Overcoming the Babel tower challenge!

A taxonomy to create a common language for sustainable finance in the Latin American & Caribbean region
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Foreword

The SFC as the supervisory authority of the Colombian financial sector, supports the report on the Colombian Green Taxonomy, which not only analyzes the process of its construction, but also presents a comparison with the process of the European Union (EU). Although both Taxonomies constitute a tool that provides an environment of transparency for public and private investments that are considered "green" and are oriented towards a science-based approach, Colombia’s Taxonomy presents marked differences in the prioritization of its economic sectors.

In this regard, the first section of the report offers recommendations for countries, especially those in Latin America and the Caribbean, to learn about the processes of developing Taxonomies based on the adaptation of existing ones, provides context on the benefits to be gained through the formulation and implementation of a Green Taxonomy and, last but not least, suggests certain key questions to be considered when establishing a roadmap to ensure or facilitate interoperability.

An interoperable taxonomy refers to an integrated taxonomy that works across markets and economic sectors, supporting the growth of green financial markets, increasing regional attractiveness to responsible investors, tracking sustainable public and private investments, and identifying areas of underinvestment.

The second section of the report presents the different reasons and difficulties that have arisen during the application or implementation of the Taxonomy in countries such as Colombia. Among the main barriers identified and on which management should be strengthened are the lack of understanding and awareness of the actors and stakeholders on the use of the taxonomy, the lack of information or data to verify the eligibility criteria and the complexity when implementing compliance requirements in certain transactions around certain assets or economic activities.

We hope that countries will use this report as an input in their efforts to formulate their taxonomies and be motivated to develop their own taxonomy under a transparent, environmentally sound, and resilient scheme.

Mariana Escobar Uribe
Sustainable Finance Hub Head
Financial Superintendency of Colombia (SFC for its Spanish acronym)
1. Why green taxonomies?

The financial sector has a key role to play in meeting the financial needs of the transition to a more sustainable and low-carbon economy. According to the Glasgow Financial Alliance for Net Zero, over the next decade around USD 32 trillion in investment is required to meet the goal of net-zero emissions by 2050. According to a UN Environment Programme report from 2021, if the world is to meet targets for climate change, biodiversity, and halting land degradation, it must close a USD 4.1 trillion nature-related financing gap by 2050.1

Green taxonomies are important tools that create transparency around what qualifies as a “green” investment, ultimately helping to prevent greenwashing.2 They identify the information investors need to assess the environmental benefits of an asset and to classify an asset based on its contribution to environmental goals.3

This classification then sends a clear signal to public and private investors and banks about the sustainable nature of an asset, helping them to make investment decisions and to engage with their investees or customers. At the same time, green taxonomies help companies understand how “green” their economic activities are, and businesses can use this information as a baseline to measure improved environmental benefits of their activities.

More countries are introducing green taxonomies. Following the lead of the European Union (EU), which introduced its taxonomy regulation in 2020, almost 30 countries are currently developing their own versions of a green taxonomy or have recently finalised one.4 In April 2022, Colombia became the first country in the Americas to publish a green taxonomy.

A science-based approach

To be credible, green taxonomies should be rooted in scientific information. This means climate objectives should be complemented by performance thresholds that align with a 1.5°C target. Emerging economies should ensure their taxonomy thresholds align with their national decarbonization pathways or scenarios.

While the approach to developing a national taxonomy differs from country to country, the development of taxonomies was generally guided by these common principles: emphasise regional characteristics, promote science-based decision-making, ensure the instrument is dynamic, incorporate measures for “do no significant harm” (DNSH), and use existing labels and regulations.5 A successful green taxonomy must balance compatibility with international practices and regional circumstances. It must be practical and flexible enough to integrate market changes and technological development, and it should be grounded in common design features to facilitate interoperability.7

This report

This report compares the development, design, and implementation of the Colombian and EU taxonomies to derive recommendations for other countries, especially those in Latin America, that are beginning to develop their taxonomies. After examining the Colombian and EU experiences, key questions are suggested to guide policymakers and stakeholders as they formulate interoperable, fit-for-purpose taxonomies. The guiding questions were also formulated based on the interviews with individual experts who participated in various aspects of taxonomy development in the EU and in Colombia.

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2 Greenwashing refers to an organization disseminating information that misleads the public about the company’s degree of environmental responsibility.
4 Climate Bonds Initiative (CBI), Global green taxonomy development, alignment, and implementation, 2022.
5 ibid, p. 12.
6 CBI, Global green taxonomy development, alignment, and implementation, 2022, p. 12.
A taxonomy to create a common language for sustainable finance in the Latin American & Caribbean region

While it can be challenging and resource intensive for countries to develop a “fit-for-purpose” taxonomy tailored to their objectives and capacities, it is beneficial to collectively build on other countries’ experiences, which also helps avoid fragmented practices. As Latin American countries face similar challenges (see section 2), it may be beneficial to take a regional approach to developing taxonomies that include the region’s most important greenhouse gas (GHG) emitting sectors, which are agriculture, livestock, and forestry (i.e., sectors responsible for land-use change). Such a regional approach would also facilitate interoperability of domestic taxonomies, which is crucial for green capital markets to grow.

Studies, such as those published by the Bank for International Settlements (BIS) and the World Bank, have provided important guidance on how to develop a taxonomy. This report contributes to the growing body of knowledge on the topic by exploring how a taxonomy was developed in Latin America. The Colombian taxonomy is likely to be a blueprint for other countries in the region.

Box 1. The UK’s green taxonomy is based on the EU’s technical screening criteria

In October 2022, the Green Technical Advisory Group (GTAG) published advice on developing a science-based green taxonomy for the United Kingdom (UK). GTAG is an expert group that provides independent, non-binding advice to the UK government on green taxonomy design and implementation. Usability and scientific integrity are at the heart of GTAG’s recommendations. The group recommends the UK government adopt some of the EU taxonomy’s technical screening criteria in the short term with plans to revise them later, adapting them to the UK’s specific net-zero pathway, which differs from the EU’s. However, GTAG notes a few technical screening criteria may be inappropriate for the UK, and these should be revised before adopting them as part of a UK taxonomy.

2. The Latin American and Caribbean context

The Latin American and Caribbean region is highly vulnerable to and already affected by a changing climate. The region is experiencing extreme weather, droughts, and sea-level rise — all impacts of climate change. The region relies heavily on natural-resource extraction, and Latin America accounts for about a quarter of the world’s agricultural exports.

Climate change

Countries in this region are taking steps to address climate change by promoting mitigation and adaptation activities, among other actions. As of September 2022, 27 countries in Latin America had submitted a new or updated nationally determined contribution (NDC) to reduce emissions by 2030 in line with the Paris Agreement — 11 countries submitted a climate target more ambitious than their previous NDC.

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8 SFC, Green Taxonomy, 2022, p. 11.
11 Mexico, Chile, Dominican Republic, and Peru have already consulted the entities involved in Colombia’s taxonomy development to learn from their experiences.
12 NGFS, Enhancing market transparency in green and transition finance, see chapter 1 and Annexes, April 2022.
14 IPCC, Summary for Policymakers, 2022, p. 10.
15 FAO, Latin American Agriculture: Prospects and Challenges, 2019, p. 70.
16 Climate Watch Data.
In many Latin American countries land-use change, forestry and agriculture are the top sources of GHG emissions. These sectors are responsible for 35 percent and 23 percent of the region’s GHG emissions, respectively. Together, the transport and energy sectors account for another 20 percent of the region’s emissions.17

**Biodiversity hotspot**

The region also contains a noteworthy 60 percent of global terrestrial biodiversity,18 which is also adversely affected by climate instability.19 Several Latin American countries (Colombia, Peru, Brazil, Mexico, and Ecuador) are considered megadiverse countries (i.e., countries with many endemic species), with Brazil being the most megadiverse country in the world.20 According to the Living Planet Report, between 1970 and 2018, Latin America showed a 94-percent decline in average abundance of the monitored wildlife populations.21

Soil degradation from erosion and pollution, forest loss, a decline of biodiversity due to habitat loss and fragmentation, coastal and marine resource deterioration and overexploitation, and accelerated deterioration of urban areas are some of the region’s critical environmental problems.22 In a region rich with biodiversity, nature is a critical asset that sustains economies. However, urban development is on the rise, which, combined with inequality and economic growth, is one of the most significant threats to biodiversity in Latin America.23

**Political environment**

Since the 1990s, the number of non-programmatic political parties (i.e. weakly institutionalized parties with no long- or medium-term stability) in Latin America has increased. They are frequently built around charismatic and populist leaders rather than a common political ideology.25 These parties tend to be short-lived, and their transitory nature can threaten the implementation of public-interest policies.26 This can also lead to drastically oscillating changes in political priorities. There is a global trend of political polarisation (i.e., an ideological difference between the executive and legislature), which generally makes it harder to reach consensus and implement new policies in a country.27 Latin American countries also have relatively undeveloped equity markets and low liquidity.28

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17 The World Bank Data.
21 WWF, *Living Planet Report 2022*, p. 4. Decline by region was respectively 94% in Latin America, 66% in Africa, 55% in Asia-Pacific, 18% in Europe and Central Asia, and 20% in North America.
3. Why green taxonomies can benefit Latin American and Caribbean countries?

As they facilitate global economic and financial system alignment with a nature-positive\(^{29}\) future and net-zero emissions, taxonomies can be important tools. Central banks and financial supervisors have a vital role to play: They must focus all their efforts on avoiding the worst financial and price stability risks that stem from climate change and biodiversity loss.

Green taxonomies developed specifically for the Latin American context can have many benefits. They can:

- Support the growth of regional green financial markets
- Increase the region’s attractiveness to responsible investors
- Help track both public and private sustainable or green investments
- Identify areas of underinvestment

When developing a “fit-for-purpose” taxonomy, it is important for countries to consider their main GHG emission sources; environmental impacts and dependencies; domestic capacities; and the capabilities of issuers, financial institutions, and policymakers. It is also advantageous to align a taxonomy with national science-based decarbonisation trajectories. The case studies that follow (section 5) and key questions to guide the development of a “fit-for-purpose” taxonomy (section 7) support this work.

4. Common design features of green taxonomies

Green taxonomies, while structurally similar, differ in terms of their objective, sector scope, performance metrics, target and thresholds, and output. Figure 1 (next page) describes universal design features of taxonomies that promote economic activities advancing sustainability, climate, social, and/or environmental goals.

Many green taxonomies build on the EU’s taxonomy, at least structurally. However, jurisdictions are aligning their green taxonomies with objectives that resonate with their country’s overall sustainable development priorities and integrating their taxonomies into existing laws and standards. One of the main challenges for taxonomies in general will be to revise them in parallel to keep up with evolving sustainability practices and technologies. Keep in mind that the need to achieve interoperability will require eventual convergence of national taxonomies around common design features, or mutual recognition if and where environmental performance levels can be deemed equivalent.\(^{31}\)

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\(^{29}\) Nature-positive refers to the WWF and WEF definitions, indicating that there needs to be more nature in 2030 than in 2020, that at least 30% of land and oceans are protected, and the footprint of our production and consumption is halved by 2030.


**Objective**

Taxonomies support sustainability or green goals. An effective taxonomy channels investments toward a specific target or agenda; however, they frequently have several goals. A climate objective (to date the most common objective) would generally be a science-based target that limits global warming to 1.5°C.\(^32\)

Activities should substantially contribute to an objective while avoiding (unintended) negative side effects on any other objective (i.e. the “DNSH” principle). This has an element of co-dependency — an activity must positively contribute to one objective while not harming any of a taxonomy’s other objectives.

