
PROPOSED PHILIPPINE SUSTAINABLE FINANCE TAXONOMY GUIDELINES

Consultation Document

The Financial Sector Forum¹ requests comments on the attached proposed Philippine Sustainable Finance Taxonomy Guidelines² (SFTG). The SFTG is part of the commitment of the financial sector supervisors under the Philippine Sustainable Finance Roadmap that was released by the Inter-agency Technical Working Group on Sustainable Finance (called the 'Green Force') in October 2021.

The proposed Philippine SFTG will serve as a tool to classify whether an economic activity is environmentally or socially sustainable. This also serves as a guide for different stakeholders in making informed investment or financing decisions.

The Philippine SFTG largely drew from the country's Nationally Determined Contributions (NDCs)³, Philippine Development Plan 2023-2028,⁴ and the ASEAN Taxonomy for Sustainable Finance⁵. The SFTG initially focuses on climate change mitigation and adaptation. Biodiversity, circular economy, and social objectives will be considered in future iterations.

In this regard, the FSF requests all interested parties to comment on the document and provide specific inputs to the consultation questions. To further refine the proposed taxonomy, in-person stakeholder consultations will take place in September and October 2023.

We highly appreciate receiving your comments or feedback on or before 6 October 2023 by sending them to fsfsecretariat@bsp.gov.ph, cc: sustainablefinance@bsp.gov.ph, oclee@sec.gov.ph, ICESFTaxonomyESG@insurance.gov.ph with the subject: COMMENTS - PHILIPPINE SUSTAINABLE FINANCE TAXONOMY GUIDELINES.

¹ The FSF is a voluntary interagency body comprised of the Bangko Sentral ng Pilipinas (BSP), Securities and Exchange Commission (SEC), Insurance Commission (IC), and the Philippine Deposit Insurance Corporation (PDIC) aimed at (i) facilitating consultations and exchange of information among its members on matters relating to the supervision and regulation of financial institutions, and (ii) coordinating the regulatory and supervisory policies and efforts of the member agencies.

² The World Bank provides technical support in this inter-agency initiative.

³ <https://unfccc.int/sites/default/files/NDC/2022-06/Philippines%20-%20NDC.pdf>

⁴ <https://pdp.neda.gov.ph/philippine-development-plan-2023-2028/>

⁵ Version 1 - <https://asean.org/wp-content/uploads/2021/11/ASEAN-Taxonomy.pdf>; Version 2 - <https://www.theacmf.org/images/downloads/pdf/ASEAN-Taxonomy-Version-2.pdf>

**THE PHILIPPINE SUSTAINABLE FINANCE
TAXONOMY GUIDELINES
CONSULTATION PAPER**

Executive Summary

The Philippines lies in the Circum-Pacific Belt (the “Ring of Fire”) and in the world’s most cyclone-prone region. It has high exposure to natural hazards (typhoons, landslides, floods, droughts, earthquakes, volcanic eruptions), strong dependence on a climate-sensitive agricultural sector, and vast coastlines where all major cities and most of the population reside. The disruptive effects of climate-related disasters have the potential to adversely affect production and the economy more broadly. The increasing adverse impacts of climate change in the Philippines could potentially be a potent threat to the stability of the financial sector. Yet the Philippines has made considerable progress towards realizing its vision of becoming an upper middle-income country by 2040. With strong GDP growth and significantly reduce poverty levels, however, greenhouse gas (GHG) emissions have also grown.

The Philippines has set out key policy responses to deal with the effects of climate change and has conditionally committed to a 75% reduction in GHG emissions by 2030. The scale of financing needed to meet the Philippines’ climate goals is colossal, with an estimated USD 168 billion in green investment opportunities between 2020 and 2030. Climate investments between 2017 and 2021 account for only 1% of total cross border investment, substantially below its regional peers. Whilst seeking greater access to external alternative sources is important, it is also a strategic imperative to expand Philippines’ domestic financial sector’s capacity to support and accelerate the Low Carbon and Climate Resilient (LCCR) transition, which will require multiple sources of finance.

To address the various climate related challenges and financial risks and opportunities facing the Philippines, the financial sector regulatory authorities, the Bangko Sentral ng Pilipinas (‘BSP’), the Insurance Commission (‘IC’) and the Securities and Exchange Commission (‘SEC’), under the auspices of the Financial Sector Forum (FSF) is setting up an extensive engagement on greening the financial sector in the Philippines. The overall objective of the program is to advance the financial sector’s understanding and management of climate-related risks, while also growing sustainable finance opportunities. A key component focuses on supporting efforts to develop a sustainable finance taxonomy for the financial sector with a view to mobilizing and scale sustainable finance and would be significantly informed by the Philippine’s Sustainable Finance Roadmap and Sustainable Finance Guiding Principles.

A sustainable finance taxonomy is a tool to classify whether an economic activity is environmentally or socially sustainable. It serves as a guide for a variety of users, including companies, investors, financial institutions, regulators and consumers, to help them make an informed decision to originate, invest, finance, purchase or monitor an asset, product, project, activity, company or portfolio. In turn, with appropriate supporting policies and incentives, financial flows can be increased and redirected towards environmentally and socially sustainable objectives. A taxonomy can also reduce the risk of ‘greenwashing’.

This Consultation Paper assesses and makes recommendations on the Philippines Sustainable Finance Taxonomy Guidelines (SFTG) design, drawing from the experience of other countries and regions, and outlines the proposed scope, objectives, and operation of

the SFTG for the Philippines financial sector. The SFTG assesses and applies key design principles of interoperability, prioritization, credibility, usability, good governance, dynamism and inclusivity. It considers the G20 Sustainable Finance Working Group Voluntary Principles for Developing Alignment Approaches, including ensuring an activity makes a material positive contribution to an objective of the SFTG, avoids harming other sustainability objectives, is science-based where possible, and takes into account transition considerations, including that the transition be 'just'.

It has extensively drawn on version 2.0 of the ASEAN Taxonomy's Foundation Framework, adopting as a first phase a 'principles-based' approach to determining whether an activity aligns with the SFTG. It also draws on a range of national and regional taxonomy projects. Initially, the SFTG will focus on the objectives of **climate change mitigation and climate change adaptation**, with a view to adding biodiversity and circular economy, as well as potential social objectives in future iterations. Other environmental and social considerations are proposed to be considered through additional screening based on the 'do no significant harm' principle, and minimum social safeguards appropriate to the Philippines context.

It is also proposed that certain 'prohibited' activities be excluded from alignment with the SFTG.

A traffic light approach has also been proposed to reflect an 'Amber' or transition category. Two options have been presented regarding what qualifies as 'Amber' in this first phase of the taxonomy. Guidance will be sought from stakeholders regarding a preferred approach.

A set of guiding questions and decision trees have been included to support users of the taxonomy as they undertake a screen of their activities' compliance with the SFTG, with further user guidance to be released with a final version.

Particular focus has been given to the significant role of MSME's in the Philippines economy, and feedback is sought as to how this segment can benefit from shifting financial flows towards sustainability objectives. Financial inclusion considerations are also critical, ensuring that the impact of a taxonomy can bring along all members of society in its sustainability journey.

Each of the members of the FSF is considering potential regulatory instruments and guidance to 'activate' the potential of the taxonomy to increase and shift financial flows.

Table of Contents

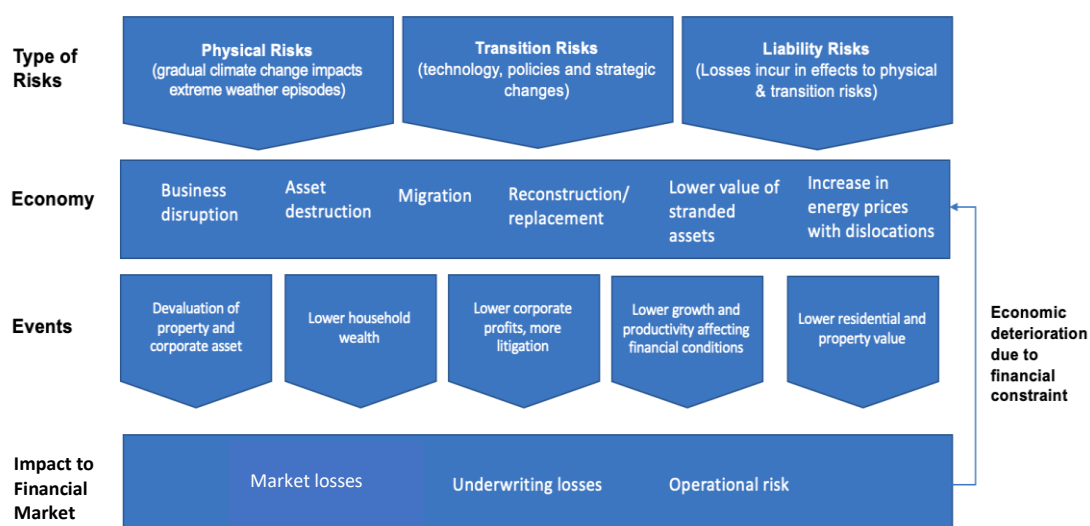
Executive Summary	2
1. Setting the Context for Philippines' Sustainable Finance	5
2. What is a Sustainable Finance Taxonomy?.....	10
2.1 Definition and key features	10
2.2 What are the primary drivers of adopting a taxonomy?.....	12
2.3 How can a taxonomy be used, and by whom?.....	13
2.4 What is already happening: selected international taxonomy developments.	17
2.5 Emerging lessons from international taxonomy developments	20
2.6 Key Design Principles	22
2.7 Specific Design Approaches for Taxonomies.....	25
3. Who are the Potential users of the Philippines Sustainable Finance Taxonomy Guidelines?	27
4. The Philippines Sustainable Finance Taxonomy Development Approach.....	29
4.1 Setting the Environmental Objectives.....	30
5. Identifying Sector Coverage for the Philippines Sustainable Finance Taxonomy	34
5.1 Methods for Identifying Sector Activities.....	34
6. Setting Further Essential Criteria for Alignment with the Taxonomy Guidelines	41
6.1 Do No Significant Harm	41
6.2 Remedial Measures to Transition.....	42
6.3 Minimum Social Safeguards	42
7. How can a User assess their activities under the SFTG for the Philippines?.....	45
7.1 Phases: Principles-based approach evolving into an Activities-based approach..	45
7.2 A 'traffic light' classification system	45
7.3 Proposed assessment process for Activities	49
7.4 Using the Decision Tree and Guiding Questions to Assess an Activity	50
7.5 Optional Steps - Standards, Verification and Certification	61
8. Governance Considerations.....	63
9. Next Steps	64

1. Setting the Context for Philippines' Sustainable Finance

- **The Philippines' Sustainable Finance taxonomy is a key pillar to the nation's shift to a more robust and sustainable economy.** It offers a guide for financial institutions, companies, and investors on how to support the objectives of the country's sustainable development, while simultaneously encouraging moral and ethical behavior. It helps to improve resilience to climate change, protect the nation's natural resources, and promote inclusive and equitable growth for all Filipinos by integrating economic operations with environmental and social issues. The taxonomy is an essential instrument for promoting the country's sustainable finance agenda since it places a strong emphasis on linking economic development with social and environmental goals.
- **The taxonomy's promotion of transparency and accountability in sustainable finance is one of its main goals.** It offers categorizations and criteria for what constitutes sustainable economic activities, assisting in the differentiation between projects or activities that may have positive, neutral and negative effects on the environment and society. The taxonomy provides domestic, international and multilateral financial institutions and investors with a single vocabulary and set of standards that help them allocate funds to sustainable projects that advance the nation's long-term development objectives. The taxonomy includes 'transition' activities, recognizing allocation of funds towards those that are actively transitioning from high carbon emission to more climate resilient alternatives. Additionally, it stimulates market growth and innovation in sustainable finance. It promotes the financing of goods and services that support sustainable development by offering a framework for recognising and assessing the environmental and social effect of financial activities. This includes thematic bonds (such as green and sustainability bonds), green lending, green investment funds and other sustainable financial products that can draw funding for initiatives that have positive social and environmental impacts.
- **The increasing adverse impacts of climate change in the Philippines could potentially be a potent threat to the stability of the financial sector.** Most concerning is the prospects of the sector's high vulnerability to climate-related risks - both physical and transition risks. The country lies in the world's most cyclone-prone region and in the Circum-Pacific Belt (the "Ring of Fire"). It has high exposure to natural hazards (typhoons, landslides, floods, droughts, earthquakes, volcanic eruptions), strong dependence on a climate-sensitive agricultural sector, and vast coastlines where all major cities and most of the population reside. The disruptive effects of climate-related disasters have the potential to adversely affect production and the economy more broadly.
- **Climate-related risks are thus highly material for the financial sector as climate-related natural disaster events can affect and in fact are already affecting – credit, market, operational and underwriter risks, threatening the profitability and solvency of banks**

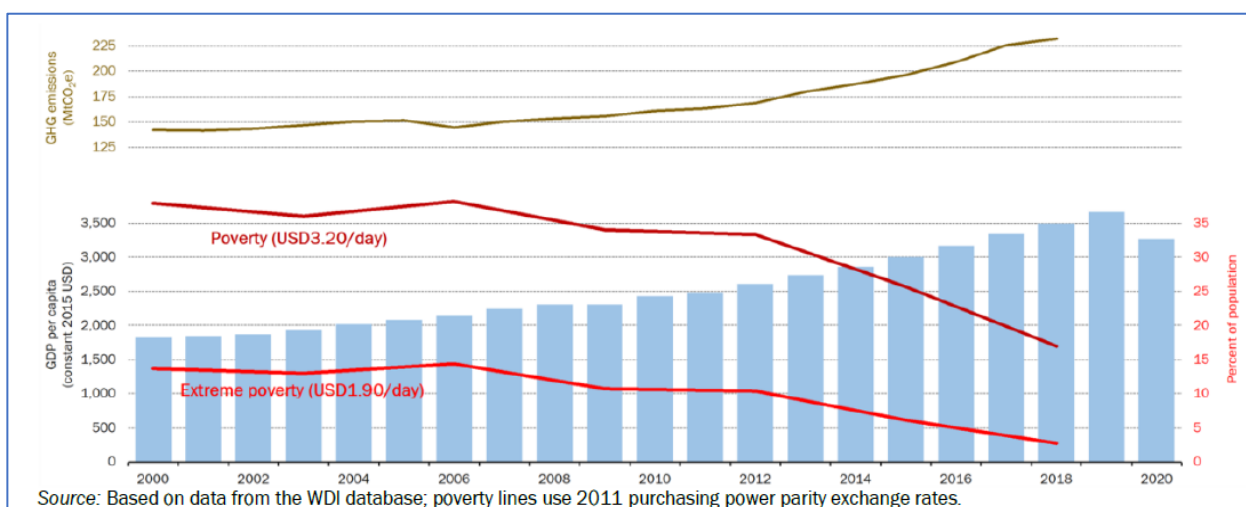
and insurers (Figure 1). In addition, Philippine banks are exposed to shocks as the economy adjusts to a low carbon environment through their holdings in polluting and carbon-intensive industries. For example, the banking sector's loan exposure to power generation is at 10% of the total loan portfolio. Transition risks also affects several other financial institutions, including insurance providers exposed to polluting and carbon-intensive assets, investment businesses that own shares of high carbon emission producers, pension funds or potential sovereign wealth funds investing in high carbon emission properties and assets, as well as reinsurance firms that offers protection against climate-related natural disaster. In the short run, these exposures pose increasing reputational risks, while over the longer run these assets run the risk of becoming stranded and increasingly poses threats to financial stability.

Figure 1 – Climate Risk Dimensions and Impact on Financial Markets



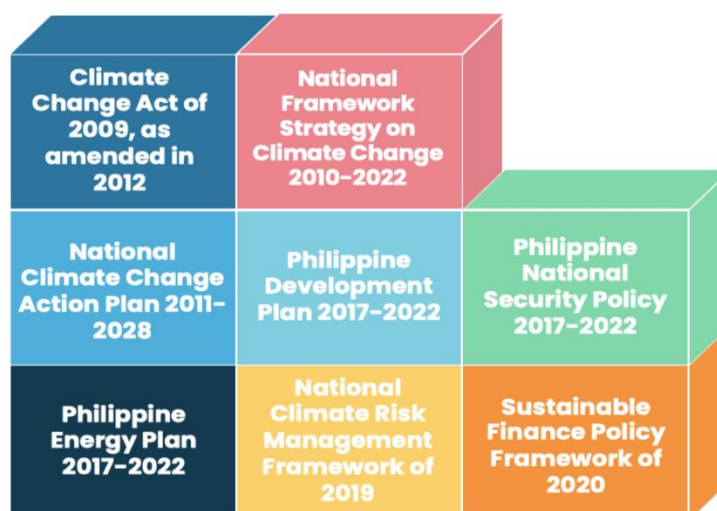
- **In the meantime, the Philippines has made considerable progress towards realizing its vision of becoming an upper-middle-income country by 2040.** High growth and job creation, together with increased public spending on education and health, helped millions of Filipinos lift themselves out of poverty, with poverty falling an average of 1.2 percentage points per year between 2010 and 2019. Although many challenges remain, including high inequality and low human capital development, the Philippines seems to be on an upward path, and is poised to graduate to upper middle-income status and achieve its objective to become a prosperous middle-income country free of poverty by 2040 (AmBisyon Natin 2040). **With the strong GDP growth and significantly reduced poverty levels, however, GHG emissions have also grown** (Figure 2).

Figure 2 – Poverty reduction and GDP growth has occurred alongside GHG emissions growth



- Recognizing climate change as one the biggest global challenges and the efforts required to deal with global warming and its adverse impact, the Government of **the Philippines has set out policy responses in its key national strategic documents** (Figure 3). For example, the Nationally Determined Contributions (NDCs) committed under the COP Paris Agreement consider the Philippine Development Plan (2017-2022), Philippine Energy Plan (2018 – 2040), National Security Policy (2017-2022), National Climate Risk Management Framework (2019) and the Sustainable Finance Framework (2020). The Philippines NDCs outlines its desire to reduce and avoid GHG emissions by 75% (of which 72.29% is conditional) by 2030. The partially conditional NDC target could potentially **open up new strategies and opportunities to improve and scale sustainable finance within the financial sector**.

Figure 3 – NDC Alignment to National Development Plans¹



¹ [Philippine Nationally Determined Contribution \(NDC\)](#)

- **Additionally, in 2016, the Philippines passed the Green Jobs Act to promote sustainable growth**, create decent jobs and build resilience against climate change through incentives to businesses generating green jobs. Equally, the Department of Environment and Natural Resources of the Philippines is pursuing sustainable management and development of the environment by creating green jobs for the blue and green economy².
- Commitments to act are not enough. They must be underpinned by seeking avenues to bridge the financing gaps. **Climate finance calls for the mobilization of funds from public, private, national, and transnational sources to support mitigation and adaptation actions** that will address climate change. Globally, data suggests the estimated global gap for adaptation is large and widening. In developing countries alone, adaptation costs are expected to rise to up to US\$340 billion a year by 2030, and up to US\$565 billion by 2050. The gap for mitigation is even larger, at US\$850 billion per year by 2030³.
- **The scale of financing needed to meet the Philippines' climate goals is colossal and it calls for the financial sector to rapidly expand its capacity** to support financing the low-carbon and climate-resilient (LCCR) transition, above the Government's own fiscal allocation and spending. For example, from 2016 to 2022, PhP1.59 trillion (US\$28.66 billion) has been tagged as climate budget by national government agencies, which represents 5.8% of the total appropriations during the same period, with more than 90% towards building climate resilience to adapt and mitigate the adverse impact from extreme, intense, and frequent weather events. There are an estimated USD 168 billion in green investment opportunities between 2020 and 2030, including USD 39 billion for greening existing and future energy infrastructure, USD 104 billion for climate-smart cities and USD 25 billion for accelerating the green transition in selected sectors. However, the Philippines only attracted USD 0.6 billion in green investment from foreign companies between 2017 and 2021, mostly in renewable energy. Climate investments between 2017 and 2021 account for only 1% of total cross border investment, substantially below its regional peers⁴. Whilst seeking greater access to external alternative sources is important, it is also a strategic imperative to expand Philippines' domestic financial sector's capacity to support and accelerate the LCCR transition, which will require multiple sources of finance, noted in Table 1 below.

