



## In Focus: Unlocking ASEAN Taxonomy for Sustainable Finance Version 2



Green Taxonomy is an economic activity classification that supports environmental protection and management efforts, as well as mitigation and adaptation to climate change. Green Taxonomy plays an important role in driving investments to accelerate the transition towards the green economy. Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam have started the journey in developing their national taxonomy to enable a just transition towards sustainable economy. In addition, the ASEAN Finance Ministers and Central Bank Governors Meeting (AFMGM) recognises that a common understanding of what is sustainable in ASEAN and a credible regional sustainable finance taxonomy, which is interoperable with other regional and international taxonomies, is essential to attract and orient capital toward sustainable investments.

Against this background, the ASEAN Taxonomy Board (ATB), which represents ASEAN finance sectoral bodies, launched the ASEAN Taxonomy for Sustainable Finance Version 1 in November 2021 and Version 2 on 28 March 2023. The ASEAN Taxonomy provides an overarching guide and acts as a common building block to enable an orderly just transition and foster sustainable finance adoption by AMS. The taxonomy is expected to be utilised by diverse users, including businesses, investors, governments, financial institutions, asset managers, and rating agencies.

### **About the Bulletin**

ASEAN for Business is a bulletin published by the Enterprise and Stakeholder Engagement Division of the ASEAN Secretariat.

This monthly bulletin provides quick updates on specific topics related to the ASEAN Economic Community (AEC) for businesses operating in the region.

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**ASEAN Taxonomy for Sustainable Finance Version 2**

The ASEAN Taxonomy for Sustainable Finance Version 2, expands the frameworks laid by Version 1, provides a complete foundation framework to assess activities, and considers social aspects as part of its Essential Criteria in its assessment. The Version 2 is also the global first for regional taxonomy that recognises financing for energy transition and include efforts to decommission coal-fired power plants.

**ASEAN Taxonomy Concept and Elements**

The ASEAN Taxonomy was created to achieve four **Environmental Objectives** (EOs), namely: (EO1) Climate Change Mitigation; (EO2) Climate Change Adaptation; (EO3) Protection of Healthy Ecosystems and Biodiversity; and (EO4) Resource Resilience and the Transition to a Circular Economy. Any activity must demonstrate its contribution to one of the EOs to be classified under ASEAN Taxonomy. Specifically for activities intended to contribute to EO4, activities should also be aligned with priorities, goals, and principles in the Framework for Circular Economy for the ASEAN Economic Community.

Additionally, any activity must also fulfil the minimum requirements of three **Essential Criteria** (EC), which are: (EC1) Do No Significant Harm to any other EO; (EC2) Remedial Measures to Transition to ensure that any actual or potential significant harm is removed or rendered insignificant; and (EC3) Social Aspects such as social conditions which could potentially be harmed by an Activity. The three key Social Aspects under the taxonomy are (1) Promotion and Protection of Human Rights, (2) Prevention of Forced Labour and Protection of Children’s Rights, and (3) Impact on People living close to investments.

**Assessment Approaches**

ASEAN Taxonomy allows users to choose between two approaches below to assess activities:

- i. **Foundation Framework (FF)** uses a principle-based qualitative assessment of Activities, assisted by guiding questions, provided in the taxonomy.
- ii. **Plus Standard (PS)** uses quantitative, qualitative, and nature of activity method

guided by Technical Screening Criteria (TSC). The assessment will classify Activities into three Tiers, which represent the green policies of different AMS and consider the current state of technology and development across ASEAN.

The ASEAN Taxonomy version 2 provides TSC for electricity, gas, steam, and air conditioning supply sector as set out in the Annex I of the taxonomy. Nonetheless, Annex I is not exhaustive and the TSC will be expanded with new Activities over time.

**Classification System**

The FF and PS use three color-coded classification systems, and the different colors represent different levels of contribution to an EO by an activity as follow:

<b>Green</b>	Activity is making a substantial contribution to the EO.
<b>Amber</b>	Activity represents a progressive movement on the path to a more sustainable ASEAN. For Activity assessed using PS, it can be further classified to lower transitional Tiers (2 or 3) for some period to encourage continued progression toward a more sustainable practice. Activity which causes or may cause significant harm but has a realistic plan to remediate the potential harm will also be classified in Amber code.
<b>Red</b>	Activity is not aligned to any of the EOs or causing significant harm to any of the EOs.

**Benefit for Business**

The Taxonomy, among others, will:

- Provide investors a more reliable means of measuring the sustainability of their investment within the region and prevent green-washing investment.
- Shifting investments to more sustainable activities and renewable energy, as the current inclusion of coal in the red category makes it challenging for businesses to seek financing.
- Enable fair and wide-spread access for business of all sizes in assessing their business activities. The use of qualitative data in FF enables companies or MSMEs, which are in their early journey to sustainability, to also benefit from the taxonomy.



