SEC MEMORANDUM CIRCULAR NO. 5
Series of 2024

TO	:	**ALL REGULATED ENTITIES**
SUBJECT	:	**Guidelines on the Philippine Sustainable Finance Taxonomy**
DATE	:	23 February 2024

The Philippine Sustainable Finance Taxonomy Guidelines (SFTG) was formulated through collaborative efforts between the Bangko Sentral ng Pilipinas (BSP), Securities and Exchange Commission (SEC), and Insurance Commission (IC). This initiative was carried out under the auspices of the Financial Sector Forum (FSF) in line with the directives outlined in the Philippine Sustainable Finance Roadmap, which was issued by the Inter-agency Technical Working Group for Sustainable Finance (also known as the Green Force) in October 2021.

The primary goal of the SFTG is to channel and amplify capital towards economic endeavors that further sustainability goals, such as lowering greenhouse gas (GHG) emissions and bolstering climate resilience. Additionally, it fosters transparency and reliability by reducing the likelihood of greenwashing and facilitates a fair transition to a sustainable economy.

Section 1. Applicability - These guidelines will be referred to as the "Philippine Sustainable Finance Taxonomy Guidelines (SFTG)". They are designed in accordance with the Philippine Sustainable Finance Guiding Principles, aimed at promoting sustainable finance within the nation. The SFTG will function as a framework for determining the environmental and social sustainability of economic activities, providing stakeholders with guidance to make well-informed investment and financing choices.

Issuers shall refer to the Philippine SFTG when making investment decisions or designing sustainable financial products and services, among others. In issuing green, social, sustainability, sustainability-linked bonds and other similar issuances, issuers shall comply with the Memorandum Circulars on bond standards or guidelines issued by the Commission. In addition, the considerations for the environmental objectives could provide additional guidance in determining eligible green projects (e.g., in determining substantial contribution).

Section 2. Assessment - The following steps outline the process for determining if an economic activity qualifies as environmentally or socially sustainable, and whether its financing can be categorized as aligned with the SFTG:

1. **Determine that the activity to be financed is not included in the enumeration of "Excluded Activity" under the SFTG and is compliant with Philippine laws.** Unless otherwise specified, an Excluded Activity is not aligned with the SFTG. However, there are certain instances provided in the SFTG wherein excluded activities may be considered as

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enablers of climate change mitigation or adaptation objectives, and in turn, may be eligible for financing under the Amber classification. Meanwhile, if the activity is illegal under Philippine laws or is in breach of environmental laws and regulations, the same is considered outside of scope of the SFTG.

2. **Select the relevant Environmental Objective (EO) of the activity.** In assessing the primary objective of the activity, the following factors may be considered:

    (i) activity relevance and strategic alignment;

    (ii) investors/financial institutions' priority; and

    (iii) government and industry guidance.

    Regulated entities shall refer to the guidance on substantial contribution as well as to the guiding questions for climate change mitigation (EO1) and climate change adaptation (EO2) under the SFTG to determine which EO is relevant to the activity being assessed.

3. **Assess whether the activity significantly harms the other EO.** An activity contributing to one EO should not cause significant harm to another EO. Regulated Entities shall refer to the general guiding questions for the *Do No Significant Harm* (DNSH) to focus assessment on the potential or actual harm to another EO.

4. **If there is harm, verify that the same has been remediated or will be remediated within the required defined period.** If an activity does cause significant harm to another EO, it is possible that it may still be SFTG-aligned, provided *Remedial Measures to Transition* (RMT) are taken. Any RMT should be fulfilled within a 5-year timeframe without independent verification from the assessment date. If the remediation is longer than 5 years but not exceeding 10 years, this must be supported by an independent external verification lending credibility to the longer RMT timeframe.

The SFTG provides a set of guiding questions and decision trees to support the regulated entities' assessment. In addition, entities undertaking the economic activity should comply, at a minimum, with the Philippine social safeguard requirements.

After the assessment process, economic activities may be classified as Green, Amber or Red, following the definitions under the SFTG. An activity that falls under the Red classification does not imply that the activity is unsustainable. Rather, the subject activity does not meet the higher sustainability ambition of the SFTG or pass the DNSH or minimum social safeguards tests. The activity classified as Red may still be eligible for "unlabeled" financing. .

The SFTG offers a simplified approach for the assessment of micro, small and medium enterprises' (MSMEs) activity for financing. This is to ensure that MSMEs are not unduly excluded from participating in sustainable finance.

The details of the Philippine SFTG are provided in the Annex 1 of the Memorandum Circular.

Section 3. Compliance - Regulated entities are directed to deepen understanding and familiarity with the SFTG and are encouraged to take into consideration its provisions and prescribed standards.

Section 4. Effectivity - This Circular shall take effect immediately upon its publication in two (2) newspapers of general circulation.