**Scope**

Taxonomies target specific activities and industry sectors. They focus on sectors most relevant to a country’s economy that emit the most GHG.

Most taxonomies target similar sectors, focusing only on activities that have measurable benefits that meet a predefined performance level. This may also include transition activities or a traffic-light system (i.e. green, amber, or red activities; see Box 2). High-level objectives are complemented by principles and technical screening criteria that define specific performance threshold levels for each economic activity (e.g. < 100g CO2e/kWh of energy produced). Performance criteria requires qualitative or quantitative performance metrics.

**Target**

The purpose of a taxonomy is translated into measurable targets. Going beyond defining economic activities deemed sustainable, a credible taxonomy defines performance thresholds related to its objective and scope.\(^33\)

Taxonomies can target different activities. Ensuring investors are aware of a taxonomy’s targets can support its successful implementation.

**Output**

Taxonomies provide investors with information, including information that originates from issuers and investors. This output can either reflect information about an entity or a product. Taxonomies usually have an underlying scenario that communicates their level of ambition (e.g. in the EU, the environmental performance criteria for climate change mitigation and adaptation uses the EU’s Green Deal as the underlying scenario).

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**Box 2. Advice: green, amber, or red**

If a taxonomy intends to capture an economy as a whole, the EU Platform on Sustainable Finance (PSF), an expert group consisting of 57 experts and 11 observers from different sectors that is supporting the EU’s work on the taxonomy, recommends categorising economic activities as green, amber, or red. In its final report on taxonomy-extension options, the PSF suggests the following prioritisation:\(^34\)

- **Green**: the activity substantially contributes to an environmental objective and does no significant harm.
- **Amber**: the activity does no significant harm to the environment nor substantially contributes to the specific environmental objective, i.e., performance that neither fails the technical screening criteria for DNSH nor meets the criteria for significant contribution.
- **Red**: the activity does significant harm to an environmental objective, and its performance is below the threshold set in the screening criteria.

When this report was published, the EU had only adopted legislation for the green taxonomy.\(^35\) However, according to advice provided by the PSF in March 2022, it would have been preferable to start with an extended taxonomy that uses a traffic-light system (rather than one that is “green only”). The European Commission is expected, in the second quarter of 2023, to suggest further legislative steps, as part of a review required by article 26 of the EU taxonomy regulation. Other taxonomies, such as Indonesia’s or the proposed Singaporean taxonomy, adopted this “traffic-light” approach.

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5. Case studies

The EU and Colombian taxonomies were reviewed in depth for this report. The following sections discuss their development, design, and implementation, and the findings reported here inform the key questions in section 7 that aim to guide the creation of “fit-for-purpose” taxonomies in Latin American countries.

5.1. Colombia

Summary

Colombia is the second most megadiverse country in the world. It houses 20 percent of the world’s plant species.\(^{36}\) Colombia has the highest number of bird, orchid, and butterfly species; the second highest number of amphibians, freshwater fish, reptile, and palm species; and it is home to the fifth largest number of mammal species.\(^{37}\)

In April 2022, Colombia became the first country in Latin America to launch a green taxonomy.\(^{38}\) Figure 2 shows a high-level timeline of key events in Colombia’s taxonomy development. Colombian policymakers leaned heavily on the EU’s taxonomy (which at that time was in a draft form) when creating their taxonomy’s architecture.

The country employed a resource-efficient consultation process that relied on expert advisers and mirrored the World Bank’s guidelines on taxonomy development,\(^{39}\) which include recommendations on drafting a national green taxonomy as well as a comparison of several taxonomies.

The aim was to construct a taxonomy specifically for the country’s context, one that would channel finance toward environmentally friendly assets and projects in land-use sectors that drive the destruction of nature (i.e., agriculture, forestry, livestock), particularly through deforestation.\(^{40}\) The taxonomy was not only designed for the private sector but also for the public sector (i.e., the government of Colombia wanted a taxonomy to use when issuing its green bonds and evaluating its own budget).

Colombia’s taxonomy includes both climate-related and environmental objectives, and it addresses other sectors in addition to land-use-related sectors. The application of Colombia’s taxonomy is voluntary.

The main challenges facing the country’s implementation of its taxonomy consist on the issuers’ and financial market participants’ lack of understanding about what the taxonomy is and what it can be used for, the lack of data availability and counting with users’ processes in place.

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\(^{37}\) SIB Colombia, *Colombia’s biodiversity in 2022 figures*, 2022.


\(^{40}\) The Ecologist, *Deforestation in Colombia*, 2020.
5.1.1. Development

Coordination on a political level

The initial proposal to create a Colombian green taxonomy came from the Financial Superintendence of Colombia (SFC). The SFC maintained a central role throughout the development process.

From a political perspective, the taxonomy’s development was led by the SFC and the Ministry of Finance and Public Credit (MHCP) in coordination with the Taxonomy Roundtable (Mesa de Taxonomía), which was formed by the SFC, MHCP, the Ministry of Environment and Sustainable Development (MADS), the Department of Planning (DNP), and the National Administrative Department of Statistics (DANE).

The World Bank Group, the International Finance Corporation (IFC), the Climate Bonds Initiative (CBI), Swiss State Secretariat for Economic Affairs (SECO) and UK Partnering for Accelerated Climate Transitions (UK PACT) were included as stakeholders because they have significant expertise in drafting taxonomies.

Developing an action plan

The SFC prepared an action plan that included 12 steps, starting with the formation of the Taxonomy Roundtable through to implementation. Thanks to this action plan, all stakeholders had a general overview of the process that would be followed. The development process took close to two years, which was longer than expected. In addition to the COVID-19 pandemic, it was challenging to find sectoral experts that were recognised as such by the market and that had sufficient knowledge of the local context.

Drafting the taxonomy

The taxonomy was designed to align with national laws, to be interoperable with other taxonomies, and to be consistent with international standards.

The Taxonomy Roundtable coordinated the development process and defined the country’s environmental objectives, making sure these objectives supported Colombia’s environmental commitments, strategies, and policies.

The EU’s Technical Expert Group on Sustainable Finance’s final report from March 2020 provided a structure for the Colombian taxonomy, and the Taxonomy Roundtable used this document to ensure the two classification systems would be compatible.

The MHCP was specifically tasked with developing the criteria for activities related to land use from scratch, while the SFC adapted the thresholds for green activities in all the
other sectors. Eligibility criteria or performance thresholds were defined for each economic activity.

To create the initial list of taxonomy-compliant green activities and assets, the SFC analysed local and international practices, such as the EU taxonomy, the CBI taxonomy, the climate definitions of the IFC, the DNP’s Colombian Measurement, Reporting and Verification System of Climate Finance (MRV), the International Capital Market Association green bond principles, and the information collected for each sector in Colombia’s NDC for the period of 2020–2030.

**Building on expert knowledge**

Colombia’s aim was to create a resource-efficient process for consulting experts. It did this by holding two-tier consultations where all experts participated voluntarily.

The process relied on eight lead advisers (tier-one experts), which were identified for each sector based on their sectoral technical knowledge, experience, and recognition. The lead advisers were in contact with the institutions involved in the taxonomy’s development. They helped coordinate workshops and played an important role in identifying the next tier of experts (tier-two experts) that were consulted during these workshops. To be mindful of their time, lead advisers were only approached with concrete questions that guided their technical review of the taxonomy. The experts had to be familiar with the Colombian context and the country’s regulations. The experts came from varied backgrounds: finance, academia, real economy, civil society, environmental, and public and international organisations.

At a final stage, key actors from the financial and industrial sectors provided sector-specific experience and reviewed the proposed criteria’s practicality; they ensured the criteria applied to the respective industries. This group of reviewers consisted of representatives from each sector. Once this review was completed, a public consultation was made accessible through the SFC’s website to collect input from interested stakeholders.

Initially, one of the main challenges was that sector experts did not understand the purpose of the taxonomy. However, after attending workshops, even though these were held virtually, their understanding improved. Workshops participants ultimately perceived these events as very efficient and collaborative.

**Box 3. The Dominican Republic’s taxonomy and the Peruvian taxonomy build on the Colombian experience**

The Dominican Republic is the first country in the Caribbean to begin developing its own green taxonomy. In February 2022, the project was launched by the Ministry of Environment and Natural Resources, the Superintendency of the Securities Market, and the IFC. The country wants to promote the growth of its sustainable capital market and to mitigate the effects of climate change. The taxonomy will prioritise the most relevant sectors to the country’s development, such as energy, water, construction, transportation, technology, industry, and waste management. The Dominican Republic is employing a development process very similar to the one used in Colombia as it is also holding sectoral expert consultations. Moreover, the Dominican Republic also created an interinstitutional Monitoring and Supervision Committee similar to Colombia’s Taxonomy Roundtable.

Peru’s development of a national taxonomy is also using the Colombian taxonomy as a reference, and holding technical expert consultations for each sector. Two technical workshops were attended by more than 400 stakeholders in January 2022. These were the beginning of taxonomy discussions, and they were led by the Ministry of Environment and the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ). The sectors covered in Peru’s taxonomy are expected to be very similar to those in the Colombian taxonomy (i.e. include agriculture, land use, and forestry). The taxonomy will be interoperable with other national taxonomies, and its focus will be climate change mitigation; however, more environmental objectives will be added in the future.

44 The division of sectors under the MHCP and the SFC was due to the economic importance of land-use sectors and the close relationship and co-dependence between the environmental objectives for the land use sectors.
48 Superintendency of the Securities Market of the Dominican Republic.
49 The Monitoring and Supervision Committee in the Dominican Republic is made up of public-sector entities such as the Central Bank, the General Directorate of Public Credit, Ministry of Environment and Natural Resources, the Superintendency of Banks, the National Council for Climate Change and Clean Development Mechanism, as well as the IFC.
50 GGGI, *Conference on Sustainable Finance Taxonomies*, October 2022.
51 GGGI, *Conference on Sustainable Finance Taxonomies*, October 2022.
5.1.2. Design

**Strategic objectives**

Colombia relies on ecosystem services to thrive economically. Its leaders want to balance growth and sustainable development, ensure the population’s wellbeing, as well as preserve its environment and biodiversity. To accomplish this, Colombia aims to mobilise financial resources to enable a transition to a resilient, sustainable, and low-carbon economy in line with international commitments.54

The taxonomy seeks to channel public and private resources toward green investments and public expenses, promoting the development of green capital markets in Colombia. At the same time, the Colombian taxonomy also promotes a common understanding of activities and assets considered green, and it standardises criteria and definitions for green finance.

It gives a clear and transparent signal to investors and actors in the public and private sector about what Colombia deems a green investment to be. The taxonomy can be used by any person, entity, or company in the public or private sector to identify and evaluate investments that meet environmental objectives and that are considered “green.”

**Scope**

Colombia selected the taxonomy’s target sectors based on: (1) their importance to the country’s economy, (2) their potential to mitigate GHG emissions and meet the Paris Agreement targets, (3) their ability to direct capital flows, and (4) their ability to contribute to (and/or not harm) at least one of Colombia’s seven environmental objectives.