² [DENR October 12, 2022](#)

³ [IFAD – Why Climate Change Matters: Your questions answered](#)

⁴ WBG Philippines CCDD 2022 and International Finance Corporation (IFC) 2021. *Ctrl-Alt-Delete: A Green Reboot for Emerging Markets*. Washington: IFC.

	<i>Adaptation</i>	<i>Mitigation</i>
Fiscal	Climate-informed public finance	Environmental tax reforms
Finance	Green finance Disaster risk finance (including insurance)	Concessional finance supporting mitigation measures
Private sector	Technology transfer	

Table 1 – Source: World Bank Group, Philippines Climate Change and Development Report, 2022

- **To address the various climate related challenges and financial risks and opportunities outlined above, the financial sector regulatory authorities such as the Bangko Sentral ng Pilipinas ('BSP'), the Insurance Commission ('IC') and the Securities and Exchange Commission ('SEC') under the auspices of the Financial Sector Forum (FSF) is setting up an extensive engagement on greening the financial sector in the Philippines.** The overall objective of the program is to advance the financial sector's understanding and management of climate-related risks, while also growing sustainable finance opportunities. A key component focuses on supporting the efforts of financial sector regulatory authorities as well as financial sector participants (such as financial institutions, insurance companies, bond issuers, broker-dealers, portfolio managers and investment houses) on developing a sustainable finance taxonomy for the financial sector to mobilize sustainable finance.
- **The Sustainable Finance Taxonomy Guidelines (SFTG) align with the Philippine Sustainable Finance Guiding Principles to advance sustainable finance in the country.** In 2021, the Philippines Sustainable Finance Roadmap⁵ was introduced to give direction to and promote sustainable finance in the Philippines. It intends to give financial institutions, regulators, and other stakeholders a framework for incorporating Environmental, Social and Governance (ESG) factors into their corporate plans and daily operations. In this regard, the Philippines Sustainable Finance Guiding Principles were developed (Table 2) to establish a common understanding at a high-level as to what constitutes a 'sustainable' economic activity. The SFTG takes a step further and outlines a more detailed method of assessing activities.

Table 2 – The Philippine Sustainable Finance Guiding Principles

Guiding Principle 1: Climate Change Mitigation and Adaptation	Guiding Principle 2: Promoting Transition to a Low Carbon Economy	Guiding Principle 3: Resilient Food Systems
Guiding Principle 4: Sustainable Cities	Guiding Principle 5: Sustainable and Resilient Infrastructure for Inclusive Growth and Poverty Reduction	Guiding Principle 6: Environmental Management and Conservation
Guiding Principle 7: Prohibited Activities		

⁵ The Philippine Sustainable Finance Roadmap, <https://www.dof.gov.ph/wp-content/uploads/2021/10/ALCEP-Roadmap.pdf>

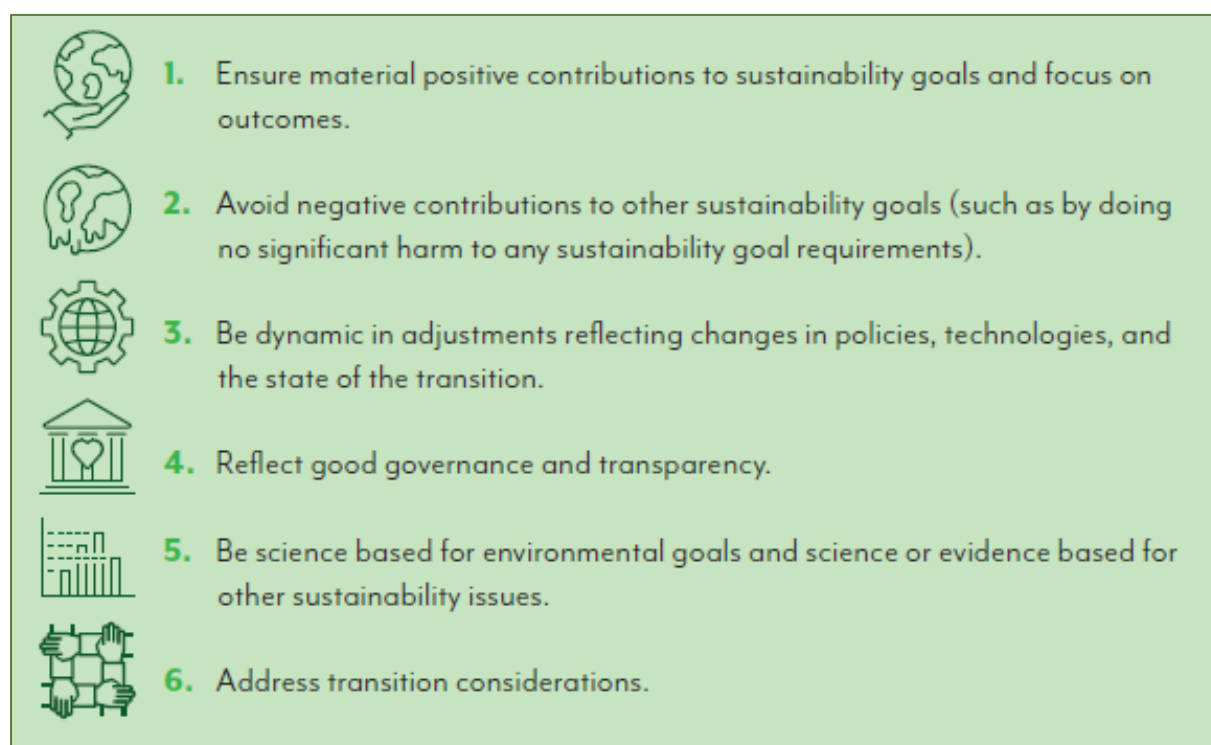
2. What is a Sustainable Finance Taxonomy?

2.1 Definition and key features

This section defines and summarises the core features of existing taxonomies.

- **A sustainable finance taxonomy** is a tool to classify whether an economic activity is environmentally or socially sustainable. This also serves as a **guide** for a variety of users, including a company, investor, financial institution, regulator or consumer to make an informed decision to invest, finance, purchase or monitor an asset, project, activities, company or portfolio.
- In support of sustainable finance taxonomy development (as well as other alignment approaches), the G20 Sustainable Finance Working Group has outlined six key principles (Figure 4) that a sustainable finance taxonomy can follow to promote credibility, usability and comparability across jurisdictions.

Figure 4 – G20 Sustainable Finance Working Group Voluntary Principles for Developing Alignment Approaches



- **A sustainable finance taxonomy would typically identify key environmental (and potentially social) objectives**, in line with national climate, environmental and social policies. A ‘green’ taxonomy focuses only on environmental objectives. For the purposes

of this consultation paper, and the Philippines phasing of its taxonomy, initially only environmental objectives will be considered, though social risks and impacts will be taken into consideration through specific mechanisms discussed below.

- **Environmental objectives** frequently include change mitigation, climate change adaptation, protection of biodiversity and ecosystem loss, water and wastewater management, pollution prevention and control, and transition to a circular economy. Social objectives have also been included in selected taxonomies, such as gender equality, health and education.
- A well-designed taxonomy typically requires an economic activity to **materially or substantially contribute to an objective** (Principle 1).
- Taxonomies often identify **priority sectors** with a potential to contribute the most to achieving the objectives. As global efforts are focused on the urgency to curtail the rise in global warming and meet Paris Agreement commitments, all taxonomies designed include climate change mitigation – and draw on **scientific bases** to define how a contribution is made to an environmental objective (Principle 5).
- However, it will also ensure that the activity does not simply shift risks elsewhere – by ensuring it **doesn't significantly harm other objectives** (such as a solar farm being built by demolishing a biodiverse rainforest) or cause social harm such as through infringement of labor rights (often referred to as **minimum social safeguards**) (Principle 2). These considerations are particularly important in supporting **just transition** goals by ensuring benefits are shared widely and do not unfairly disadvantage certain socio-economic groups.
- A summary of key identified benefits of taxonomies is in Table 3 below.

Table 3 – Benefits of a Sustainable Finance Taxonomy

➤	Offer uniform framework to categorize sustainable finance activities, investments, and assets - It will bring clarity to discussions around green and sustainable products to scale capital flows that support the environmental objectives, while promoting consistency and comparability and removing uncertainty as to whether certain activities are environmentally sustainable.
➤	Assist regulators and the government in creating policies to promote sustainable finance activities - This includes financial support, tax incentives, disclosure rules and other policies that encourage the private sector to finance environmentally friendly ventures.
➤	Improve the financial system's accountability and transparency - Investors, asset managers and other stakeholders can gain insights and tap potential opportunities associated with

various sustainable investments and guidance on reducing greenwashing in the financial industry.
➤ Support development of sustainable products and services - Simplifying comparability with global products by assisting reporting and classification of portfolios by financial institutions, which in turn may further stimulate demand for financial products and services.

2.2 What are the primary drivers of adopting a taxonomy?

- Typically, the primary purposes of existing taxonomies are to direct and increase capital flows to economic activities that further sustainability objectives (especially GHG emission reductions and building climate resilience); minimize the risk of greenwashing; and to promote a just transition to a sustainable economy. A range of drivers for the introduction of a sustainable finance taxonomy in other regions are summarized in Table 4.

Table 4 – Taxonomy Primary drivers

ASEAN	Facilitating interoperability and comparability of the various sustainable finance systems and policies in development by AMS.
Canada	Aligning capital to credible transition pathways and climate objectives, with a focus on transition criteria for the mining sector.
Chile	Steering the market toward green projects, helping the government and financial institutions fulfil their climate goals and leading the global initiative for developing criteria for the mining sector.
China	Provided for economic activities that are supportive of environmental improvement, climate change response and more efficient resource utilization.
Climate Bonds Initiative	Providing an important resource for common green definitions across global markets, in a way that supports the growth of a cohesive thematic bond market that delivers a low carbon economy.
EU	Re-orienting capital flows toward sustainable investment and removing barriers to cross-border financing for sustainability projects. The taxonomy also serves as a reporting framework on climate-related disclosures.
Japan	Directing more capital to support achieving the Paris Agreement by facilitating financing for climate transitions, especially in hard-to-abate sectors, and ensuring the credibility of “transition finance” labelling.
Korea	Facilitating financial flows to green projects, providing an agreed-upon standard to control greenwashing, and serving as a reference point for the financial sector in shifting investments from carbon-heavy industries towards more sustainable industries.
Malaysia	Facilitating standardized classification and reporting of climate-related exposures to support risk assessments at the institution and systemic levels, strengthen accountability and market transparency and encourage financial flows towards supporting climate objectives.
New Zealand	Improving the flow of sustainable finance to New Zealand’s agricultural sector and supporting better on-farm sustainability outcomes.
Singapore	Facilitating the flow of capital to support the nation’s transition to a low carbon economy and achieve its other environmental objectives.

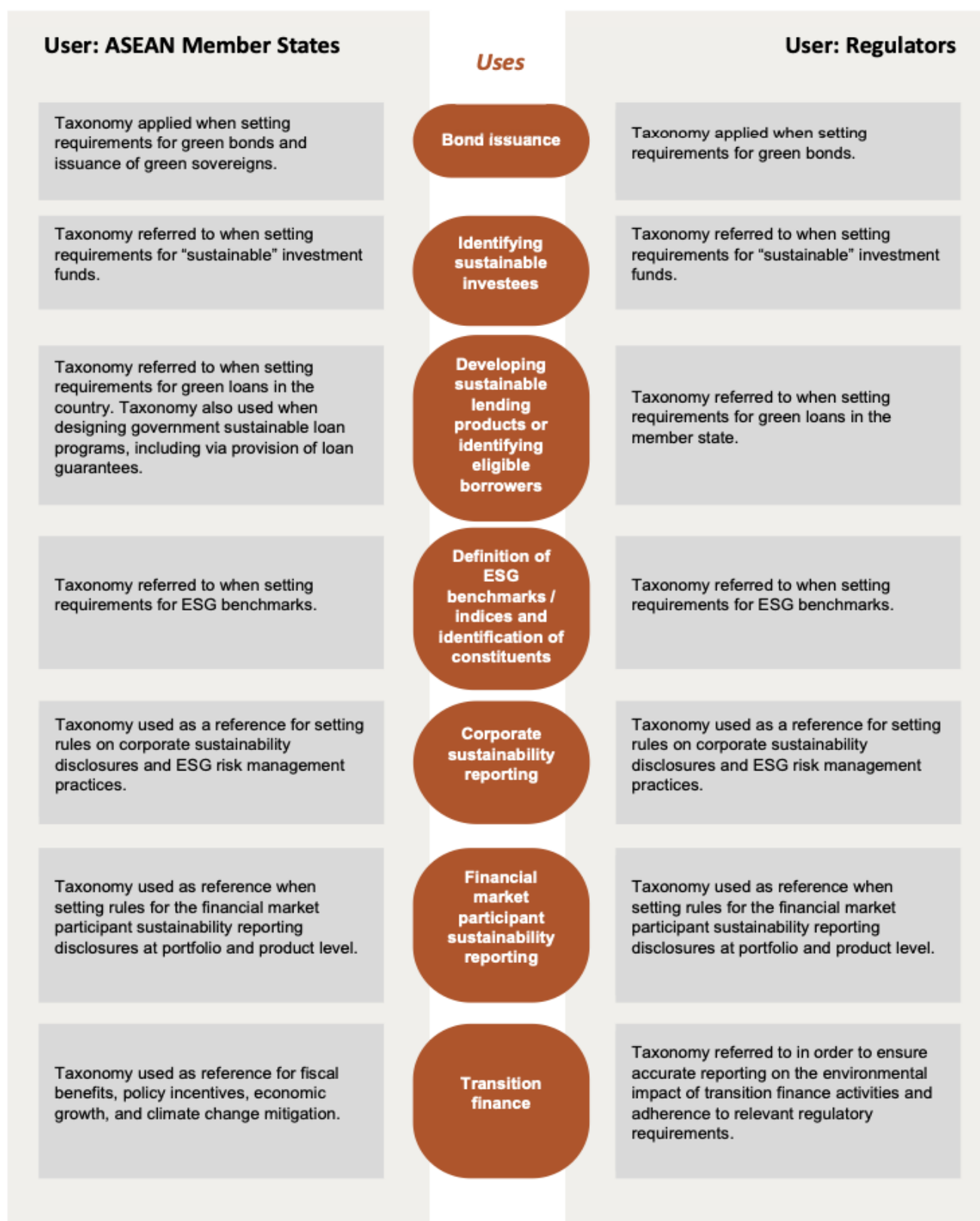
UK	Tackling ‘greenwashing’ and setting a high bar globally with a rigorous, science-based taxonomy that helps accelerate green finance and support the UK’s transition to a net zero economy.
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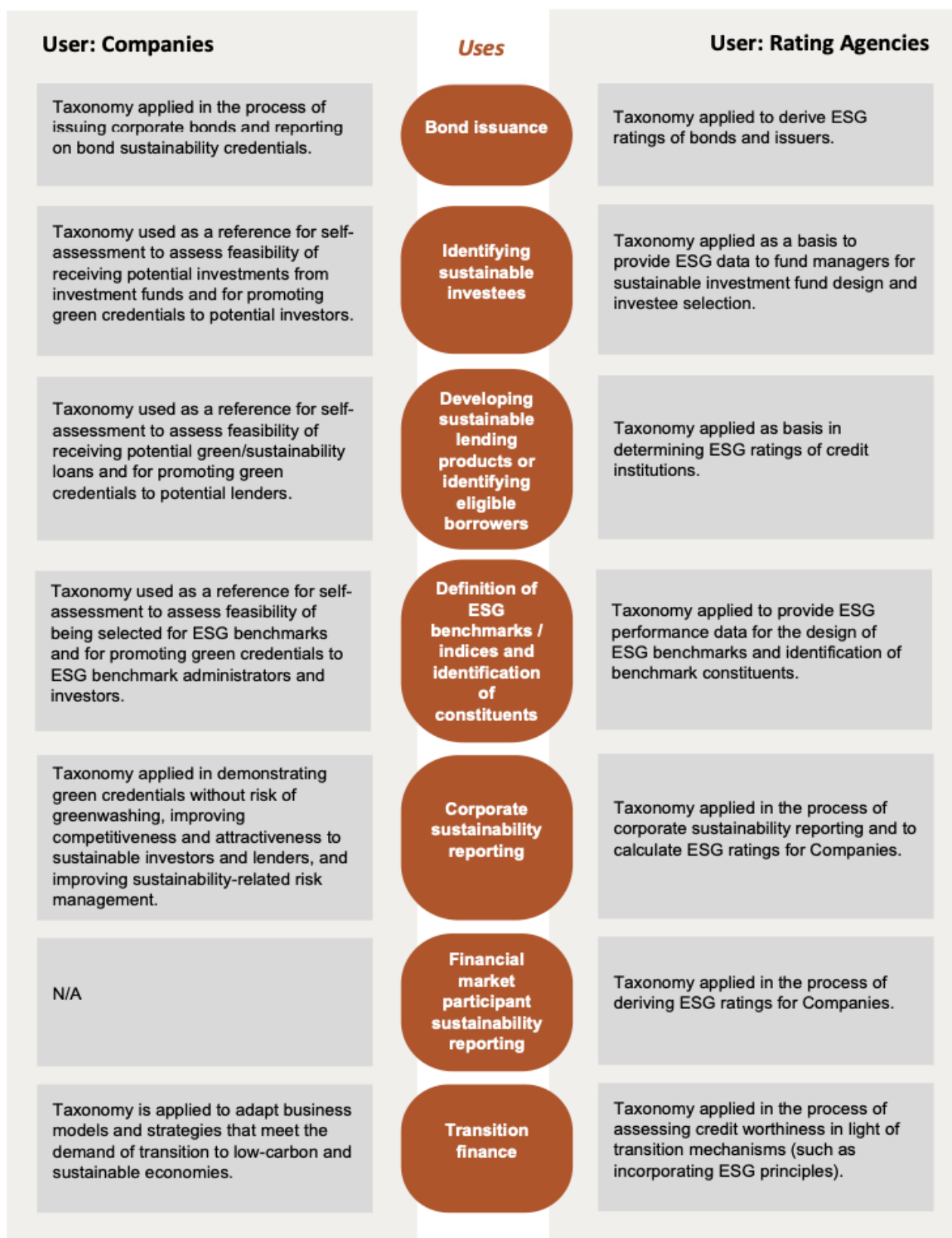
Source: Analysis of international taxonomies and considerations for Australia, Australian Sustainable Finance Institute Taxonomy Project, October 2022

2.3 How can a taxonomy be used, and by whom?

- Taxonomies promote comparability and provide a basis to steer finance towards taxonomy-aligned activities, minimize greenwashing risks and allows for transitional economic activities to shift towards a sustainable path.
- However, taxonomies need be linked to policies and regulatory measures that shape sustainable business conduct and practices and encourage capital flow redirection, such as disclosure regimes and policy/fiscal incentives so that they both shape sustainable business conduct and support re-orienting capital flows.
- **Taxonomies can have several functions:** support financial actors in making informed decisions on environmentally friendly investments in line with national priorities and international commitments, scaling up finance for climate mitigation, adaptation, and other environmental goals; support reliable and comparable disclosures relating to emerging opportunities; and provide a consistent starting point for standard setters and investment product developers. Importantly, a taxonomy can also promote market integrity by reducing **greenwashing**. It also reduces fragmentation resulting from market-based initiatives and national practices which lack coherency.
- While a refined list is proposed later in this paper for the Philippines context, the ASEAN Taxonomy v2.0 provides a comprehensive list of users and potential uses of the taxonomy, outlined below:

User: Asset Managers	Uses	User: Banking institutions
Taxonomy used as a reference for bond green credentials to guide investment decisions.	Bond Issuance	Taxonomy applied in the process of issuing green bonds and reporting on bond sustainability credentials
Taxonomy applied for in the process of designing sustainable investment funds and for assessing suitability to receive green funding.	Identifying sustainable investees	Taxonomy applied in the process of making investment decisions for capital held and for reporting on green credentials of the portfolio.
Taxonomy applied for in the process of designing green debt investment funds and for assessing suitability to receive green funding.	Developing sustainable lending products or identifying eligible borrowers	Taxonomy applied in the process of designing green loan products such as mortgages for sustainable housing or loans for low-emission cars as well as identifying eligible borrowers for green funds.
Taxonomy applied in defining ESG benchmarks to track in the design of sustainable investment funds.	Definition of ESG benchmarks / indices and identification of constituents	Taxonomy applied in defining ESG benchmarks for investment management.
Taxonomy used as a reference for evaluation of Company performance, including financials, risk governance and sustainability performance.	Corporate sustainability reporting	Taxonomy applied in the due diligence process when vetting counterparties, as well as for portfolio sustainability assessments.
Reporting done on Taxonomy alignment to demonstrate sustainability credentials of portfolios and financial products to reduce possibilities of greenwashing, improve competitiveness and risk management.	Financial market participant sustainability reporting	Reporting done on alignment with the Taxonomy to demonstrate sustainability credentials of financial products to reduce possibilities of greenwashing.
Taxonomy used as a reference to adapt to changing investor preferences and regulations (such as ESG) when considering investments into an economy.	Transition finance	Reporting done on alignment with the Taxonomy to assess environmental risks associated with lending activities and disclose impacts to customers and stakeholders.