Issued this 23 February 2024 at Makati City, Philippines.

For the Commission:

COMMISSIONER JAVEY PAUL D. FRANCISCO
Officer-in-Charge

ANNEX 1:
PHILIPPINE SUSTAINABLE FINANCE TAXONOMY GUIDELINES

FINANCIAL SECTOR FORUM



PHILIPPINE SUSTAINABLE FINANCE TAXONOMY GUIDELINES

VERSION 1, FEBRUARY 2024

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Executive Summary

The Philippines is in the Circum-Pacific Belt (the "Ring of Fire") and 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 Philippines also lies in the world's most cyclone-prone region. The disruptive effects of climate-related disasters have the potential to adversely affect production and the economy more broadly and likewise can be a potent threat to the stability of the Philippine's financial sector. Yet the Philippines has made considerable progress towards realizing its vision of becoming an upper middle-income country by 2040. With strong gross domestic product (GDP) growth and significantly reduced poverty levels, however, greenhouse gas (GHG) emissions have also grown. This may persist if robust climate ambitions and actions are not aligned.

The Philippines has set out key policy responses to deal with the effects of climate change and commits under the Paris Agreement to reducing projected cumulative greenhouse gas emissions by 75 percent from a business-as-usual scenario, of which 2.71 percent is unconditional and 72.29 percent is conditional on international support. While the Philippines' share of global GHG emissions is less than 0.5 percent[1] as of 2021, it recognizes its international commitments under the Paris Agreement to reduce GHG emissions, and the opportunities of GHG mitigation for sustainable development and co-benefits including pollution prevention. It demonstrates the country's responsibility in addressing common threads as Philippines may be highly vulnerable to the impact of climate change.

The case for the more ambitious Nationally Determined Contribution (NDC) is manifested out of the country's climate-related vulnerability and the continued loss and damage from extreme weather events - reaching 4 percent of GDP in 2013 (due to Super Typhoon Haiyan) whilst successive typhoons in October and November 2020 alone resulted in approximately USD 852 million in losses and damages in agriculture and infrastructure. In the energy sector, Super Typhoon Goni alone destroyed USD 56.3 million worth of infrastructure in the country's 25 provinces. Noting the increasing difficulty for fast and timely recovery, it is apparent that the financial impacts of these climate events are outstripping the country's capacity to withstand climate shocks.

Given this, the country's action to reduce emissions helps to safeguard Philippines from the harsh effect of climate change and strengthen its ability to handle these challenges. The scale of financing needed to meet Philippines' climate goals is colossal, with an

[1] See Our World in Data Philippines GHG emissions (https://ourworldindata.org/co2/country/philippines)

estimated USD 168 billion in green investment opportunities between 2020 and 2030. Climate investments between 2017 and 2021 account for only 1 percent 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, including Bangko Sentral ng Pilipinas ('BSP'), the Insurance Commission ('IC') and the Securities and Exchange Commission ('SEC'), under the auspices of the Financial Sector Forum[2] (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 scaling sustainable finance and would be significantly informed by the Philippines Sustainable Finance Roadmap and Sustainable Finance Guiding Principles.

A sustainable finance taxonomy is a tool to classify whether an economic activity is environmentally and socially sustainable. Once classified, a taxonomy can act 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 likewise promotes transparency and credibility by minimizing the risk of greenwashing and supports a just transition to a sustainable economy.

The FSF has developed these Sustainable Finance Taxonomy Guidelines (SFTG) extensively drawing on version 2 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, with variations to account for national circumstances. The SFTG will initially focus on the objectives of **climate change mitigation and climate change adaptation**, with a view to adding ecosystems and biodiversity and circular economy, as well as potential social objectives in future iterations. Other environmental and social factors are considered through additional

[2] This is a voluntary inter-agency body comprised of the BSP, SEC, IC, and the Philippine Deposit Insurance Corporation (PDIC).

screening based on the 'do no significant harm' principle, and minimum social safeguards, appropriate to the Philippines context.

Certain activities are excluded from alignment with the SFTG, following existing Philippine sustainability frameworks. This does not mean that they are unable to be financed, nor does it mean that they are inherently 'unsustainable'. Rather they reflect the fact that a 'substantial' contribution to an objective requires a certain level of ambition and that certain activities are already recognized as inappropriate for a label implying sustainability.

A traffic light approach has also been used to reflect an 'Amber' or transition category and 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. A separate user guide will contain use cases.

Particular focus has been given to the significant role of MSMEs in the Philippines economy adopting a risk-based/proportionate approach to alignment for MSME's. This is to ensure that MSME's are not unduly excluded from participating in sustainable finance.

