greenhouse gas emissions	Water crises	Population ageing
2012	Income disparity	Fiscal imbalances	Greenhouse gas emissions	Cyberattacks	Water crises

Figure 2. Top Global Risks by Likelihood[4]

	1ST	2ND	3rd	4th	5th
2021	Infectious diseases	Climate action failure	Weapons of mass destruction	Biodiversity loss	Natural resource crises

	1ST	2ND	3rd	4th	5th
2020	Climate action failure	Weapons of mass destruction	Biodiversity loss	Extreme weather	Water crises
2019	Weapons of mass destruction	Climate action failure	Extreme weather	Water crises	Natural disasters
2018	Weapons of mass destruction	Extreme weather	Natural disasters	Climate action failure	Water crises
2017	Weapons of mass destruction	Extreme weather	Water crises	Natural disasters	Climate action failure
2016	Climate action failure	Weapons of mass destruction	Water crises	Involuntary migration	Energy price shock
2015	Water crises	Infectious diseases	Weapons of mass destruction	Interstate conflict	Climate action failure
2014	Fiscal crises	Climate action failure	Water crises	Unemployment	Infrastructure breakdown
2013	Financial failure	Water crises	Fiscal imbalances	Weapons of mass destruction	Climate action failure
2012	Financial failure	Water crises	Food crises	Fiscal imbalances	Energy price volatility

Figure 3. Top Global Risks by Impact[4]

Economic
Environmental
Societal
Technological
Geopolitical

[4]World Economic Forum. The Global Risks Report 2021, 16th Edition.

1 Introduction to the Philippine Sustainable Finance Guiding Principles

1.5 The Importance of addressing climate-related financial risks

Climate change is a pressing issue that poses a threat to the global economy and will have an impact across many economic sectors. Climate change presents a range of potential risk across businesses which in turn can affect the global economy. Climate change may directly cost the world economy by USD7.9 trillion[5] by mid-century as higher drought and flooding and crop failures hinder growth and threaten infrastructure. For example, climate change may cause extreme weather events that can disrupt business operations which may negatively impact the ability to serve the client and may also adversely affect the value of the investments. Sectors and communities must increase efforts on enhancing resilience for future climate-related risks. Additionally, long-term changes in environment conditions for slow-onset impacts must be communicated, and their implication for sustainable development.

According to the Intergovernmental Panel on Climate Change (IPCC), *"Anthropogenic greenhouse gas emissions have increased since the pre-industrial era, driven largely by economic and population growth, and are now higher than ever. This has led to atmospheric concentrations of carbon dioxide, methane and nitrous oxide that are unprecedented in at least the last 800,000 years. Their effects, together with those of other anthropogenic drivers, have been detected throughout the climate system and are extremely likely to have been the dominant cause of the observed warming since the mid-20th century."* Thus, it can be concluded that the emissions of carbon dioxide and other greenhouse gases is the primary driver of climate change.

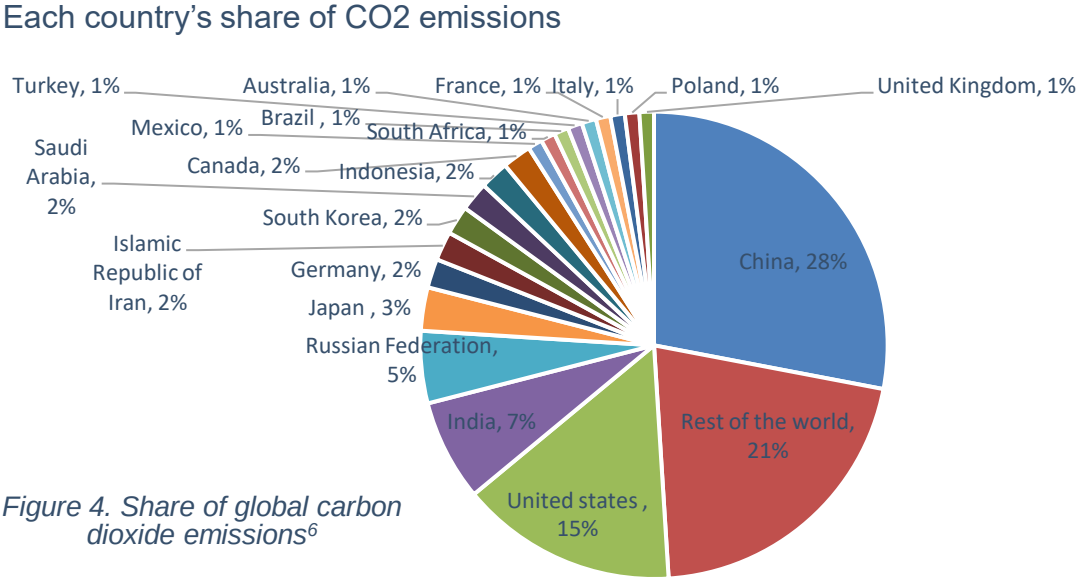


Figure 4. Share of global carbon dioxide emissions[6]

The chart above shows that developed countries and major emerging countries contribute to a large and growing share of global emissions, which needs to be slowed down and reversed. In addition, developed nations typically have higher carbon dioxide emissions per capita. For example, in 2015, the US emitted 15.53 metric tons of carbon dioxide per capita, while China emitted 6.59 metric tons per capita. And, when compared with the per capital emissions of the Philippines of 1.33 metric tons per capita in 2019, based on the Our World in Data site, we clearly see the significant difference between per capita emissions of developed countries with developing countries.

[5] Economist Intelligence Unit
[6] 2020 Union of Concerned Scientists, Earth Systems Science Data 11, 1783-1838, 2019

1 Introduction to the Philippine Sustainable Finance Guiding Principles

The Economist Intelligence Unit's (EIU) Climate Change Resilience Index assessed the preparedness of the world's largest economies and established that based on the current trends, climate change would bring down three percent of global GDP by 2050.