2.3.1 How could the success of a taxonomy be measured?

- In addition to the taxonomy's inherent goal of ease of use and credibility, given the broad range of key financial market participants as its key users, a taxonomy's usability, relevance and success could be measured from the following:
 - the extent to which financial flows are increased and directed to finance sustainable projects/activities.
 - the extent to which the taxonomy is **compatible / consistent** with other comparable taxonomies.
 - the extent to which **new products** are developed that (or existing products are modified to) align with the taxonomy.
 - the extent to which **regulators** reference the taxonomy when approving products or services.
 - the extent to which **government incentives** and **development finance institution** initiatives reference the taxonomy.
 - the extent to which **other frameworks / standards** reference the taxonomy.
 - the extent to which the taxonomy is **embedded** within **frontline regulatory disclosure** requirements.
 - the extent to which **providers of data** align with the taxonomy.

2.4 What is already happening: selected international taxonomy developments.

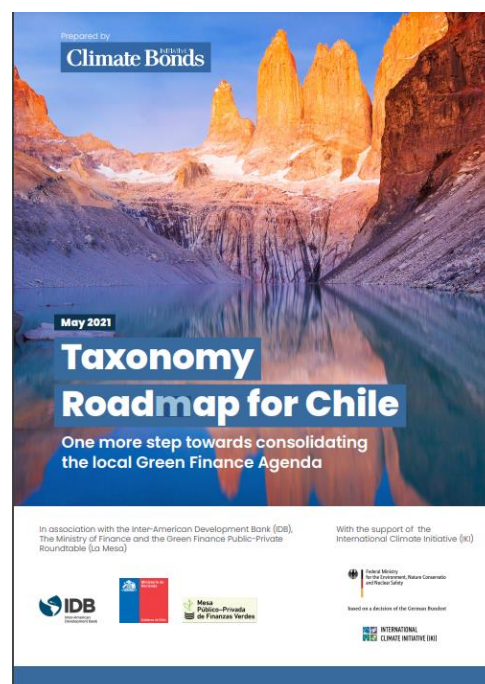
- There are over 40 countries and regions in the process of developing or having developed taxonomies. Twenty-three countries have viewed the approach of the EU Taxonomy as a benchmark, given the level of development of its technical screening criteria⁶. However, it can also present complexities, particularly where there are limited national equivalents of the technical screening criteria in place, such as green building standards, energy efficiency standards, or weak national environmental and social regulations. This can lead to unintended consequences, where a taxonomy is set at too strict a level to include sufficient eligible activities. National taxonomies also often account for their own priorities and capacities, following a combination of **adopting, adapting, and leading** where appropriate. The rationale used for Chile is explained in Box A below. Although taxonomies vary in scope and approaches based on the different priorities, tolerances, and pathways in their own jurisdictions, they all also need to consider the expectations of international investors.

⁶ UK GFI GTAG International Interoperability Report, Feb 2023

“It is recommended that the pathway for Chile to potentially develop a national taxonomy is **firstly to adopt international taxonomies where possible, secondly to adapt and modify existing taxonomies to the local circumstances and thirdly to take leadership globally in developing new criteria in areas that are underdeveloped.** The reason for taking this approach is twofold: comparability and credibility.

International investors and market players want to be able to easily compare between labelled financial products and to that effect, taxonomies that are seen to dialogue with other standards consequently also provide more credibility. Existing taxonomies that can be leveraged include the EU Taxonomy, China Green Bond Endorsed Projects Catalogue of 2020 or the Climate Bonds Taxonomy. At the same time, there is space for Chile to establish leadership in certain areas, including those that are not covered in the EU taxonomy such as mining, and nature-based solutions. The work should consider all national plans, policies, and other developments in the country and the criteria should be based on available scientific information.”

Box A – The Case of Chile



- The following taxonomies have been taken into consideration in the Philippines given their regional relevance or prominent role in the taxonomy landscape:
 - **The ASEAN Taxonomy:** Rapid regional industrialisation leading to social and environmental challenges, including adverse climate change impacts, poor air quality, and waste management, is pushing the regional grouping towards the path of a sustainable region. The ASEAN taxonomy is the overarching guide and acts as a common building block to enable an orderly and just transition and foster sustainable finance by its member countries. It recognises different country economies, financial systems, and transition pathways. It aims to consider other taxonomies globally, to be inclusive and beneficial to all members, shall provide a credible framework and where appropriate be science-based, and should align with, or at least not conflict with, sustainability initiatives taken by capital markets, banking, and insurance sectors. It has both a principles-based version, called the Foundation Framework, and an activities-based approach, called the Plus Standard.⁷

⁷ ASEAN Taxonomy for Sustainable Finance, version 2, ASEAN Taxonomy Board, 2023

- **Bank Negara Malaysia’s Climate Change and Principle-based Taxonomy** uses a **principles-based approach** and considers the state of economic development of the country and their nascent stage of climate risk management at which businesses and other economic agents operate. Although this Taxonomy mainly aims to address climate change, there are some biodiversity considerations that are being integrated within the guiding principles. **Malaysia’s capital market regulator, the Securities Commission of Malaysia, also developed the Sustainable and Responsible Investment (SRI) Taxonomy**, to enable capital market participants to identify economic activities that are aligned with the environment, social, and sustainability objectives. The intention of this is to facilitate a more informed and efficient decision-making for fundraising and investing.⁸
- **The Indonesian Green Taxonomy edition 1.0** is structured around the Indonesia Standard Industrial Classification (KBLI). The focus sectors of the IGT are based on Indonesia’s National Determined Contributions (NDC) and other relevant sectors. The IGT considers other international taxonomies in its development, such as the EU Taxonomy and China’s Green Bond Endorsed Projects Catalogue, as well as the ASEAN Taxonomy. In the initial focus, the IGT has two (2) environmental objectives consisting of climate change mitigation and adaptation efforts. To identify the economic sector thresholds, the IGT follows established government policies. The IGT uses a traffic light system to categorise an activity into Green, Yellow, and Red.⁹
- **The Green Finance Industry Taskforce (GFIT) Singapore’s Taxonomy** also considers a range of sectors under a “traffic lights” classification and adopts environmental objectives that propose activity-level criteria and thresholds for a few focus sectors (e.g., Energy, Transport, and Buildings) under Climate Change Mitigation. This taxonomy, when implemented, is intended to provide a common framework for the classification of economic activities (at a granular level similar to that of the EU taxonomy), to enable stakeholders in gathering information related to green financing, funding, and investment; as well as to gain an understanding of risk management and promoting investments that meet robust sustainability goals. Its classification systems strictly highlight that activities which are deemed to cause significant harm to other environmental objectives, should not be considered Green.¹⁰
- **The European Union Taxonomy** was developed to support the European Commission’s European Green Deal climate-neutral plan by 2050. It was first implemented in late 2020, contains the most comprehensive set of technical

⁸ ASEAN Taxonomy for Sustainable Finance, version 2, ASEAN Taxonomy Board, 2023

⁹ ASEAN Taxonomy for Sustainable Finance, version 2, ASEAN Taxonomy Board, 2023

¹⁰ ASEAN Taxonomy for Sustainable Finance, version 2, ASEAN Taxonomy Board, 2023

screening criteria across six environmental objectives and is often used as a basis for other national taxonomies. It requires substantial contributions to an environmental objective and adopts Do No Significant Harm and Minimum Social Safeguards as screening criteria for eligibility. It is binary to the extent that activities are either aligned or non-aligned, however the criteria effectively recognise certain transition activities, such as its inclusion of gas and nuclear, under certain conditions¹¹.

- **Thailand, through Bank of Thailand (BOT) and the Securities Exchange Commission, Thailand (SEC). has recently adopted their Green Taxonomy (Phase 1) which addresses focuses initially on the climate change mitigation objective and covers two sectors- energy and transportation. It is expected to expand to other sectors in future with a target to cover 95% of the country’s total emission. Like the ASEAN Taxonomy, it proposes to use a traffic light system to classify activities. The taxonomy in essence closely aligns with the EU, South Africa and Colombia Taxonomies and was supported in partnership with IFC, with Climate Bonds Initiative as technical leads. Eligible activities must meet quantitative thresholds, together with social safeguards and a requirement that taxonomy-aligned activities Do No Significant Harm (DNSH) to other environmental objectives¹².**

2.5 Emerging lessons from international taxonomy developments

- In assessing the right approach for the Philippines, it is helpful to review some of the challenges observed from international taxonomy implementations.

Table 5 – Challenges in implementing a Sustainable Finance Taxonomy

➤ Lack of Flexibility - Given that science is constantly evolving around environmental challenges, the adoption of set thresholds may not allow for sufficient flexibility of approaches. A <i>static</i> taxonomy would ignore the range of current (and future) activities and understandings - freezing the one and only 'approved' responsible investing method. It runs the risk of establishing rigid rules that, at best, could stop approaches from evolving and, at worst, could encourage and create a potentially undesirable set of route dependencies.
➤ Connecting with global finance flows – globally, the interaction of taxonomies with one another still remains under discussion. Ensuring compatibility and consistency between different taxonomies is crucial for facilitating cross-border investments and preventing fragmentation within the global financial system. Adopting common principles across taxonomies will assist in compatibility – such as substantial contributions to objectives, clear governance and transparency, transition considerations, doing no significant harm to other objectives, using science-based evidence.

¹¹ ASEAN Taxonomy for Sustainable Finance

¹² [Responsible Investor – Thailand issues green taxonomy in partnership with CBI](#)

- | |
|---|
| <p>➤ Time Consuming - Generally the process of developing a taxonomy takes around two years and involves extensive involvement of public and private participants. However, principles-based taxonomies can be developed more rapidly as detailed criteria are not developed. Continuous monitoring and updates are needed to evaluate the taxonomy's effectiveness and relevance.</p> |
| <p>➤ Financial and Technical resourcing - budget allocation should be determined by the responsible government/authority/organization based on their specific requirements and available resources. Development of the taxonomy requires sector specialists if developing technical criteria, stakeholder engagement specialists, facilitators for workshops, roundtable discussions, and focus group sessions, online survey and questionnaire platforms, data collection and analysis resources, communication materials for stakeholder feedback amongst others that will require substantial financial commitment.</p> |

Figure 6 – Lessons from consultations on ASEAN Taxonomy V1

- 1. Definitions need to be clear:** Clarity will increase likelihood of uptake. When using the term ‘sustainable finance’, this implies there should be environmental and social objectives. Others saw social objectives as a part of criteria for assessing environmental activities. The ‘Amber’ classification caused some confusion. Overall seen as a positive inclusion, due to ASEAN’s role in its transition phase, it had different meanings under the different versions of the taxonomy.
- 2. Design for simplicity:** Some stakeholders noted the difficulty in applying other environmental objectives than climate change mitigation, which has a relatively simple GHG emission metric. Suggestions were made to define technologies according to Green/Amber/Red rather than thresholds. There were also questions over investments that would no longer be eligible over time and whether they should be grandfathered or excluded to avoid ‘gaming’ the taxonomy.
- 3. Transparency in reporting:** stakeholders indicated it was important to consider useful and relevant metrics and thresholds and minimum requirements to facilitate transparency.
- 4. Interoperability in ASEAN and globally:** Some stakeholders indicated thresholds in ASEAN should be less stringent than in the EU. But others indicated this could lead to a ‘race to the bottom’. Commonality between national and ASEAN was seen as desirable, but flexibility was needed noting different national priorities, tolerances, and pathways. International investors expressed desire to see alignment for their investments, such as with EU, Climate Bonds Initiative Taxonomy and Green Bond Principles.
- 5. Access to usable, consistent data:** Data was the single greatest barrier to successful implementation alongside other taxonomies. Technical screening criteria could be applied differently. Self-reporting could result in different organisations interpreting criteria differently.
- 6. Awareness is key:** consistent effort is needed to engage a wide range of stakeholders to raise awareness of its value to potential users.

Source: ASEAN Taxonomy for Sustainable Finance, Version 2, ASEAN Taxonomy Board, 2023.

2.6 Key Design Principles

- The following key principles are proposed for consideration in designing the taxonomy guidelines, considering the G20 SFWG principles, and to address some of the highlighted challenges above: -

- I. **Interoperability:** this refers to how a taxonomy aligns with other international taxonomies and sustainability standards. Certain taxonomies may be interoperable to the extent that another jurisdiction may officially recognise another taxonomy as 'equivalent', which may facilitate investment flows and disclosure practices across the jurisdictions. The more integrated Philippines seeks to be with international capital markets and sustainable financing flows, the closer it will need to align its taxonomy with other jurisdictions. In the interests of moving at a pace that aligns with market capacity, the taxonomy guidelines will initially seek to closely align with the 'Foundation Framework' of the ASEAN Taxonomy and intends to include certain technical criteria such as Do No Significant Harm and Social Safeguards, frequently observed in other taxonomies. As the taxonomy guidelines eventually evolve into an activities-based taxonomy, (which would promote further interoperability with other taxonomies) consideration of other taxonomy criteria will be given alongside the Philippine's own national priorities.
- II. **Prioritisation:** the sustainable finance taxonomy should concentrate on identifying and categorising the activities that have the most significant effects on the environment and society. Given the potential breadth of a taxonomy to cover a whole economy, and the effort required by users to adapt their processes to undertake taxonomy alignment processes, it is recommended that high priority *objectives* and *sector* choices be made first. Typically, taxonomies will first focus on the objectives of Climate Change Mitigation and Adaptation. Within Climate Change Mitigation, an initial focus may be on those sectors responsible for the most GHG emissions. Alternatively, other sectors based on their importance to the nation may be a priority, such as land use and agriculture in Colombia, tourism in Sri Lanka, and potentially transport and adaptation for natural disasters in the Philippines.
- III. **Credibility:** using science-based where possible and otherwise evidence-based approaches to developing criteria (such as aligning with the Paris agreement temperature goal)¹³, ensuring involvement of a wide range of stakeholders and having transparent governance processes will support the credibility of the taxonomy guidelines; and
- IV. **Usability:** the sustainable finance taxonomy should be as simple as possible to use and comprehend for the financial sector, its regulators, and the real sector. It should be usable by organisations of different sizes and capabilities. It should also fit within the context of Philippine's other sustainability initiatives in the financial

¹³ Article 2.1c of the Paris Agreement has the goal of '[m]aking finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development', with the Paris Agreement's central aim to pursue efforts to limit global temperature rise by .5°C above pre-industrial levels. A range of trajectories can be developed to outline the necessary emission reduction pathways and policy measures required to achieve the ambitious goal of keeping global temperature rise within this limit.

sector as part of a clear sustainable finance information architecture. The settings should be as clear as possible for users (and any assurance providers) to understand what activities would be included or excluded under a taxonomy.

Usability, financial inclusion and SMEs: The Colombia Pilot

An implementation pilot was conducted in Colombia applying its taxonomy to green credit lines in commercial and Tier-2 banks. Results indicated that the application of the taxonomy was challenging for most micro, small and medium enterprises (SMEs) (Ambire Global, Metrix Finanzas 2022). With SMEs forming a significant part of Colombia's economy, the data, resource and capacity limitations should be taken into account when considering the practical application of a taxonomy. The pilot concluded that a tiered approach could be applied regarding taxonomy requirements, based on type of user (size, type of debtor, category) and the scale of the project/activity to be financed. For example, the application of eligibility criteria, and general and activity specific Do no significant harm requirements established in the taxonomy could be applied differently for the user types such as:

Small users: Mandatory (eligibility criteria) + best practice/optional (general and specific requirements of DNSH).

Medium users: Mandatory (eligibility criteria + specific requirements of DNSH) + best practice/optional (general requirements of DNSH)

Large users: Mandatory to comply with all requirements (eligibility criteria + specific requirements + general requirements of DNSH)

Source: Common Framework of Sustainable Finance Taxonomies LAC, 2023.

- V. **Governed well:** parties involved in the consultation and review should be drawn from various backgrounds, including and not limited to government agencies, industry representatives (industry associations, financial institutions), civil society organizations (environmental NGOs and advocacy groups), academic and research institutions and international organization and donor agencies.
- VI. **Dynamic:** governance structures and budgets should allow for regular review on the relevance of the criteria settings. The taxonomy is intended to be a living document, responsive to changes and periodically reviewed to reflect technological, scientific, economic, state of transition and other relevant developments in the Philippines, regionally and globally. This includes evolution in approaches and understanding.
- VII. **Inclusivity:** Inclusivity is a priority for many emerging markets and developing economies (EMDEs) because of the significant role played by SMEs in these markets and the heightened risks posed to vulnerable segments of society by climate change. This focus is evidenced by efforts on the part of regulators to (a) measure the impacts of climate change on vulnerable groups and households, (b) ensure that alignment approaches include sectors and activities that are accessible to these groups as both

participants and beneficiaries, and (c) support climate-focused investment strategies that contribute to inclusion and climate change mitigation at the same time (Volz et al. 2020; Inclusive Green Finance Working Group and University of Luxembourg 2022). Inclusion can be considered during the design of alignment approaches by considering both risks and opportunities related to SMEs and vulnerable groups. It can also be embedded in the criteria and metrics for assessing the success of alignment approaches. Measures may involve tracking positive contributions to inclusion as well as ensuring that unintended negative impacts on inclusion are quickly identified and addressed. For instance, onerous technical criteria and reporting requirements are more likely to exclude SMEs and vulnerable groups. Similarly, alignment approaches that favor sectors, activities, and technologies that typically feature large infrastructure projects are less likely to offer opportunities for participation by all parts of the economy. Financial intermediaries and larger companies in SMEs' supply chains can also play a supportive role for SMEs. Finally, the risk management and safeguard criteria, such as "do no significant harm" and minimum social safeguards in alignment approaches can consider inclusion. One of the ways to foster inclusion in alignment approaches is to make sure that potentially marginalized groups are included as stakeholders in the design process and during implementation.¹⁴

Consultation question:

What design considerations do you consider most important for the Philippines Sustainable Finance Taxonomy Guidelines?