Glossary

Activity	An Activity takes place when resources such as capital, goods, labor, manufacturing techniques or intermediary products are combined to produce specific goods or services. It is characterized by an input of resources, a production process, and an output of products (goods or services). For the purposes of assessment, an Activity may be defined as an expansion or significant upgrade of an existing Activity.
Adaptation	This refers to the adjustment in natural or human systems in response to actual or expected climatic stimuli or their effects, which moderates harm or exploits beneficial opportunities.
Assessor	This refers to a person or organization which assesses an activity and assigns a classification based on the Sustainable Finance Taxonomy Guidelines (SFTG).
Assessment	This refers to the process by which the applicability of classification of an Activity is determined.
Carbon capture and Storage (CCUS)	The capture of carbon dioxide (CO2) from large point sources, such as power generation or industrial facilities. If not being used on-site, the CO2 is compressed and transported to be used in a range of applications or injected into deep geological formations.
Carbon Lock-in	Carbon lock-in occurs when transitioning to cleaner and more sustainable energy sources is rendered more difficult due to the existing infrastructure and economic systems being built around the use of carbon-based fuels.
Climate Finance	This refers to resources that have been allocated or may be utilized towards the climate change adaptation and mitigation requirements of the country and its vulnerable communities (Climate Change Act of 2009, as amended by Republic Act No. 10174).
Company	This means the organization seeking classification of an Activity.

Do No Significant Harm (DNSH)	This refers to the principle that an activity which makes a substantial contribution to one of the official Environmental Objectives selected for this taxonomy should not cause significant harm to any of the other Environmental Objectives.
Environmental Impact Assessment	A comprehensive document of a project's environmental and social risks and impacts according to Philippine law.
Environmental Objectives (EO)	This initially comprises Climate Change Mitigation and Climate Change Adaptation. This forms part of the assessment of an activity under the SFTG.
Essential Criteria (EC)	This comprises Do No Significant Harm (DNSH), Remedial Measures to Transition (RMT) and Minimum Social Safeguards (MSS). Similarly, the EC is considered in the assessment of an activity under the SFTG.
Mitigation	Within the context of climate change, this refers to human intervention to reduce anthropogenic emissions sources and enhance removals by sinks of all GHG, including- ozone-depleting substances and their substitutes.
Micro, Small and Medium Enterprises (MSMEs)	The MSMEs are defined in two ways in the Philippines – by employment size and by asset size, either of which may be applied in the SFTG. The Philippines Statistical Authority classifies an enterprise as a micro if it has less than 10 employees; small if it has 10-99 employees; medium with 100-199 employees; and large if it has 200 or more employees. The Magna Carta for Micro, Small and Medium Enterprises (as amended to 2008) classifies an enterprise as micro if it has up to Php 3,000,000 asset size; small if it has Php 3,000,001–15,000,000 asset size; medium if it has Php 15,000,0001–100,000,000 asset size; and large if it has Php 100,000,001 and above asset size.
Minimum Social Safeguards (MSS)	The social standards aim to ensure that the entities doing the activities comply with national regulatory requirements. 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.
Remedial Measures to Transition (RMT)	This refers to the measures that must be undertaken to remove or render insignificant any actual or potential significant harm to an Environmental Objective. In this SFTG, particular time periods can be allocated for an activity to be aligned.
Substantial Contribution	The level of contribution required by an activity towards an Environmental Objective to qualify as Green or Amber, provided other Essential Criteria are met.
Sustainable Finance	This refers to any form of financial product or service which integrates environmental, social and governance criteria into business decisions that support economic growth and provide lasting benefit for both clients and society while reducing pressures on the environment. Sustainable finance includes, as a subset, green finance which is designed to facilitate the flow of funds towards green economic activities and climate change mitigation and adaptation projects.