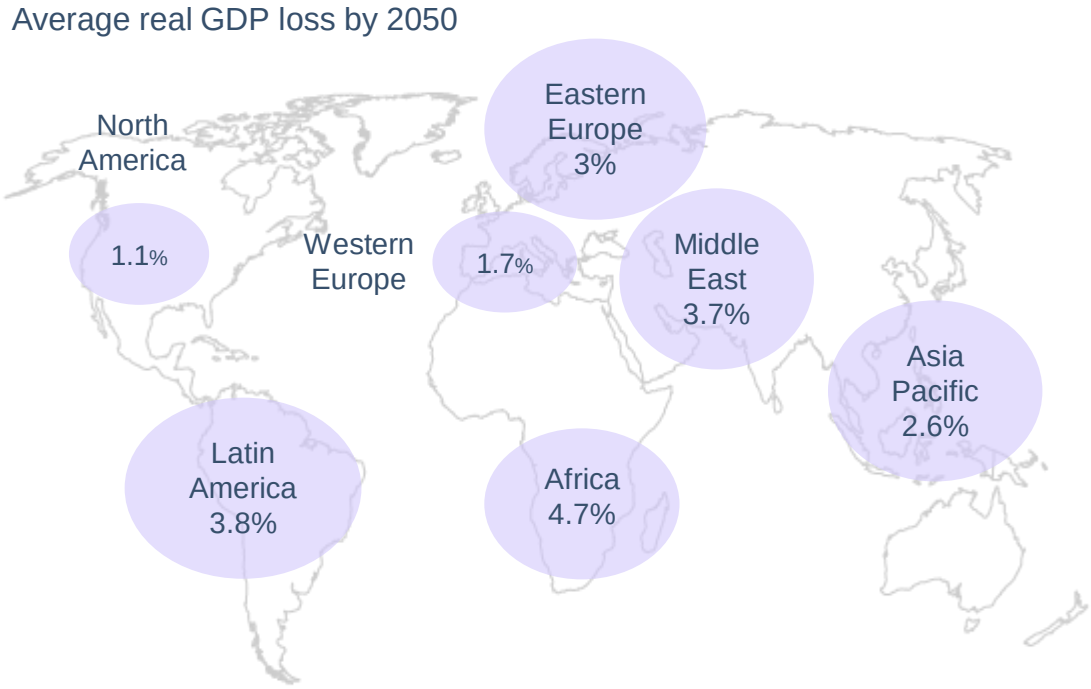


Figure 4. Economic impacts of climate change[7]

Climate change remains an issue and has affected people's well-being across sectors while further pushing more into poverty. For example, it has forced people to deal with the impacts of forest and biodiversity loss and navigate the challenges of forced evacuations and food insecurity during disasters. According to the World Bank, if climate change remained to be ignored, around 132 million people would be pushed into poverty for the next 10 years. In their study, annual cost of natural disasters, mainly on infrastructure damage, are about USD18 billion for low- and middle-income countries. And, more expansive disruptions are triggered, which cost firms and households around USD390 billion annually.

For the most vulnerable countries, climate change impacts health systems, critical infrastructure, livelihood, food, agricultural outputs, etc., with these being overloaded or wiped out, and renders emergency funding more challenging, with a more constrained fiscal space, thus, leading to an increase in the economic vulnerabilities of its people and its communities.

As the Philippines lies in the world's most cyclone-prone region, the country is highly vulnerable to the impacts of climate change. According to Asian Development Bank on their study related to the economics of climate change, the country is projected to lose 6.0% GDP annually by 2100 if the country disregards climate change risks.

[7] Economist Intelligence Unit

1 Introduction to the Philippine Sustainable Finance Guiding Principles

Reflecting the financial and pervasive impacts of climate change, the Task Force on Climate-Related Financial Disclosures (TCFD) has established recommendations for disclosing information in relation to the climate-related risks and opportunities to promote sustainable development. It outlines two categories of climate-related risks: (1) risks related to the physical impacts of climate change and (2) risk related to the transition to a lower-carbon economy.

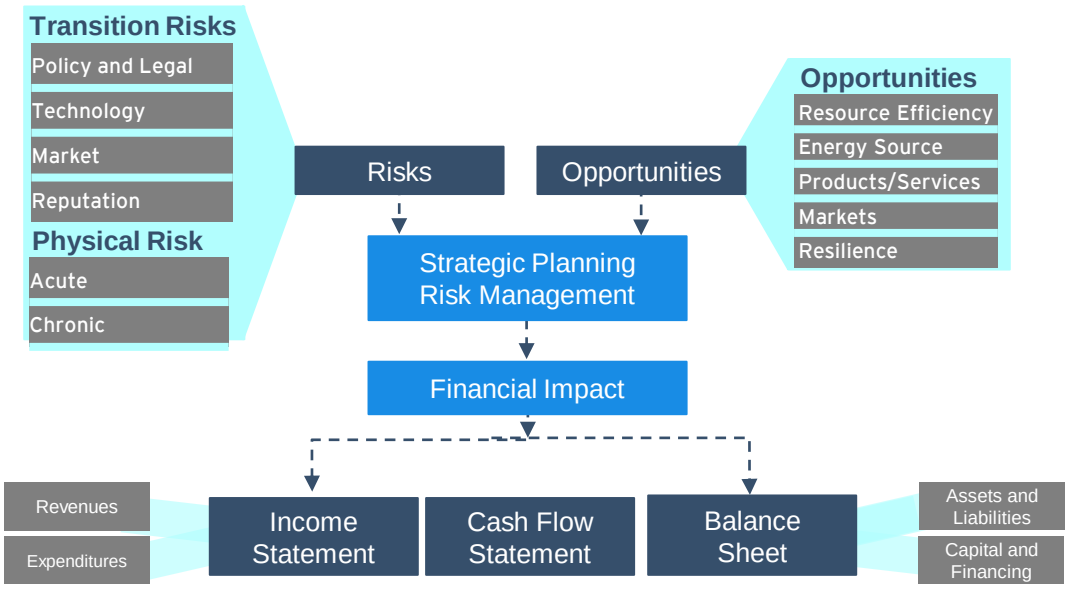


Figure 5. Overview of climate-related risks and opportunities[8]

- *Physical risks*: Physical risks result from increasing severity and frequency of climate and weather-related events, which damage property and infrastructure, disrupt supply chains, affect agriculture output and cause loss of life and migration. As a consequence, asset values decrease, expected credit loss increases, companies have lower profits, public finances are impacted and the cost of settling underwriting losses for insurers increases.

- *Transition risks*: Transition risks result from adjustments associated with the low carbon transition, which will require substantial structural changes to the economy (e.g. regulatory and technological changes). With these changes, it is expected that a wide range of asset values will be reassessed, energy prices will change and the profit and creditworthiness of some borrowers will deteriorate. This will in turn lead to credit losses for lenders and market losses for investors. There are also opportunities associated with the low carbon transition for the financial sector, such as the financing of investments in renewable energy, clean transportation and energy efficiency.

[8] Final Report: Recommendations of the Task Force on Climate-related Financial Disclosures (June 2017)

1 Introduction to the Philippine Sustainable Finance Guiding Principles

1.6 Applicability of Sustainable Development Goals (SDGs) to the Guiding Principles

In 2015, the Philippines, along with the other 192 Member States of the United Nations (UN), committed to achieve the 17 Sustainable Development Goals (SDGs), with its 169 targets, under the 2030 Agenda for Sustainable Development.

In line with this, the Guiding Principles considers and aligns with all the SDGs. A high level overview on the applicability of SDGs against each Guiding Principle is presented below. In particular, SDG 17 (Partnerships for the Goals) is considered for all the Guiding Principles, given the need for all national and international stakeholders to come together to mobilize and deploy greater use of sustainable finance to contribute towards achievement of the SDGs.