- **Interoperability**
- **Prioritization**
- **Credibility**
- **Usability**
- **Governance**
- **Dynamic**
- **Inclusivity**

2.7 Specific Design Approaches for Taxonomies

- There are three main design approaches for taxonomies adopted internationally:
 - 1) An '**Activities Based**' or '**Technical Screening Criteria**' approach uses a science-based approach determining the conditions where an economic activity contributes to a taxonomy objective. It may also apply further criteria such as Do No Significant Harm

¹⁴ From forthcoming publication, World Bank, IMF, OECD, BIS "Activating Alignment, Applying the G-20 Principles for Sustainable Finance Alignment with a Focus on Climate Mitigation"

to other objectives and Minimum Social Safeguards. **Examples: European Union, South Africa, Colombia, Climate Bonds Initiative, Singapore, ASEAN (Plus Standard).**

- 2) A **'Whitelist'** approach lists products, projects, activities, or technologies which qualify simply because they meet a specific sustainability objective (e.g., renewable energy). **Examples: China, Mongolia, SDG Taxonomy.**
- 3) A **'Principles-based Approach'** uses principles based solely on qualitative frameworks to assess and categorize economic activities based on the extent to which they meet a taxonomy objective. They do not list specific economic activities or list quantifiable thresholds to determine alignment. **Examples: Malaysia, ASEAN (Foundation Framework), New Zealand.**

3. Who are the Potential users of the Philippines Sustainable Finance Taxonomy Guidelines?

- The proposed taxonomy is a guide for participants of the financial sector and other key stakeholders including the Government, supervised entities, and it is based on the users of Philippine Sustainable Finance Guiding Principles as below.

Table 6 – Potential Users and Uses¹⁵

Target users	Potential uses
Policy makers/ government	• Identify relevant and additional areas where to focus investment to accelerate the achievement of objectives of the taxonomy • Facilitate the development of a pipeline of sustainable projects in accordance with national priorities for sustainable development • Serve as reference for policymakers as they develop strategies to achieve national climate change commitments, such as those in the country's Nationally Determined Contribution (NDC) targets and Sustainable Development Goal (SDG) agenda and improve associated systems for tracking and measuring finance flows
Financial Regulators	• Help with the sustainable development of the financial sector by: • Supporting regulatory interventions (e.g., incentives, guidance, and capacity building, etc.) based on the guiding principles to encourage banks to lend to taxonomy-aligned projects or economic activities, and insurance companies to issue eligible products as well as invest in assets and activities aligned with the taxonomy. • Assisting in the development of new climate- or sustainability-related reporting or disclosure guidelines for financial market actors or enhancing existing ones • Gauging financial flows toward taxonomy priorities at the transaction-level, investment and lending portfolio, institutional, and national levels • Protecting reputation of the financial sector/institution by preventing "green washing"
Banks, Insurance Companies, and other financial institutions	• Create, structure, track and label taxonomy-eligible sustainable financial products (such as loans, pooled fund/investments, insurance and guarantees) more easily. For example, they may include inclusive financial solutions across environmental objectives such as instalment plans to pay electric services for off-grid solar systems, weather/livestock index insurance, financing high-value crop diversification by small farmers, financing weather proofing homes etc.

¹⁵ Philippine Sustainable Finance Guiding Principles

Target users	Potential uses
	• Support financing and investment decisions (e.g., asset acquisition, project financing, lending, and insurance activities) • Understand and disclose exposure to sustainable investments, insurance (e.g., underwriting) and lending, as well as other exposures, as required by regulators • Can be used as a tool for evaluating existing products or exposure of banks, insurance companies and/or other financial institutions (e.g., reorienting capital flows, increasing transparency and supporting risk management in a more holistic way)
Investors/providers of capital	• Identify opportunities that comply with sustainability criteria for high-impact investments • Disclose exposure to sustainable investments, as required by regulators
Green/sustainability bond issuers and other relevant users, such as certifiers and verifiers	• Identify eligible activities that can contribute to the taxonomy objectives • Plan and design new projects and activities to be taxonomy aligned, moving toward business transitioning • Creation, structuring and adequate labelling of green/sustainable bond
Non-financial institutions (MSME and large enterprises)	• Enable companies to translate taxonomy objectives into tangible business strategies • Secure new business opportunities with larger companies that are required to comply and disclose on taxonomy alignment and specific metrics • Where a taxonomy is linked with sustainability-related disclosure requirements, large enterprises and MSMEs can communicate the degree of performance of their economic activities to financial institutions, stakeholders, and other non-financial institutions in relation to their sustainability objectives • Compile disclosures against the taxonomy objectives regarding capital expenditure, operational expenditure, and turnover. These are business activity indicators that could be used to determine, report and disclose the degree of taxonomy alignment • Use as support based on being taxonomically and thematically aligned
Depositors	• Depositors, in particular those driven by Environmental and Social concerns have the potential to become a significant source or retail finance for banks. A taxonomy can guide banks in developing 'taxonomy aligned' deposit products, which can then be intermediated into green lending products.

4. The Philippines Sustainable Finance Taxonomy Development Approach

- **Market participants in the financial sector have called for more uniformity and guidance in identifying sustainable investment assets and eligible economic activities.** In response, the Philippines will adopt a *phased approach* to ensure that the taxonomy is developed efficiently, iteratively, collaboratively, and has a user-centred approach. **In its first phase, the Philippines will follow a ‘principles-based’ approach.**
- **A principles-based approach** provides a flexible framework to reflect the evolving science and complex nature of sustainable finance. It is a steppingstone towards developing an **activity-based approach** supported by more detailed ‘Technical Screening Criteria’ and will allow users time to adapt their internal processes.
- The SFTG approach aims to be inclusive, provide clarity and guidance to the financial sector and other relevant stakeholders in identifying and classifying sustainable finance and investment activities. This initial approach gives flexibility for ongoing testing, feedback, and adjustments to ensure the taxonomy meet the needs of its users.
- The proposed SFTG introduces a practical qualitative framework, using **decision trees, guiding questions and use cases** to simplify the process for users when assessing activities against the objectives and essential criteria. Details are in section 7 below.
- Designed as an evolving framework, **future versions** of the taxonomy may include an activities-based approach with detailed technical screening criteria for activities and appropriate thresholds in line with science-based evidence and domestic policies. They should reflect the plans, priorities, and activities of the government to achieve its climate-and-sustainability-related commitments.
- **The proposed SFTG references other widely used taxonomies, as appropriate** and other key Philippine national strategic documents. These include the Philippine Development Plan (Ambisyon 2040), Nationally Determined Contributions, the Philippines’ Sustainable Finance Framework, National Strategy for Financial Inclusion, the Green Jobs and SIPP/CREATE policies and Philippine Sustainable Finance Guiding Principles. It serves as an overarching guide for the financial sector and its stakeholders to operationalize the Philippine Sustainable Finance Guiding Principles issued by the members of the Philippines Inter-Agency Technical Working Group for Sustainable Finance (ITSF or the ‘Green Force’).

4.1 Setting the Environmental Objectives

4.1.1 International practices

- **Objectives of a taxonomy typically relate to the economic, environmental, and social outcomes that a taxonomy aims to achieve.** The most common *environmental* objectives across taxonomies include:
 - climate change mitigation
 - climate change adaptation
 - protection and restoration of healthy ecosystems and biodiversity
 - promotion of resource resilience and/or transition to circular economy
 - pollution prevention and control; and
 - sustainable use and protection of water and marine resources.
- *Social* objectives such as health, labour rights, affordable housing and decent work have been considered in several taxonomies, such as Mexico, New Zealand, and Mongolia, and were proposed as part of a possible future development phase in the EU. However, barriers have been identified in developing social taxonomies including lack of data, difficulty defining criteria, compliance costs and incomparability across jurisdictions. Consequently, social objectives remain at an early phase of development and are not proposed to be included in this phase. In most cases, social considerations *instead* form part of the sustainable finance taxonomy framework to ensure that entity-level minimum social safeguards such as:
 - Promotion and protection of human rights,
 - Prevention of forced labor and protection of children’s rights, and
 - Impact on people living close to investments,are in place that seek to observe basic social norms and well-being.
- Excluding prohibited activities is also another way to manage social risks (see **Appendix 1** for a non-exhaustive list of prohibited activities under various Philippines sustainability frameworks).

4.1.2 Philippines Guidance on Setting Objectives

- Selection of Philippines’ environmental objectives should consider national objectives, policies and priorities, the capacity of future taxonomy users to adapt their processes, and the progress of regional and other leading taxonomy developments.
- Given the above, the SFTG objectives will initially focus on two environmental objectives of **climate change mitigation and climate change adaptation**, with subsequent phases

addressing **biodiversity** and the **circular economy** (outlined in **Appendix 2**), as well as a potential social component (including a gender-focused objective).

- **Climate Change Mitigation is the most prominent objective in all other taxonomies developed to date** with a focus on achieving commitments under the Paris Agreement. Consequently, it has the most developed objective metrics. Also because of the Paris Agreement, Climate Change Adaptation commonly appears as a key environmental objective. Both are central features of the Philippines Sustainable Finance Guiding Principles. The taxonomy guidelines also intend to recognize the **transition** pathway of the Philippines in which certain carbon-intensive activities may continue but be adjusted to meet the **2030 target of 75% GHG emissions reduction**.
- **The National Framework Strategy on Climate Change 2010–2022 (NFSCC) considered mitigation an opportunity to capitalize on the country’s GHG mitigation potential¹⁶**, supported by laws like the Renewable Energy Act (REA) while providing development co-benefits, including pollution prevention. The National Climate Change Action Plan 2011-2028 (NCCAP) envisions that public financing will prioritize adaptation to reduce community vulnerability and risks while encouraging **private sector participation to optimize mitigation opportunities** for sustainable development.
- **Philippines government policies likewise emphasize adaptation, with mitigation actions to be pursued largely as a function of adaptation.** The NFSCC sets a risk-based framework for national and sub-national climate policies to build (a) the adaptive capacity of communities and increase the resilience of natural ecosystems to climate change, and (b) optimize mitigation opportunities toward sustainable development.
- The environmental objectives of **climate change mitigation and adaptation** would define the types of activities that can support the transition to a low emission and climate-resilient economy. For the Philippines, the transition to a low-carbon and climate-resilient economy would consider the evolution of the entire system, including regional initiatives and national policies.
- Taking into consideration the above and the national priorities of the Philippines, it is proposed the SFTG initially covers the following two Environmental Objectives:

¹⁶ Philippines emits an average of 1.98 metric tons of carbon dioxide equivalent per capita (2020 figures) which is far below the global average (4 metric tons per capita), Philippines NDC 2021, <https://unfccc.int/sites/default/files/NDC/2022-06/Philippines%20-%20NDC.pdf>. Nevertheless, it has committed to take the following steps under its NDC: a projected GHG emissions reduction and avoidance of 75%, of which 2.71% is unconditional and 72.29% is conditional, representing the country’s ambition for GHG mitigation for the period 2020 to 2030 for the sectors of agriculture, waste, industry, transport, and energy.

Environmental Objective 1: Climate Change Mitigation (“EO1”)

- An activity will meet the objective of climate change mitigation if -
(a) it reduces GHG emissions on a trajectory that will aim to meet the 1.5°C Paris Agreement goal; *or*
(b) the activity is not low or zero- emissions but can show it is able to avoid or reduce GHG emissions based on best practices compared to a baseline case without any mitigating action. This aligns with the ASEAN Taxonomy v2 approach.
- Decarbonization pathways can vary from country to country due to economic, political, cost or technological limitations (such as the availability and affordability of workable low carbon technology).
- If an activity makes a **contribution** in one or more of the following areas, **it will meet the climate change mitigation objective**:
 - I. Avoids GHG emissions;
 - II. Reduces GHG emissions; or
 - III. Enables others to avoid or reduce GHG emissions.

Common climate change mitigation activities include renewable energy generation, rehabilitation, retrofitting and/or replacement of energy-inefficient technology, production of energy efficient technologies, as well as maintenance and strengthening of land-based carbon stock and sinks, above and below ground.

Environmental Objective 2: Climate Change Adaptation (“EO2”)

- Climate Change Adaptation focuses on managing actual and expected adverse consequences of climate change through evidence and relevant data regarding those effects. The activity should build resilience to mitigate and endure the physical effects of both current and future climate change.
- It is proposed that the ASEAN Taxonomy v2 be used to guide the assessment of EO2, following these principles:
 - Economic activities under this criterion would **positively contribute** to a **reduction in material physical climate risk and/or shall reasonably reduce material physical risk from current and future climate change**. This can include obvious physical risks, such as flooding, but also less immediately visible effects, such as impact on health from higher temperatures.

- Impact assessments under a broad range of climate scenarios would be conducted to provide better understanding and insights on the effectiveness and benefits of the Activity.
 - Activities enabling adaptation of other Activities should reduce the impact of material physical risk from other Activities and/or reduce barriers to adaptation through technology, services, or products.
 - Activities must not adversely affect adaptation efforts, or increase the physical risk, of other stakeholders.
- It focuses on lessening the damaging effects of climate change on vulnerable people, ecosystems, and economies and raising resilience, or ensuring activities provide utility over time despite potential climate disruption.

Consultation question:

Are there specific adaptation assessment standards your institution is already applying (e.g., ISO Standard for Adaptation to climate change: ISO 14091:2021 — Guidelines on vulnerability, impacts and risk assessment)?

Exclusion of prohibited activities

- A taxonomy does not seek to prohibit activities. A taxonomy can, however, consider certain activities to be non-aligned, or excluded, if they fall into certain categories. For example, to the extent that financing for gambling or military activities is permitted under the law, a taxonomy does not prohibit that financing. However, that financing will be excluded from claiming that it is aligned with the SFTG.
- For the purposes of the SFTG, it is proposed that if an activity is –
 - (i) in the list of activities that are ‘prohibited’ under the Philippines Sustainable Finance Guiding Principles;
 - (ii) ‘excluded’ under the Government of Philippines Sustainable Finance Framework;
 - or
 - (iii) in breach of a law on environmental protection or the efficient use of natural resources;**then they would be excluded from eligibility.** These items are listed in **Appendix 1.**

Consultation question:

Do you have any suggestions regarding the list of prohibited activities in Appendix 1?

5. Identifying Sector Coverage for the Philippines Sustainable Finance Taxonomy

5.1 Methods for Identifying Sector Activities

- A taxonomy can aim to cover all sectors of the economy, but most aim to identify only a few specific priority sectors based on their contribution to taxonomy objectives and their role in the national economy.
- For example, if the highest priority objective relates to climate change mitigation, then sectors usually consider the highest emitting sectors, the gross-value add of those sectors to the economy, those activities that could facilitate a net-zero transition, and sectors where further foreign direct investment may be required to meet investment needs.
- Table 7 below maps the six priority sectors identified in the ASEAN Taxonomy v2, with Philippines' main economic activities, and Philippines' Nationally Determined Contributions mitigation and adaptation sectors.

Table 7 – Mapping of sectors

Six Priority Sectors (Ranking of Priority Sectors – ASEAN Taxonomy v1)	Philippines' Main Economic Activity (Appendix B – ASEAN Taxonomy v1)	<u>PH NDC</u> (Mitigation sectors)	PH NDC (Adaptation sectors)
Agriculture, forestry, and fishing	Agriculture	Agriculture, Forestry	Agriculture
Manufacturing	Processing, assembly of high-value products; Automotive parts; Shipbuilding	Industrial processes	
Electricity, gas, steam, and air conditioning supply		Energy	Energy
Transportation and storage		Transport	
Construction & Real estate activities			
Water supply; sewerage, waste management and remediation		Waste	Water

Six Priority Sectors (Ranking of Priority Sectors – ASEAN Taxonomy v1)	Philippines' Main Economic Activity (Appendix B – ASEAN Taxonomy v1)	PH NDC (Mitigation sectors)	PH NDC (Adaptation sectors)
	Natural resources		Other Adaptation Sectors: cross-cutting, environment, social development, health, and coastal zones.

- GHG emissions in the Philippines are low, but growing. **Energy and transport** are expected to account for most of the growth in Philippine emissions (Figure 5). According to the World Bank Group Country Climate and Development Report (CCDR) for the Philippines, in 2018, total emissions accounted for about 0.8 percent of regional emissions in East Asia and 0.3 percent of the world's total. As of 2020, Philippines emitted an average of 1.98 metric tons of carbon dioxide equivalent per capita, below the global average (4 metric tons per capita)¹⁷. GHG emissions rose from 90 megatonnes (Mt) in 1990 to 227 Mt in 2020 and are expected to continue growing. However, the carbon intensity of emissions growth has been low and decreasing compared to peers.¹⁸
- The **energy** sector accounts for 56 percent of total GHG emissions, while **agriculture** is the second largest source, accounting for 27% of emissions (Figure 6). **Transport** is the biggest fossil fuel-consuming sector and the largest source of urban air pollution. The overall share of fossil fuels in the primary energy supply increased from 60 percent in 2010 to 67 percent in 2019 due to the rapid growth of coal-fired power generation and sustained growth in oil demand from transport. Total final consumption for transport has significantly reduced in 2020, making residential the top sector for energy consumption (Figure 8). The total primary energy supply is expected to triple to 156 million tonnes of oil equivalent (Mtoe) in 2040, compared with 56 Mtoe in 2020. The country's per capita emissions (2.2 million tonnes of carbon dioxide equivalent or MtCO₂e) are among the lowest in East Asia, below those of Indonesia (3.7 tCO₂), Vietnam (4.7 tCO₂), and China (9 tCO₂).¹⁹

¹⁷ Philippines NDC 2021, <https://unfccc.int/sites/default/files/NDC/2022-06/Philippines%20-%20NDC.pdf>.

¹⁸ World Bank Group, Philippines Country Climate and Development Report, November 2022.

¹⁹ World Bank Group, Philippines Country Climate and Development Report, November 2022.