The Colombian taxonomy has a total of seven overall environmental objectives:

- Climate change mitigation
- Climate change adaptation
- Sustainable use and protection of water and marine resources
- Circular economy
- Pollution prevention and control
- Ecosystem and biodiversity conservation
- Land management

The Colombian taxonomy only defines what is green (i.e., an activity that contributes to one of these environmental objectives). However, it defines three ambition levels for performance under the land-use sector (basic, intermediate, advanced). Although the taxonomy does not introduce a category for transition activities, this partitioned ambition departs from a strictly binary structure of green and non-green activities. The taxonomy does not include controversial sectors like natural gas, nuclear energy, or mining.

Most sectors addressed under the Colombian taxonomy’s objectives were based on from the EU’s taxonomy. However, Colombia shaped its taxonomy to the local context by emphasising land use. The MHCP developed the list of economic activities and performance thresholds specifically for sectors associated with land use due to their unique regulatory and historical context.

**Two pillars**

The Colombian taxonomy is divided in two pillars, which encompass different environmental objectives. These are unequally distributed between the pillars and not all sectors are subject to all objectives. The objectives and sectors considered in each of the pillars are described below.

54 SFC, _Green Taxonomy_, 2022, p. 12–14.
A taxonomy to create a common language for sustainable finance in the Latin American & Caribbean region

The first pillar only supports the climate mitigation objective

Sectors
The first pillar defines seven economic sectors and 47 related economic assets and activities that contribute to the taxonomy’s climate change mitigation objective. These sectors are:

- Water supply and treatment
- Energy
- Construction
- Transportation
- Manufacturing
- Waste management and emissions capture
- Information and communication technologies

In the future, pillar 1 of the taxonomy may also be extended to other sectors such as coastal and marine resources.55

Objective
At the time this report was published, the first-piller sectors only target one of the taxonomy’s environmental objectives: climate change mitigation. However, there are two components to this: to be considered green, economic assets and activities under the first pillar should (1) contribute to climate change mitigation, and (2) not generate any negative social impacts or harm to the environmental objectives of climate change adaptation, ecosystem and biodiversity conservation, circular economy, pollution prevention and control, and sustainable use and protection of water and marine resources (“DNSH” principle). The DNSH principle does not apply to the environmental objective of land management.

In the future, the first pillar of Colombia’s taxonomy will expand to include more sectors and activities and assets that contribute to other environmental objectives. In August 2022, the SFC released a roadmap to 2025 indicating it will prioritise developing pillar 1 criteria for the taxonomy objective of conserving ecosystems and biodiversity.56

The second pillar tackles land-use change

Sectors
The second pillar of Colombia’s taxonomy focuses on three sectors related to land use:

- Livestock
- Agriculture
- Forestry

Objectives
Unlike the first pillar of the taxonomy, which only targets the objective of climate change mitigation, the second pillar addresses five environmental objectives for land-use-related activities that together are responsible for 59 percent of Colombia’s GHG emissions.

The five environmental objectives under the second pillar are:

- Climate change mitigation
- Adaptation to climate change
- Land management
- Water management
- Ecosystem and biodiversity conservation

55 SFC, Green Taxonomy, 2022, p. 27.
The **DNSH principle does not apply to the activities or assets of the sectors under** the second pillar. This means that in order to be considered green under the second pillar, economic assets and activities should contribute to any of the five objectives listed above, but unlike the first pillar, assets and activities are not evaluated on their generation of negative social impacts or harm to any of the other environmental objectives of the second pillar (“DNSH” principle).

**Target**

The performance thresholds for pillar 1 activities were developed by the SFC, with support from the CBI and IFC, together with 257 technical experts and stakeholders from 53 entities across the private and public sectors, academia, and international organisations.

The performance thresholds for pillar 2 activities were developed by the MHCP with the technical support of the World Bank. It was important to consider characteristics of Colombia’s rural areas where eligible activities or assets were identified. In Colombia, most crops are farmed by smallholders who lack the resources to provide information on carbon emissions. The taxonomy needed to reflect this reality, and the only practical way to do it was via technical experts identifying practices that would lower these farmers’ impact on climate change, biodiversity, water, and soil fertility. The practices were grouped into three levels (basic, intermediate, advanced). Activities in all three levels are aligned with successful models of sustainable agriculture and forestry identified by specialists and entrepreneurs from each sector. A total of 105 experts were consulted in workshops.

The identified activities and performance thresholds were then published for public consultation, and over 400 comments were received.

A challenge encountered was the general lack of data to define and substantiate activities’ performance thresholds. Even though the activities of the EU taxonomy were a starting point, it was time and resource intensive to analyse all activities relevant to Colombia.

**5.1.3. Implementation**

**Output**

Although the Colombian taxonomy is an instrument that relies on voluntary application, it is regulated by external circulars. It supports financial product-level disclosures (i.e., financial products such as bonds or loans) not company-level disclosures. This means a company’s specific assets or activities can be considered green and receive financing. Companies seeking green-labelled investment must provide banks with information on how their activities meet the taxonomy’s criteria.

However, the country faces several challenges in implementing its taxonomy, see Figure 3 below. These challenges may also be faced by issuers in other countries who are in the early stages of taxonomy implementation, potentially illuminating ways to counter these challenges.

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57 External circulars are general communications used by the SFC to issue instructions and rules that supervised entities must comply with. These circulars can also set doctrine or communicate the SFC’s position on issues within its purview.
There is a general lack of understanding about the relevance of climate change mitigation and environmental topics, especially in sectors related to land use. Companies may not be aware the taxonomy exists and is an instrument that enables green financing. It is challenging for companies to collect the information needed to show that their activities are taxonomy aligned. Application of the taxonomy may be compromised because companies, especially small and medium-sized ones, are not certain how to apply it, and some of the eligible activities do not apply to them. Lack of resources and guidance may compound the problem. Complex criteria for eligibility, especially for sectors related to land use, make implementing the taxonomy even more challenging.

The user (i.e., banks) need to make changes on the data collection and the processes they have in place.

Colombia is aware of these challenges and aims to tackle them predominantly through capacity building. To better understand potential application issues and to raise awareness about the taxonomy, the country piloted the taxonomy in 2021 with financial institutions when the first draft was under consultation. At the end of the pilot phase, the Banking and Financial Institutions Association of Colombia (Asobancaria, the Colombian financial sector’s representative association), together with the SFC and expert consultants, such as CBI and Ambire among others, developed technical capacity-building strategies. These include workshops for all the sectors, additional pilots to understand entities’ portfolio alignment with the criteria proposed in the taxonomy, as well as technical assistance for structuring green bonds under the criteria of the taxonomy.28

Additionally, the Taxonomy Roundtable is making a conscious effort to build capacity, promote the relevance of environmental topics, and guide the taxonomy’s application, particularly in regional territories with smaller companies. These efforts target improved understanding of eligibility criteria, aiming to make the taxonomy more accessible to small and medium-sized enterprises (SMEs) in these areas. Clear application guidelines would further assist these efforts.

As seen in other countries, a persistent challenge is the lack of data. Financial institutions encountered this problem during the pilots. The taxonomy is detailed, and financial institutions may not receive the data required from companies to verify whether an activity is green. However, continuous capacity-building efforts may help address this challenge. As we have seen in other countries, data availability improves gradually, and this is often a result of collaborative learning efforts by companies and financial institutions.

Finally, another initial challenge was that clear responsibilities for implementation, monitoring, and review of the taxonomy were not defined. The SFC has since taken the lead in these processes.

28 Asobancaria, Green Taxonomy, a key tool to strengthen climate finance, 2022, p. 5.
Box 4. The Mexican taxonomy goes beyond a green taxonomy

When this report was published in January 2023, Mexico was developing a sustainability taxonomy with both green and social objectives. It is said to be science-based and intends to promote investments favourable for both society and the environment. Mexico is mirroring the scope of the EU taxonomy. Its objective is to provide a common language for sustainable investment, establish comparable standards for Mexican banks, allow the identification of new business opportunities, and facilitate public policies that promote green financing.

A Sustainable Finance Committee was established by Mexico’s six financial regulators including the Ministry of Finance and the country’s central bank. The committee has four working groups, one of which is tasked with developing a sustainable finance taxonomy. This working group is led by the Ministry of Finance which is supported by GIZ through the Mexican-German Climate Change Alliance.

Box 5. The Chilean taxonomy focuses on mining

When this report was published in January 2023, Chile was developing its taxonomy, and the process it is following builds significantly on the Colombian taxonomy’s process. The Chilean Ministry of Finance, together with the CBI and the Inter-American Development Bank, published a taxonomy roadmap that will guide the Chilean government’s sustainable/green taxonomy development. The roadmap explains the concepts involved, noteworthy international events and their potential implications for Chile, and the steps to develop a national taxonomy.

The taxonomy roadmap is based on an initial gap assessment for the construction, energy, transport, and mining sectors; it assesses key policies and recommends certain activities and approaches for selecting screening criteria. Mining is a key sector in Chile’s economy. As there are no international taxonomic references for the mining sector (yet), Chile could lead the establishment of criteria and performance thresholds for this sector. The Chilean taxonomy is likely to include transition activities in its scope due to the importance of the mining sector.

Chile’s green taxonomy could help the country to access international capital; identify climate-aligned activities, assets, and projects; support the NDC implementation; and become a leader in developing criteria for new sectors such as mining.

5.2. European Union

Summary

The impetus for the EU to develop its taxonomy was, in part, growing interest in sustainable finance, which the EU understands to be "finance that supports economic growth while reducing pressures on the environment and taking into account social and governance aspects."

The EU green taxonomy is the world’s first binding taxonomy — it is an example for many other taxonomies. In force since 2020, the EU taxonomy regulation contains disclosure rules for companies and investors, and it serves as the basis for classifying financial products (e.g., bonds) as green (i.e., environmentally sustainable). Reporting rules for corporations (i.e., the Directive on Corporate Sustainability...
Reporting [CSRD]64 and reporting rules for financial institutions at entity-level and/or financial-product level (i.e., the Regulation 2019/2088 on Sustainability-Related Disclosures in the Financial Services Sector [SFDR]65) support the taxonomy goal of transparency, while several delegated acts supplement the regulation by specifying technical screening criteria.

The EU taxonomy has attracted a lot of criticism for the decision to classify energy production from both fossil gas and nuclear activities (under certain conditions) as transitional activities.66 Despite the criticism, there is much to learn from how the EU developed the policies, processes, and architecture of its taxonomy. Figures 4 and 5 highlight the EU taxonomy’s multi-year development and related consultations.

5.2.1. Development

Coordination on a political level

The EU’s Action Plan: Financing Sustainable Growth,67 published in March 2018, called for the creation of a system that would classify sustainable activities. In May 2018, the European Commission proposed a regulation68 that set out obligations for investors and presented the overarching framework for the taxonomy, which was later complemented by technical screening criteria defined in delegated acts. Political agreement on this regulation was achieved in December 2019 and the regulation came into force in July 2020.

The first delegated act on activities that could be considered sustainable under the climate change adaptation and mitigation objectives (the Climate Delegated Act) was published in the Official Journal of the European Union in December 2021; it came into force in January 2022. A second delegated act (Complementary Delegated Act69) covers certain forms of energy production, including fossil gas and nuclear activities, and it was adopted in July 2022. A third delegated act (Disclosures Delegated Act) specifies the format and methodologies for companies and financial institutions to report taxonomy-related information.70 An additional delegated act (Taxo-4 delegated act) for the remaining four environmental objectives is expected at the beginning of 2023.