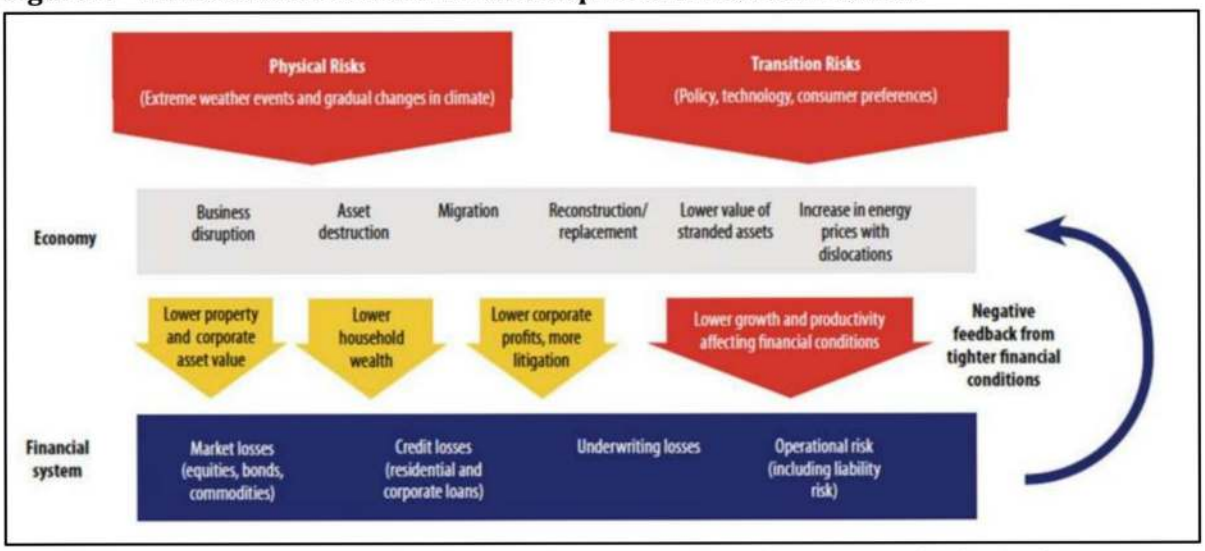
Certain definitions have been borrowed from and adapted from the ASEAN Taxonomy Version 2.

1. The Philippine Context for Sustainable Finance

- **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 is in the Circum-Pacific Belt (the "Ring of Fire") and 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 Philippines also lies in the world's most cyclone-prone region. 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 disasters 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 investing in high carbon emission properties and assets, as well as reinsurance firms that offer protection against climate-related 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 pose threats to financial stability.

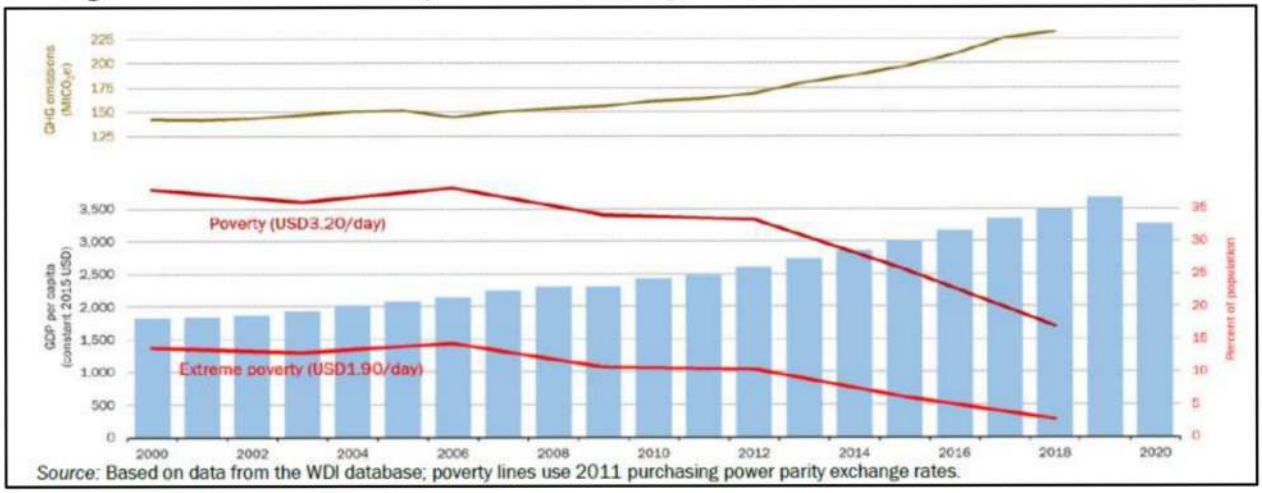
Figure 1- Climate Risk Dimensions and Impact on Financial Markets



Source: Climate Change and Financial Risk, Pierpaolo Grippa, Jochen Schmittman, and Felix Suntheim (Finance & Development, December 2019)

- **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, greenhouse gas (GHG) emissions have also grown** (Figure 2).

Figure 2 – Observed Poverty Reduction, GDP growth and GHG Emissions Growth



Source: Based on data from the WDI database; poverty lines use 2011 purchasing power parity exchange rates.

- 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)**.** While the Philippines' share of global GHG emissions is less than 0.5 percent as of 2021, it recognizes its international commitments under the Paris Agreement to reduce GHG emissions, as well as the opportunities of GHG mitigation for sustainable development and co-benefits including pollution prevention. It demonstrates the country's responsibility in addressing common threats as the Philippines may be highly vulnerable to the impact of climate change. The country's action to reduce emissions helps to safeguard Philippines from the harsh effects of climate change and strengthen its ability to handle these challenges. For example, the Nationally Determined Contribution (NDC) committed under the COP Paris Agreement considers 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 NDC outlines its desire to reduce and avoid GHG emissions by 75 percent by 2030 (with 72.29 percent conditional). The 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 Plans



- **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 economy.[3]

- 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**

[3] DENR October 12, 2022

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. The adaptation finance gap is widening and now stands at between USD194 billion and USD366 billion per year. 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 2030[4].