Sustainable Development Goals		Guiding Principles					
		GP1	GP 2	GP3	GP4	GP5	GP6
SDG 1	No Poverty	■		■		■	
SDG 2	Zero Hunger			■		■	
SDG 3	Good Health and Well-Being			■			
SDG 4	Quality Education			■			
SDG 5	Gender Equality	■	■	■	■	■	■
SDG 6	Clean Water and Sanitation					■	■
SDG 7	Affordable and Clean Energy	■	■		■	■	
SDG 8	Decent Work and Economic Growth			■			
SDG 9	Industry, Innovation and Infrastructure	■	■	■	■	■	
SDG 10	Reduced Inequalities			■		■	
SDG 11	Sustainable Cities and Communities	■			■	■	■
SDG 12	Responsible Consumption and Production	■		■	■		■
SDG 13	Climate Action	■	■	■	■	■	■
SDG 14	Life Below Water	■		■			■
SDG 15	Life On Land	■		■	■		■
SDG 16	Peace, Justice and Strong Institutions				■		
SDG 17	Partnerships for the Goals	■	■	■	■	■	■

Guiding Principle 1: Climate Change Mitigation and Adaptation
Guiding Principle 2: Promoting Transition to a Low Carbon Economy
Guiding Principle 3: Resilient Food Systems
Guiding Principle 4: Sustainable Cities
Guiding Principle 5: Sustainable and Resilient Infrastructure for Inclusive Growth and Poverty Reduction
Guiding Principle 6: Environmental Management and Conservation

1 Introduction to the Philippine Sustainable Finance Guiding Principles

1.6 Applicability of Sustainable Development Goals (SDGs) to the Guiding Principles

Similarly, SDG 5 (Gender Equality) is mainstreamed across all the Guiding Principles; gender equality is essential for a prosperous and sustainable world as it affects all aspects of sustainable development.

Mainstreaming a gender lens across all types of sustainable finance activities can be measured through a range of indicators that vary depending on the type of activity being assessed. The "2X Challenge – Financing for Women" provides a harmonized set of indicators that could be used broadly with only minor adjustments to reflect the specificities of the underlying entity. The indicators are organized across five categories.

1. Entrepreneurship (related to the company as well as its supply chain)
• *Percent of female ownership*
• Percent of company founder(s) who are female

2. Leadership
• Percent of senior management who are female
• Percent of Board who are female
• Percent of investment committee who are female

3. Employment
• Percent of full-time employees who are female
• Initiative in place to specifically advance women in the workforce (Y/N)

4. Consumption
• Product or service specifically or disproportionately benefits women (Y/N)
• Percent of customers who are female

These metrics can be used as entry points to design gender mainstreaming measures across the ensuing Guiding Principles and the suggested activities within them.

In addition, SDG 13 (Climate Action) has also been considered for all the Guiding Principles, given the perceived urgency of climate change and each of the other Principles consider investments that can also be related to addressing climate change.

Guiding Principle 1: Climate Change Mitigation and Adaptation
Guiding Principle 2: Promoting Transition to a Low Carbon Economy
Guiding Principle 3: Resilient Food Systems
Guiding Principle 4: Sustainable Cities
Guiding Principle 5: Sustainable and Resilient Infrastructure for Inclusive Growth and Poverty Reduction
Guiding Principle 6: Environmental Management and Conservation

1 Introduction to the Philippine Sustainable Finance Guiding Principles

1.7 The Importance of Nature-Based Solutions (NbS)

A key factor in addressing the identified global risks and achieving the SDGs is having healthy ecosystems in place, since they are the foundation of resilient and healthy communities

Nature based Solutions (NbS) is an umbrella concept covering a wide-range of ecosystem-related approaches.

The current Global Standard on NbS was issued by the International Union for Conservation of Nature (IUCN). It defines NbS as "actions to protect, sustainably manage and restore natural or modified ecosystems that address societal challenges effectively and adaptively, simultaneously providing human well-being and biodiversity benefits[9]," which was based on the 2016 World Congress Resolution defining, for the first time, the use of nature for simultaneous benefits to human well-being and biodiversity.

A number of the Guiding Principles make reference to specific nature-based solutions addressing a multitude of societal challenges, including climate resilience, coastal resilience, water management, air quality, biodiversity enhancement, urban regeneration, green space management, health and well-being, social justice and social cohesion, knowledge building for urban transformation, new economic opportunities and green jobs and participatory planning and governance.

Some examples of NbS are:

- Drought risk mitigation (Examples: wetland conservation and restoration or forest management to increase water yield)
- Urban water and storm water management (Examples: green roofs, the establishment of greenspaces and urban parks)
- River/Inland flood risk mitigation (Examples: reforestation, restoring floodplains)
- Agricultural productivity (Example: restoration of degraded grassland and/or cropland)
- Coastal protection (Example: restoration of coastal wetlands, such as mangroves)

[9] WCC-2016-Res-069-EN, Defining Nature-based Solutions, https://portals.iucn.org/library/sites/library/files/resrecfiles/WCC_2016_RES_069_EN.pdf.

Other definitions of NbS are outlined in Appendix D.

2 Guiding Principles on the Assessment of Economic Activities

2.1 Guiding Principle 1: Climate Change Mitigation and Adaptation

Based on the Nationally Determined Contribution (NDC) submitted to the UNFCCC in April 2021, the Philippines is committing to a GHG emissions reduction and avoidance of 75%, wherein 2.71% is unconditional[10] and 72.29% is conditional[11]. Unconditional targets are set within the energy and transport sectors while conditional targets, contingent on access to means of implementation from developed country parties, may come from the industry, waste, and agriculture sectors.

As defined in the Climate Change Act of 2009, as amended, climate change mitigation is the human intervention to address anthropogenic emissions by sources and removals by sinks of all greenhouse gas (GHG), including ozone-depleting substances and their substitutes. The objectives of climate change mitigation are to (1) avoid GHG emissions, by promoting "green" activities that have very low, if not zero, emissions, and (2) reduce GHG emissions.

Climate change adaptation is defined as the adjustment in natural or human systems in response to actual or expected climatic stimuli or their effects, which moderates harm or exploits beneficial opportunities. The objectives of climate change adaptation are to (1) increase resilience to withstand the impacts of climate change, and (2) enable other economic activities to adapt to climate change. The National Adaptation Plan (NAP) will guide the fit-for-purpose identification of climate change adaptation measures of the country, which will then direct the updating of the National Climate Change Action Plan (NCCAP).

Examples of economic activities under Guiding Principle 1 include, but are not limited to the following:

A. Optimize energy consumption
E.g. promoting energy efficiency projects; facilitating access to finance for energy efficiency products aimed at women/SMEs

B. Encourage the use of renewable energy/clean energy
E.g. expand capacity of renewable energy generated, financing for solar farms; promote off-grid renewable energy solutions, green cookstoves etc. aimed at the unserved

C. Promote green buildings
E.g. use of products and systems that are energy efficient and low carbon building materials; encourage green construction jobs for women

D. Foster low carbon mobility
E.g. establish public walking and cycling infrastructure; use of energy efficient transportation; use of an electric vehicle; implement women-friendly road infrastructure design

[10] Unconditional refers to policies and measures which can be undertaken using nationally mobilized resources.
[11] Conditional refers to policies and measures which require support or the means of implementation under the Paris Agreement

2 Guiding Principles on the Assessment of Economic Activities

2.1 Guiding Principle 1: Climate Change Mitigation and Adaptation

Examples of economic activities under Guiding Principle 1 include, but are not limited to the following: (continued)

E. Adapt economic activities to mitigate physical effects of climate change

E.g. flood sensor technology, providers of cooling systems for buildings; fertilizing crops with appropriate amount of nitrogen; reducing solid waste sent to landfills; tax incentives or carbon pricing to control emissions; micro insurance schemes that benefit women

F. Increase resilience

E.g. early warning systems to reduce risk of climate change, raising building heights above projected sea level rise, installing more efficient cooling facilities to address increasing temperatures; climate change education and capacity building including specific sessions aimed at women community leaders; green financing; green inclusive financing (e.g., microfinance targeting women and women led businesses to finance climate resilience construction costs.); implementation of integrated water resource and coastal zone management; use of and access to climate change and climate risk information in planning processes to assist in the development of green or blue infrastructure or climate-smart agriculture

G. Reforestation and afforestation

2 Guiding Principles on the Assessment of Economic Activities

2.2 Guiding Principle 2: Promoting Transition to a Low Carbon Economy

The objective of this principle is to accelerate the orderly transition towards a lower carbon economy from economic activities that are highly emissions-intensive, in line with the Paris Agreement and commitments made by the Philippines Government. Under the Paris Agreement countries have committed to "making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development." This means not just financing green activities, but also funding the shift towards decarbonization across the economy.