The Taxo-4 delegated act will cover technical screening criteria for:

1. sustainable use and protection of water and marine resources,
2. transition to a circular economy,
3. pollution prevention and control, and
4. protection and restoration of biodiversity and ecosystems.

The European Commission is also responsible for expanding and reviewing the taxonomy on a periodic basis as needed.

What is a delegated act?

Delegated acts amend or supplement non-essential elements of legislation, in this case the taxonomy. Currently, there are two delegated acts related to the taxonomy.
Timeline: EU Sustainability Taxonomy (2018–2020)

- **March 2018**: EU Commission (EC) publishes its Action Plan: Financing Sustainable Growth
- **May 2018**: The EC adopts a package of measures implementing several actions announced in its action plan.
- **July 2018**: The EC establishes the Technical Expert Group on Sustainable Finance (TEG), TEG develops recommendations for technical screening criteria (TSC) for climate change mitigation and adaptation.
- **December 2018**: The TSC for the taxonomy report concludes; 820 responses are logged.
- **February 2019**: Feedback collection ends; 244 individual respondents made almost 1,200 technical comments.
- **March 2019**: EU Parliament formally votes to adopt the proposed taxonomy.
- **April 2019**: The TEG assesses feedback and engages in workshops with over 200 experts to develop TSC for climate change mitigation and adaptation activities.
- **June 2019**: The TEG publishes the Sustainability Taxonomy Report and a user guide specifying which economic activities to consider for substantial contributions to climate change mitigation and adaptation.
- **September 2019**: Public consultation on the TSC of the taxonomy report closes; 830 responses are logged.
- **December 2019**: Political agreement is reached.
- **February 2020**: The TEG collects contributions to its final plenary session.
- **March 2020**: The EC adopts the final Draft of the delegated regulation on TSC.
- **April 2020**: EU Council adopts the Taxonomy Regulation.
- **May 2020**: Member states get the opportunity to provide feedback on the final TSC recommendations at a meeting of the Member States Expert Group.
- **June 2020**: The Taxonomy Regulation is published in the Official Journal of the EU (OJEU).
- **July 2020**: The Taxonomy Regulation enters into force.

Figure 4. Work on the EU taxonomy began in 2018 with the Action Plan on Financing Sustainable Growth. The final EU taxonomy regulation was adopted by EU co-legislators in June 2020. Green boxes indicate consultation, while boxes are political developments. In parallel, between June 2018 and March 2020 the European Commission developed technical screening criteria (TSC) for climate adaptation and mitigation based on a proposal from the Technical Expert Group and involving several rounds of consultations.

Timeline: EU Sustainability Taxonomy (2021-2028)

- **February 2021**: European supervisory authorities develop advice on determining key performance indicators (KPIs) and associated methodology.
- **May 2021**: EC releases a draft of the delegated regulation specifying disclosure obligations under article 8 of the Taxonomy Regulation for consultation.
- **July 2021**: EC adopts a delegated act supplementing the Taxonomy Regulation.
- **January 2022**: Product disclosure obligations (PDI) start to apply.
- **March 2022**: The TEG adopts the Complementary Climate Delegated Act.
- **June 2022**: The EU Parliament approves the Complementary Climate Delegated Act before the European Court of Justice.
- **September 2022**: The Austrian government and a group of NGOs challenge the Complementary Climate Delegated Act before the European Court of Justice.
- **January 2023**: Non-financial undertakings disclose key performance indicators under article 8 of the Taxonomy Regulation.
- **First quarter 2023**: A delegated act on the remaining four environmental objectives will be adopted.
- **January 2024**: Financial undertakings will start disclosing the full KPIs on taxonomy alignment.
- **January 2024**: Non-EU companies having important business relations with the EU (turnover > €150 million in the EU with a subsidiary or branch in the EU) have to report their annual taxonomy data.

Figure 5. Once the final regulation was adopted in June 2020, specific disclosure obligations were developed in early 2021. These were added to the taxonomy regulation in a separate delegated act in July 2021. This work continues and additional delegated acts are planned or are moving through the legislative process. Blue boxes indicate consultation, while boxes are political developments.
Building on expert knowledge

In July 2018, the Technical Expert Group (TEG) was established. It consists of experts from different sectors who participate voluntarily. The TEG’s task was to make evidence-based recommendations for technical screening criteria for economic activities that substantially contribute to climate change mitigation and adaptation. These activities must also avoid doing significant harm to any of the four other environmental objectives (i.e., (1) sustainable use and protection of water and marine resources, (2) transition to a circular economy, (3) pollution prevention and control, and (4) protection and restoration of biodiversity and ecosystems.) In the same year, the Member State Expert Group on Sustainable Finance was created. It consists of two experts from each EU member state.

The TEG published its final report in March 2020. It made recommendations on the design of the taxonomy and delivered guidance on how companies and financial institutions can implement the taxonomy and disclose against it. It included technical screening criteria for 70 activities that mitigate climate change and 68 activities that help adapt to climate change. The TEG engaged with over 200 experts and held several public consultations before delivering its final recommendations.

In October 2020, a permanent European Commission expert group called the Platform on Sustainable Finance (PSF) was established. Consisting of 57 members and 11 observers from different sectors, it replaced the TEG and continues to support the Commission’s work on the taxonomy.

The PSF and the Member State Expert Group on Sustainable Finance must both be consulted on all delegated acts under the taxonomy regulation.

The European Commission also mandated two more years (2023–2024) of PSF activity to: (1) provide advice on the usability of the taxonomy, (2) develop additional taxonomy technical screening criteria across all six environmental objectives, (3) advise on possible revisions and/or updates of the criteria where appropriate, and (4) perform specific supporting policy measures, in particular the monitoring of capital flows into sustainable investments.

Drafting the taxonomy

The European Commission devoted many resources to developing the taxonomy and its delegated acts. Nevertheless, it encountered several challenges during this process.

One of the initial challenges was establishing consensus on what the taxonomy should look like. However, as efforts progressed, the main challenge became mounting political pressure. While the European Commission initially promoted an evidence- and science-based approach to formulating technical screening criteria, in March 2022 it ultimately bowed to the pressure of member states (in particular, the Member State Expert Group on Sustainable Finance) and issued a complementary delegated act to classify fossil gas and nuclear activities as transition activities within the taxonomy’s Climate Delegated Act.

Although it helped avoid political gridlock, this decision received criticism from many observers, including experts from the TEG, for departing from a science-based approach. The inclusion has been heavily criticised and triggered some NGOs and one EU member state to challenge the Complementary Delegated Act at the European Court of Justice. A taxonomy that considers nuclear and fossil gas activities as eligible for “green” finance risks a loss of credibility worldwide, and it may open the door for other countries to depart from a science- and evidence-based approach. (See Box 6 for a similar stance taken by South Korea.)

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76 The Member State Expert Group on Sustainable Finance was created in 2018 as a result of the EU’s Action Plan: Financing Sustainable Growth. Its purpose is to support implementing sustainable finance actions and promote the transformation in the EU member states.
80 The Taxonomy Regulation foresees technical screening criteria for environmental objectives being added to the regulation in several delegated acts. The first delegated act entered into force in January 2022. It specifies the technical screening criteria for economic activities that qualify as substantially contributing to climate change mitigation and climate change adaptation. It is supplemented by the Complementary Climate Delegated Act, which will apply from January 2023. At the time this report was published, the EU taxonomy included the following delegated acts: the Climate Delegated Act (CDA) (specifies technical screening criteria for climate-related activities), the Complementary Climate Delegated Act (amends the CDA to classify nuclear energy and fossil gas activities as transitional), and the Article 8 Delegated Act (explains how to prepare disclosures).
81 Challenge against EU ‘green’ label for gas and nuclear energy steps up, October 2022
82 WWF, Environmental Groups start legal action against ‘sustainable’ gas classification, 2022.
5.2.2. Design

Strategic objectives

The EU taxonomy supports companies in their efforts to plan and finance their low-carbon transition, and it helps mitigate market fragmentation in the EU. The taxonomy protects investors against greenwashing. It accelerates financing of projects that are already sustainable, and it accelerates financing of those in transition. According to article 10(2) of the taxonomy regulation, transition activities are activities that cannot yet be replaced by technologically and economically feasible green alternatives, but they support the transition to a climate-neutral economy.

Since the EU developed its taxonomy, several international organizations provided non-binding guidance on transition finance. The Organisation for Economic Co-operation and Development (OECD), for example, understands a corporate transition plan as a time-bound, cross-cutting action plan that clearly sets out how a company intends to achieve its transition strategy, including targets, actions, progress, and accountability mechanisms. A corporate transition plan describes how a company intends to transform its business model, operations, assets, and relationships to low-emission, climate-resilient pathways aligned with the goals of the Paris Agreement.

The EU taxonomy aims to deliver the objectives of the European Green Deal (net zero by 2050). Financial products marketed as green must explain whether, and to what extent, they align with the EU taxonomy. The EU hopes that over time, its taxonomy will encourage a transition toward sustainability and increase investment in green projects.

Box 6. Controversial economic activities in green taxonomies

The EU taxonomy has been heavily criticised for the decision to classify both fossil gas and nuclear activities as transitional activities. This decision may encourage political compromise in other countries regarding including activities in green taxonomies that are not firmly rooted in science (e.g., aligned with international and national transition pathways).

For example, the South Korean Ministry of Environment released a revised draft of its taxonomy in September 2022 that added nuclear energy-related activities. Nuclear energy has been included conditional on accident-tolerant fuel use by 2031 and detailed planning and construction of a high-level radioactive waste disposal facility. The proposed South Korean taxonomy is even more lenient than the EU taxonomy as no deadline has been set for disposal facility construction (the EU set a deadline of 2050).

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78 Greenwashing occurs when an organization disseminates misleading information to present a public image that it is environmentally responsible.


Scope

The EU taxonomy regulation identifies six climate and environmental objectives that all taxonomy-aligned economic activities must not significantly harm (DNSH principle). This in contrast to Colombia’s taxonomy, which only requires DNSH from first-piller assets and activities.

The EU taxonomy requires economic activities to substantially contribute to at least one of the objectives.

The six objectives are the following:

- Climate change mitigation
- Climate change adaptation
- Pollution prevention and control
- Sustainable use and protection of water and marine resources
- Protection and restoration of biodiversity and ecosystems
- Transition to a circular economy

The 13 sectors covered in the EU taxonomy encompass more than 100 economic activities. The following sectors are addressed:

- Construction and real estate activities
- Energy
- Forestry
- Manufacturing
- Transportation and storage
- Information and communications
- Water, sewerage, waste, and remediation
- Professional, scientific, and technical activities
- Education
- Financial and insurance activities
- Human health and social work activities
- Arts, entertainment, and recreation
- Environmental protection and restoration activities

In addition, the EU taxonomy requires economic activities to meet minimum social safeguards such as the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles on Business and Human Rights (UNGPs), the principles and rights set out in the eight fundamental conventions identified in the International Labour Organization Declaration on Fundamental Principles and Rights at Work, and the International Bill of Human Rights. Figure 6 highlights the three elements needed for alignment with the EU taxonomy.