Figure 6 – Total Philippines GHG Emissions by Sector 1990-2020²⁰

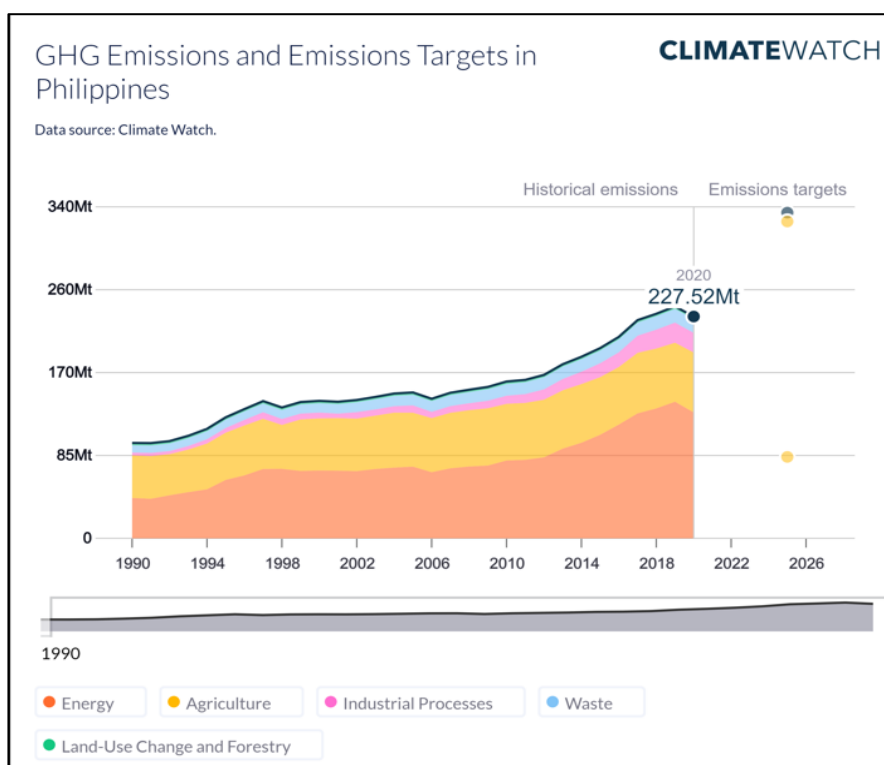
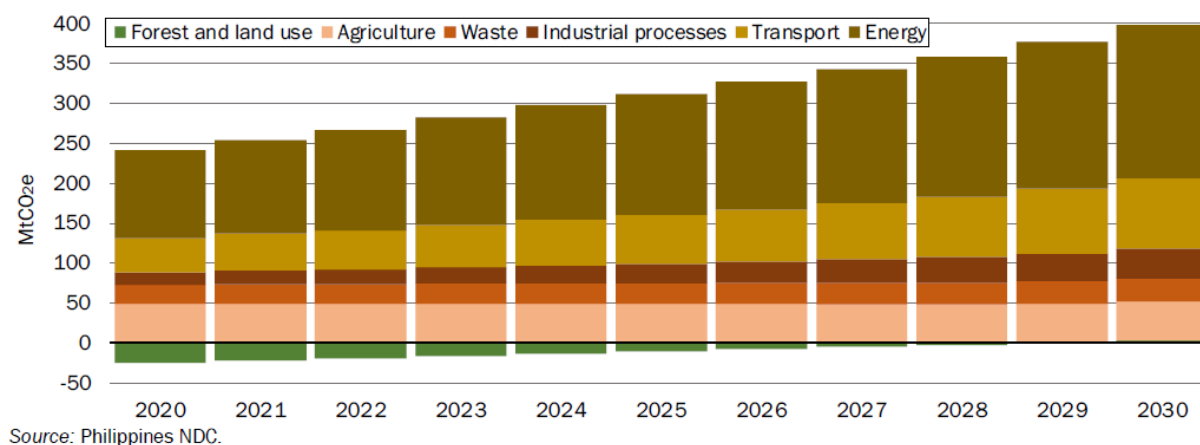
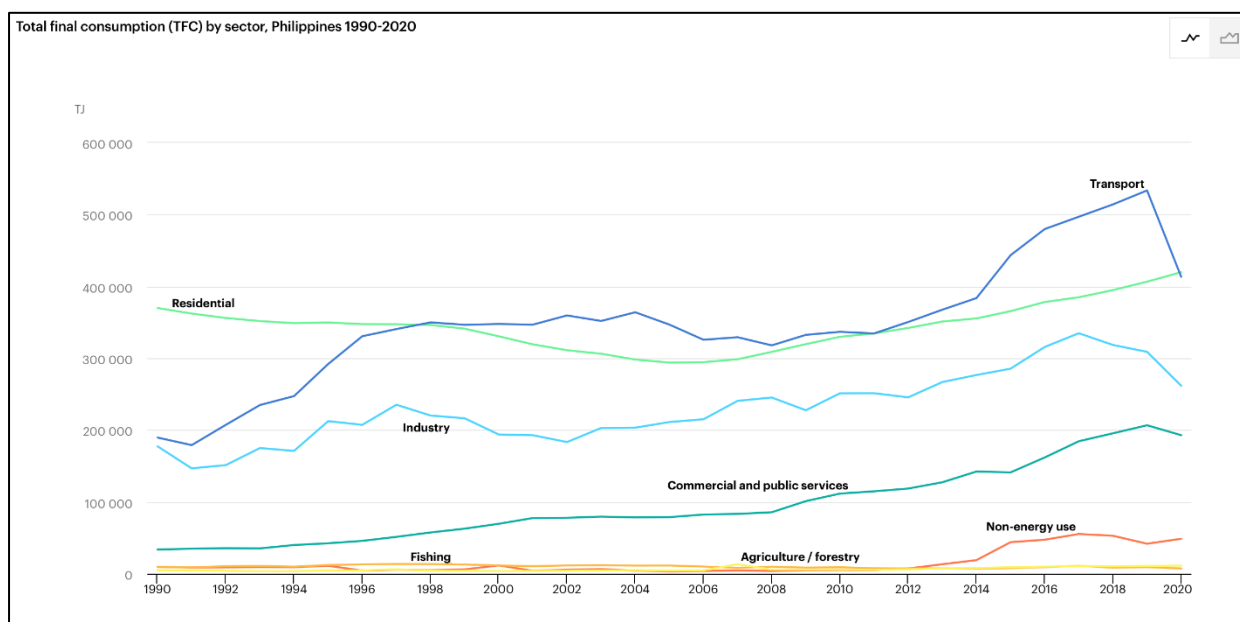


Figure 7 – Expected Growth of Emissions in the Philippines



²⁰ https://www.climatewatchdata.org/countries/PHL?end_year=2020&start_year=1990

Figure 8 – Total Final Consumption of energy by sector, Philippines 1990-2020



SOURCE: IEA <https://www.iea.org/countries/philippines>

5.2 Sectors for PH Sustainable Finance Taxonomy Guidelines

- It is proposed that the SFTG be guided by the sectors used in the PH Nationally Determined Contribution (NDC). For the climate change mitigation objective, these sectors reflect the nation's top priorities for lowering GHG emissions and mitigating climate change's effects:²¹
 - I. **Energy:** The energy sector, including electricity generation, accounts for the largest share of greenhouse gas emissions in the Philippines.
 - II. **Transport:** The transport sector, including road transport, aviation, and shipping, is the second-largest source of greenhouse gas emissions in the Philippines.
 - III. **Waste:** The management of solid waste, including landfill sites and waste incineration, is a significant source of greenhouse gas emissions in the Philippines.
 - IV. **Industry:** The industrial sector, including manufacturing, construction, and mining, is a significant source of greenhouse gas emissions in the Philippines.
 - V. **Agriculture, Forestry, and Other Land Use (AFOLU):** This sector includes emissions from agricultural activities, such as livestock and rice production, as well as emissions from deforestation and forest degradation.

²¹ [Philippines' NDC 2017](#)

VI. **Coastal and Marine Resources:** This sector includes emissions from coastal and marine ecosystems, such as mangroves and seagrasses, which can release carbon when they are degraded or destroyed.

- The selection of these sectors shows the Philippines' commitment to reducing GHG emissions in all sectors of the economy, as well as its focus on adaptation and resilience-building measures to address the impacts of climate change. The NDC also recognizes the important role of cross-cutting issues, such as gender, indigenous peoples, and poverty reduction, in achieving sustainable and climate-resilient development in the Philippines. Risks to these would be mitigated through the proposed adoption of safeguards.
- In addition, it is proposed to include several **'enabling' sectors** that are considered crucial for climate change mitigation and adaptation. **Enabling sectors are those which improve the performance of other sectors and activities and do not themselves risk harm to environmental objectives.**²² These sectors are important for the decarbonisation of the economy and might not otherwise be included in the SFTG if only emissions intensity and gross value add are considered:²³
 - **Information and Communication (ICT):** This sector is important for digital transformation and the improvement of efficiency of activities in emissions-intensive sectors. Activities such as data-driven solutions, resource efficiency software, meteorological solutions for adaptation, and direct mitigation, together with physical infrastructure, such as data centres, are essential for overall decarbonisation and resilience.
 - **Professional, scientific, and technical activities:** The activities of this sector are related to the implementation of efficiency measures across sectors, technical studies, and research linked to the decarbonisation of the economy. Examples include solar water heater installations, retrofit of buildings, renewable energy installations, and equipment, as well as feasibility studies linked to taxonomy-related activity implementation.
 - **Carbon capture, utilisation, and storage (CCUS):** Activities related to the artificial capture, storage, and transformation of carbon emissions into products are essential for enabling activities in high emission sectors such as manufacturing (e.g., manufacturing of cement and steel) and in the transition of certain sectors (e.g., existing natural gas plants with carbon capture and storage).

²² Taxonomy: Final Report of the Technical Expert Group on Sustainable Finance (March 2020)

²³ ASEAN Taxonomy for Sustainable Finance

- For the **climate change adaptation objective**, it is not proposed that specific sectors be prioritised, though taking into account the Philippines NDC adaptation objectives, and the findings of the World Bank Climate Change and Development Report, particular attention could be given to financing of activities in support of:
 - **Water:** including improving water resource management to build resilience, manage supply and sanitation, efficient irrigation, and improving flood management, particularly for urban areas.
 - **Agriculture:** through increasing climate resilience from improved practices, diversification, extending irrigation and fishery management plans.

Consultation Question:

Do you think that the proposed sustainable finance taxonomy adequately prioritises the mitigation and adaptation sectors for *initial* coverage? If not, how could the prioritisation process be improved, and which sectors would you suggest?

5.3 Use of Sector Industry Classification for Identification of Eligible Activities

- To support reporting consistency and comparability across jurisdictions, many taxonomies use industry classification systems, or ‘industrial codes’, to identify eligible activities or projects for purpose of the taxonomy. However, they do not perfectly capture all eligible economic activities in climate change and mitigation. For example, there are activities not defined by ISIC such as geothermal and ocean thermal energy which could remain eligible under the taxonomy, without specific ISIC mapping. In some sectors, such as land-use change, these systems cannot fully address location and context-specific considerations, nor does it possess sufficient granularity to enable the full evaluation of compliance with environmental objectives. Hence, the existing sector frameworks used to classify eligible economic activities can present challenges when assessing the systemic dimensions of sectors/subsectors e.g., land use, transport, or energy systems. These issues should perhaps be accounted for by adding more categories after further technical screening in a subsequent development phase.²⁴ Various Industry Classification Systems²⁵ are used globally and a summarized description for the systems are as listed in **Appendix 3**.

²⁴ Singapore, First Green Finance Industry Taskforce (GFIT) Taxonomy Consultation Paper (28 January 2021)

²⁵ Singapore, First Green Finance Industry Taskforce (GFIT) Taxonomy Consultation Paper (28 January 2021)

- The taxonomy aims to define which economic activity is regarded as environmentally sustainable. It is to be as broad as feasible and to include all significant aspects of the economy across time. Thus, creating a sector framework is initially important. The United Nations-created ISIC industrial classification system of economic activity is the most common and use of the national version, the Philippines Standard Industrial Classification codes (PSIC) is advised, because it is mostly compliant with international standards. The ISIC system, however, has been chosen as a starting point for taxonomy creation because of its thorough coverage of economic sectors globally. Given this, mapping of PSIC to ISIC as part of the continuous sector coverage development will be considered in the iteration of the SFTG which introduces activity-based criteria.

6. Setting Further Essential Criteria for Alignment with the Taxonomy Guidelines

- For an activity to be aligned with Taxonomy Guidelines, it must **first contribute to an environmental objective**, as outlined above and in Section 7 below. Many taxonomies in place or under development also set **further ‘essential’ criteria** to ensure that the activity does not contribute to an objective **at the cost of doing damage to another objective or society**; and they are particularly important in considering a just transition approach.
- Considering international practices and the Philippines’ progress on social and economic issues, it is proposed that for an activity to be taxonomy aligned, it should fulfil the following three (3) Essential Criteria:
 - (a) **Do No Significant Harm**
 - (b) **Remedial Measures to Transition**
 - (c) **Minimum Social Safeguards**

6.1 Do No Significant Harm

- **Do no significant harm (DNSH)** means that an activity should not do significant harm to **any other environmental objective**. An activity inevitably has an impact on its surrounding environment. For example, a wind farm that is built in a coastal area that is vulnerable to significant storm surges, may significantly harm the climate change adaptation objective if it is not reasonably designed to withstand expected climate change impacts.
- An assessment of DNSH to *other* environmental objectives forms part of the classification assessment of an activity.
- Recent research from the International Finance Corporation (IFC) and the Equator Principles Association has found that organisations which have adopted due diligence practices in line with the IFC Performance Standards, the World Bank Group Environmental, Health, and Safety (EHS) Guideline, or the Equator Principles can meet DNSH requirements (through a comparison with the strict DNSH criteria of the EU Taxonomy), without the need to add a new set of guidelines that are different from what institutions, particularly banks, are already doing.²⁶

²⁶ https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/publications/publications_ifceutaxonomy

- In addition, even though DNSH relates to an activity's significant harm to *other* environmental objectives, an activity may also be rejected for an environmentally sustainable classification (e.g., colour-coded green or amber classification) if it (the activity) causes some direct or indirect effect which detracts from the contribution to the intended environmental objective itself.

6.2 Remedial Measures to Transition

- If an activity **does** cause significant harm to another objective, it is possible that it may still be taxonomy aligned, **provided it has taken Remedial Measures to Transition (RMT)**. **RMT measures require** any actual or potential significant harm to be removed or rendered insignificant. The ASEAN Taxonomy v2 imposes a time limit where any RMT should be fulfilled within a 5-year timeframe from the assessment date.
- Comprehensive and realistic plans for RMT must be presented as part of the assessment. If significant harm is occurring or will occur, and RMT is not planned to be completed within the specified timeframe, the Activity is automatically classified as **Red**. If an assessment shows that an activity is causing or may cause significant harm, the classification can be downgraded to a lower colour-coded classification (e.g., Amber), pending effective remediation.
- The EU Taxonomy has over 700 individual DNSH criteria and has found to be highly complex and costly for compliance. Therefore, a series of guiding qualitative questions could be asked to assess DNSH as an initial phase to balance credibility of the assessment with potentially significant transaction costs. See Section 7.4.5 , drawn from the ASEAN Taxonomy v2 for example guiding questions.

Consultation question:

Is a 5-year period to allow for potential harm to be remediated appropriate? What sectors may require more than 5 years to remediate the harm? Should activities that cause any significant harm be automatically excluded? Would a questionnaire be a viable interim solution pending global efforts to simplify DNSH criteria?

6.3 Minimum Social Safeguards

- **Minimum Social Safeguards (MSS) or ‘Social Aspects’²⁷** are the standards to ensure that the entities doing the activities comply with national regulatory requirements and potentially international social frameworks. This assessment is typically done at the **company level** as opposed to the activity level. Applying this principle ensures that the activity achieving an environmental objective is not done while harming a social aspect.
- The ASEAN Taxonomy v2 has proposed three (3) social safeguards, as follows:

Social Aspects	Definition
 Promotion and Protection of Human Rights	Promotion of human rights and fundamental freedoms, in line with the ASEAN Human Rights Declaration (AHRD) and the Phnom Penh Statement on the Adoption of the AHRD (ASEAN, 2012).
 Prevention of Forced Labour and Protection of Children’s Rights	Promotion of labour rights and prohibition of forced labour, including but not limited to exploitation, trafficking in persons, violence and abuse, in line with the ASEAN Declaration on the Protection of the Rights of Migrant Workers and the ASEAN Consensus on the Protection and Promotion of Rights of Migrant Workers (ASEAN, 2012).
 Impact on People living Close to Investments	Management of investment-related impacts to people (including children) living in at-risk areas by encouraging inclusive and targeted measures to reduce the impact of investments on vulnerable populations and strengthen institutional capacity to address the needs of people affected, in line with the ASEAN Declaration on Strengthening Social Protection (ASEAN, 2013).

- It is proposed that these be adapted to the Philippines as follows:
 - Promotion and Protection of Human Rights:** At a minimum, activities must comply with the Philippines laws regarding human rights, labor rights, corruption, fair competition, and the country’s Constitution; and with relevant international conventions that have been ratified by the Philippines on labor and human rights;
 - Prevention of Forced Labour and Protection of Children’s Rights:** At a minimum, activities must comply with the Philippines laws including exploitation, trafficking in persons, violence, and abuse, as well as the core ILO conventions ratified by the Philippines²⁸. For example, this may include specific laws regarding employment of industrial homeworkers under DOLE 1974 and may be implied under other laws regarding confiscation of identity documents of migrant workers. Additionally, entities must comply with any nationally adopted laws under the ASEAN Declaration on the Protection of the Rights of Migrant Workers and the ASEAN

²⁷ This is the terminology used in ASEAN Taxonomy v2.

²⁸ A list of ILO ratifications is found here:

https://www.ilo.org/dyn/normlex/en/f?p=1000:11200:0::NO:11200:P11200_COUNTRY_ID:102970

Consensus on the Protection and Promotion of Rights of Migrant Workers (ASEAN, 2012).

- iii. **Impact on People living Close to Investments:** As companies undertake new investments, they must ensure targeted measures are taken to reduce the impact of those investments on vulnerable populations and the people affected. Given this, companies in the Philippines carrying out activities within ancestral domains/lands are required to undergo a free and prior informed consent (FPIC) process with indigenous cultural communities/indigenous peoples as part of the meaningful stakeholder consultation requirements (FAO, 2006). Entities must also comply with other national laws such as any adopting the ASEAN Declaration on Strengthening Social Protection (ASEAN, 2013). For example: (i) improved or restored livelihood and standard of living e.g., for displaced persons and for local household (ii) improved living conditions for physically displaced persons through the provisions of adequate housing with securities of tenure at resettlement sites (iii) promoting sustainable development benefits and opportunities for indigenous peoples in a culturally appropriate manner.

Consultation question:

Do the proposed three essential criteria provide enough guidance for taxonomy users to make their assessments of compliance?

7. How can a User assess their activities under the SFTG for the Philippines?

7.1 Phases: Principles-based approach evolving into an Activities-based approach

- The SFTG will be developed in **phases**. The first phase will take a **principles-based approach** using qualitative assessments of activities or projects with emphasis on climate change mitigation and climate change adaptation objectives. The readiness of the financial sector and the limited availability of data favour this approach. Subsequent phases will extend the environmental objectives to the Protection of Biodiversity and Transition to a Circular Economy.
- The future iteration of the SFTG will convert into an activities-based taxonomy, drawing on ASEAN's Plus Standard and other related taxonomies. An activities-based approach through a colour-coded classification system will include a detailed catalogue of economic activities along with technical screening criteria (TSC) on environmental performance and impact by -
 - determining activity specific metrics to evaluate performance;
 - indicating appropriate thresholds for these metrics above or below which an activity is considered sustainable and process- or practice-based (qualitative) TSC;
 - classifying activities driven by the TSC which represent the respective environmental policies of the Philippines, data availability, advancement in technology and the state of the financial sector; and
 - determining more detailed criteria to underpin the DSH requirement, as appropriate for the Philippines.

7.2 A 'traffic light' classification system

- Under the Principles-based approach, activities will be assessed according to a **series of guiding questions and decision trees** to ultimately determine if it is green, amber or red - a colour-coded 'traffic light' classification system.
- This approach enables the following: -
 - balances the near-term inclusive nature of the sustainable finance taxonomy with the long-term objective of a robust, transparent, and, where appropriate, globally harmonized approach based on current availability of corporate and/or activity-level data; and
 - allows for a bucket of transitional activities to gain access to 'transition' sustainable financing. This approach includes adapting to the ASEAN Taxonomy Foundation Framework v2 and the Malaysian Climate Change and Principles-based Taxonomy.

7.2.1 What does transition mean in taxonomies?

- Deciding what can qualify as **green and as transitional** is critical, but also challenging. It is critical because activities should not be included as green if they detract from achieving an objective, but there are some activities which partly contribute to an objective, but still cause some harm (e.g., producing cement with a technology that reduces but doesn't eliminate emissions).
- Other activities simply do not have a technological solution yet, such as shipping or aviation, but process engineering or energy efficiency improvements may reduce the carbon footprint of a ship or plane. It may be as important to assess whether a company funding an activity has an overall credible 'transition plan'. Determining what is credible may only be possible if they could be gauged against latest climate science deemed necessary to meet the Paris Agreement and/or with an independent third party assessing the plan. The Philippines, in balancing its development and environmental objectives will recognise transition activities in these first and subsequent phases.
- There are typically three ways 'transition' has been addressed in other taxonomies:
 1. A **transition whitelist approach**: activities with a positive climate impact that do not require any thresholds (e.g., solar energy generation), versus activities with benefits for climate mitigation purposes (e.g., CCUS for coal, reduction of methane leakage in pipelines). *This method is generally not practical for a principles-based approach as it relies on a list.*
 2. A **dynamic 'pathway' approach** between significant harm and significant contribution – they cause neither significant harm, nor make a substantial contribution, and are classified 'amber' using a traffic light approach. Here, activities might include (a) moving towards a low-carbon pathway aligned with the Paris Agreement, but are not currently zero emissions; (b) facing decarbonization barriers as alternatives do not exist (e.g., zero emission shipping); and (c) interim time-bound solutions that reduce GHGs compared to an alternative (e.g., CCS in a gas plant). *This method may be suitable for a principles-based approach.*
 3. **Remedial efforts to transition**, though still causing some harm, the activities do not involve further carbon lock-in and has a time-horizon for reducing harm (e.g., energy efficiency measures and renewable energy usage in steelmaking).²⁹ *This is an approach used in the ASEAN taxonomy Foundation Framework and may be suitable for a principles-based approach.*

²⁹ 2023, 'Activating Alignment', Gardes-Landofini, Stewart, Gardiner, Levine et al.(Forthcoming)

- A summary of various transition approaches in other taxonomies is included in **Appendix 4**.