Examples of economic activities under Guiding Principle 2 include, but are not limited to the following. All of the following financing activities should intentionally incorporate a gender lens in their design. In addition, all financing activities provided below should be able to consider shifts in employment as a result of the decarbonization of the highly emissions-intensive economic activities (i.e., consider green jobs[12] related to these activities).

A. Finance activities that lead to achievement of the Paris Agreement goals and the Philippines GHG reduction target/NDC

B. Finance an entity that is proactively pursuing the transition, with concrete action plans or medium to long-term goals/targets, aligned with the Paris Agreement and Philippines GHG reduction target/NDC

E.g. Financing for entity working on R&D aiming at low carbonization or decarbonization

C. Finance an entity with a medium-term target for reducing GHG emissions towards the reduction target of the Philippines based on the Paris Agreement and that has been achieving its target or has been making an effort to achieve it in the future

[12] Green jobs per RA 10771 Green jobs refer to employment that contributes to preserving or restoring the quality of the environment, be it in the agriculture, industry or services sector. Specifically, but not exclusively, this include jobs that help to protect ecosystems and biodiversity, reduce energy, materials and water consumption through high efficiency strategies, decarbonize the economy, and minimize or altogether avoid generation of all forms of waste and pollution. Green jobs are decent jobs that are productive, respect the rights of workers, deliver a fair income, provide security in the workplace and social protection for families, and promote social dialogue.

2 Guiding Principles on the Assessment of Economic Activities

2.2 Guiding Principle 2: Promoting Transition to a Low Carbon Economy

Examples of economic activities under Guiding Principle 2 include, but are not limited to the following. (continued)

D. Finance a project in a GHG emitting industry or sector that achieves or implements the level of best performance of low GHG emissions in line with a reputable global or regional standard for the sector or industry

E.g. financing to install cutting-edge high-efficiency power generators, financing to significantly decrease the GHG emissions and improve energy efficiency in an existing facility, financing directed towards a BAT(Best Available Technology) project, financing a new business that decreases the GHG emissions of a whole supply chain or city

E. Finance a project relating to or contributing to products with the level of best performance of low GHG emissions in line with a reputable global or regional standard for such a sector or industry

E.g. production of highly efficient motors and projects related with its value chain and production of items regarded as "top-runner" in terms of efficiency

F. Finance an activity, entity or project that would contribute to GHG reduction throughout the lifecycle of a product

2 Guiding Principles on the Assessment of Economic Activities

2.3 Guiding Principle 3: Resilient Food Systems[13]

A key characteristic of a sustainable food system is resilience, which is defined by the Food and Agricultural Organization of the UN as "protecting, restoring and improving livelihood systems in the face of threats that impact agriculture, nutrition, food security and food safety." Climate change, which has brought about typhoons, floods and droughts, has impacted food systems. This has made it more critical for our food systems to adapt and be more resilient.

Food system resilience is the capacity to provide food security over a period of time despite disturbances. Food system resilience can be broken down into various components: (1) robustness, or the capacity to withstand the disturbance in the first place before any food security is lost; (2) redundancy, or the extent to which elements of the system are replaceable, affecting the capacity to absorb the perturbing effect of the disturbance and avoid as much food insecurity as possible; (3) the flexibility and thus rapidity (or food system reactivity) with which the food system is able to recover any lost food security; and (4) resourcefulness and adaptability, which determines just how much of the lost food security is recovered.[14]

Examples of economic activities under Guiding Principle 3 include, but are not limited to the following:

A. Ensure food availability and accessibility, health and nutrition

E.g. addressing supply chain issues, initiating and maintaining community-based or local food growing, supporting systems that optimize production, reducing food loss and waste, financial assistance to farmers, and fisherfolks, targeting women farmers with training, technology, access to finance and facilitating joint land ownership, promoting nutrition and health, promotion of climate-resilient seedlings and crops; inclusion of female fisherfolks

B. Create environmentally responsible food systems

E.g. supporting sustainable intensification of food systems, encouraging ecologically sensitive food production and urban renewal, avoiding overfishing and overhunting, minimizing use of pesticides, synthetic fertilizer, hormones and antibiotics in food production, furtherance of organic farming, avoiding use of plastic in food packaging

C. Provide access and transfer of knowledge, skills and technology

E.g. investing in developing agricultural and entrepreneurial capacities of farmers and research and development, which will provide new knowledge to the farmers, small and medium-sized enterprises, as well as more effective practices and new technologies, providing localized and gender-responsive agricultural training and education to female farmers and fisherfolks, access to agricultural technology that improves efficiency in food production and increases agricultural yield; transfer of climate-friendly technologies;

[13] UN Global Compact. Food and Agriculture Business Principles
[14] Food system resilience: Defining the concept

2.3 Guiding Principle 3: Resilient Food Systems[15]

Examples of economic activities under Guiding Principle 3 include, but are not limited to the following: (continued)

D. Adapt economic activities to the resilience of the food system

E.g. community grain fund system, accelerate and scale up technical and financial support for sustainable land and integrated water resource management practices that can be readily adopted, implement local plans for natural resource and rehabilitation management, provide incentives for smallholder farmers to adopt productive, sustainable and resilient agricultural practices, provision of climate or weather-based index insurance for farmers

[15] UN Global Compact. Food and Agriculture Business Principles

2 Guiding Principles on the Assessment of Economic Activities

2.4 Guiding Principle 4: Sustainable Cities[16]

Cities are the source of competitive advantage and they have the critical role in the world's future. Increased urbanization comes with complex issues ranging from resource allocation, environmental protection, and good governance. To achieve sustainable development, it is crucial that we are able to build and manage our urban spaces sustainably.

Sustainable cities are compact, mixed urban forms dedicated to achieving social development (e.g., green housing and buildings, education and health, green public transportation), economic development (e.g., technology and innovation), environmental management (e.g., waste and recycling management, energy efficiency), and urban governance (e.g., strengthening of civil and political rights, support of local, national, regional and global links), collectively.