Figure 6. An economic activity must satisfy three expectations to be considered sustainable under the EU taxonomy

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83 ILO, Declaration on Fundamental Principles and Rights at Work, 1998.
84 The International Bill of Human Rights consists of the Universal Declaration on Human Rights, the International Covenant on Economic Social and Cultural Rights, and the International Covenant on Civil and Political Rights.
Environmental performance metrics, thresholds and targets

The sectors and activities in the EU taxonomy were selected for their potential to substantially contribute to six environmental objectives. Their selection was based on a very sophisticated methodology developed by the TEG and subsequently refined by the European Commission’s Joint Research Centre over a three-year period. The technical screening criteria that define performance thresholds for taxonomy alignment are defined in separate delegated acts. The first two delegated acts cover the climate mitigation and adaptation objectives. The thresholds were developed by the TEG and the Member State Expert Group on Sustainable Finance, which aimed for an evidence-based approach.

For the four non-climate (environmental) objectives, the European Commission is expected to publish a delegated act at the beginning of 2023 based on the advice provided by the PSF. The Commission can then either use or modify the proposals made by the PSF.

The EU taxonomy is designed as a “living instrument,” and the European Commission has been tasked with regularly updating it, for example by adjusting performance thresholds to reflect evolving sustainability standards and practices.

Box 7. Association of Southeast Asian Nations (ASEAN) taxonomy has a two-tier structure

The ASEAN taxonomy is the first regional taxonomy under development. Its objective is to provide a common language across member states to communicate and coordinate labelling for economic activities and financial instruments. It is addressed to investors and financial institutions.

Because regions face varied challenges, a “one-size-fits-all” taxonomy is not seen as the best solution for the ASEAN area. For this reason, the ASEAN taxonomy has a two-tiered structure consisting of the following two elements:

- Foundation Framework: applies to all member states and allows a qualitative assessment of activities.
- Plus Standard: classifies economic activities and defines quantitative metrics and performance thresholds to further qualify and benchmark eligible green activities and investments.

The ASEAN taxonomy classifies activities as green, amber, or red, and its scope also includes three enabling sectors. These are sectors that significantly contribute to climate change mitigation through the development of green financial products, frameworks, and services to support green-project implementation.

5.2.3. Implementation

Output

The EU taxonomy applies to all financial entities and large companies in the EU. It has a dual use: On one hand, it contains mandatory corporate disclosure rules for companies and investors, and on the other hand, it serves as the basis for classifying finance products as green. It also serves as a tool for foreign investment and functions as a framework for other national-level taxonomies. The EU issued guidance on implementing the taxonomy, for example the EU Taxonomy Compass and a Frequently Asked Questions document. The EU’s CSRD ensures that certain companies disclose their environmental performance thresholds as well as their taxonomy-aligned activities. The EU’s CSRD will regulate corporate disclosures, and its requirements are linked to those made under the EU taxonomy regulation. A critical feature of the EU taxonomy is mandatory disclosure across the financial-services supply chain (e.g., financial and non-financial companies, financial products) using the same key performance indicators (KPIs) (e.g., percentage of annual turnover, operating expenses [OpEx], capital expenditures [CapEx], green finance ratio). This will have far-reaching effects on over 50,000 companies in the EU, and starting in 2028, it will affect companies outside the EU as any company engaging in an economic transaction with the EU will have to disclose taxonomy-related information.

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5 JRC, Substantial contribution to climate change mitigation: A framework to define technical screening criteria for the EU taxonomy, 2021; and Development of the EU sustainable finance taxonomy: A framework for defining substantial contribution for environmental objectives 3-6, 2022.

56 At the time this report was published, the EU had finalized one delegated act and a complementary delegated act to address climate change mitigation and adaptation.

57 European Commission, EU Taxonomy Compass.

58 European Commission, FAQ: What is the EU Taxonomy and how will it work in practice?, 2021.
In anticipation of these future disclosure requirements, many European companies have started to promote certain activities as sustainable. According to an analysis by the PSF, in their financial filings for 2021, 285 companies reported the percentage of their turnover that is eligible under the taxonomy Climate Delegated Act, with slightly fewer reporting their CaPex and OpEx numbers. As the taxonomy’s requirements become applicable, companies will have to adjust their policies, procedures, and reporting processes. The European Investment Bank (EIB), for example, aligned its approach and technical screening criteria for climate action and green finance with the EU taxonomy. Until the criteria for the four environmental objectives are adopted, the EIB will continue to use the interim definitions based on the framework defined in the EU taxonomy regulation. For activities and sectors outside the EU, the EIB will apply the criteria from the first Climate Delegated Act, and if necessary, adapt them to its context while retaining the logic of the EU taxonomy and harmonisation with the multilateral development banks (MDBs) methodologies for tracking climate finance.

The European Central Bank (ECB), for instance, has referred to the environmental objectives set out in the EU taxonomy as some of the criteria to use by central banks when determining the eligibility of sustainability-linked bonds as collateral. This was perceived as a strong signal on the importance of these instruments’ support of the “climate transition”. The ECB has also started to announce its plan to incorporate climate change into its monetary policy operations. The climate scoring system designed by the ECB for this purpose is guided by the requirements for the EU Climate Transition and EU Paris-aligned benchmarks, which are expected to become consistent with the EU taxonomy by the end of 2022, and the proposed European Green Bond Standard (EU GBS), which is also based on the EU taxonomy. As one of the largest investors in European bond markets, the ECB had also recommended the proposed EU GBS become mandatory for all green bonds to combat greenwashing.

There are also many possible voluntary uses of the EU taxonomy. Small and medium-sized companies or non-EU companies could voluntarily disclose against the EU taxonomy or include the taxonomy’s criteria in their sustainability strategies, for example by disclosing the taxonomy alignment of green bonds they issue. This could attract investors interested in green opportunities. Investors could integrate the taxonomy criteria into their due diligence for identifying sustainable investment opportunities and achieving a positive environmental impact.

Monitoring and evaluation

The PSF is tasked with advising the European Commission on developing the EU taxonomy; improving its usability; and exploring its expansion to social objectives, activities that significantly harm the environment, and activities that are environmentally neutral. It also monitors and reports how capital is flowing to sustainable investments.

6. Comparing key features of the EU and Colombian taxonomies

The following table compares characteristics of the EU and Colombian taxonomies. While there are some similarities, like common environmental objectives or the DNSH principle, there are also some notable differences. Due to distinct local context, the taxonomies prioritise the sectors they address differently (i.e., Colombia prioritised the sectors related to land use, the EU focused more on energy). For climate change mitigation, the EU taxonomy covers more activities as they are more nuanced and detailed than in the Colombian taxonomy. The EU taxonomy also includes some activities for climate change mitigation that are not included in the Colombian taxonomy (e.g. professional, scientific and technical activities). In addition to this, the EU taxonomy is mainly being used by financial market participants (i.e., large companies, banks, and financial intermediaries that provide financial products, as well as investors), while the Colombian taxonomy will be primarily used by banks.

The EU taxonomy is a mandatory instrument with far-reaching disclosure obligations for more than 50,000 companies while the Colombian taxonomy remains a purely voluntary instrument.

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96 Platform on Sustainable Finance’s report on Data and usability of the EU Taxonomy, October 2021
97 ECB provides details on how it aims to decarbonise its corporate bond holdings, September 2022.
98 For example, the Eurosystem acknowledged the importance of green bonds in funding climate transition and announced it may give preferential treatment to green bonds in its primary market bidding behaviour, subject to certain conditions: FAQ on incorporating climate change considerations into corporate bond purchases, Q8. Will the Eurosystem adopt favourable treatment for green bonds? September 2022 (updated October 2022).
100 See: FAQ: What is the EU Taxonomy and how will it work in practice? April 2021, p. 8–10.
### A taxonomy to create a common language for sustainable finance in the Latin American & Caribbean region

<table>
<thead>
<tr>
<th>EU Taxonomy</th>
<th>Colombian Taxonomy</th>
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<tbody>
<tr>
<td><strong>Design</strong></td>
<td></td>
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<tr>
<td><strong>Users</strong></td>
<td>Financial institutions (especially banks); issuers of green bonds; public sector.</td>
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<tr>
<td></td>
<td>Financial market participants: including &gt;50,000 large companies that raise money on capital markets by issuing securities; banks and financial intermediaries who provide financial products; as well as investors. As of 2028, non-EU companies that have significant business relations with the EU (turnover &gt; EUR 150 million in the EU with a subsidiary or branch in the EU) will also have to report their annual taxonomy data. In addition to these mandatory EU taxonomy disclosure requirements, the European Commission encourages voluntary adoption of the EU taxonomy and related disclosures. ECB &amp; EIB: European financial institutions such as the European Investment Bank (EIB) and the European Central Bank (ECB) have started to use the EU taxonomy in their operations on a voluntary basis. The ECB, for example, has started to consider EU taxonomy-related disclosures when incorporating climate change into its monetary policy operations. The climate scoring system designed by the ECB is guided by the requirements for the EU Climate Transition and EU Paris-aligned benchmarks, which are expected to be consistent with the EU taxonomy by the end of 2022. It also explicitly refers to the EU GBS (which is based on the EU taxonomy and has yet to be finalised).</td>
</tr>
<tr>
<td><strong>Objectives</strong></td>
<td>Financial institutions (especially banks); issuers of green bonds; public sector.</td>
</tr>
<tr>
<td></td>
<td>Green finance: finance companies’ low-carbon transition; accelerate financing of projects already sustainable and those in transition; encourage a transition toward sustainability by increasing investment in green projects.</td>
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<td></td>
<td>Combat greenwashing: promote a common understanding of activities and assets considered green; have standardised criteria and definitions for green finance to provide transparency and avoid greenwashing.</td>
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<tr>
<td></td>
<td>Deliver net zero: satisfy the objectives of the European Green Deal (net zero by 2050).</td>
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<td></td>
<td>Green finance: channel public and private resources toward green investments and public expenses.</td>
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<td></td>
<td>Green capital markets: promote the development of Colombia’s green capital markets.</td>
</tr>
<tr>
<td></td>
<td>Combat greenwashing: promote a common understanding of activities and assets considered green; have standardised criteria and definitions for green finance to provide transparency and avoid greenwashing.</td>
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100 See: FAQ: What is the EU Taxonomy and how will it work in practice?, April 2021, p. 8–10.