7.2.2 Proposed classification of activities

- The principles-based approach to classifying activities aims to offer simplicity by undertaking a qualitative assessment against the relevant Environmental Objective(s) and then applying the Essential Criteria. They are designed to accommodate different users of the SFTG.
- A summary of the *potential* classifications is included below, but remains subject to feedback:

Table 8 – Description of the Colour-coded Classification System – Possible Options

Category	Activity's contribution to an Environmental Objective (EO) Option 1	Activity's contribution to an Environmental Objective (EO) Option 2
Green	The Activity is making a 'substantial' contribution to the EO. Includes activities clearly aligned with the objectives of the taxonomy (i.e., climate change mitigation and adaptation or undertaking a transition consistent with emissions-reduction pathways aligned with meeting the objectives of the taxonomy). For example, the ASEAN Taxonomy v2 requires a substantial contribution for an activity to qualify as green.	The Activity makes a contribution, which may either be 'substantial' in accordance with option 1; or it is not 'substantial' and causes no harm; or if still causing some harm, the activity does not involve further carbon lock-in and has a time-horizon for reducing harm (dynamic 'pathway' approach). Usually this would conventionally be considered to be 'transitional', as per option 1, and would fall into the Amber category, however, initially , under a principles-based approach, consideration could be given to including this category of activities as green.
Amber	Either: (a) Activity makes a contribution, but it is not 'substantial' and causes no harm, or if still causing some harm, the activity does not involve further carbon lock-in and has a time-horizon for reducing	The Activity does make a substantial contribution, but causes significant harm to another EO, but that harm is remediated. Includes time-bound activities pathways towards either green (if the technology exists), or significant de-carbonization that will contribute to the objectives of the

	harm (dynamic 'pathway' approach); or (b) following the ASEAN Foundation Framework approach, the Activity does make a substantial contribution, but causes significant harm to another EO, but that harm is remediated. Includes time-bound pathways towards either green (if the technology exists), or significant de-carbonization that will contribute to the objectives of the Taxonomy (e.g., steel, cement for which no feasible alternative technologies currently exist, coal phase-out for which clean energy alternatives are readily and economically available). Or both (a) and (b) can be considered 'amber'.	Taxonomy (e.g., steel, cement for which no feasible alternative technologies currently exist, coal phase-out for which clean energy alternatives are readily and economically available).
Red	The Activity is an Excluded Activity or is not aligned to any of the EOs or is causing significant harm to any of the EOs which cannot be remedied.	The Activity is an Excluded Activity or is not aligned to any of the EOs or is causing significant harm to any of the EOs which cannot be remedied.

7.2.3 What does a 'substantial' contribution mean?

- Some activities by their nature substantially contribute to an objective. These are activities which help with decarbonisation or improving adaptability to climate change. For the climate change mitigation objective, this might include solar power installations. For the climate change adaptation objective, this might include activities that substantially reduce the risk of adverse impact or substantially reduce the negative effects of current and expected future climate on that economic activity itself. Adaptation should be achieved without increasing the risk of an adverse impact on other people, nature, and goods.
- Enabling activities are those economic activities that substantially contribute to other objectives through the provision of their products or services, such as manufacturing low-carbon technology such as wind farm blades or developing technology for early warning systems for climate change adaptation. Provided they do not lock in assets undermining

long term environmental objectives, they can be considered to make an overall substantial contribution.

- Under a principles-based approach, there are no specific technical criteria set to determine whether an activity meets a ‘substantial’ threshold and requires the taxonomy user to use its own judgment in assessing the activity.

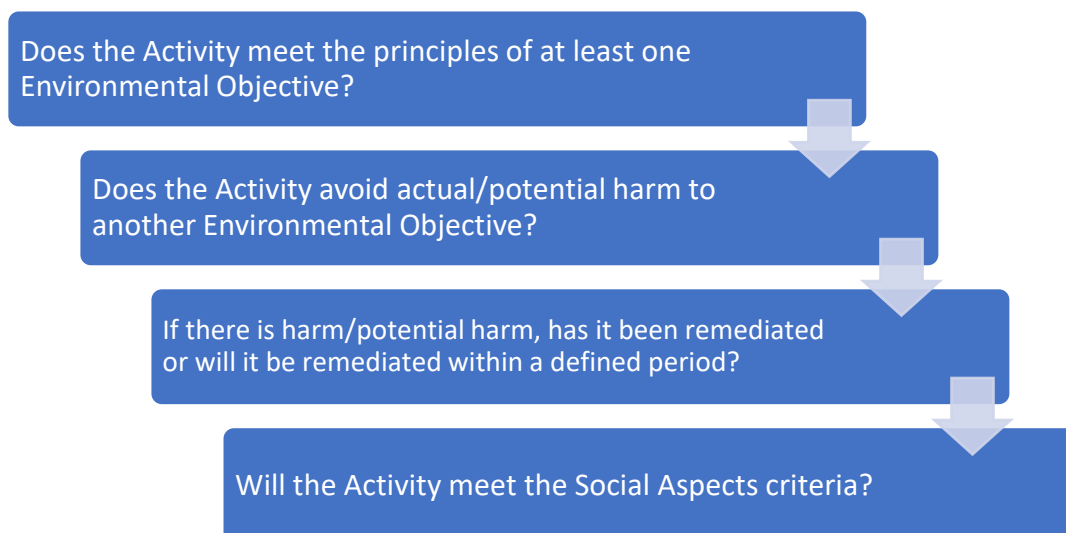
Consultation question:

Which Options for defining the Green and Amber categories above would be considered most suitable in an initial phase of the taxonomy and why?

7.3 Proposed assessment process for Activities

7.3.1 Generic approach to assessment

- Broadly, the following questions would be asked when assessing an activity. This is aligned with the process proposed in the ASEAN Taxonomy Foundation Framework v2 guidance and each element is detailed further in this paper.



7.3.2 Guidance on selecting the Environmental Objective

- Selecting the EO may not always be straightforward, and more than one EO can be listed, provided that a single EO is considered as the ‘primary’ objective. This should be clearly

stated in any assessment. The table below, from the ASEAN Taxonomy v2, outlines different user perspectives to guide the assessment of the EO.

Table 9 – Assessment of the Environmental Objective

1. Activity Relevance and Strategic Alignment	2. Investors / Financial Institutions' Priority	3. Government and Industry Guidance
Which EO is most relevant to the Activity?	What is the investors' priority and investment strategy?	Has government issued any guidance (including policies, roadmaps, and guidelines) which indicates that this Activity contributes to a specific EO under their NDC or national plan?
What is the strategic focus of the Company doing the Activity?	Which EO(s) is most aligned to the investors' priority and strategy?	Is there guidance (including policies, roadmaps, and guidelines) from the sectoral bodies which indicates that this Activity contributes to a specific EO under their sectoral plan?
Which EO(s) is most aligned to the Company's strategic focus?		
Companies should use their judgement, given the responses to the questions, to determine which environmental objective is the most relevant to the activity being assessed.		
Companies can refer to the guiding questions and narrative for each environmental objective to better understand its relevance.		

7.4 Using the Decision Tree and Guiding Questions to Assess an Activity

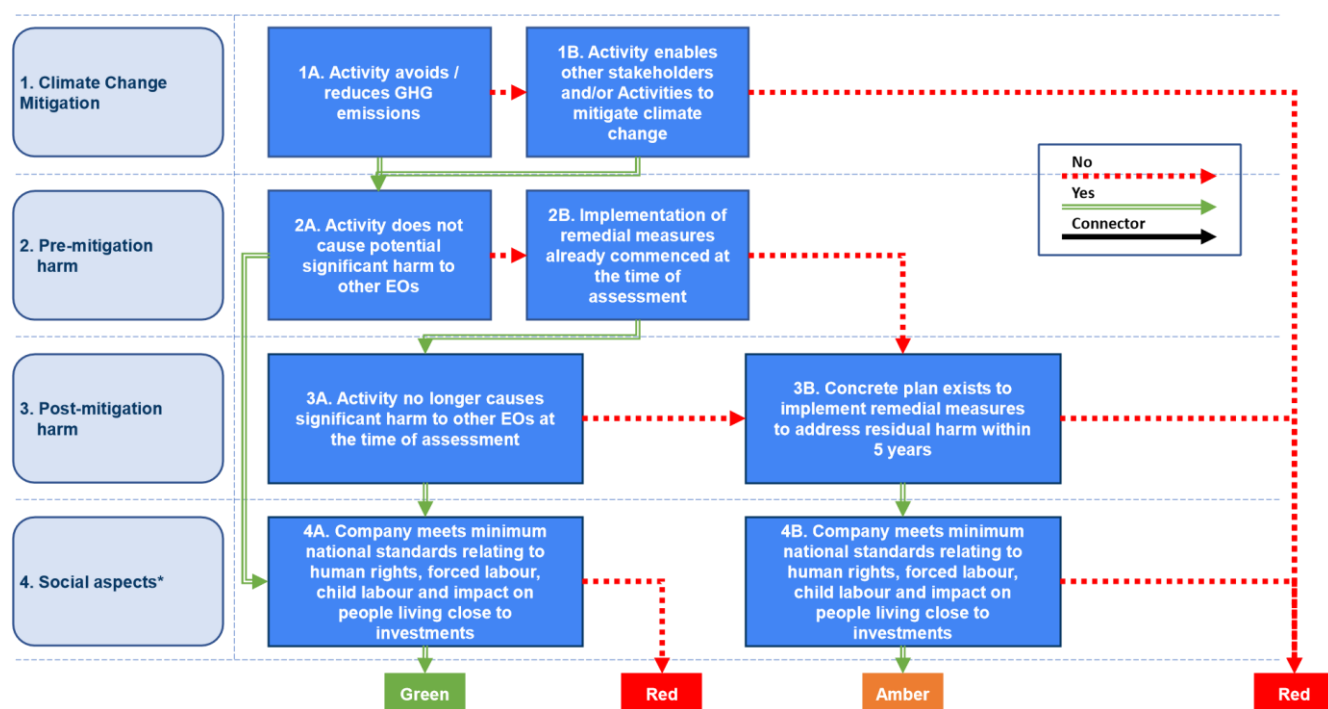
- Having decided on the primary EO, the user can assess an activity under the decision tree.
- In this first phase, there are two (2) proposed decision trees: Climate Change Mitigation (EO1) and Climate Change Adaptation (EO2). Further decision trees would be added in later phases for the objectives of Biodiversity (EO3) and Circular Economy (EO4).
- A series of use cases can be found in the ASEAN Taxonomy v2 Appendix D³⁰.

³⁰ <https://asean.org/wp-content/uploads/2023/03/ASEAN-Taxonomy-Version-2.pdf> pages 81ff.

7.4.1 Proposed Climate Change Mitigation Decision Tree and Guiding Questions (EO1)

- The following figure is an example from the ASEAN Taxonomy v2 Decision Tree, and depending on the traffic light approach taken, may be amended for the Philippines context.

Figure 9 – The EO1 Climate Change Mitigation Decision Tree



7.4.2 Guiding Questions for EO1 Climate Change Mitigation – 1A and 1B

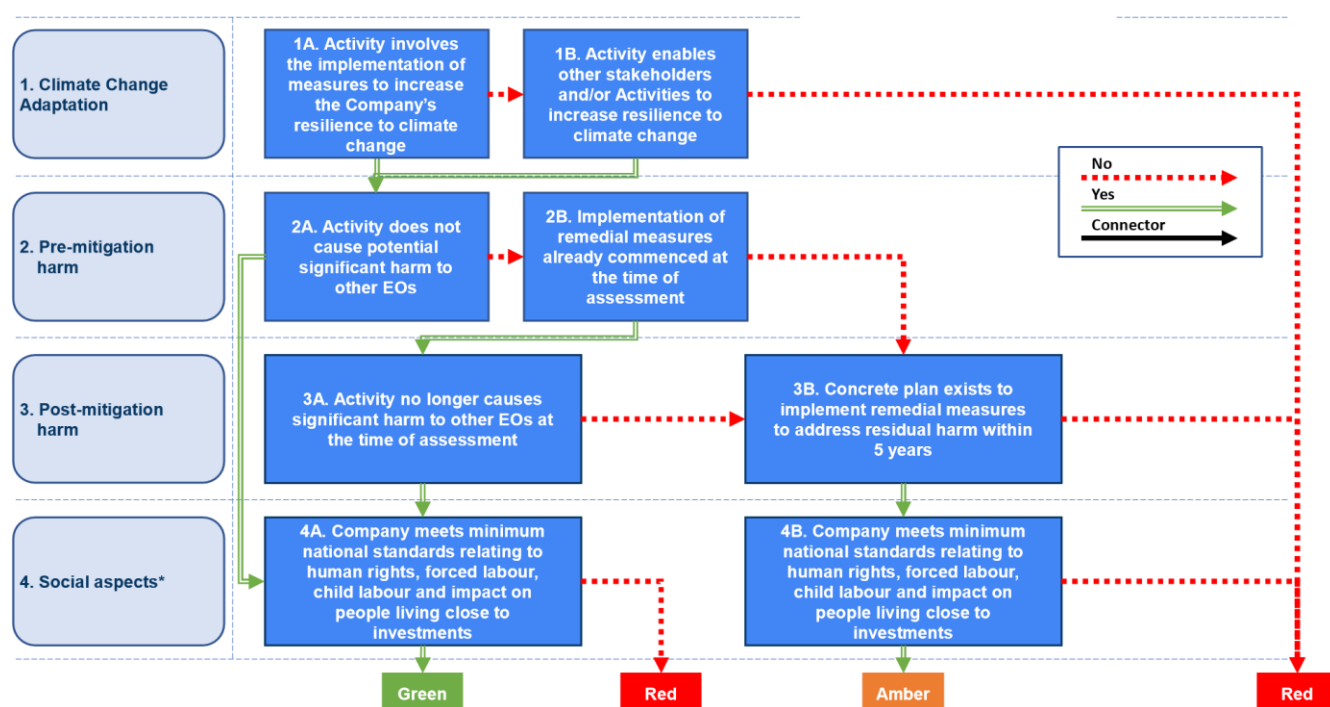
Table 10 – Guiding Questions for EO1 Climate Change Mitigation

S/N	Guiding questions - EO1 (Climate Change Mitigation)
1A	Does the Activity avoid / reduce GHG emissions? - How does the Activity substantially avoid or help reduce emissions? (e.g., generation of electricity through renewables) ✓ Does the Activity avoid locking in high-carbon activity? Is it delaying or preventing the transition towards low carbon alternatives? ✓ Does the Activity avoid leading to substantial GHG emissions, incl. CO₂, CH₄, N₂O, SF₆, NF₃ and/or HfCs? ✓ Does the Activity avoid leading to or causing extensive deforestation practices? - Do the Company's policies and business strategy generally avoid contradicting or impeding alignment with the specified EO1 principles? - Where applicable and relevant is a 3rd party certification or verification of alignment of Activity with EO1 available? - Does the Activity comply with relevant environmental law(s) applicable to EO1? - Are the effects of climate change mitigation efforts measurable and observable? (e.g., data on amount of carbon emissions avoided)
1B	Does the Activity <i>enable</i> other stakeholders and/or other Activities to mitigate climate change? - Does the Activity help other stakeholders (including the community) to mitigate climate change? (e.g., construction of a building that facilitates urban planting) ✓ Does the Activity help upstream and/or downstream stakeholders to reduce their GHG emissions? - Does the Activity promote intersectoral collaborations for climate change mitigation without negatively affecting other sectors? - How does the Activity enable other Activities to mitigate climate change? (e.g., installation of power transmission and distribution equipment that enables the incorporation of solar power) - Are the effects of climate change mitigation efforts by the enabled Activity measurable and observable? (e.g., data on amount of carbon emissions avoided)
Once evaluation is complete, proceed to evaluate the Activity under DNSH, RMT and MSS – see separate Guiding Questions in Section 7.4.5 below.	

7.4.3 Proposed Climate Change Adaptation Decision Tree and Guiding Questions (EO2)

- The following figure is an example from the ASEAN Taxonomy v2 Decision Tree, and depending on the traffic light approach taken, may be amended for the Philippines context. A use case for Climate Change Adaptation is included at Appendix 6.

Figure 10 – The EO2 Climate Change Adaptation Decision Tree



7.4.4 Guiding Questions for EO2 Climate Change Adaptation – 1A and 1B

Table 11 – Guiding Questions for EO2 Climate Change Adaptation

S/N	Guiding questions - EO2 (Climate Change Adaptation)
1A	Does the Activity implement measures to increase the Company's resilience to climate change? 1. How does the Activity substantially contribute to Company's resilience against adverse physical impacts of current and future climate change? (e.g., refurbishing infrastructure for greater resilience to impacts of sea level rise, building flood protection infrastructure to protect facilities, operation of road and rail adapted to current and future heatwaves using more heat-resistant materials during its construction) ✓ Has a climate risk assessment been conducted to establish the Activity's risk exposure towards physical climate risks?

S/N	Guiding questions - EO2 (Climate Change Adaptation)
	✓ Has robust and recent climate data, projections and scenarios been used for the assessment? ✓ Do the results of the climate risk assessment showcase the impacts of climate change on the Activity? Is it a positive or negative impact? ✓ Does the Activity consider the expected future climate in its current and planned practices? ✓ Does the Activity avoid leading to an increase in the vulnerability of human or natural systems because of climate change and climate variability– related risks? 2. Does the Activity avoid leading to an increased adverse impact of the current climate and the expected future climate, on the Activity itself or on people, nature, or assets? 3. Does the Activity avoid impediments to adjusting to actual and expected climate change and its impacts? 4. Do the Company’s policies and business strategy generally avoid contradicting or impeding alignment with the specified EO2 principles? 5. Where applicable and relevant, ^{is} a 3rd party certification or verification of alignment of Activity with EO2 available? 6. Does the Activity fulfil relevant environmental law(s) applicable to EO2? Is the reduction and/or prevention of increase in climate physical risks measurable and observable? (e.g., data on monthly transport accidents caused by natural disasters against maintenance activities delivered, data on houses repaired due to floods against budget increase for building safeguards)
1B	Does the Activity enable other stakeholders and/or Activities to increase resilience to climate change? 1. Does the Activity help other stakeholders (including the community) to reduce/manage physical risks? (e.g., provision of infrastructure to facilitate climate change adaptation of stakeholders) ✓ Does the Activity avoid impeding upstream and/or downstream stakeholders from increasing their resilience to climate change? 2. Does it promote intersectoral collaborations for climate change adaptation without negatively affecting other sectors? 3. How does the Activity enable other Activities to reduce material physical risks? (e.g., removal of technological barriers to adaptation, activity which primarily provides installation of irrigation systems and improved land drainage measures that lead to reduced exposure to physical climate risks)

S/N	Guiding questions - EO2 (Climate Change Adaptation)
	4. Has a climate risk assessment been conducted on the enabled Activity's risk exposure towards physical climate risks? ✓ Has robust and recent climate data, projections and scenarios been used for the assessment? ✓ Do the results of the climate risk assessment showcase the impacts of climate change on the enabled Activity? Is it a positive or negative impact?
Once evaluation is complete, proceed to evaluate the Activity under DNSH, RMT and MSS – see separate Guiding Questions in Section 7.4.5 below.	