Examples of economic activities under Guiding Principle 4 include, but not limited to the following:

A. Create smart and intelligent cities

E.g. Inclusive smart city solutions, technological advancement, use of big data and machine learning-based urban planning tools

B. Promote clean cities

E.g. promotion of sustainable consumption and production practices, pollution prevention and waste minimization and more efficient waste management within a particular urban area or city; communication campaign aimed at women on waste recycling and prevention.

C. Promote healthy urban densification

E.g. promotion of inclusive and efficient mobility, 15/20-minute neighborhoods, implement energy efficiency features in housing projects and infrastructure development, use of renewable energy, empowerment towards household-level RE-sourced power generation and usage, intermodal transport schemes, ecosystem conservation areas, land-use planning for urban ecosystems that intentionally incorporate gender analysis in urban design, circular economy

D. Foster resilient cities

E.g. Gender-smart financing mechanisms to support investment in resilient infrastructure, supporting capacity development of cities while promoting gender equality

[16] UN Global Compact. Cities for the Future: Innovative and Principles-based Approaches to Urban Equity, Sustainability and Governance

2 Guiding Principles on the Assessment of Economic Activities

2.4 Guiding Principle 4: Sustainable Cities[17]

Examples of economic activities under Guiding Principle 4 include, but not limited to the following: (continued)

E. Peaceful and inclusive cities

E.g. integrate peace-conducive economic development framework, design safe streetlighting and other safety features to safeguard against gender based violence against women, create a program which promotes sanctuaries of peace and development in local communities, promoting ethics in the use of ICT through campaign that discourage or reject pro-violence discourse, setting up collaborative organizations and promoting the exchange of information between local, regional, national and international administrations, controlling small/light arms trafficking

F. Adapt economic activities to make cities and communities sustainable

E.g. ensure access for all to adequate, safe, climate-resilient and affordable housing and basic services and upgrade slums, provide an allocated safe space and services to street vendors and markets especially for women e.g., women toilets, reduce the adverse per capita environmental impact of cities, including by paying special attention to air quality and municipal and other waste management, observance of green building standards

[17] UN Global Compact. Cities for the Future: Innovative and Principles-based Approaches to Urban Equity, Sustainability and Governance

2 Guiding Principles on the Assessment of Economic Activities

2.5 Guiding Principle 5: Sustainable and Resilient Infrastructure for Inclusive Growth and Poverty Reduction

Sustainable and resilient infrastructure investments must not only provide users with affordable and reliable facilities, it must also promote economic activities for private sector involvement and employment and ensure women and marginalized groups are able to gain more equal access to infrastructure resources and services. Increased infrastructure investment alleviates poverty by increasing employment and income opportunities.

Examples of economic activities under Guiding Principle 5 include, but not limited to the following:

A. Decrease production costs

E.g. infrastructure decreasing transport costs and decreasing spoilage, such as construction of railways, and roads; provide basic infrastructure services to home based workers in the informal sector (majority of whom are women), such as water and electricity

B. Increase production capacity

E.g. infrastructure expanding production capacity, such as energy infrastructure which is inclusive and a critical input to modern production processes, or telecommunications infrastructure or road infrastructure; use of electric pumps in well irrigation

C. Improve access to key facilities

E.g. infrastructure that provides improved access to health, education, childcare and other key facilities, such as construction of rural roads; construction of bridges that transport farm inputs and outputs; infrastructure in line with requirements of RA 344, "An Act to enhance the mobility of disabled persons by requiring certain buildings, institutions, establishments and public utilities to install facilities and other devices"; infrastructure that are responsive and sensitive to all (e.g. women, gender groups, differently-abled)

D. Connect economic activities and markets

E.g. infrastructure that better connects markets and economic facilities, such as transport and communications infrastructure, designed in line with women's specific transport needs; affordable housing infrastructure including the promotion of joint land titling for men and women

E. Resilient infrastructure

E.g. investments in mitigation and incident planning for transport infrastructure, maintenance, rehabilitation, and retrofitting of existing infrastructure; ensuring climate resilient design for new infrastructures including incorporation of women friendly design.

2 Guiding Principles on the Assessment of Economic Activities

2.6 Guiding Principle 6: Environmental Management and Conservation

Environmental management and conservation are practices of preventing unwanted stimuli to the broader environment and preserving natural resources. Economic activity may overlap with climate change mitigation and adaptation, however, economic activity under environmental management and conservation considers the impact on the wider ecosystem. This may include areas in pollution prevention and control, natural resource resilience, and biodiversity. The objectives of environmental management and conservation are to (1) prevent and control pollution, (2) ensure a healthy ecosystem and biodiversity and (3) promote resource resilience through resource efficiency, circular economy and waste management.

As women are disproportionately impacted by climate change and disproportionately involved in environmental management and conservation at the grassroots level, an intentional effort to explicitly support, train and empower women's conservation groups should be made across all activities in this Principle. Examples of economic activities under Guiding Principle 6 include, but are not limited to the following.

A. Promote air, water, and land pollution control measures, including integrated waste management aimed at improving environmental quality.

E.g. Establish public walking and cycling infrastructure, use of energy efficient transportation; establishment and promotion of mass transportation and interconnectivity of different mass transportation infrastructures; clean up drives on river basins; rehabilitation of water bodies; promote land clean up and remediation, use of systems and technologies to manage eligible ecosystems

B. Promote protection, restoration and sustainable use of terrestrial and aquatic ecosystems (i.e., freshwater, coastal, and marine environment)

E.g. Promote maintenance and/or restoration of mangroves and other coastal wetlands

C. Use of endemic species in reforestation and afforestation activities

D. Promote circular economy by undertaking life cycle assessments, promoting use of eco-labelled products and sustainable packaging, implementing extended producer responsibility, and recovering wastes for other useful purposes

E. Support the Philippine Economic-Environmental and Natural Resources Accounting and payment for ecosystem services

2 Guiding Principles on the Assessment of Economic Activities

2.7 Guiding Principle 7: Prohibited Activities

Economic activities must not be illegal under Philippines law and must not breach environmental laws and regulations[18]. In addition, they should not (1) negatively impact the socio-economic well-being of communities in the long-term, (2) negatively impact the mitigation and adaptation efforts of others or (3) negatively impact the other principles, where applicable.

Examples of prohibited activities include, but are not limited to the following:

A. The open burning of solid waste

B. Open dumping, burying of biodegradable or non-biodegradable materials in flood prone areas

C. Importing of toxic wastes misrepresented as “recyclable” or “with recyclable content”

D. Discharging or depositing of water pollutant to the water body, or such which will impede natural flow in the water body

E. Constructing or operating landfills or any waste disposal facility on any aquifer, groundwater reservoir, or watershed area and or any portions thereof

F. Single-use plastic

G. Use of exotic and/or bio-invasive plant species in any reforestation and afforestation activity

[18] Includes, but is not limited to the following: Philippine Environmental Code, National Building Code, Expanded National Integrated Protected Areas System, Clean Air Act, Ecological Solid Waste Management Act, Revised Forestry Code, Strategic Environment Plan for Palawan Act, Toxic Substances, Hazardous and Nuclear Waste Control Act, and Philippine Clean Water Act

Appendix

Appendix

A – Examples of economic activities that are considered as sustainable and environmentally friendly

As the Sustainable Finance Guiding Principles is meant to be utilized as a long-term guidance document, the context of the examples included in the list below may differ in the future.