# ASEAN Taxonomy for Sustainable Finance

## VERSION 2

ASEAN Taxonomy Board (ATB) released the ASEAN Taxonomy for Sustainable Finance Version 2 on 27 March 2023. The Taxonomy Version 2 is built on the framework laid by the version 1, equips AMS with use cases, decision tree, and more detailed guidance, and considers social aspects in its assessment.

### OBJECTIVES AND CRITERIAS

Any activity must demonstrate its contribution to one of the following Environmental Objectives (EOs) and must fulfill the following three Essential Criteria (ECs) to be classified under ASEAN Taxonomy:



#### ENVIRONMENTAL OBJECTIVES

1. Climate Change Mitigation
2. Climate Change Adaptation
3. Protection of Healthy Ecosystems and Biodiversity
4. Resource Resilience and the Transition to a Circular Economy



#### ESSENTIAL CRITERIAS

1. Do No Significant Harm
2. Remedial Measures to Transition
3. Social Aspects:
  - Promotion and Protection of Human Rights
  - Prevention of Forced Labour and Protection of Children's Rights
  - Impact on People living close to investments

### ASSESSMENT APPROACHES

ASEAN Taxonomy allows users to choose between one of following two approaches to assess Activities:



#### FOUNDATION FRAMEWORK

Principle-based qualitative assessment of Activities, assisted by guiding questions, provided in the taxonomy.

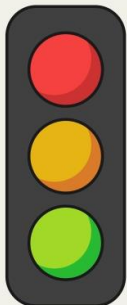


#### PLUS STANDARD

Combination of quantitative, qualitative, and nature of activity assessment method guided by Technical Screening Criteria (TSC).

### CLASSIFICATION

Foundational Framework and Plus Standard use traffic light color-coded classification systems and different color represent different levels of contribution to an EO by an activity



Red signifies activity is not aligned to any of the EOs or causing significant harm to any of the EOs.

Amber marks activity has a progressive movement on the path to a more sustainable ASEAN.

Green means activity is making a substantial contribution to the EO.



By: **Wong Hsu-sheng**, the Chief Operations Officer of GolImpact Capital Partners, a Sustainability and ESG education services company, and a Senior Fellow (Sustainability) at the Singapore Institute of International Affairs.

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Market participants have been calling for years for globally standardised technical screening criteria for sustainable finance. It is a fundamental requirement as it serves as a common reference point for the proper identification of environmentally friendly economic activities, to reduce greenwashing and facilitate cross-border investments. This need for a standardised criteria may have been met in ASEAN with the release of Version 2 of the ASEAN Taxonomy on 27 March 2023. Version 2 builds on Version 1 that was released without much fanfare on the wings of the 26<sup>th</sup> United Nations Climate Change Conference of Parties in November 2021, and is an impressive attempt by ASEAN to match the EU Taxonomy that is currently leading global taxonomy efforts.

### **Changes to the Essential Criteria**

Where Version 1 of the ASEAN Taxonomy was silent on human rights, Version 2 now includes these by incorporating Social Aspects as a third Essential Criteria alongside those of “Do No Significant Harm” and “Remedial Measures to Transition”. This is an important change that brings the ASEAN Taxonomy into closer alignment with the EU Taxonomy. This convergence between two important economic regions is a significant step towards achieving a global taxonomy for sustainable finance.

At first glance, the introduction of Social Aspects may sit uneasily in the ASEAN region, particularly where there are differences over the application of human rights and labour laws. However, the ASEAN Taxonomy attempts to overcome this by requiring Social Aspects to be assessed on a company level, based on the country of incorporation. In other words, if the company is already in full compliance with the human rights and labour laws of the country that it is incorporated in, it should be able to meet the Social Aspects Essential Criteria requirements without much difficulty. There is an additional

requirement that the company should conduct a relevant impact assessment on the people living close to its investments and strengthen its community engagement activities – but this is already embedded in the local regulations and laws of many ASEAN regimes.

One ongoing concern is the requirement that the assessments of “Do No Significant Harm” and “Remedial Measures to Transition” should be based on the location of the activity. The location of the activity itself is defined to be where resources are combined to produce specific goods or services. However, the environmental circumstances at the point of resource extraction, as well as at the end of the life cycle of the product or service, may be vastly different from the point at which the resources are combined to produce that good or service. By focusing the activity on the place of production, companies may end up ignoring certain environmental issues that exist at the beginning and the end of the product or service’s life cycle. A proper consideration of the activity’s full role in the Circular Economy may not take place.

### **Expanding the Foundation Framework and the Plus Standard**

The ASEAN Taxonomy allows users to choose between the Foundation Framework or the Plus Standard for each activity. The Foundation Framework allows a qualitative assessment of activities on their contributions to transition, using a single sector agnostic decision tree to assess and classify activities into different categories. The principles-based Foundation Framework has been expanded in Version 2 by providing easy-to-use guiding questions, decision trees and use cases that address all Environmental Objectives and Essential Criteria, thereby allowing any ASEAN Member State (“AMS”) to apply the framework and immediately commence its sustainability journey in a consistent and structured manner.