101 For example, on September 22, 2020, the ECB announced its decision to accept bonds with coupon structures linked to certain sustainability performance targets (SPTs) as eligible collateral for Eurosystem credit operations and for outright purchases in Eurosystem monetary policy operations. The Eurosystem considers SPTs to be acceptable (only) if they refer to targets set by the issuer in a publicly available issuance document that measure quantified improvements in the issuer’s sustainability profile over a predefined period of time relating to one or more of the environmental objectives set out in Article 9 of EU taxonomy regulation 2020/852. See: FAQ: What is the EU Taxonomy and how will it work in practice?, April 2021, p. 8–10. For example, in September 2022, the Eurosystem acknowledged the importance of green bonds in funding climate transition and announced it may give preferential treatment to green bonds in its primary market bidding behaviour, subject to certain conditions: FAQ on incorporating climate change considerations into corporate bond purchases, Q8. Will the Eurosystem adopt favourable treatment for green bonds? September 2022 (updated October 2022).
A taxonomy to create a common language for sustainable finance in the Latin American & Caribbean region

<table>
<thead>
<tr>
<th>EU Taxonomy</th>
<th>Colombian Taxonomy</th>
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| **DNSH:** do not significantly harm any of the taxonomy’s objectives.  
Beyond green: when this report was published, the taxonomy only considered green activities/assets. This may change as the PSF has suggested a traffic-light system. | Deliver the Paris Agreement: support achieving the objectives of the Paris Agreement.  
DNSH: do not significantly harm any of the taxonomy’s objectives (for pillar 1 sectors only).  
Interoperability: ensure coherence with international standards and taxonomies.  
Beyond green: focus on green activities/assets. There are no discussions to change this. |
| **Output** | **Mandatory compliance:** far-reaching disclosure requirements for both non-financial and financial institutions that meet these criteria:  
- Companies in the EU exceeding an average number of employees of 500 during the fiscal year, and total assets exceeding EUR 20 million or a net turnover of EUR 40 million or more.  
- SMEs and non-EU-companies can voluntarily disclose.\(^{104}\)  
**Reporting:** large EU companies must disclose to what extent their business activities meet the taxonomy criteria (i.e., the proportion of turnover aligned with the taxonomy, CapEx and, if relevant, OpEx aligned with the taxonomy).  
Financial market participants must disclose to what extent the activities that their financial products fund meet the criteria.  
SMEs and non-EU companies can voluntarily disclose their compliance with the taxonomy. After 2028 non-EU companies that have significant business relations with the EU will also have to disclose taxonomy data.  
Verification: verification that satisfies the public reporting requirements of the CSRD. Member states can require the non-financial statement or the separate sustainability report to be verified by an independent assurance provider, with an explicit requirement to tighten verification standards (i.e. limited assurance becomes mandatory). | **Voluntary compliance:** designed to support financial product-level disclosures (for specific assets or activities). Companies seeking green-labelled investment must provide banks with information on how their activities meet the taxonomy’s criteria.  
**Reporting:** no reporting requirements. If a company wants to receive funding for a certain activity/asset, it needs to provide evidence that the activity/asset is green.  
**Verification:** there are no standardised procedures or guidelines on how to verify the information companies provide. |

\(^{104}\) As of 2028, the CSRD’s mandatory disclosure requirements will also apply to non-EU corporations.
A taxonomy to create a common language for sustainable finance in the Latin American & Caribbean region

<table>
<thead>
<tr>
<th>Scope: Environmental / climate objectives</th>
<th>EU Taxonomy</th>
<th>Colombian Taxonomy</th>
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<tbody>
<tr>
<td><strong>Six environmental objectives:</strong></td>
<td></td>
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<tr>
<td>1. climate change mitigation;</td>
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<td>1. climate change mitigation;</td>
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<tr>
<td>2. climate change adaptation;</td>
<td></td>
<td>2. climate change adaptation;</td>
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<tr>
<td>3. sustainable use and protection of water and marine resources;</td>
<td>3. sustainable use and protection of water and marine resources;</td>
<td></td>
</tr>
<tr>
<td>4. transition to a circular economy;</td>
<td></td>
<td>4. circular economy;</td>
</tr>
<tr>
<td>5. pollution prevention and control;</td>
<td></td>
<td>5. pollution prevention and control;</td>
</tr>
<tr>
<td>6. protection and restoration of biodiversity and ecosystems.</td>
<td>6. ecosystem and biodiversity conservation; and</td>
<td></td>
</tr>
<tr>
<td><strong>When this report was published, technical screening criteria had only been developed for climate change mitigation and adaptation, but cross-cutting “DNSH” criteria were also developed for the four environmental objectives.</strong></td>
<td></td>
<td>7. land management.</td>
</tr>
</tbody>
</table>

An additional delegated act to specify technical screening criteria for the four non-climate (environmental) objectives is expected in 2023.

| Scope: Industrial classification | Statistical Classification of Economic Activities in the European Community (NACE) codes. | The taxonomy contains an approximation to the United Nations' International Standard Industrial Classification (ISIC) codes. Future revisions will also seek greater alignment with the DANE classifications which are an adaptation of the ISIC codes to the Colombian context.105 |

105 DANE, *International Standard Industrial Classification (ISIC) of all economic activities*, 4th revision adapted, 2021.
A taxonomy to create a common language for sustainable finance in the Latin American & Caribbean region

<table>
<thead>
<tr>
<th>EU Taxonomy</th>
<th>Colombian Taxonomy</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Activities</strong></td>
<td></td>
</tr>
<tr>
<td>Because Colombia had only adopted the taxonomy for climate change mitigation at the time this report was prepared, only the EU’s activities for climate change mitigation are listed here:</td>
<td>Energy: 18 activities</td>
</tr>
<tr>
<td>Energy: 31 activities</td>
<td>17 out of these 18 activities (all except low-carbon hydrogen production) in Colombia’s taxonomy are also included in the EU taxonomy. Colombia does not include any activities related to fossil fuel or nuclear energy. It only covers cogeneration of heat/cooling.</td>
</tr>
<tr>
<td>The EU taxonomy includes activities related to fossil fuel and nuclear energy. It covers production and cogeneration of heat/cooling.</td>
<td>Construction: 3 activities</td>
</tr>
<tr>
<td>Construction: 7 activities</td>
<td>(construction, renovation, and acquisition/ownership of buildings). Colombia’s taxonomy does not include any activities related to installation, maintenance, or repair, but the three construction-related activities are also found on the EU’s list.,</td>
</tr>
<tr>
<td>These includes activities related to installation, maintenance, and repair (e.g., of renewable energy technologies or charging stations for electric vehicles in buildings).</td>
<td>Transportation: 5 activities</td>
</tr>
<tr>
<td>Transportation: 17 activities</td>
<td>The Colombian taxonomy covers less activities than the EU taxonomy because it refers to activities more generally (i.e., “private transport” or “transport infrastructure”).</td>
</tr>
<tr>
<td>The EU taxonomy lists the activities in a very detailed manner. While the EU taxonomy differentiates between infrastructure for personal mobility, rail transport, enabling low-carbon road transport and public transport, low-carbon water transport, and low-carbon airport infrastructure (i.e., five different infrastructure-related activities), the Colombian taxonomy uses a blanket phrase of “transport infrastructure,” which could entail any or all of these.</td>
<td>Manufacturing: 7 activities</td>
</tr>
<tr>
<td>Manufacturing: 17 activities</td>
<td>All 7 activities are also included in the EU taxonomy.</td>
</tr>
<tr>
<td>The EU taxonomy includes some activities that are not in the Colombian taxonomy such as manufacture of batteries, renewable energy technologies, nitric acid, soda ash, hydrogen, and carbon black.</td>
<td>Information and communication technologies: 2 activities</td>
</tr>
<tr>
<td>Information and communication: 2 activities</td>
<td>These two activities are also in the EU taxonomy.</td>
</tr>
<tr>
<td>(data-driven solutions for GHG emission reduction, and data processing, hosting, and related activities). This category is not found in the Colombian taxonomy.</td>
<td>Water supply and treatment: 4 activities</td>
</tr>
<tr>
<td>Water supply, sewerage, waste management and remediation: 12 activities</td>
<td>Waste management and emissions capture: 8 activities</td>
</tr>
<tr>
<td>The EU taxonomy gathers 12 activities within a single category for water and waste.</td>
<td>The Colombian taxonomy splits 12 activities in two categories. The activities are similar to those in the EU taxonomy; however, the Colombian taxonomy is less specific. One activity in this category is, for example, “investments for the efficient use of water,” which the EU taxonomy does not have.</td>
</tr>
<tr>
<td>Target: Environmental</td>
<td>Substantial contribution + DNSH + Minimum safeguard: the EU taxonomy recognises over 100 activities as green. These activities must (1)</td>
</tr>
<tr>
<td>Pillar 1 – Contribution + DNSH + no negative social impact: the Colombian taxonomy recognises 47 assets and activities as green. These</td>
<td></td>
</tr>
</tbody>
</table>
A taxonomy to create a common language for sustainable finance in the Latin American & Caribbean region

### EU Taxonomy

<table>
<thead>
<tr>
<th>Performance thresholds</th>
<th>EU Taxonomy</th>
<th>Colombian Taxonomy</th>
</tr>
</thead>
<tbody>
<tr>
<td>substantially contribute to at least one of the EU’s climate and environmental objectives, (2) do no significantly harm any of the objectives (DNSH), and (3) meet minimum social safeguards.</td>
<td>substantially contribute to climate change mitigation, while at the same time do not significantly harm any of the other environmental objectives (DNSH) nor generate negative social impact. Pillar 2 – Contribution: economic activities that contribute to one of the land-use-related environmental objectives are considered green under this pillar. As a transition model toward environmental sustainability, the taxonomy classifies land-use improvements in three levels of complexity and cost: basic, intermediate, and advanced. This allows farms of all sizes to introduce improvements according to their circumstances. The taxonomy accounts for important differences between the country’s regions due to multiple factors, including climatic risks.</td>
<td></td>
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</tbody>
</table>

### Policy Formulation Process

<table>
<thead>
<tr>
<th>Policy formulation process</th>
<th>EU Taxonomy</th>
<th>Colombian Taxonomy</th>
</tr>
</thead>
<tbody>
<tr>
<td>The development process was overseen by the European Commission. The TEG, and subsequently the PSF developed recommendations for technical screening criteria for economic activities that can substantially contribute to climate change mitigation and adaptation. The criteria were then adopted by the European Commission. The PSF was mandated by the Commission to continue developing technical screening criteria between 2023 and 2024.</td>
<td>The SFC oversaw the development of pillar 1 sector criteria, and it coordinated the taxonomy’s general progression. The SFC, with support of project contributors (i.e., IFC, CBI, the World Bank), prepared the first list of eligible assets and activities by sector for the pillar 1 sectors, which was accompanied by an expert consultation process. The MHCP oversaw criteria development for pillar 2 sectors.</td>
<td></td>
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</table>

<table>
<thead>
<tr>
<th>Consultation</th>
<th>EU Taxonomy</th>
<th>Colombian Taxonomy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Engagement: the TEG held workshops with over 200 experts to develop technical screening criteria for the climate change mitigation and adaptation activities as well as for DNSH. Consultation: several rounds of consultations were held. At a Member States Expert Group meeting, participants could provide feedback on the final TEG recommendations, including the design of the taxonomy and the technical screening criteria. Over 46,000 responses were received during the public consultations on the first draft delegated acts. Ongoing development: the PSF will develop technical screening criteria for the remaining environmental objectives and launch a consultation.</td>
<td>Engagement: for the pillar 1 sectors, criteria were developed in workshops over 18 months with input and contributions from the eight lead advisers and technical experts (two-tier expert consultations). Experts pertaining to the investment chain, representatives of the real sector, academics, environmental experts, civil society, and public and international organisations were involved. Consultation: for the pillar 1 sectors, more than 400 responses were received during a public consultation on the proposed criteria. For the pillar 2 sectors, 105 specialists were consulted in workshops. In addition, consultations took place with sector representatives, officials of the Ministry of Agriculture and Rural Development (MADR) and MADS, as well as NGOs.</td>
<td></td>
</tr>
</tbody>
</table>
## EU Taxonomy

- Ongoing development

  The EU taxonomy is a dynamic instrument that will be updated regularly. The European Commission oversees its revision.

  More technical screening criteria are being developed for the non-climate (environmental) objectives. These are expected to be published in 2023.

## Colombian Taxonomy

- Ongoing development

  The Colombian taxonomy is a dynamic instrument that will be updated regularly. The SFC oversees its revision.