Sector	Economic Activities	Guiding Principles	2009 Philippine Standard Industrial Classification (PSIC)
Agriculture	• Reduction in Carbon Footprint of Agricultural Products (e.g. use of pest-resistant crops or biocontrol agents)	Resilient Food Systems	**Section A/ Division 01/ Group 015:** Agriculture, Forestry and Fishing/ Crop and Animal Production, Hunting and Related Service Activities/ Support Activities to Agriculture and Post-harvest Crop Activities
	• Carbon sequestration measures (Nature-based solutions) (e.g. use of organic fertilizers and biochar)	Climate Change Mitigation and Adaptation	**Section A/ Division 01/ Group 015:** Agriculture, Forestry and Fishing/ Crop and Animal Production, Hunting and Related Service Activities/ Support Activities to Agriculture and Post-harvest Crop Activities
Waste	• Solid waste subsector (e.g. composting of organic waste)	Sustainable Cities/ Environmental Management and Conservation	**Section E/ Division 38/ Group 382:** Water Supply; Sewerage, Waste Management and Remediation Activities/ Waste Collection, Treatment and Disposal Activities; Materials Recovery/ Waste Treatment and Disposal
	• Wastewater sub-sector (e.g. expand coverage of sewerage and septage treatment facilities in line with the implementation of the National Sewerage and Septage Management Program (NSSMP))	Sustainable Cities/ Environmental Management and Conservation	**Section E/ Division 37/ Group 370:** Water Supply; Sewerage, Waste Management and Remediation Activities/ Sewerage/ Sewerage
Industry	• Increase Cullet Use in Glass Production	Sustainable Cities	**Section C/ Division 23/ Group 231:** Manufacturing/ Manufacture of Other Non-metallic Mineral Products/ Manufacture of Glass and Glass Products
	• Refrigeration and Air Conditioning Sector – Low Global Warming Potential Refrigerants and Destruction Facility	Climate Change Mitigation and Adaptation	**Section D/ Division 35/ Group 353:** Electricity, Gas, Steam and Air Conditioning Supply/ Electricity, Gas, Steam and Air Conditioning Supply/ Steam, Air Conditioning Supply and Production of Ice
Transportation	• Rail Projects under the Build-Build-Build (BBB) Program	Sustainable Infrastructure	**Section H/ Division 49/ Group 491:** Transportation and storage/ Land Transport and Transport via Pipelines/ Transport Via Railways
	• Bus Rapid Transit (BRT) Projects in Cebu and Quezon Avenue	Sustainable Infrastructure	**Section H/ Division 49/ Group 492:** Transportation and storage/ Land Transport and Transport via Pipelines/ Transport Via Buses
Energy	• Implementation of aspiration target at least 15,000MW additional RE capacity by 2030	Climate Change Mitigation and Adaptation	**Section D/ Division 35/ Group 351:** Electricity, Gas, Steam and Air Conditioning Supply/ Electricity, Gas, Steam and Air Conditioning Supply/ Electric Power Generation, Transmission and Distribution
	• Integration of structural adaptations into the structural design/strengthening of energy infrastructures	Climate Change Mitigation and Adaptation	**Section D/ Division 35/ Group 351:** Electricity, Gas, Steam and Air Conditioning Supply/ Electricity, Gas, Steam and Air Conditioning Supply/ Electric Power Generation, Transmission and Distribution

Source: https://psa.gov.ph/classification/psic/ ; 2nd Multi-Stakeholder Consultation for the First Philippine Nationally Determined Contribution (NDC), Annex B

Appendix

B – Climate Risk Assessment

Climate risk assessment using scenario analysis

Scenario analysis is a well-established method for developing strategic plans that are flexible and robust to a range of plausible future states. Scenario analysis can help to better frame strategic issues, assess the range of potential management actions that may be needed, engage more productively in strategic conversations, and identify indicators to monitor the external environment. Importantly, climate-related scenario analysis can provide the foundation for more effective engagement with investors on an organization's strategic and business resiliency.[19]

The most significant effects of climate change are most likely to arise over the medium to longer term. The magnitude and timing of these effects, though, are not certain. Understanding these climate-related risks and opportunities would help organizations plan effectively. An anticipation of the possible outcomes and implications would also be helpful in addressing the uncertainty of the effects of climate change.

Key challenges of climate risk assessment

Key challenges of climate risk assessment include the following:

Coordination
Climate risk analysis requires a range of expertise from across different disciplines; at organizational level it requires coordination among business owners, credit risk management and leadership. Ownership and governance, as well as differences in techniques and skill sets, can lead to coordination challenges.

Limited internal data
Oftentimes, there is a lack of historical data to assess the impact of climate risk. In addition, no long-term policy experiments have occurred at the scale that would be required for a 2°C transition.

Long-run effects
Specific transition risks may not materialize over the one- to five-year periods that organizations (especially banks) typically use to conduct business planning and stress testing exercises.

Lack of systematic and consistent framework
Given the complexity of the interacting factors within the scenario generation models, the lack of regulatory requirements and the novelty of the topic, most institutions do not have a structure in place to develop an approach that can be used in a systematic manner.

Dynamic relations across sectors
In some industries early producers of low-carbon electric vehicles may possess a competitive advantage if a transition scenario materializes. In other industries, this may merely temporarily slow a continuing decline in demand from policy-related costs and less competitive prices.

Lack of capacity and knowledge
Most institutions lack the internal capacity and knowledge to understand the global climate models, which are used in climate stress testing exercises

[19] Final Report: Recommendations of the Task Force on Climate-related Financial Disclosures (June 2017)

Appendix

B – Climate Risk Assessment

National Climate Risk Management Framework (NCRMF)

The NCRMF was created to harmonize and integrate the efforts of various sectors and stakeholders on climate risk management, the ultimate objective of which is to come up with a climate action planning system founded on a unified and integrated science and risk-based approach with a strong risk database, information and analytics system that is readily available. Activities identified in the framework are: (1) a national stocktake of existing government actions at both national and local levels, to ascertain the current state in relation to climate risk information, tools and methodologies, and allow the identification of gaps, to arrive at the minimum acceptable standards for climate risk data and assessment methodologies; (2) climate risk evaluation, to understand the risk profiles and ranking to determine appropriate options for policy and action; and (3) climate risk management action formulation, to identify the activities, projects, actions that would address the identified risks. With this standardized guidance, it is envisioned that stakeholders will be able to identify interventions that complement the actions of government, all leading towards greater resilience of the economy.

Appendix

C – Sustainable Finance Guiding Principle references

Bank Negra Malaysia (BNM) Principles-based Taxonomy

Guiding Principle 1 (GP1): Climate change mitigation

The objective of climate change mitigation is to reduce GHG in the atmosphere. An economic activity can be considered to meet climate change mitigation if it makes substantial contribution towards the following:

- Avoid GHG emissions;
- Reduce GHG emissions; or
- Enable others to avoid or reduce GHG emissions

Examples of economic activities that can be considered as meeting GP1 include, but are not limited to the following:

a. Increase contribution of renewable energy in power generation
   E.g. Solar farm, biogas power plant, hydro power plant
b. Optimize energy consumption
   E.g. Promote energy efficient and energy savings based projects
c. Encourage low carbon mobility
   E.g. Energy efficient vehicles and transport
d. Promote green buildings
   E.g. Adoption of green technology in the construction, management, maintenance and demolition of buildings

Reduction of emissions can be performed via several mechanisms, such as increasing energy efficiency, use of renewable forms of energy and carbon capture and storage technology.