- **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, PhP2.01 trillion (US$35.95 billion) has been tagged as climate budget by national government agencies using the Climate Change Expenditure Tagging (CCET) Framework, which represents 5.8 percent of the total appropriations during the same period, with more than 90 percent towards building climate resilience to adapt and mitigate the adverse impact from extreme, intense, and frequent weather events. There is 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 percent of total cross border investment, substantially below its regional peers[5]. 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.

Table 1: Sources of Financing for the LCCR Transition

	Adaptation	*Mitigation*
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	

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

[4] IFAD – Why Climate Change Matters: Your questions answered

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

2. The Sustainable Finance Taxonomy Guidelines

- **To address the various climate related challenges and financial risks and opportunities outlined above, the financial sector regulatory authorities (including Bangko Sentral ng Pilipinas ('BSP'), the Insurance Commission ('IC') and the Securities and Exchange Commission ('SEC') under the auspices of the Financial Sector Forum[6] (FSF) pursued extensive stakeholder 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, government agencies 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.

2.1 Definition of Sustainable Finance

- Under Philippine Law, **sustainable finance** refers to any form of financial product or service which integrates environmental, social and governance criteria into business decisions that support economic growth and provide lasting benefit for both clients and society while reducing pressures on the environment. Sustainable finance includes, as a subset, green finance which is designed to facilitate the flow of funds towards green economic activities and climate change mitigation and adaptation projects. Climate finance, in turn, refers to resources that have been allocated or may be utilized towards the climate change adaptation and mitigation requirements of the country and its vulnerable communities.[7]

- This is consistent with other definitions, such as those used by the World Bank Group: Sustainable Finance means practices by financial institutions and other financial sector participants that reduce and manage environmental, social and governance (ESG) risks resulting from or affecting financial sector activities, including climate change risks, and that encourage the flow of capital to assets, projects, sectors, and businesses that have environmental and social benefits, including climate change mitigation and adaptation[8].

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[6] This is an inter-agency voluntary body comprised of the BSP, SEC, IC and the PDIC.

[7] Republic Act No. 9729, otherwise known as the "Climate Change Act of 2009", as amended by Republic Act No. 10174

[8] World Bank Group, IMF, and OECD. 2023. Activating Alignment: Applying the G20 Principles for Sustainable Finance Alignment with a Focus on Climate Change Mitigation. Washington, DC: World Bank. https://documents1.worldbank.org/curated/en/099091323151039750/pdf/P1795970f6bf7b013080980f9487b403332.pdf

- The European Commission also defines sustainable finance as the process of taking ESG considerations into account when making investment decisions in the financial sector, leading to more long-term investments in sustainable economic activities and projects.[9]

2.2 Purpose of the Sustainable Finance Taxonomy

- **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 Roadmap[10] 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 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.

- The SFTG serves as a tool to classify whether an economic activity is environmentally and socially sustainable and guides different stakeholders in making informed investment or financing decisions.

- The SFTG aims to direct and increase capital flows to economic activities that further sustainability objectives, including GHG emission reduction and building climate resilience. This likewise promotes transparency and credibility by minimizing the risk of greenwashing and supports a just transition to a sustainable economy.

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

[9] Overview of Sustainable Finance – European Commission, https://finance.ec.europa.eu/sustainable-finance/overview-sustainable-finance_en

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

2.3 Potential Users of the Philippines Sustainable Finance Taxonomy Guidelines

- Whilst the taxonomy is a guide primarily for participants of the financial sector and its regulators, there are however a range of other potential users.

Table 3: Target Users and Potential Uses of the SFTG

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 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". • Informing future supervisory actions and expectations from regulated entities in relation to climate and sustainability-related risk management
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.

TARGET USERS	POTENTIAL USES
	• Develop inclusive financial solutions 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. • Support sustainable 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. • Evaluate 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 through reporting, 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. • Create, structure and label 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. • Promote financing to MSMEs for adaptation and resilience. • Use as support based on being taxonomically and thematically aligned.

TARGET USERS	POTENTIAL USES
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 enable banks to credibly market 'taxonomy aligned' deposit products, which can then be intermediated into green lending products.

2.4 The SFTG Guiding Principles

- The SFTG follows several key principles, including adopting a phased approach, being designed for inclusivity, relates to key government policies and regional frameworks, and takes into account the transition towards a low-carbon, climate resilient economy.

(a) A Phased Approach

- The Philippines has begun a comprehensive approach to building a Sustainable Finance Taxonomy in response to the growing demand from market participants for standardization and direction in recognizing sustainable investment assets and qualified economic activities.