  More criteria will be developed for the environmental objectives not covered; however, there is no concrete timeline for this work.
7. Key questions to guide the development of “fit-for-purpose” taxonomies in Latin American and Caribbean countries

Although policymakers in both Colombia and the EU encountered challenges when developing their respective taxonomies, their experiences offer valuable lessons for countries considering engaging in a similar process. The following nine questions may help countries develop a “fit-for-purpose,” science-based taxonomy customised to their local context. These key questions also endeavour to facilitate wide-spread use of green taxonomies and to ensure these taxonomies preserve interoperability across markets.

Enabling capital flow into green, sustainable projects around the world requires a common approach to classifying activities and assets. One example that highlights the potential of interoperable taxonomies is the European Parliament’s proposal to facilitate the use of European green bonds by third-country issuers. Bond proceeds allocated in a third country could use a taxonomy from that third country if its taxonomy has been deemed “equivalent” to the EU taxonomy (in particular, its environmental objectives, DNSH criteria, substantial contribution definition, and minimum safeguards). In this case, it is essential for Latin America taxonomies to be deemed equivalent to the EU taxonomy, and that they meaningfully inform investors.

In addition, starting in 2028, companies outside the EU that conduct economic transactions within the EU must disclose taxonomy-related information. Consequently, it is important that companies outside the EU also understand the EU taxonomy — mutual recognition and data equivalence will become critical for Latin American and Caribbean companies.

A global “common language” for what types of activities and assets can be considered sustainable would be a powerful achievement. Synchronising actions and finance would throw unprecedented weight behind the work to confront and reverse intensifying climate and environmental challenges. It is also essential that science-based decision-making prevails over industry interests and lobbying efforts. A common approach to taxonomy building, based on common design features including environmental objectives, cross-cutting principles, common sector and activity classifications based on scenario analysis, as well as sector/activity-specific performance metrics and thresholds would go a long way in solidifying the leadership of governments, the financial sector, and companies.

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**Key question 1: Does the country really need a new taxonomy?**

**Lesson learned:** While supporting the growth of regional green financial markets through taxonomies is undoubtedly an opportunity to support the low-carbon transition, creating a taxonomy “from scratch” can be resource and time-intensive. It requires the support and commitment of national and international institutions as well as local experts. Politically volatile environments may make it challenging to secure continuous support for the venture. Ensuring that the necessary resources (e.g., budget, time, workforce) are available can create an additional challenge.

The main purpose of taxonomies is to create a common language. To attract foreign investment, it may not be in a country’s best interest to create a taxonomy from scratch, especially if it does not align with international standards. Therefore, countries should first consider existing taxonomies that could and should be used as a framework. Adjusting a taxonomy to the local context makes sense when a country’s specific situation mandates a unique approach. In Colombia, one of the 17 megadiverse countries, land-use sectors are economically important; however, the key performance metrics for these sectors in the EU taxonomy were insufficient for the Colombian context. Even though Colombia encountered a lack of data for its land-use sectors, it developed new criteria for them.

**Recommendation:** It is not necessary, nor desirable, for every country to develop its own taxonomy. As a first step, a country should determine whether it truly requires its own taxonomy or whether it can reference other national or international efforts. If a local context is very similar to that of another taxonomy, it is not necessary to develop an original taxonomy. It is also essential that a taxonomy is interoperable across markets, building on essential design features of leading taxonomies.

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The EU taxonomy’s essential design features (e.g., its structure, environmental objectives, classification using common activity-specific environmental performance metrics) should be “adopted” as the foundation of any taxonomy. Specific environmental performance targets could then be adapted to reflect a country’s situation and the sectors and activities that are economically important. If the EU taxonomy is expanded and adapted to incorporate nature-related disclosures — a requirement that may support the conservation of exceptional biodiversity, for example — this may offer the Latin American region foundational elements for future taxonomic development.

To maintain interoperability, it is important that any new criteria or performance thresholds are comparable with the EU taxonomy and formally recognised as equivalent, provided that an equivalent level of environmental protection can be granted. This would create an opportunity for Latin American countries to create taxonomies that are more ambitious than the EU’s, which may also help attract investment from the EU.

Key question 2: Have we defined clear goals and a purpose for the taxonomy (including its intended users)?

Lesson learned: Defining a clear goal for the taxonomy from the start helps to gain political and stakeholder support, to integrate the taxonomy with national objectives, and to formulate concrete objectives. Colombia did well from the beginning — it had a clear idea of who the taxonomy would address (i.e., financial institutions (especially banks), issuers of green bonds, public sector), what its purpose would be, and which environmental goals it would focus on.

Recommendation: Clear environmental goals aligned with a country’s strategic agenda (e.g., climate targets) should be defined at the beginning of the taxonomy-development process. These goals should be agreed on by all institutions involved. It is important to understand why the country needs a taxonomy, which goals it aims to reach, and what impacts it wants to make. This also includes considering the intended users of the taxonomy. Importantly, to be credible, these goals need to be rooted in science. Countries should always keep in mind how they could add value like Colombia did by defining criteria for land-use sectors that were only superficially addressed by the EU taxonomy.

Key question 3: Have we developed a concept and a roadmap that define timelines, targets, and responsibilities for the taxonomy development and implementation?

Lesson learned: The Colombian taxonomy started as a 14-step concept that was aligned with the 13-step approach suggested by the World Bank. The steps were perceived positively and provided structure for the process. However, the process would have benefited from clear timelines and responsibilities allocated for each step. Holding stakeholders to a clearly defined timeline increases their commitment and sets clear expectations for involvement from the project’s onset. EU stakeholders also remarked on a similar absence of a clear strategic approach.

Recommendation: After defining the environmental objectives, a concept or a roadmap should be developed that sets clear timelines, targets, and responsibilities for all steps of the process. This helps stakeholders stay committed and communicates appropriate expectations for all parties.
Key question 4: Have we ensured political buy-in?

Lesson learned: Latin American countries are prone to drastic political changes. After Colombia’s taxonomy was finalised, a new president was elected. No public political commitment to the implementation of the Colombian taxonomy was made before it was developed. Luckily, the new Colombian government supports the implementation of the taxonomy. The SFC issued instructions to implement the taxonomy via external circular. The SFC also included actions to further implement the taxonomy in its sustainable finance roadmap for 2022 to 2025.

Recommendation: To avoid creating a taxonomy that may not be implemented due to political change, it is recommended to obtain political buy-in once a clear roadmap/concept has been developed. It is imprudent to start developing a whole taxonomy and expending resources before political commitments are publicly communicated (e.g., a roadmap approved by the government or an official public statement of the government). A public government commitment is not only important for a taxonomy’s development but also for its implementation. A public commitment may increase the chance that a new government will continue with the development/implementation of the taxonomy; however, there is no guarantee, and there is always a risk of political disruption. Therefore, ideally, taxonomy development, finalisation, and launch should occur within a single presidential term (i.e., a single election cycle). Also, if a taxonomy is made legally binding, continuity can also be ensured.

Key question 5: Have we assigned clear responsibilities for the entire process?

Lesson learned: When developing its taxonomy, Colombia clearly affirmed that the Taxonomy Roundtable would steer the taxonomy’s development for the sectors not related to land use, and that the MHCP would be responsible for the land-use sectors. However, one big shortcoming was a lack of governance. For a long time, it was not clear who oversaw the implementation of the taxonomy, which led to confusion. This responsibility was only assigned after the taxonomy had been launched.

Recommendation: All stages of a taxonomy’s development and application are important. From the beginning, it is essential to clearly define administrative responsibilities for the whole process, including implementation. If roles and responsibilities are not clear, there is a risk the taxonomy may be created but not implemented due to a lack of political ownership.

Key question 6: Have we selected experts that know the local context, have appropriate expertise, and are recognised in the country?

Lesson learned: Colombia involved international institutions such as the CBI and IFC, but it also worked with local experts from the private and public sectors that had sectoral and sustainability expertise. The lead advisers were recognised in the country for their expertise and familiarity with local standards. As Colombia adapted the EU taxonomy, it involved local experts familiar with the country’s regulations and standards. In the end, a taxonomy must fit the local context and consider the most important sectors of a country’s economy as well as its primary sources of GHG emissions. These may not be the same for all countries, as seen when comparing Colombia (land use) and the EU (energy). Despite participation being voluntary, the experts in Colombia and the EU committed to the process.

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109 SFC, Circular Externa 005 April 8, 2022.
110 SFC, Hacia el enverdecimiento del sistema financiero colombiano: Estrategia de Finanzas Verdes y Cambio Climático de la Superintendencia Financiera de Colombia, 2022.
**Recommendation:** A green taxonomy should always be adapted to the local context and be in line with national regulations. Other Latin American countries should follow Colombia’s approach and consult local experts that know the local regulations and standards. Ideally, experts are recognised for their knowledge, have a wide network (e.g., in the relevant sector or the government), and are committed to the process. It is also important that the taxonomy is interoperable across markets, which is why countries may benefit from involving experts that have developed other taxonomies.

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**Key question 7: Have we set clear expectations for all stakeholders?**

**Lesson learned:** Both Colombia and the EU initially struggled to set clear expectations for the experts involved. This meant some experts were unaware of how much time their participation would entail. Interviews conducted for this report revealed sectoral experts found capacity building among them to be important, especially as some experts were new to the field of sustainable finance. When expert consultations began, Colombia explained a lot about the purpose and benefits of the taxonomy. It was presented as an opportunity to access green finance and not as an instrument to punish “not-green” companies. Once the experts understood this, their workshops were more efficient.

**Recommendation:** Clear expectations should be set for everyone involved in the taxonomy-development process (e.g., experts, institutions, and administrative staff). Everyone should know their role, know how much time they will have to invest, and understand the purpose of the taxonomy.

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**Key question 8: Is the design of the taxonomy based on established architecture, economic structure, and environmental contribution?**

**Lesson learned:** The EU’s taxonomy builds structurally on the MDBs Common Principles for Climate Mitigation Finance Tracking.\(^{111}\) When selecting relevant sectors for the climate objectives, the TEG mainly used an environmental rationale, focusing on those emitting the most CO\(_2\) as measured by EU-ETS data.\(^{112}\) However, it failed to provide an economic rationale for choosing these sectors (e.g., contribution to gross domestic product [GDP]). When selecting sectors for the non-climate objectives, the PSF built on a mix of statistical data and expert judgement;\(^{113}\) however, this approach involved multi-criteria decision-making, which is more complex and less transparent.

Colombia combined the EU taxonomy and the CBI taxonomy to form its taxonomy’s foundation. It then adapted this to its own context to account for local laws (national interoperability) and economy. Colombia focused on land-use sectors that generate most of the country’s GHG emissions. The SFC also selected sectors based on their relevance for receiving financing. For land-use sectors not covered by any other taxonomy, new data had to be gathered to define criteria and performance thresholds for the activities.

Both taxonomies provide an environmental rationale for selecting the sectors and activities considered in their taxonomies. However, considering economic factors, such as a sector’s contribution to GDP, is equally relevant.

**Recommendations:** When designing fit-for-purpose green taxonomies, consider an “adopt-and-adapt” approach that is informed by these guiding principles.

**“Adopt” common design features to ensure interoperability across markets**

Countries that start developing taxonomies should “adopt” the same overall architecture, building on common design features, including (1) environmental objectives referring to international agreements as much as possible, (2)...

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\(^{111}\) MDBs, *Common Principles for Climate Mitigation Finance Tracking* Version 2021.