Guiding Principle 2 (GP2): Climate change adaptation

The objective of climate change adaptation is to increase resilience in order to withstand the negative physical effects of current and future climate change. An economic activity can be considered to meet climate change adaptation through the following:

- Implement measures to increase own resilience; or
- Enable other economic activities to adapt to climate change.

Examples of economic activities that can be considered as meeting GP2 include, but are not limited to the following:

a. Implement measures to increase own resilience
   E.g. Implement early warning system to reduce risk of flooding
b. Contribute to the adaptation of other economic activities to mitigate physical effects of climate change
   E.g. Develop flood sensor technology

Source: Bank Negara Malaysia, Climate Change and Principle-based Taxonomy, https://www.bnm.gov.my/documents/20124/938039/Climate+Change+and+Principle-based+Taxonomy.pdf

Appendix

C – Sustainable Finance Guiding Principle references

Bank Negra Malaysia (BNM) Principles-based Taxonomy

Guiding Principle 3 (GP3): No significant harm to the environment

An economic activity is generally location specific and interacts directly or indirectly with the surrounding environment. While an economic activity may contribute towards climate risk mitigation and adaptation, the overall business may bring about unintended harm to the broader environment which may precipitate permanent adverse impacts to the climate. Therefore, there must be adequate consideration directed at the impact on the wider ecosystem where the economic activity takes place.

To align with the broader environmental objectives, the following criteria should be considered for the overall business:

a. Prevent and control pollution (air, water and land);
b. Protect healthy ecosystem and biodiversity; and
c. Sustainable and efficient use of energy, water, and other natural resources.

Guiding Principle 4 (GP4): Remedial efforts to promote transition

In supporting the transition efforts towards a low carbon and climate resilient economy, supervised institutions are expected to take into account the remedial efforts and improvement programs undertaken by the businesses. This include commitment or willingness demonstrated by businesses through development of action plans, implementation of remedial measures and transition towards sustainable practices which may indirectly contribute to climate change mitigation and adaptation.

Guiding Principle 5 (GP5): Prohibited activities

Supervised institutions should verify and ensure that the economic activities are not illegal and does not contravene environmental laws. This includes, but is not limited to the National Policy on the Environment, National Forestry Act 1984, Fisheries Act 1985, National Parks Act 1980, Environmental Quality Act 1974 and its Regulations and Orders. Examples of prohibited activities are as follows (non-exhaustive):

a. Illegal waste management including release of untreated toxic and
b. hazardous industrial waste (generate, storage, treatment and disposal);
c. Operations which use fire for land clearance;
d. Operations involving illegal deforestation;
e. Activities within, adjacent to, or upstream of designated protected areas and habitats of rare/endangered species; and
f. Operations which practice drift net fishing or fishing with the use of explosives.

Source: Bank Negara Malaysia, Climate Change and Principle-based Taxonomy, https://www.bnm.gov.my/documents/20124/938039/Climate+Change+and+Principle-based+Taxonomy.pdf

Appendix

C – Sustainable Finance Guiding Principle references

Developing a National Green Taxonomy: A World Bank Guide

Existing Green Taxonomies from other countries	Topic	Description
Bangladesh Taxonomy	Environmental objectives	• Air pollution prevention • Renewable energy and energy efficiency • Water conservation and wastewater management • Waste management • Recycling and manufacture of recycled products • Manufacture of green products (e.g., green bricks) • Other (e.g., control of toxic and ozone-depleting substances)

	Principles	• Contribute to:
		  • Environment Conservation Rules, 1997
		  • Perspective Plan of Bangladesh 2010–21
		  • National Sustainable Development Strategy 2010–21, and
		  • the 6th and 7th Five-Year Plans

China Taxonomy	Environmental objectives	• Energy saving • Pollution prevention and control • Resource conservation and recycling • Clean transportation • Clean energy • Ecological protection and climate change adaption
	Principles	• Conforming to national conditions: focusing on improving the ecological environment and easing pressure on resources and following the lead of national industrial policy at the current stage • Highlighting environmental benefits: supporting projects with marked environmental benefits and positive spillover effects • Being simple and clear: taking into account that most capital market practitioners are not environmental professionals and, hence, employing definitions and a classification method that are easy to follow and apply • Making continuous adjustments: timely updating the catalogue according to technological advancements, policy adjustments, standard updates, and changes in resource and environmental conditions • Keeping in line with international practice: referring to international standards and practices when developing domestic definitions and a classification method to facilitate international cooperation in green finance.
Mongolia Taxonomy	Environmental objectives	• Climate change mitigation and adaptation • Pollution prevention • Resource conservation • Livelihood improvement
	Principles	• Contribute to national policies and targets • Address environmental challenges • Cover high-emitting, key economic sectors • Align with international standards and good practices • Comply with ESG standards • Continues review and development
CBI Taxonomy	Environmental objectives	• To deliver a low-carbon economy in line with the Paris Agreement
	Principles	• The CBI taxonomy identifies the assets and projects needed to deliver a low-carbon and climate-resilient economy and specifies GHG emissions and related screening criteria consistent with the sub-two-degree Celsius global warming target set by the Conference of the Parties (COP) 21 Paris Agreement.

Source: World Bank, Developing a National Green Taxonomy, https://documents1.worldbank.org/curated/en/953011593410423487/pdf/Developing-a-National-Green-Taxonomy-A-World-Bank-Guide.pdf

Appendix

C – Sustainable Finance Guiding Principle references

Developing a National Green Taxonomy: A World Bank Guide

Existing Green Taxonomies from other countries	Topic	Description
EU Taxonomy	Environmental objectives	• Climate change mitigation • Climate change adaptation • Sustainable use and protection of water and marine resources • Transition to a circular economy, waste prevention, and recycling • Pollution prevention and control • Protection of healthy ecosystems

	Principles	• To be environmentally sustainable, an activity must do the following:
		  • Substantially contribute to achieving one or more of the environmental objectives outlined in the proposed Taxonomy Regulation
		  • Do no significant harm (DNSH) to any of the other listed environmental objectives
		  • Be carried out in compliance with minimum social safeguards
		  • Comply with the technical screening criteria, which, in effect, define what it means to "substantially contribute" and DNSH to achieving an environmental objective

Source: World Bank, Developing a National Green Taxonomy, https://documents1.worldbank.org/curated/en/953011593410423487/pdf/Developing-a-National-Green-Taxonomy-A-World-Bank-Guide.pdf

Appendix

C – Sustainable Finance Guiding Principle references

Concept Paper on Climate Finance Transition Principles (Study Group on Environmental Innovation Finance in Japan organized by the Ministry of Economy, Trade and Industry, March 2020)

1. Background

In order to solve the urgent challenge of climate change, it is important to create a proper environment for adopting measures against climate change, as the Paris Agreement enters into the implementation phase this year. Japan, having reduced its GHG (Green House Gases) emissions for five consecutive years and by 12% compared to the level in FY2013, needs to reduce emissions even further.