- The SFTG involves a sector-specific approach to provide more targeted criteria for assessing the sustainability of economic activities. The alignment of the SFTG with the country's NDC sectors focuses financial efforts on addressing climate change. It aligns with national policies, supports risk management, facilitates green investments, promotes transparency, and encourages collaboration.

- Acknowledging the dynamic nature and complexity of identifying sustainable finance activities, the Philippines has implemented a phased approach to guarantee the effective, iterative, cooperative, and user-focused development of the taxonomy. This allows for assessors to **qualitatively** analyse alignment with the SFTG through guiding questions and decision trees. External assurance of alignment at this phase of the taxonomy is not mandatory.

- This methodology is an essential first step toward an activity-based approach backed by comprehensive "Technical Screening Criteria" 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. This phased approach gives users the time they need to modify their internal procedures. The SFTG intends to promote transparency and credibility by minimizing the risks associated with

greenwashing, encourage comparability, direct financing towards taxonomy-aligned initiatives, and ease the shift of economic activity towards sustainability.

(b) Inclusive and Practical Qualitative Framework

- The SFTG is designed to be inclusive, offering direction and clarity for the financial sector and other potential users when it comes to recognizing and categorizing sustainable finance and investment activities. Because of this inclusive approach, the taxonomy may be continuously tested, adjusted, and improved upon to better suit the changing demands of its users.

- The SFTG incorporates decision trees, guiding questions, and use cases to simplify the process for users when qualitatively assessing activities against the taxonomy's objectives and essential criteria.

(c) Reference to Key Documents

- **The SFTG references other widely used taxonomies, as appropriate** and key Philippine national strategic documents. These include the Philippine Development Plan (Ambisyon 2040), NDCs, the Republic of 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 Roadmap and the Sustainable Finance Guiding Principles issued by the members of the Philippines Inter-Agency Technical Working Group for Sustainable Finance (ITSF or the 'Green Force').

(d) Greater Transparency and Accountability

- 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.

- The SFTG is a cornerstone for the country's transition to a stronger and more sustainable economy. It provides a thorough manual for businesses, investors, and financial institutions, supporting moral and ethical behavior while being in line with the nation's sustainable development goals. One of the main objectives is encouraging accountability and transparency in sustainable finance. It helps distinguish between economic activities that have positive, neutral, or negative effects on the environment and society by offering classifications and criteria for identifying sustainable economic activity.

(e) Transition Activities and Market Growth

- **The taxonomy includes 'transition' activities, recognizing allocation of funds to initiatives actively transitioning from high carbon emission to more climate resilient alternatives.** It stimulates market growth and innovation in sustainable finance, promoting the financing of goods and services that support sustainable development. by offering a framework for recognizing and assessing the environmental and social effect of financial activities. Thematic bonds (such as green and sustainability bonds), green lending, green investment funds and other sustainable financial products draw funding for initiatives with positive social and environmental impacts.

2.4.1 Guidance on Setting the SFTG Environmental Objectives

- Selection of Philippines' environmental objectives considers 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.

Table 4: SFTG Objectives – Existing and Future Objectives

SFTG Environmental Objectives	SFTG Future Environmental Objectives
Climate change mitigation	Protection of healthy ecosystems and biodiversity
Climate change adaptation	Promotion of resource resilience and transition to circular economy

- Given the above, the SFTG objectives will initially focus on climate change, namely climate change mitigation and climate change adaptation as the Environmental Objectives. **An activity should therefore have either a climate change mitigation of climate change adaptation focus (or both) to qualify for assessment under this version of the SFTG.**

- Future iterations will address **ecosystems and biodiversity** and the **circular economy**, as well as a potential social component. Other environmental and social factors are considered through additional screening based on the DNSH principle, and MSS, appropriate to the Philippines context.

- The taxonomy guidelines 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 percent 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 potential,**[11] 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 Department of Environment and Natural Resources (DENR) during the 28th Conference of the Parties to the United Nations (UN) Framework Convention on Climate Change (COP28) presented highlights of the National Adaptation Plan (NAP) and the Nationally Determined Contribution Implementation Plan (NDCIP) to various stakeholders during the panel discussion, "Turning the Tide: The Philippines' Journey to Climate Resilience". While still pending finalization, the initiatives outline the country's pathways towards resilience and mitigation, entailing an intensely focused and accelerated multi-stakeholder process that different departments of the government and various stakeholders are participating in. [12]

- The Environmental Objectives of **climate change mitigation and adaptation** would define the types of economic sectors and 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 national policies and regional initiatives.

[11] 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 percent, of which 2.71 percent is unconditional and 72.29 percent 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.

