Taxonomies in Action: The ASEAN Taxonomy for Sustainable Finance

The Rise of Taxonomies

In orienting capital toward sustainability and sustainable economic activities, including climate action, the important question of where financing should be directed and what would qualify for financing and investment to meet the sustainability agenda has arisen.[13] Taxonomies, which can be described in simple terms as comprehensive classification systems, can provide a common language in identifying sustainable activities. This common language works in the same way we order coffee around the world. Because there is a common language around coffee, a cappuccino has steamed milk and foam, and not whipped cream, whether it is in Thailand or in Ecuador. The common language from a taxonomy is critical in

- providing a consistent language and reference for different stakeholders;
- helping businesses and project owners understand what they need to do to be eligible for sustainable financing;
- supporting risk management and strategic decision-making; and
- converting undertakings and pledges, such as the Paris Agreement or national pledges, into tangible action including through guiding government policy and market action.

A taxonomy's approach and assessment criteria need to be contextualized to address national circumstances, including different starting points, economic and social circumstances, and resources. This has resulted in the proliferation of taxonomies, which necessitates embedding interoperability into their design. There are currently more than 50 official taxonomies (national and regional) that have been developed or are in development, not including private sector guidance. The European Union (EU) Taxonomy for sustainable activities is an official taxonomy that applies to the EU, the Association of Southeast Asian Nations Taxonomy for Sustainable Finance (ASEAN Taxonomy) represents a common language for a region, and the Climate Bonds Initiative Taxonomy is an example of a proprietary or market taxonomy. Japan does not have a taxonomy but instead uses sector roadmaps that provide direction for a transition toward achieving carbon neutrality by 2050 for greenhouse-gas-intensive industries. The Korean Green Taxonomy was issued in 2021 as a voluntary taxonomy, while the China Green Bond Endorsed Projects Catalogue, also issued in 2021, is mandatory.

Sustainable finance taxonomies can cover different elements of sustainability including sustainable activities (sustainability), the environment (green), and social aspects (social). As such, while a taxonomy can be classified based on its predominant element, it should not be "boxed in" as only containing that element.

Some taxonomies are based on the performance outcomes of economic activities (e.g., ASEAN, the EU, the Republic of Korea, the Philippines), while others prescribe what is eligible for investments (e.g., Bangladesh, the People's Republic of China, Kazakhstan, and Mongolia). The former are referred to as technical screening criteria (TSC)-based or principles-based taxonomies, while the latter are known as whitelist taxonomies. The "traffic light" approach is a common example of a multi-classification approach using the common categories of green (meets ambition or criteria), amber (transitioning), and red (ineligible). Multiple classifications are helpful in providing an avenue to incorporate transition into taxonomies.

Taxonomies and Transition

It is unrealistic to decarbonize immediately as there are hard-to-abate sectors, economic activities with no technologically or economically feasible low-carbon alternatives, infrastructure bottlenecks, and the risk of

---

[13] This write-up was prepared by Eugene Wong (chief executive officer) of Sustainable Finance Institute Asia.

economic and social dislocations for economies that are not sufficiently resourced or ready. As such, transition is necessary. Transitions are increasingly being recognized as key to driving the sustainability agenda, and there is a need to consider how to incorporate transition into taxonomies. Incorporating transitions often results in a "traffic light" system where a specific amber classification is applied.

All taxonomies in the ASEAN region incorporate specific transition categories, making them transition taxonomies. The ASEAN Taxonomy for example, explicitly recognizes transition by

- using a multi-tiered approach for its TSC that includes a green tier reflecting the taxonomy's climate ambition that is, wherever possible, benchmarked to the EU Taxonomy, together with two tiers carrying amber classifications that provide a progressive pathway to transition toward green; and
- including the concept of "remedial measures to transition" to provide real economy participants with the opportunity to progress on a pathway to green while being allowed a specified timeframe to incorporate remediation measures to mitigate the harm caused to an environmental objective in the pursuit of another.

When incorporating transition into taxonomies, it is important to ensure that safeguards are incorporated to avoid investments being directed toward the development or improvement of high-emitting assets, or scenarios where the desired investments are made only at the tail end of the transition period.