As a tremendous amount of green investments is required globally to achieve the Paris Agreement goals, especially in emerging countries including those in Asia, it is critically important to promote such investment flows. In addition to accelerating current measures such as promoting green bonds, the following perspectives are important to reduce GHG emissions globally:

- Facilitating investments into a wider range of areas (including energy, components, raw material, and service) which can contribute to a low-carbon economy, considering the high demand for investment.
- As international trade is expanding and division of labor is deepening, there have been cases that countries that expand the ratio of service sector are reducing GHG emissions domestically but instead have been importing products that embed CO2 emissions from other countries, thus not necessarily ensuring a reduction of GHG emissions at the global level. Therefore, in order to actually reduce GHG emissions worldwide, it is necessary to aim at low-carbonizing all industries and sectors globally in an inclusive way, not leaving out GHG emitting industries and sectors(i.e., industries and sectors for which de-carbonization is technologically or economically insoluble in the foreseeable future).
- With respect to GHG emitting industries and sectors, it is vital to promote finance in areas where proper measures are adopted or improvements are made towards lowering emissions.
- Promoting long-term research and development (R&D) towards low/de-carbonization.
- Accelerating the reduction of GHG emissions throughout the entire global value chain and the life cycle of a product. *(The former refers to GHG emission reduction by providing materials, products and services with excellent environmental performance to global markets. The latter refers to GHG emission reduction through the entire life cycle of products and services including from raw material procurement to manufacturing, distribution, use, disposal and recycling, rather than just a part of the life cycle such as the use phase.)*

Accordingly, it is imperative to promote financing for these areas (including by transition bond, transition loan etc.) by developing a new set of standards for climate transition towards the Paris Agreement goals.

Source: World Bank, Developing a National Green Taxonomy, https://documents1.worldbank.org/curated/en/953011593410423487/pdf/Developing-a-National-Green-Taxonomy-A-World-Bank-Guide.pdf

Appendix

C – Sustainable Finance Guiding Principle references

Concept Paper on Climate Finance Transition Principles (Study Group on Environmental Innovation Finance in Japan organized by the Ministry of Economy, Trade and Industry, March 2020)

Extract from paper

2. Concept

In addition to promoting financing for an already de/low-carbonized activity, for instance in the area of renewable energies, it is important to promote financing for transition actions towards the de/low-carbonization of GHG emitting industries and sectors as well, as a part of climate finance contributing to the mitigation of climate change.

Climate transition finance should be defined as financing (initial investment or refinancing) for businesses on a transition path towards achieving the ambition of the Paris Agreement and the reduction target of each country based on the Paris Agreement.

While green investments expand across borders worldwide, transition pathways aligned with the Paris Agreement may differ from region to region and from country to country, depending on its industrial structure, and/or the role it plays in the overall global value chain.

Therefore, we propose that, in developing the concept of "financing for a transition", (1) international principles should adopt an inclusive and flexible approach that can be applied to various circumstances of countries and regions without excluding specific sectors/industries or technologies from its scope, and (2) further details should be considered by each country or region based on its respective circumstances.

3. Proposal for international principles

Based on the ideas described in 1 and 2 above, we propose the following as a basis for drafting international principles on transition finance that can be applied flexibly. Since the following only covers the contents of our proposed general principles, further details for practical use should be discussed by respective countries or regions.

Standard for alignment with the Paris Agreement

- It should be finance for a transition towards achieving the Paris Agreement goals and the reduction target of each country based on the Paris Agreement.

Standards for business entities

- It should be finance for a business entity that is proactively pursuing a transition towards achieving the Paris Agreement goals and the reduction target of each country, including for example by providing a mid- to long-term vision or an action plan, taking into account long-term environmental impacts (it is preferable if an entity has been working on concrete measures such as R&D aiming at low- and/or de-carbonization).

Source: Concept Paper on Climate Transition Finance Principles, https://www.meti.go.jp/press/2019/03/20200331002/20200331002-2.pdf

Appendix

C – Sustainable Finance Guiding Principle references

Concept Paper on Climate Finance Transition Principles (Study Group on Environmental Innovation Finance in Japan organized by the Ministry of Economy, Trade and Industry, March 2020)

- It should be finance for an entity that has a mid-term target for reducing GHG emissions towards the reduction target of each country based on the Paris Agreement and that has been achieving its target or has been making an effort to achieve it in the future.

Standards for Projects

- It should be finance for a project in a GHG emitting industry or sector that achieves or implements the level of best performance of low GHG emissions in line with a reputable global or regional standard for such a sector or industry.
  E.g., investment towards a BAT(Best Available Technology) project, capital investment to significantly improve energy efficiency and decrease the CO2 emissions of existing facilities, investment in a new business to decrease the CO2 emissions of a whole supply chain or cities, and capital investment in installing cutting-edge high- efficiency power generators or

- It should be finance for a project relating to or contributing to products with the level of best performance of low GHG emissions in line with a reputable global or regional standard for such a sector or industry.
  E.g., production of highly efficient automobiles and projects related with its value chain and production of items regarded as “top-runner” in terms of efficiency, etc.

Whether the standards for business entities and the standards for projects should be both satisfied depends on asset classes or designs of each financial instrument. Considering the fact that the intent of business entities plays a vital role in a transition, it is important to take into consideration business entities’ proactive stance or action to pursuing a transition (for example by providing a medium to long term vision or action plan).

Other points which can be taken into account

- Contribution to a global reduction of GHG emissions where a business operates in the global value chain.
- Contribution to GHG reduction throughout the life cycle of a product.
- Contribution to or influence on other SDGs or other environmental objectives

Source: Concept Paper on Climate Transition Finance Principles, https://www.meti.go.jp/press/2019/03/20200331002/20200331002-2.pdf

Appendix

D – Other Definitions of Nature-based Solutions

Other definitions of NbS follow:

- The European Commission defines NbS as “Solutions that are inspired and supported by nature, which are cost-effective, simultaneously provide environmental, social and economic benefits and help build resilience. Such solutions bring more, and more diverse, nature and natural features and processes into cities, landscapes and seascapes, through locally adapted, resource-efficient and systemic interventions.”

- The World Wide Fund for Nature (WWF) defined NbS for climate as “Ecosystem conservation, management and/or restoration interventions intentionally planned to deliver measurable positive climate adaptation and /or mitigation benefits that have human development and biodiversity co-benefits managing anticipated climate risks to nature that can undermine their long-term effectiveness.”

- For the Nature-based Solutions Initiative (NbSI) based at the University of Oxford, NbS “involve working with nature to address societal challenges, providing benefits for both human well-being and biodiversity. Specifically they are actions that involve the protection, restoration or management of natural and semi-natural ecosystems; the sustainable management of aquatic systems and working lands such as croplands or timberlands; or the creation of novel ecosystems in and around cities. They are actions that are underpinned by biodiversity and are designed and implemented with the full engagement and consent of local communities and Indigenous Peoples.