[12] COP28: Philippines national plans on climate change resilience

2.4.2 Sector Coverage of the SFTG

- GHG emissions in the Philippines are low but growing as the economy expands. **Energy and transport** are expected to account for most of the growth in Philippine emissions (Figure 5 below). 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)[13]. GHG emissions rose from 90 megatonnes (Mt) in 1990 to 227 Mt in 2020 and are expected to continue growing[14]. However, the carbon intensity of emissions growth has been low and decreasing compared to peers.[15]

- The **energy** sector accounts for 56 percent of total GHG emissions, while **agriculture** is the second largest source, accounting for 27 percent 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).[16]

[13] Philippines NDC 2021, https://unfccc.int/sites/default/files/NDC/2022-06/Philippines%20-%20NDC.pdf.
[14] As of 2021, the Philippines is the world's 38th largest emitter of GHG, representing 0.48 percent of the global total, with per capita emissions at 1.27 tons of CO2 equivalent, well below the global average (6.9 tCO2e). See Our World in Data Philippines GHG emissions (https://ourworldindata.org/co2/country/philippines)
[15] World Bank Group, Philippines Country Climate and Development Report, November 2022.
[16] World Bank Group, Philippines Country Climate and Development Report, November 2022.

Figure 4: Total Philippines GHG Emissions by Sector 1990-2020[17]