\(^{112}\) Data obtained through the verified emissions under the European Emission trading system.

sector/activity classifications (i.e., the United Nations’ International Standard Industrial Classification (ISIC) rather than Statistical Classification of Economic Activities in the European Community (NACE) codes) and related sector-specific scenario analysis, and (3) sector-specific performance metrics.

While sector-specific performance thresholds and targets should reflect national specificities, the underlying environmental performance metrics should apply international standards, ensuring they build on, and are consistent with international efforts to develop corporate disclosure standards including those communicated by the Task Force on Climate-related Financial Disclosures, the Taskforce on Nature-related Financial Disclosures, as well as the International Sustainability Standards Board and the European Financial Reporting Advisory Group’s European Sustainability Reporting Standards. The taxonomy’s interoperability should also be safeguarded so different taxonomies are recognised across markets, making it easier for issuers to use green bonds in different markets.

To be interoperable, taxonomies should be based on common definitions, sustainability objectives, and principles. It is important to link performance metrics to those used in the EU taxonomy. It is also recommended that international statistical classification systems, such as the United Nations’ ISIC, for example, are used. If taxonomies are not interoperable, this presents a big challenge for companies as it could result in their activities being considered green in one country and not green in another. Ultimately, it is unlikely that major economies such as the EU would recognise taxonomies developed by other jurisdictions as “equivalent” if the underlying performance metrics are not comparable, or if they do not grant (at least) an equivalent level of environmental protection.

“Adapt” performance thresholds and targets to the local context
Adapt the green taxonomy to the local context. The focus should be on the sectors/economic activities that are most important to a country’s economy (i.e., the biggest contributors to a country’s GDP) and that are the most polluting or harmful for the environment. The taxonomy does not necessarily have to address all sectors at once. For climate objectives, a country’s most emission-intensive sectors would be good targets. It is important that the taxonomy considers climate objectives as well as other environmental objectives and nature-related criteria. For sectors where there are no international references (e.g., mining), leadership should be taken and appropriate criteria developed; however, only develop new criteria if a sector is relevant for the country. Priority should be given to the sectors/activities of critical importance for the national economy.

Establish evidence- and science-based criteria for alignment
Criteria, in particular performance thresholds, must be clear (i.e., easy to understand), science-based (i.e., evidence-based), and easily measurable. The performance thresholds should be selected from those used in the EU taxonomy or at least be easily comparable to the ones used in the EU taxonomy. The taxonomy should be a dynamic instrument — the criteria should be periodically reviewed and updated regularly based on new information and technology.

Minimum social safeguards
To accelerate a socially just, low-carbon transition, economic activities should comply with minimum social safeguards and standards. For example, the EU considers an activity to be consistent with the taxonomy only if the company respects basic human rights and follows good business conduct rules. The PSF Draft Report on Minimum Safeguards suggests two criteria that indicate non-compliance with minimum safeguards: (1) the company has not established adequate human rights due diligence processes as outlined in the UNGPs and OECD Guidelines for Multinational Enterprises, and (2) there are clear indications the company does not adequately implement human rights due diligence that results in human rights abuses. Data on breaches should be generated from sources with a high level of independence and impartiality. To assess a company’s compliance with minimum safeguards, the first step is to check whether the company reports its due diligence process. If this is missing, a company cannot be considered compliant with minimum safeguards.

National interoperability

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114 For example, the Common Ground Taxonomy aims to enhance comparability and interoperability of taxonomies across jurisdictions by comparing the EU and China Taxonomy, mapping them by activity. The Common Ground Taxonomy is an in-depth comparison exercise initiated by a working group on taxonomies created by the EU and China. The working group assessed existing taxonomies to identify commonalities and differences in their respective approaches and outcomes. At this stage, its scope only covers climate change mitigation.


Map the selected activities against a classification code used in the country, such as the NACE code in the EU or the ISIC in Colombia. This allows taxonomies to be compared against a neutral code. It also helps to group the activities in a neutral way as it can sometimes be challenging to decide which sector an activity belongs in.

**Objectives and “do no significant harm” principle**

A taxonomy can cover a range of climate and broader environmental or social objectives. This can either be done all at once or in separate steps. Its objectives can be adjusted to reflect a country’s local circumstances, commitments, and regulations. However, it is crucial that objectives are science-based (i.e., rooted in national decarbonisation scenarios and biodiversity scenarios, for example, policy scenarios) and that nature-related criteria are also considered. The objectives should also be ambitious and aligned with international efforts. One objective should not compromise another (the DNSH principle).

**Granularity**

Applicability of a taxonomy is key. If a taxonomy is too detailed and its objectives are too ambitious, it may prove impossible to implement. Practicality should always be kept in mind, and a trade-off between detail and pragmatism may be required. The EU taxonomy has a high level of detail, which makes its implementation challenging for companies. In the absence of (real) site-specific data, a local taxonomy could provide proxy indicators and/or emission factors to help companies roughly assess their installations, building on PSF recommendations on equivalence and data estimates. As an important side benefit, this would also help companies in the Latin America region prepare for the 2028 taxonomy-related reporting requirements for companies conducting economic transactions within the EU.

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**Key question 9: Have we built capacity?**

**Lesson learned:** Financial institutions and companies in Colombia and the EU were puzzled about how to use the taxonomy and what exactly taxonomy alignment signals. Additionally, a lot of companies in Colombia are simply not aware the taxonomy exists as a tool for accessing financing.

Practical challenges arise, like verifying information banks receive from companies. Another issue is a lack of information. Companies do not know where to access information needed to show they are taxonomy aligned nor do they have the processes and structures in place to generate such information.

To enhance the taxonomy’s uptake, Colombia is working with companies in the regional territories, including in rural regions. The EU, in a different approach, issued guidance for taxonomy users to enhance their understanding of the framework. The EU also provides clear definitions in its taxonomy regulation (e.g., it clearly defines what the criteria are for “climate-transition” activities).

**Recommendation:** Capacity building is key. It is necessary to promote the taxonomy, to build trust, and to show companies it is in their interest to use. As taxonomies are technical documents, developing clear and actionable guidelines on their use is also recommended.

Capacity building should accompany a taxonomy’s development and encourage feedback on its applicability from early on. However, one risk of conducting pilots during the design phase is this may generate political opposition.

One way to increase the uptake of a green taxonomy is through companies’ voluntary reporting. Capacity building could also involve investors and asset owners, aiming for them to ask investees to align with the taxonomy.

Governments also have a role to play in bridging data gaps. To support companies in compiling data, it is necessary to provide clear instructions detailing acceptable performance levels. Moreover, it is important for governments to actively participate in multi- and bilateral policy dialogue on taxonomy design, promoting the need for convergence through mutual recognition of equivalent taxonomy-related data (provided that a comparable level of environmental protection is granted).

See *Platform Recommendations on Data and Usability*, October 2022, Chapter 2.3, p. 45.
8. Conclusion

This report presents key questions that countries, in particular in the Latin American and Caribbean region, can use to guide their thinking around developing fit-for-purpose taxonomies that match local economic structure and environmental goals.

The examples of Colombia and the EU show that developing a taxonomy is a long and resource-intensive process. When developing a local taxonomy, it is crucial to note existing taxonomies and adapt them to the environmental, social, and economic context of the country. Pre-existing taxonomies are potential gateways to interoperability. Recognising taxonomy equivalence also formalises interoperability and avoids taxonomic fragmentation. Equivalence would mean that bond proceeds allocated in a third country could use a taxonomy from that third country if its taxonomy has been deemed “equivalent.”

Taxonomies should be rooted in science. Therefore, it is necessary to complement environmental objectives with performance thresholds that align with scientific consensus. For climate change-related objectives, this means performance thresholds promote a 1.5°C target. However, it is also important to not restrict taxonomies to climate change mitigation; and consider other environmental objectives as equally relevant. It is crucial to constantly revisit, enhance, and update taxonomies to reflect evolving knowledge.

Implementation challenges due to a lack of understanding and awareness should be tackled early and continuously. In this context, capacity-building campaigns are crucial and should begin when the taxonomy formulation process is initiated.
### Appendix I - List of abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>ASEAN</td>
<td>Association of Southeast Asian Nations</td>
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<tr>
<td>BIS</td>
<td>Bank of International Settlements</td>
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<tr>
<td>CapEx</td>
<td>Capital expenditures</td>
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<tr>
<td>CBI</td>
<td>Climate Bonds Initiative</td>
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<tr>
<td>CDA</td>
<td>Climate Delegated Act</td>
</tr>
<tr>
<td>CSRD</td>
<td>Corporate Sustainability Reporting Directive</td>
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<tr>
<td>DANE</td>
<td>National Administrative Department of Statistics</td>
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<tr>
<td>DNP</td>
<td>Department of Planning</td>
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<tr>
<td>DNSH</td>
<td>Do no significant harm</td>
</tr>
<tr>
<td>ECB</td>
<td>European Central Bank</td>
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<tr>
<td>EIB</td>
<td>European Investment Bank</td>
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<td>EU</td>
<td>European Union</td>
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<tr>
<td>EUR</td>
<td>Euros</td>
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<tr>
<td>GDP</td>
<td>Gross domestic product</td>
</tr>
<tr>
<td>GHG</td>
<td>Greenhouse gas</td>
</tr>
<tr>
<td>GIZ</td>
<td>Deutsche Gesellschaft für Internationale Zusammenarbeit</td>
</tr>
<tr>
<td>GTAG</td>
<td>Green Technical Advisory Group</td>
</tr>
<tr>
<td>IFC</td>
<td>International Finance Corporation</td>
</tr>
<tr>
<td>ISIC</td>
<td>International Standard Industrial Classification</td>
</tr>
<tr>
<td>MADR</td>
<td>Ministry of Agriculture and Rural Development</td>
</tr>
<tr>
<td>MADS</td>
<td>Ministry of Environment and Sustainable Development</td>
</tr>
<tr>
<td>MDBs</td>
<td>Multilateral development banks</td>
</tr>
<tr>
<td>MHCN</td>
<td>Ministry of Finance and Public Credit</td>
</tr>
<tr>
<td>MRV</td>
<td>Colombian Measurement, Reporting and Verification System of Climate Finance</td>
</tr>
<tr>
<td>NACE</td>
<td>Statistical Classification of Economic Activities in the European Community</td>
</tr>
<tr>
<td>NDC</td>
<td>Nationally determined contribution</td>
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<tr>
<td>NFRD</td>
<td>Non-financial Reporting Directive</td>
</tr>
<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
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<tr>
<td>OpEx</td>
<td>Operating expenses</td>
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<td>PSF</td>
<td>Platform on Sustainable Finance</td>
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<td>SFC</td>
<td>Financial Superintendency of Colombia</td>
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<tr>
<td>SFDR</td>
<td>Sustainable Finance Disclosure Regulation</td>
</tr>
<tr>
<td>TEG</td>
<td>Technical Expert Group</td>
</tr>
<tr>
<td>UNGPs</td>
<td>UN Guiding Principles on Business and Human Rights</td>
</tr>
<tr>
<td>USD</td>
<td>US dollars</td>
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</table>
Appendix II – Overlap between EU and Colombia taxonomy

Note: All of Colombia’s activities for the transportation, energy, construction and manufacturing sectors are covered by the EU taxonomy but the EU includes additional activities that are not covered by the Colombian taxonomy. For the forestry sector, the Colombian taxonomy includes more activities than the EU taxonomy.