The Plus Standard adopts a more advanced assessment and methodology that is based on specific Technical Screening Criteria and science-based thresholds in classifying activities. Version 2 sets out for the first time the Technical Screening Criteria for the first focus sector, namely, Electricity, Gas, Steam and Air Conditioning Supply. Technical Screening Criteria for

other focus sectors will be published in subsequent versions of the ASEAN Taxonomy.

Crucially, each AMS can decide which activity falls under the Foundation Framework or Plus Standard assessment methodologies, and which Tiers are to be used for classification. But this begs the question: why should one comply with the higher standard? The Plus Standard process flow actually recommends that the company itself voluntary favour the Plus Standard before it is implemented – but it is unclear why a company would want to do this as it would require more onerous reporting requirements and greater resources. Committing an activity to the Plus Standard also requires an AMS to commit to certain targets, set up a Technical Screening Criteria review body and aim to “sunset” Amber Tiers, with certain deadlines that will be monitored. All of this will require resources and time, which some States can ill-afford given political and economic realities on the ground. For those pollutive activities that are also central to the economic policies of an AMS, the adoption of the Plus Standard and its rigorous monitoring and reporting requirements might actually be seen as a disincentive. From an investor standpoint, it also results in added complexity as it may result in the same activity having essentially different frameworks across the same region.

## **Conclusion**

As a regional standard that brings similar parameters and requirements to those seen in the EU Taxonomy, a successful rollout of the ASEAN Taxonomy will do much to counter allegations of rampant greenwashing and raise local sustainability standards to match those of their regional peers. Doing so will also help boost much-needed foreign investment and financing inflows to drive the growth of sustainable development. But more work needs to be done. More Technical Screening Criteria needs to be drafted and it is still uncertain what incentives exist to encourage companies and governments to adopt the Plus Standard. However, it is imperative that all of ASEAN comes together to at least implement the Foundation Framework in order to better defend against the existential threat that is looming. If all of ASEAN were to only adopt the Foundation Framework, we would see significant positive changes for sustainable finance in the region.

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### **Wong Hsu-sheng**

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# ASEAN Finance Ministers and Central Governors Meeting

Ministry of Finance and Bank Indonesia hosted ASEAN Finance Ministers and Central Bank Governors Meeting (AFMGM) on 31 March 2023 in Nusa Dua, Bali, Indonesia. The meeting reiterated their joint commitment to maintaining financial stability and advancing financial integration against an uncertain economic outlook that could impact economic growth momentum in the ASEAN region.

## PRIORITY ECONOMIC DELIVERABLES

The Meeting underlined the importance of strong collaboration and cooperation which reflected in Indonesia Priority Economic Deliverables (PED). The particular focus under Ministry of Finance are within the following PED:



HEALTH PREPAREDNESS



CUSTOMS COOPERATION



INFRASTRUCTURE FINANCE



DIGITAL FINANCIAL INCLUSION FOR MSME



INTERNATIONAL TAXATION



SUSTAINABLE FINANCE

## PRIORITIES

The meeting noted three following priorities related to Central Bank Agenda to address challenges in ASEAN: :

1

STRENGTHENING  
MACROECONOMIC POLICY  
MIX

2

RAPIDLY EXPAND REGIONAL  
PAYMENT CONNECTIVITY  
(RPC) AMONG AMS

3

REINFORCE FINANCIAL  
RESILIENCE.

## HIGHLIGHT REMARKS

*"We believe ASEAN must aim to be a region with robust, inclusive, and sustainable economic growth. Economic growth has and will always be the story of ASEAN. To ensure that this will be continuous, we must strengthen ASEAN capacity to respond to the previous challenges, but most importantly the current and new challenges that we are all seeing today and the expected challenges in the next twenty years,"*



Sri Mulyani Indrawati  
Co-Chair of ASEAN Finance Minister and Central Bank Governors Meeting  
Minister of Finance of Indonesia

## Upcoming Events

22<sup>nd</sup> ASEAN Economic Community Council Meeting for the 42<sup>nd</sup> ASEAN Summit

Jakarta, Indonesia  
**7**  
May 2023

42<sup>nd</sup> ASEAN Summit

Labuan Bajo, Indonesia  
**9-11**  
May 2023

15<sup>th</sup> Meeting of the ASEAN Coordinating Committee on Micro, Small and Medium Enterprises (ACCMSME) and Related Meetings

Bangkok, Thailand  
**22-26**  
May 2023

Senior Economic Officials' Meeting (SEOM) 2/54 with ASEAN-Dialogue Partners Consultations

Jakarta, Indonesia  
**22-26**  
May 2023



## MARKET INTELLIGENCE TRAINING: BUILDING YOUR INHOUSE MARKET INTELLIGENCE REPORT USING TRADEMAP

Tuesday, 30 May 2023  
14.00 - 15.00 (GMT+7)  
Virtual

Scan to Register