7.4.5 Assessment of the Essential Criteria of DNSH, RMT and MSS

- Following the EOs assessment above, the assessor proceeds to the next layer of the decision tree and assesses the Activity against each of the Essential Criteria – Do No Significant Harm (DNSH), Remedial Measures to Transition (RMT) and Minimum Social Safeguards (MSS).
- An extract of the full decision tree used above is repeated here for easier reference:

Figure 11 – The logic flow and decision-tree diagram for assessing essential criteria

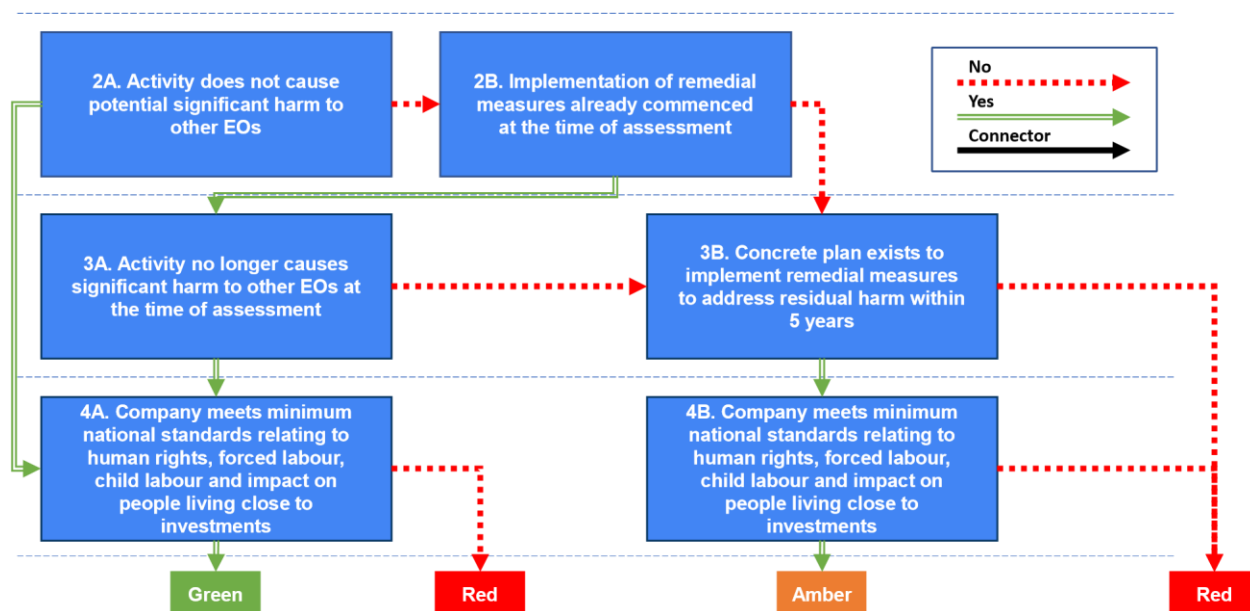


Table 12 – Guiding details to the decision box in the flow diagram

Decision Box	Details to Guide Decision
2A. Activity does not cause potential significant harm to other EOs.	The Activity potentially causes harm to EOs other than the one it is being assessed against. It is important to understand the significance of the harm caused by the Activity based on the materiality of the harm to each EO. The assessor should consider whether the degree (i.e., severity) of the harm and scale of the harm when the Activity commences (i.e., the date of the notice to proceed) would reasonably indicate that the harm is material.
2B. Implementation of remedial measures already commenced at the time of assessment	The Company implementing the Activity has recognised the potential for, or the occurrence of significant harm, and has already started to implement remedial measures to reduce harm at the time of assessment.
3A. Activity no longer causes significant harm to other EOs at the time of assessment	The implementation of remedial measures adequately mitigates/addresses the harm caused and the Activity no longer causes significant harm to other EOs.
3B. Concrete plan exists to implement remedial measures to address residual harm within 5 years	The implementation of remedial measures does not adequately mitigate or address the harm caused and as such, the Company has established concrete plans for additional remedial measures to address remaining harm within 5 years.
4A/4B. The Company meets minimum national standards relating to human rights, forced labour, child labour and impact on people living close to investments	The Company has recognised the impacts of its Activity on its employees and surrounding communities, and has met national standards relating to human rights, forced labour, child labour and impact on people living close to investments.

7.4.6 Guiding Questions for Do No Significant Harm (DNSH)

- The following are general guiding questions for DNSH, based on the ASEAN Framework v2 and are subject to consultation comments. One consideration as a threshold question is materiality – as a way to determine whether harm is ‘significant’. This can rely to an extent on the judgment by the assessor and may be appropriate for principles-based approach.³¹

³¹ The exposure draft of the International Sustainability Standards Board allows a degree of judgment as to what is ‘material’ by disclosing material sustainability risks on the basis that information is considered material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that the primary users of general purpose financial reports make on the basis of those reports. <https://www.ifrs.org/content/dam/ifrs/project/general-sustainability-related-disclosures/exposure-draft-ifrs-s1-general-requirements-for-disclosure-of-sustainability-related-financial-information.pdf>

Table 13 – General guiding questions for DNSH

S/N	Guiding questions - Do No Significant Harm
2A	Does the Activity avoid causing potential significant harm to other environmental objectives? 1. If an Environmental Impact Assessment (EIA) is required, has it been conducted and approved on the Activity? Has the Activity otherwise been assessed as material in its potential to cause significant harm? 2. What are the results of the EIA and where are the impacts of the activity? 3. Have remedial measures recommended in the EIA been implemented? 4. Regardless of whether an EIA has been conducted or not, is there any evidence or consideration that suggests the activity could cause significant harm to other environmental objectives?

- The assessor decides which of the remaining environmental objective(s) (other than the one to which it contributes) could experience significant harm because of the Activity. Additional guidance is included below.

Table 14 – Environmental Objective Specific guiding questions for DNSH

EO	Guiding questions - Do No Significant Harm
2A EO1 (CC Mitigation)	1. Does the Activity avoid significant GHG emissions, incl. CO₂, CH₄, N₂O, SF₆, NF₃ and/or HFCs? 2. Does the Activity avoid leading to or causing extensive deforestation? 3. Does the Activity avoid impeding upstream and/or downstream stakeholders from reducing their GHG emissions?
2A EO2 (CC Adaptation)	1. Does the Activity avoid leading to an increase in the vulnerability of human or natural systems because of climate change and climate variability-related risks? 2. Does the Activity avoid impeding upstream and/or downstream stakeholders from increasing their resilience to climate change? 3. Does the Activity avoid an increased adverse impact of the current climate and the expected future climate, on the activity itself or on people, nature, or assets? 4. Does the Activity avoid impeding the adjustment to actual and expected climate change and its impacts? 5. Does the Activity consider the expected future climate in its current and planned practices?

Consultation question:

Do E&S assessments already take into account biodiversity and circular economy considerations?

7.4.7 Guiding Questions for Remedial Measures to Transition

Table 15 – General guiding questions for RMT

S/N	Guiding questions – Remedial Measures to Transition
2B	Have remedial measures already started to be implemented at the time of assessment? 1. Does the Activity remediate risk and impacts through e.g., compliance with relevant (national) environmental law(s), internal policies and processes, implementation of additional measures that reduce harm? For example, is there an Environmental and Social Action plan in place with milestones, timelines and measure to ensure and disclose compliance? 2. What are these proposed actions and their contributions to remediation (e.g., avoidance, minimisation, reduction)? 3. Is there available technology for this Activity in place for compliant risk management measures against the adverse effects of climate change? 4. If the Activity is new and has yet to commence, consider whether there are planned remedial measures already in place to address the potential harm
3A	Does the Activity no longer cause significant harm to other EOs at the time of assessment? 1. If the answer is no, there is still ‘residual harm’, which refers to any harm that remains even after compliance with the relevant environmental laws and Company’s processes and policies, as well as implementation of any other measures on top of compliance, then go to 3B.
3B	Are there concrete plans established for remedial measures to address the residual harm within a defined timeframe (i.e., within 5 years)? 1. Do the planned remedial measures fall within the defined timeframe? 2. What is the expected output for results of tracking and monitoring (e.g., annual reports, sustainability reports, other publications)? 3. Are the remedial measures and assessments done appropriate/proportionate to the business’ scale of operations and industry benchmarks? 4. Who are the direct stakeholders involved in the Activity’s supply chain? What are these proposed actions and their contributions to remediation (e.g., avoidance, minimisation, reduction)?

- The assessor is required to answer all relevant guiding questions with “yes” to pass the DNSH and RMT assessment.
- The assessor can first determine which of the remaining environmental objective(s) (other than the one to which it contributes) will experience significant harm because of the Activity. The assessor can then refer to the guiding questions associated with the specific environmental objective(s) to assess whether significant harm has been caused.

7.4.8 Guiding Questions for Minimum Social Safeguards

- The key requirement of the Minimum Social Safeguards (MSS) assessment is to comply with relevant social regulation and legislation in the Philippines, as outlined in Section 6.3 above covering the following:
 - Promotion and protection of human rights
 - Prevention of forced labour and protection of children’s rights
 - Impact on people living close to investments.
- Unlike DNSH and RMT, the MSS assessment is performed at the **Company-level** as opposed to at an Activity-level, since social policies are usually developed at the Company level.
- The boundary of MSS coverage is proposed as follows:
 1. The MSS assessment will cover the immediate Company carrying out the Activity as well as branches/subsidiaries (if any) that are directly involved in carrying out the Activity, without which the Activity cannot be carried out.
 2. The adherence to the MSS of suppliers and subcontractors directly involved in carrying out the Activity, without which the Activity cannot be carried out e.g., through signing a Code of Conduct.
 3. The Company should refer to national legislation and regulations of the country in which the organisation (e.g., corporate or branch/subsidiary) is based.
- For example, if the immediate Company carrying out the Activity is based in the Philippines, but its subsidiary is based in Indonesia, then the assessment will be done with reference to Philippine legislation and regulations for the Company, while Indonesia legislations and regulations will be referenced for the subsidiary.
- Not meeting national legislation and thus failing the MSS assessment leads to a ‘Red classification’.
- Where legislation and regulations pertinent to any of the MSS are absent, the assessor shall follow the guiding questions instead. The Activity will pass the MSS assessment if all

the guiding questions are satisfactorily met. The guiding questions on MSS are shown in Table 16 below.

Table 16 – Guiding questions through the decision tree for the MSS Assessment

S/N	Guiding questions - MSS
4A 4B	Does the Company meet minimum national standards relating to human rights, forced labour, child labour and impact on people living close to investments? In the absence of minimum standards established through national regulations or legislation, the following guiding questions will be used: 1. Promotion and protection of human rights a. Does the Company have policies or guidelines that uphold an individual's right to enjoy just, decent and favourable working conditions? b. Does the Company have a clear and transparent policy that sets out measures to create a positive environment in overcoming discrimination? c. Does the Company have a policy that provides decent wages to all workers, considering adequate standards of living? 2. Prevention of forced labour and protection of children's rights a. Does the Company employ occupational health and safety practices? b. Does the Company have a clear and transparent policy that sets out measures taken to prevent and eliminate all forms of exploitation, trafficking, violence and abuse in its entire supply chain? c. Do all workers have the right to enter into, and leave, employment voluntarily and freely? d. If the Company employs migrant workers, are the migrant workers treated fairly? e. Does the Company ensure all its workers free access to their documentation? f. If the Company employs private employment agencies, do they conduct measures to ensure that such agencies are not involved in any form of exploitation, trafficking, violence and abuse? 3. Impact on people living close to investments a. Does the Company conduct risk and vulnerability assessments to ensure targeted response measures that would contribute to the progressive implementation, effective monitoring and evaluation, as well as optimum impact of social protection? b. Does the Company engage and strengthen the capacity of the community for the better responsiveness, coordination and effectiveness of risk reduction and management policies? c. Does the Company promote public awareness of their exposure and vulnerability and establish platforms to empower people to meet their basic needs?

- If a Company is found or known to have an unsatisfactory track record (due to violations or breaches) in at least one of the social safeguards outlined above, the Company will still be allowed to undergo the MSS assessment; but as an additional requirement, it has to prove that its relevant processes (where violations or breaches have occurred) have **improved and remediation processes were implemented** to prevent a repeat of violation or breach. Data on a Company's violations and breaches of the MSS may be collected

through publicly available sources, but it is ultimately up to the Company's discretion to voluntarily disclose such violations or breaches.

Consultation question:

Are the guiding questions across the three Essential Criteria clear and usable? Do the Minimum Social Safeguard Criteria appear reasonable and practical?

7.5 Optional Steps - Standards, Verification and Certification

- The Bank of International Settlement (BIS) has noted that outputs from implementing taxonomies could be more transparent and decision-useful for investors. Among key issues highlighted was the lack of granularity and lack of *verification* of achieved sustainability benefits and recommended as a policy intervention – “monitor and supervise the evolution of certification and verification processes”.³²
- This section proposes *optional* consideration of industry standards, verification and external certification as part of taxonomy assessment processes. For example, financial institutions can use third-party verifications or recognised certifications by local agencies, national authorities, or international accreditation bodies to inform their internal due diligence process. External verifiers can also give investors comfort regarding the status of an activity's alignment with a taxonomy.

7.5.1 Industry Standards

- When assessing contribution to EOs, DNSH, RMT and MSS, companies have the opportunity to assess their activities against a range of industry standards. Reference to a non-exhaustive list of associated international standards and certifications as benchmarks when dealing with the relevant sustainability gaps is outlined in the Appendix 5 of this document.
- We also recognise that locally relevant standards may reasonably be applied when considering either substantial contribution to an objective, or DNSH performance. In such circumstances, the company could demonstrate that local or national standards / schemes are equivalent to, or materially aligned with internationally recognised standards.

³² T Ehlers, BIS Papers No 118 A taxonomy of sustainable finance taxonomies, 2021.

- The key benefits of using international standards include improved access to international markets and investors, and eventually interoperability with other taxonomies. It is acknowledged, however, that transaction costs associated with such compliance may be too high for smaller companies.
- In the case of DNSH, a recent study indicated that where a user is following the IFC Performance Standards, the World Bank EHS standards or the Equator Principles, this may be sufficient to support compliance with DNSH criteria.

Consultation question:

The Taskforce seek feedback whether the use of international and relevant domestic standards on a voluntary basis would help to strengthen the assessment process of an activity without imposing undue burden to an Issuer or Borrower.

7.5.2 Role of Verifiers & Second Party Opinion Providers

- The requirement for verification or second party opinion varies between the standards and product types. We recognise that verifiers and specialised external parties can play an important role in providing opinions and ensuring integrity in the market, and that this is particularly important in a market like the Philippines and the ASEAN region, where regulation pertaining to the classification of activities as green or sustainable may not yet be developed or implemented.
- In the European Union, there is a growing market for independent verifications of taxonomy alignment declarations, where a systematic, documented audit-like process is undertaken to confirm whether an investment or assets is aligned under the taxonomy. This would also include an assessment of the DNSH and MSS criteria.

Consultation question:

What is the market potential for verifiers of taxonomy alignment? What specific guidance would be needed to support the growth of such a market?

8. Governance Considerations

- **In the development process of the SFTG, a suitable governance model is needed to administer the implementation of the document**, especially as the document is intended to be reviewed regularly. The BSP, SEC and IC, under the auspices of the FSF, was tasked to develop the taxonomy as part of the broader agenda of the Green Force. A taxonomy sub-team within the FSF was established to set objectives, design principles and methodology and eventually recommend the taxonomy proposals. Upon approval of the FSF, each of the member agencies would develop guidelines or regulations to implement the SFTG.
- **To encounter any operational issues and challenges of implementing SFTG, coordination between the government and a financial sector technical working group including FSF and experts with appropriate knowledge** in the fields of climate, environment, social, regulatory, data, and taxonomy is recommended. Members are to be appointed to a fixed term working group.
- The inclusion of elements of an activities-based approach will be considered in subsequent iterations of the taxonomy once science-based data and thresholds are available for the Philippines and will reflect the priority plans and activities of the government to achieve its climate-related and sustainability-related commitments. The members should make use of this guidance in developing technical standards for taxonomy-aligned activities.
- **Finally, sector- and subject-specific working groups and forums could also be created** to offer sector- and subject-specific guidance to guide the work of the FSF and relevant financial sector technical working group and to provide a place for stakeholders to voice their opinions on particular taxonomy topics that affect them. This will improve the governance of SFTG by facilitating collaboration, knowledge sharing, stakeholder engagement, policy recommendations, and continuous improvement.

9. Next Steps

- After the consultation, a First Phase Taxonomy document will then be produced, which then will be formalized into regulatory instruments at the discretion of the respective members of the FSF, in which an appropriate compliance timetable will be provided.

Overall Consultation Questions:

- **Do you have any other comments or suggestions for how the proposed sustainable finance taxonomy could be improved to better support sustainable finance practices and achieve sustainability goals in the Philippines?**
- **Do you think that the proposed sustainable finance taxonomy adequately reflects the unique sustainability challenges and opportunities facing the Philippines? If not, what changes would you recommend to better reflect local conditions?**
- **Does the proposed SFTG reflect MSMEs and financial inclusion considerations adequately? What suggestions do you have to incorporate these considerations?**
- **Do you believe that the proposed sustainable finance taxonomy adequately addresses the risks associated with unsustainable investments and activities? If not, how could the taxonomy be improved to better address these risks?**

Appendix 1 – Non-Exhaustive List of Prohibited Activities

A. Philippines Sustainable Finance Guiding Principles

Guiding Principle 7: Prohibited Activities

Economic activities must not be illegal under Philippines law and must not breach environmental laws and regulations. In addition, they should not:

1. negatively impact the socio-economic wellbeing of communities in the long term;
2. negatively impact the mitigation and adaptation efforts of others; or
3. negatively impact the other principles, where applicable.

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

- A. The open burning of solid waste;
- B. Open dumping, burying of biodegradable or non-biodegradable materials in flood prone areas;
- C. Importing of toxic waste misrepresented as “or “with recyclable content”;
- D. Discharging or depositing of water pollutant to the water body, or such which will impede natural flow in the water body;
- E. Constructing or operating landfills or any waste disposal facility on any aquifer, groundwater reservoir, or watershed area and or any portions thereof;
- F. Single use plastic;
- G. Use of exotic and/or bio invasive plant species in any reforestation and afforestation activity.

B. Government of Philippines Sustainable Finance Framework

Exclusion List:

For the avoidance of doubt, any expenditure related to the following activities will be excluded from Eligible Social Projects and Eligible Green Projects:

- Exploration, production or transportation of fossil fuel, fossil-fuel power-generation related projects.
- Manufacture and production of finished alcoholic beverages.
- Lethal defence goods.
- Military contracting.
- Gambling.
- Weaponry.
- Non-RSPO-certified palm oil.
- Manufacture and production of finished tobacco products.
- Conflict minerals.
- Activities/projects associated with child labor/forced labor.
- Extractive mining.
- Production or trade in wood or forestry products other than from sustainably managed forests;
- Involuntary resettlement and impact on livelihood (i.e. demolition of residential communities).

- Projects which would affect ethnic minorities/indigenous people and the lands they own or claim.
- Projects located near any protected areas

C. ASEAN Taxonomy Appendix F – non-exhaustive examples of laws on environmental protection and efficient use of natural resources:

1. Presidential Decree No. 1152 - Philippine Environment Code.
2. Republic Act 9275 Philippine Clean Water Act of 2004.
3. Republic Act 8749 Philippine Clean Air Act of 1999.
4. Republic Act No. 11038 - Enhanced National Integrated Protected Areas System Act.
5. Republic Act No. 9147 - Wildlife Resources Conservation and Protection Act.
6. Republic Act 9003 Ecological Solid Waste Management Act of 2000.
7. Republic Act 6969 Toxic Substances, Hazardous and Nuclear Waste Control Act of 1990.
8. Presidential Decree 1586 Environmental Impact Statement (EIS) Statement of 1978.
9. Presidential Decree No. 705 - Revised Forestry Code.
10. Republic Act No. 7942 - Philippine Mining Act of 1995.
11. Presidential Decree No. 1899 - Small-Scale Mining Law.
12. Republic Act No. 4003 - The Fisheries Act.