The Association of Southeast Asian Nations Taxonomy

The ASEAN Finance Ministers and Central Bank Governors' Meeting endorsed the establishment of the ASEAN Taxonomy Board to develop, maintain, and promote a multi-tiered taxonomy that considers ASEAN's needs, as well as international aspirations and goals. The ASEAN Taxonomy is to serve as the overarching guide for all ASEAN Member States (AMS), complementing their respective national sustainability initiatives and serving as ASEAN's common language for sustainable finance. The ASEAN Taxonomy was envisaged from the outset to be multi-tiered for inclusivity and to be beneficial to all AMS. It is also intended to facilitate an orderly and effective transition toward a sustainable ASEAN.
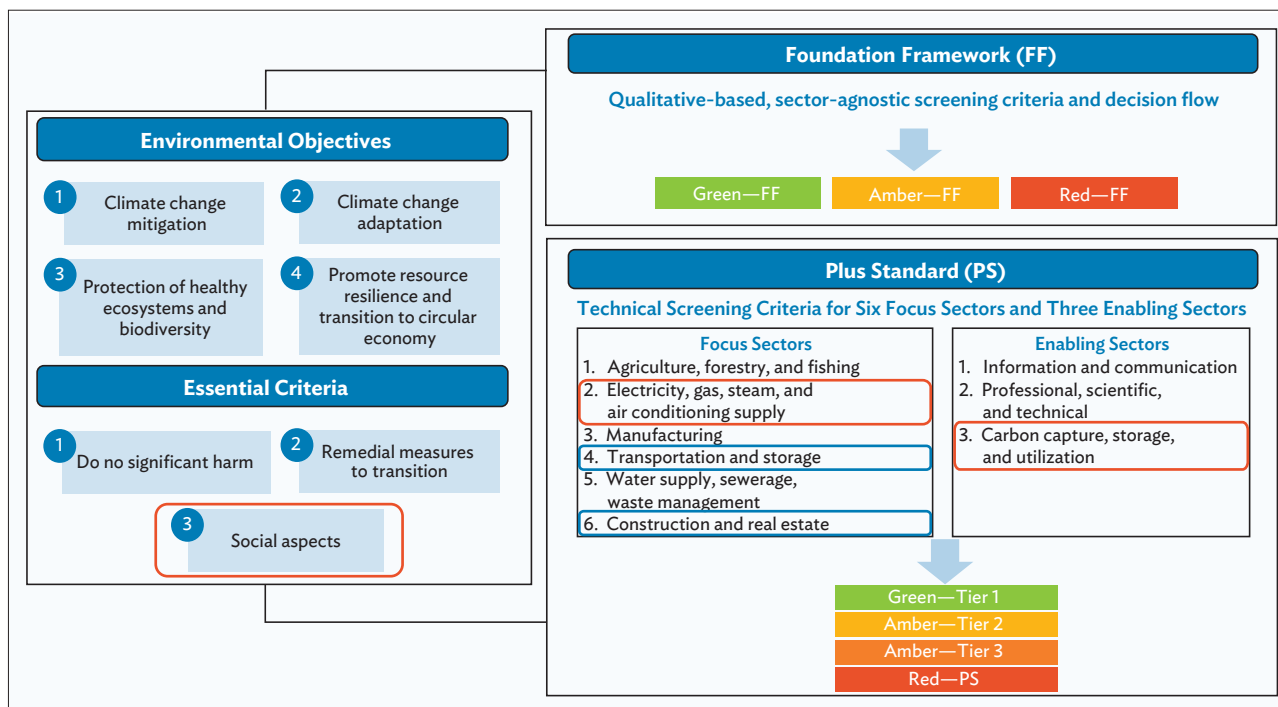
The ASEAN Taxonomy is multi-tiered in two ways, which is a hallmark of the taxonomy. The first is that the ASEAN Taxonomy has a principles-based framework known as the Foundation Framework, as well as a TSC-based frame called the Plus Standard. This optionality ensures that every AMS can start classifying economic activities and projects based on their own state of readiness using either of the frames. The second is that each economic activity under the Plus Standard can have up to three performance thresholds, allowing users to start with a tier that is practical for them. This is different from taxonomies that only have one threshold, resulting in an activity being either aligned or not aligned with the relevant taxonomy. Emerging and developing economies can consider using a principles-based taxonomy as a first step toward the eventual adoption of a TSC-based taxonomy as well as the use of multiple tiers for TSCs.

The ASEAN Taxonomy Board identified six economic sectors that contribute to 85% of the greenhouse gas emissions in the ASEAN region. These six sectors, together with three enabling sectors that support the achievement of the ASEAN Taxonomy's four environmental objectives, are covered by the Plus Standard. The ASEAN Taxonomy is currently in its third iteration. The structure of the ASEAN Taxonomy Version 3 is summarized in **Figure 25**.

The ASEAN Taxonomy has four environmental objectives and three essential criteria. To be aligned to the ASEAN Taxonomy, an economic activity should contribute primarily to an environmental objective and meet all three essential criteria. An economic activity can be assessed using either the principles-based Foundation Framework or the TSC-based Plus Standard, depending on which frame has been adopted for that economic activity by the AMS.

The ASEAN Taxonomy Version 3 was issued in March 2024 and currently has TSCs for the electricity, gas, steam, and air conditioning supply (energy); construction and real estate; and transportation and storage focus sectors; as well as a TSC for the carbon capture, utilization, and storage enabling sector. A TSC for coal phase-out was introduced under the energy focus sector, making the ASEAN Taxonomy the first to have a TSC for coal phase-out.

Figure 25: Overview of the Association of Southeast Asian Nations Taxonomy

Environmental Objectives

1. Climate change mitigation
2. Climate change adaptation
3. Protection of healthy ecosystems and biodiversity
4. Promote resource resilience and transition to circular economy

Essential Criteria

1. Do no significant harm
2. Remedial measures to transition
3. Social aspects

Foundation Framework (FF)

Qualitative-based, sector-agnostic screening criteria and decision flow

Green—FF   Amber—FF   Red—FF

Plus Standard (PS)

Technical Screening Criteria for Six Focus Sectors and Three Enabling Sectors

Focus Sectors
1. Agriculture, forestry, and fishing
2. Electricity, gas, steam, and air conditioning supply
3. Manufacturing
4. Transportation and storage
5. Water supply, sewerage, waste management
6. Construction and real estate

Enabling Sectors
1. Information and communication
2. Professional, scientific, and technical
3. Carbon capture, storage, and utilization

Green—Tier 1
Amber—Tier 2
Amber—Tier 3
Red—PS

Technical screening criteria (TSC) were added in Version 3.

In Version 2, social aspects were added as an essential criteria and TSC for energy and carbon capture, storage, and utilization released.

Source: Association of Southeast Asian Nations (ASEAN) Taxonomy Board. 2024. *Appendix A: Annex 1 of the ASEAN Taxonomy Version 3*. Jakarta.

The activities under the energy, construction and real estate, and transportation and storage focus sectors are depicted in **Figures 26**, **27**, and **28**, respectively.

The tiered TSC is a distinguishing feature of the ASEAN Taxonomy, and an example of how it is applied is provided in **Table 4**.

Future revisions of the ASEAN Taxonomy will include the remaining three focus sectors and two enabling sectors.

While national taxonomies address national interests and priorities, they should be designed and developed to be as interoperable as possible with globally referenced taxonomies, with variances clearly identified and justified to aid interoperability. The compatibility of the ASEAN Taxonomy and the EU Taxonomy is summarized in **Table 5**.

Several AMS have issued taxonomies, including Bank Negara Malaysia's Climate Change and Principle-based Taxonomy (2021); Securities Commission Malaysia's Principles-Based Sustainable and Responsible Investment Taxonomy (2022); Thailand's Taxonomy Phase 1 (2023); the Singapore–Asia Taxonomy for Sustainable Finance (2023); the Indonesia Taxonomy for Sustainable Finance (2024), which supersedes the Indonesia Green Taxonomy (2022); and the Philippine Sustainable Finance Taxonomy Guidelines (2024). All of these taxonomies are aligned to the ASEAN Taxonomy.

Taxonomies have a very important role to play. Governments and markets must collaborate to ensure that they support, rather than fragment, the sustainability agenda. Eventually, taxonomy equivalence, not just interoperability, will be needed for effective and efficient capital orientation.

Figure 26: Technical Screening Criteria Coverage for Energy Activities

Electricity, gas, steam, and air conditioning supply	13 activities, including • Electricity generation through various means (e.g., solar energy, renewable non-fossil gaseous and liquid fuels, bioenergy, hydropower) • Transmission and distribution (T&D) of electricity • Storage of electricity, including pumped storage • Coal power phase-out
Transmission and distribution networks for renewable and low-carbon gases, including storage of renewable and low-carbon gases	• Transmission and distribution networks for renewable and low-carbon gases • Storage of renewable and low-carbon gases
Production of heating and cooling through various means, including storage of thermal energy	8 activities, including • Production of heating and cooling from various means (e.g., solar thermal energy, renewable non-fossil gaseous and liquid fuels, fossil gas) • Production of heating and cooling using electric heat pump • Production of heating and cooling using waste heat • District heating and cooling distribution • Storage of thermal energy

Source: Author's illustration.

Figure 27: Technical Screening Criteria Coverage for Construction and Real Estate Activities

Buildings	• Acquisition and ownership of buildings • Construction of new buildings • Renovation of existing buildings
Ancillary Activities	• Demolition and site preparation
Technology and Equipment	Installation, maintenance, and repair of • EV charging stations • Energy efficient equipment • Devices for measuring, regulating, and controlling energy performance • Renewable energy technologies • Early warning systems

EV = electric vehicle.
Source: Author's illustration.