Appendix 2 – Potential Expansion to the Environmental Objectives

- I. **Biodiversity** - Resilient ecosystems and healthy **biodiversity** are important to prevent threats to society and the nation's economic system. Philippines' rich ecosystems, plants, animals, and microorganisms provide the essential ecological services, primarily protecting the quality of water, regulating the hydrological cycle, soil generation, watershed, recycling of nutrients, that enables quality environments, clean air and water, carbon sequestration and oxygen release and partake in the bounty of productive and healthy ecosystems. An economic activity will be considered as contributing substantially to the conservation efforts of biodiversity and ecosystems where that activity significantly contributes to protecting, conserving, or restoring biodiversity or achieving healthy ecosystems, or protecting ecosystems that are already healthy.
- II. **Circular Economy** - A **circular economy** is an economic model that addresses issues including waste, pollution, biodiversity loss, and climate change. The idea of the circular economy is to reduce waste production while extending the useful life of goods, materials, and resources by reintroducing them into the product cycle after usage. Contrarily, the current linear economy uses resources from the earth to produce goods that we use and consume before discarding them as garbage when they are no longer needed. This "take-make-waste" paradigm is shown to have widespread negative effects on organisations, people, or the environment. Beyond the linear extractive industrial production paradigm, three key principles serve as the cornerstones of the shift to a circular economy:
 - I. Closing material loops through:
 - a. Repair, reuse, refurbishment, and remanufacturing of end-of-life products are some ways to close material loops.
 - b. recycling waste and post-consumer materials into secondary raw materials for products and services.
 - c. restoration of deteriorated landscapes (e.g., reforestation of badly logged forests)
 - II. Increasing material loops through eco-design
 - III. decreasing material loops through efforts to improve resource efficiency.

Appendix 3 – Industry Classification System (Source: Singapore GFIT)

Industry classification systems	Coverage		Classification Structure	General Information
ISIC	International Standard Industrial Classification	Worldwide	4 levels 21 sections, 88 divisions, 238 groups, 419 classes	- Maintained by the United Nations - Has a central position among existing classifications - Used in the data compilation of various economic, social, health and demographic statistics
NACE	Statistical Classification of Economic Activities in the European Community	EU	4 levels (references ISIC rev. 4) 21 sections, 88 division, 272 groups, 615 classes	Used for the EU Taxonomy (Annex 3)
NAICS	North American Industry Classification System	USA	20 industrial sectors subdivided into subsectors, industry groups and industries	Used by the US Federal statistical agencies for gathering classifying statistical data on the US economy
CSIC	China Classification National Activities	People's Republic of China	4 levels (references ISIC rev. 4), 20 industries, 97 principal activities...	Used for national management of census, planning, tax reporting, etc.
GICS	Global Industry Classification System	Financial Industry	11 sectors 24 industry groups, 69 industries, 159 sub-industries	Common global classification standard by major groups involved in investing: asset managers, brokers, custodians, consultants, research teams and stock exchanges

Appendix 4 – Transition coverage in other taxonomies

Taxonomy	Approach to transition of criteria thresholds
EU	Technical screening criteria. Economic activities for which there are no technologically and economically feasible low-carbon alternatives may qualify where they support the transition to a carbon-neutral economy, correspond to best performance in the sector, do not hinder development or deployment of low-carbon alternatives and do not lock-in carbon-intensive assets.
ASEAN	Technical screening criteria ‘traffic light’ system incorporating a ‘stacked approach’ with activity-level criteria thresholds for different AMS, reflecting the various stages of development.
Singapore	Technical screening criteria ‘traffic light’ system with activity-level thresholds.
Malaysia	Principle-based approach to support an orderly transition by recognising commitments to remediate and adopt sustainable practices.
Japan	Principle-based approach that requires a credible transition plan, including science-based emission reduction targets for climate transition finance.
Korea	Divided into green and transition category activities. Transition category activities prioritise activities for net zero transition including GHG reduction in small-medium enterprise worksites, liquified natural gas hydrogen production and sustainable shipping and transport.
UK, Canada, Chile	Currently in development but will include transition and/or enabling activities.
CBI, CGT, NZ, China, SDG Taxonomy	Currently no eligible transition activities.

Source: ASFI “Analysis of international taxonomies and considerations for Australia”, October 2022

Appendix 5 – Examples of Industry Standards with Certifications and Verification

Sector Group	Sub-sector	Standard or Certification title	Relevant objectives	Independent verification?
Cross-sector				
Management Systems and Reporting		ISO 14001:2015 Environmental Management Systems	Multiple	Yes – formal audit and certification process by independent auditors.
		ISO 45001:2018 Occupational health and safety management systems	Multiple	Yes – formal audit and certification process by independent auditors.
		GHG Protocol	Multiple	No – but widely adopted international accounting tool to understand, quantify and manage greenhouse gas emissions
Macro Sector				
Agriculture, Forestry and Land Use (AFOLU)	Agriculture - Palm Oil	Roundtable on Sustainable Palm Oil (RSPO)	☐ Protect biodiversity ☐ Resource resilience ☐ No negative impact on communities' social and economic well-being	Yes – formal membership and certification process by independent certification bodies approved by the RSPO.
	Agriculture – Food products, animal feed and biofuels	International Sustainability & Carbon Certification (ISCC)	☐ Climate change mitigation ☐ Protect biodiversity ☐ Resource resilience ☐ No negative impact on communities' social and economic well-being	Yes – formal registration and certification process by independent certification bodies approved by ISCC.
	Agriculture – Cotton	Better Cotton Initiative (BCI)	☐ Protect biodiversity	Yes – formal membership and certification process

			☐ Resource resilience ☐ No negative impact on communities' social and economic well-being	by independent third-party verifiers approved by the BCI.
	Agriculture – Rubber	Forest Stewardship Council (FSC) Certified Natural Rubber	☐ Protect biodiversity ☐ Resource resilience ☐ No negative impact on communities' social and economic well-being	Yes – formal registration and certification process by independent certification bodies approved by Assurance Services International (ASI) for FSC.
	Agriculture – Sugar	Bonsucro Certification (Production and Chain of Custody)	☐ Protect biodiversity ☐ Resource resilience ☐ No negative impact on communities' social and economic well-being ☐ Comply with law	Yes – formal registration and certification process by independent certification bodies approved by Bonsucro.
	Agriculture – Coffee, Cocoa, Tea, Hazelnut	UTZ Certified	☐ Protect biodiversity ☐ Resource resilience ☐ No negative impact on communities' social and economic well-being	Yes – formal registration and certification process by independent certification bodies approved by UTZ (applicable to both UTZ and Rainforest Alliance certification).
	Agriculture – Food and farmed products Incl. Coffee, Cocoa, Tea	Rainforest Alliance	☐ Climate change adaptation ☐ Protect biodiversity ☐ Resource resilience ☐ No negative impact on communities' social and economic well-being	Yes – formal registration and certification process by independent certification bodies approved by UTZ (applicable to both UTZ and Rainforest Alliance certification).

	Agriculture – Food and farmed products Incl. Coffee, Cocoa	Fairtrade Certified	☐ Protect biodiversity ☐ Resource resilience ☐ No negative impact on communities' social and economic well-being	Yes – formal registration and certification process by independent certification body FLOCERT for Fairtrade.
	Agriculture – Soy	Roundtable for Responsible Soy (RTRS)	☐ Protect biodiversity ☐ Resource resilience ☐ No negative impact on communities' social and economic well-being	Yes – formal registration and certification process by independent accreditation and certification bodies, approved by RTRS
	Forestry	Forest Stewardship Council (FSC) Forest Management Certification and Chain of Custody Certification	☐ Protect biodiversity ☐ Resource resilience ☐ No negative impact on communities' social and economic well-being ☐ Comply with law	Yes – formal registration and certification process by independent certification bodies approved by Assurance Services International (ASI) for FSC.
	Forestry	Programme for the Endorsement of Forest Certification (PEFC)	☐ Protect biodiversity ☐ Resource resilience ☐ No negative impact on communities' social and economic well-being	Yes – formal registration and certification process by independent certification bodies approved by PEFC. Available in countries with PEFC-endorsed national certification systems.
	Fisheries	Capture Marine Stewardship Council (MSC) Certification	☐ Protect biodiversity ☐ Resource resilience ☐ Comply with law Yes	Yes – formal registration and certification process by independent Conformity Assessment Bodies

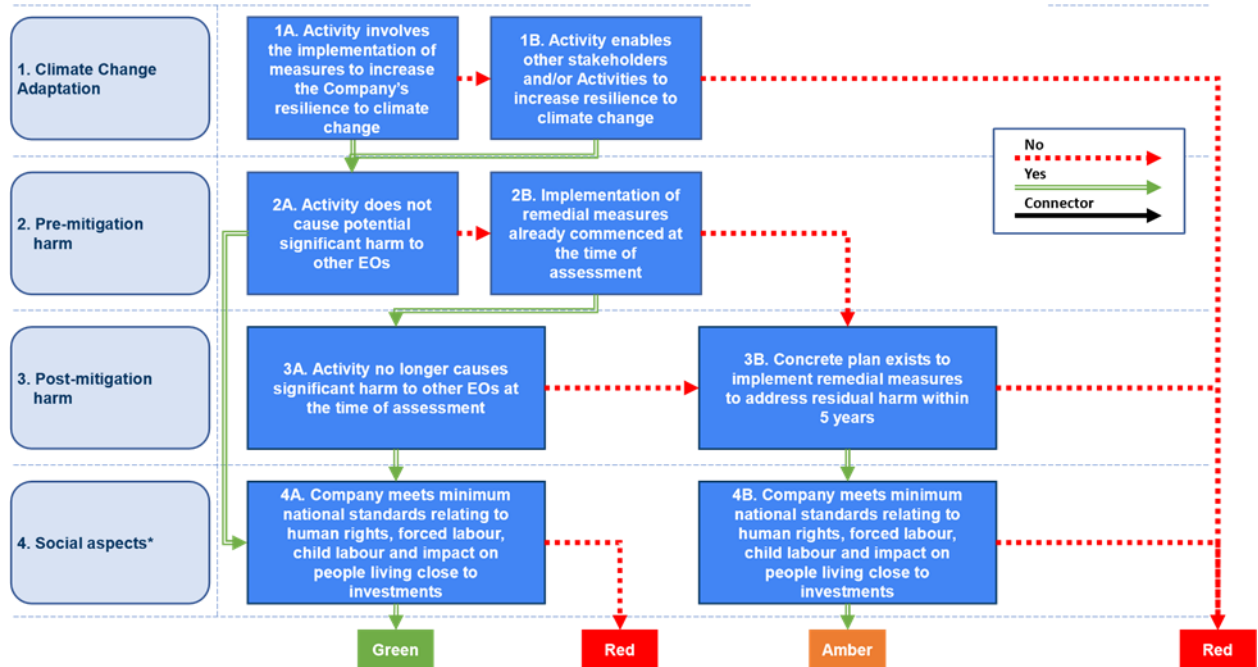
				(CABs) approved by MSC
	Fisheries	Capture Fairtrade Fisheries Standard	☐ Protect biodiversity Resource resilience ☐ No negative impact on communities' social and economic well-being ☐ Comply with law	Yes – formal registration and certification process by independent certification body FLOCERT for Fairtrade.
	Fisheries – Aquaculture	Aquaculture Stewardship Council (ASC) Certification	☐ Protect biodiversity ☐ Resource resilience ☐ No negative impact on communities' social and economic well-being	Yes – formal registration and certification process by independent certification bodies approved by Assurance Services International (ASI) for ASC.
Construction and Real Estate Buildings	Building - Construction and real estate	Building Research Establishment Environmental Assessment Method (BREEAM)	☐ Climate change mitigation ☐ Climate change adaption ☐ Protect biodiversity ☐ Resource resilience ☐ No negative impact on communities' social and economic well-being	Yes – formal registration and certification process by independent certification bodies approved by BREEAM.
	Buildings – Construction and real estate	Leadership in Energy and Environmental Design (LEED)	☐ Climate change mitigation ☐ Climate change adaption ☐ Protect biodiversity ☐ Resource resilience ☐ No negative impact on communities' social and economic well-being	Yes – formal registration and certification process by independent certification bodies administered by the Green Business Certification Inc. for LEED

	Buildings – Construction and real estate	Excellence in Design for Greater Efficiencies (EDGE)	☐ Climate change mitigation ☐ Resource resilience	Yes – formal registration and certification process by Green Business Certification Incorporated (GBCI). EDGE established by the International Finance Corporation (IFC)
Transportation and Fuel Transport	Transport - General	General Science Based Targets Initiative (SBTI) Transport Sector Guidance & Tools	☐ Climate change mitigation ☐ Climate change adaption	No – voluntary initiative adopted by companies to reduce GHG emissions in line with Paris-aligned, science-based targets.
Energy, including upstream	Electricity production - General	Science Based Targets Initiative (SBTI) Power Sector Guidance & Tool	☐ Climate change mitigation ☐ Climate change adaption	No – voluntary initiative adopted by companies to reduce GHG emissions in line with Paris-aligned, science-based targets.
	Electricity production	Hydropower International Hydropower Association (IHA) Hydropower Sustainability Assessment Protocol (HSAP)	☐ Climate change adaption ☐ Protect biodiversity ☐ No negative impact on communities' social and economic well-being	Accredited assessor qualification managed by the IHA for auditors conducting project assessment.
	Electricity production	Nuclear power International Atomic Energy Agency (IAEA) Safety Standards and Nuclear Security Series	☐ No negative impact on communities' social and economic well-being ☐ Comply with law	The IAEA Safety Standards support the implementation of binding international instruments and national safety infrastructure, typically ratified via national nuclear safety law and regulation.

Industrial Manufacturing	Apparel and home goods	Fairtrade Certified Resource	☐ Resource resilience ☐ No negative impact on communities' social and economic well-being ☐ Comply with law	Yes – formal registration and certification process by independent certification body FLOCERT for Fairtrade.
	Manufacturing – Chemicals	Responsible Care	☐ Protect biodiversity ☐ No negative impact on communities' social and economic well-being	Responsible Care is a voluntary initiative under which companies, through their National Associations work together to continually improve their performance – refer to national schemes recognised under the Responsible Care program.
Enabling Sectors				
Information and Communications Technology			Multiple	
Waste and Circular Economy			☐ Climate change mitigation ☐ Resource resilience	
Carbon Capture and Sequestration			Climate change mitigation	

Appendix 6 – Use Cases on Climate Change Adaptation

The Decision Tree



Real Estate and Construction

(Source: Reference the ASEAN Taxonomy Version 2)

The Company is a land developer with operations across ASEAN.		
Description	The Company has recently acquired a plot of land in the Philippines, which contains a dilapidated office building and several informal settlements. The Company is seeking financing to develop the land area by demolishing the dilapidated office building and constructing a multi-towered office complex. The Company procures the construction materials (concrete, steel, wood, etc.) from an accredited supplier and enlists specialised services (roofing, plumbing, electricians, etc.) from a subcontractor for the activity. Both supplier and subcontractor are based in the Philippines.	
Sustainability Practices and Actions	• Increasing the resilience of developments to the effects of climate change • Protecting and restoring local biodiversity through native tree conservation, moving/re-planting, and planting in the design • Increasing resource efficiency, by reducing resource use, upcycling, and recycling • Ensuring the health and safety of employees in and out of work	
User Perspective	Has the government issued any guidance (including policies, roadmaps, and guidelines) which indicates that this Activity contributes to a specific EO under their NDC or national plan?	Given the vulnerability of the Philippines to the effects of climate change, including droughts, heatwaves and flooding, the Department of Environment and Natural Resources has led the Inter-Agency Committee on Climate Change to put together the National Strategy for Climate Change Adaptation. A focus of this action plan is infrastructure, including investments in public and private buildings of all types. This will in part involve designing and constructing infrastructure according to the country's guidelines on climate resilient buildings. Therefore, EO2 is most aligned to the priorities of the government of the Philippines.
	What is the investors' priority and investment strategy? Which EO(s) is most aligned to the investors' priority and strategy?	The investor is looking into environmentally responsible investments and understanding the Philippines' vulnerability to climate change-related extreme weather conditions, is seeking investments that improve Manila's resilience to climate change, including the construction of infrastructure with climate resilient features like drainage systems and passive cooling. Therefore, EO2 is most aligned to the investors' priority and strategy.
Based on the above, Climate Change Adaptation is the primary Environmental Objectives.		

Climate Change Adaptation Assessment	1A. Does the Activity implement measures to increase the Company's resilience to climate change? How does the activity contribute to Company's resilience against adverse physical impacts of current and future climate change?	The office complex will use passive cooling methods, like green roofing and landscaping with native trees. This helps reduce temperatures within and around the buildings, as well as manage the Urban Heat Island Effect, hence increase resilience to extreme heat. The construction of the office complex will also involve building extensive drainage systems and a decent percentage of permeable surfaces. Given that Manila is prone to flooding, this infrastructure will enable an increase of the Company's portfolio's resilience to floods.
	Does the Activity avoid leading to an increase in the vulnerability of human or natural systems because of climate change and climate variability-related risks?	No, because the building is constructed with climate change resilience in mind, it generally does not lead to an increase in vulnerability to the effects of climate change.
	Yes, the activity implements measures that increase the Company's resilience to climate change.	

DNSH / RMT Assessment	2A. Does the activity avoid causing potential significant harm to other EOs?	
	Has an EIA been conducted and approved on the Activity?	Yes
	What are the results of the EIA and where do the impact of the activity lie?	The results of the EIA highlight biodiversity protection through conservation of on-site native trees as part of the building design, moving/replanting if incorporation to the current design is not possible, and planting native trees. However, the demolition and construction of the new office building could potentially generate vast amounts of construction waste.
	(EO4) Does the activity avoid leading to a significant increase in the generation, incineration, or disposal of waste?	Construction and demolition activities generate significant amounts of waste, including steel, wood, concrete, and asphalt. Without proper management, this will lead to the significant increase in the generation, incineration and/or disposal of waste.

	No. The activity causes potential significant harm.	
	2B. Has the implementation of remedial measures already commenced at the time of assessment?	Yes. To minimise the amount of waste bound for landfills and promote the establishment of a circular economy, the Company has measures in place e.g., purchasing mostly recycled materials, and recycling any construction waste they generate. When procuring construction materials, the Company purchases most of their inputs from companies that upcycle construction waste to produce new construction materials. Any construction waste generated is also separated and sent to in-house or third party recycling companies. Construction of the new building will adhere to the circular economy standards which are laid out in the Company sustainability policy.
	3A. Does the activity no longer cause significant harm to other EOs at the time of assessment?	Yes. Harm has been mitigated, as recycled materials will be primarily used, and construction waste will be recycled.
Interim Classification	Based on the above, the Interim Classification is Green	

Minimum social safeguards assessment	4A. Does the Company meet minimum national standards relating to human rights, forced labour, child labour and impact on people living close to investments?	The activity is carried out by the Company based in the Philippines. A supplier and a subcontractor are also involved by providing materials and services, respectively, without which the activity cannot be carried out. Therefore, the social aspect assessment will cover the Company, supplier, and subcontractor. The organisations are based in the same location; hence they will be assessed according to Philippine legislations and regulations. - The Company's, supplier's and subcontractor's operations meet the relevant Philippine legislations and regulations on: - o Respect human rights (Constitution of the Philippines) - o Prevention of forced and child labour (Labour Code of the Philippines, Expanded Anti-Trafficking in Persons Act of 2012, and Special Protection of Children Against Abuse, Exploitation and Discrimination Act)
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		• The Company, supplier and subcontractor uphold the rights and principles indicated in the AHRD and ACPPRMW such as but not limited to the following: - o Employment of policies and guidelines that respect freedom of association and right to collective bargaining in line with Paragraph 27(2) of the AHRD on “right to form trade unions and join the trade union of his or her choice for the protection of his or her interests” - o Issuance of written employment contracts that clearly stipulate the basic terms of employment in line with Paragraph 14 of the ACPPRMW on “right to be issued an employment contract or proper documentation by relevant authorities/bodies and/or employers with clear and basic terms of employment” • The supplier and subcontractor have also been found to follow the Company’s Supplier’s Code of Ethics • However, the Company’s operations do not meet the relevant Philippine legislations and regulations on: - o Impact on people living close to investments (Department of Natural Resources and Environment Administrative Order No. 30 Series of 2003) • The Company at present does not have any avenues for affected groups to raise grievances, despite the potential for social harm in land development (e.g., displacement of nearby communities) which is a violation of Paragraph 12 of the ADSSP on advocating “strategies that promote the coverage, availability, comprehensiveness, quality, equitability, affordability, and sustainability of various social protection services.
	No, the Company does not meet minimum national standards relating to human rights, forced labour, child labour and impact on people living close to investment.	
Final Classification	Based on the above, the Final Classification is Red.	