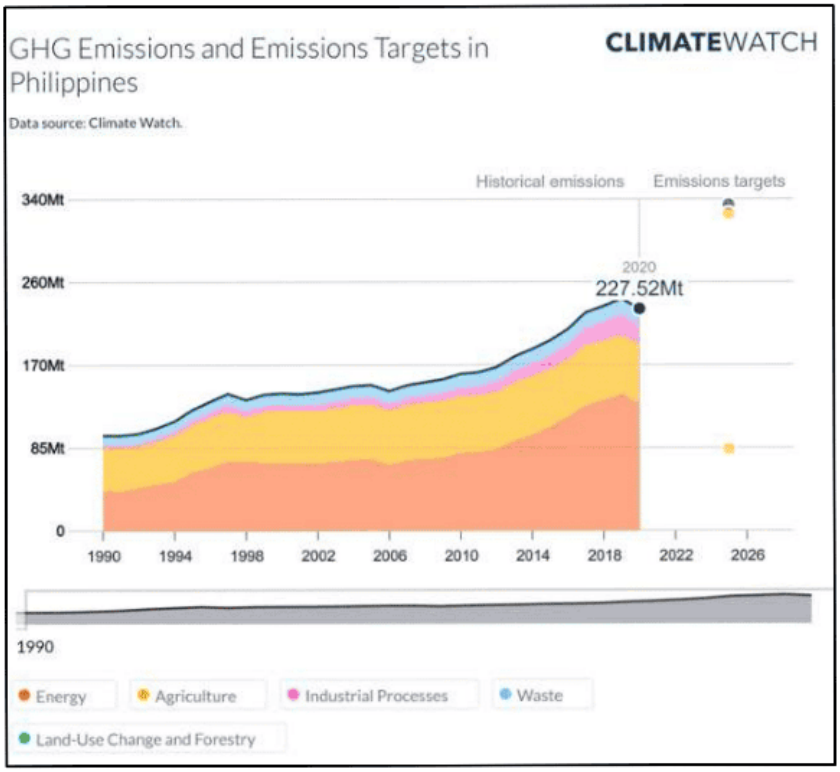
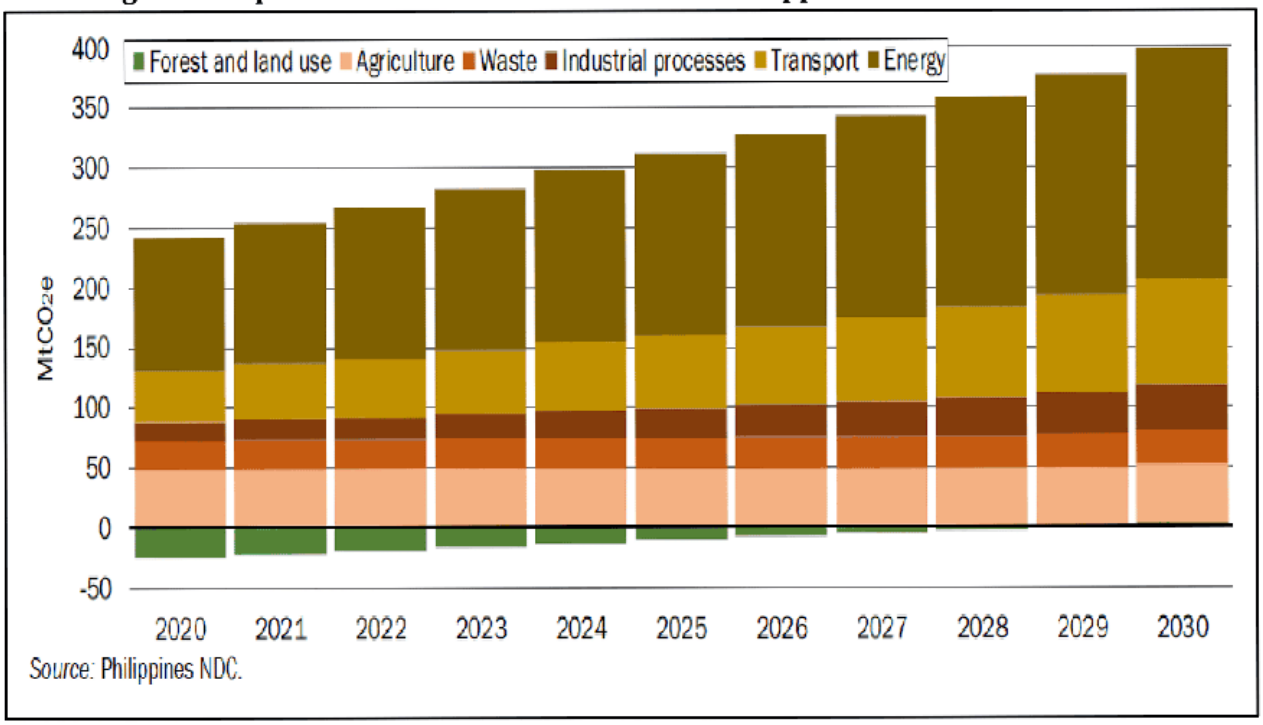
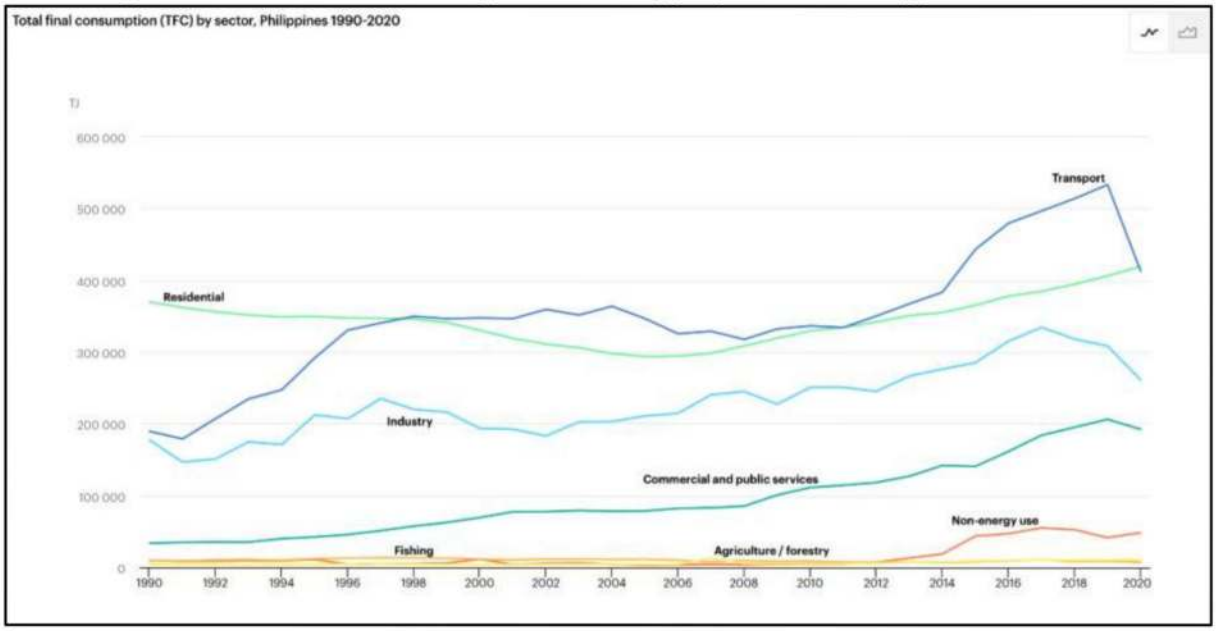


Figure 5: Expected Growth of Emissions in the Philippines



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

Figure 6: Total Final Consumption of Energy by Sector, Philippines 1990-2020



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

2.4.2a Priority Sectors

- The SFTG primarily focuses on the sectors used in the Philippine NDCs.

- For the **climate change mitigation objective**, these sectors reflect the nation's top priorities for lowering GHG emissions and mitigating climate change's effects:[18]

  - **Energy:** The energy sector, including electricity generation, accounts for the largest share of GHG emissions in the Philippines (PSIC Section D).
  - **Transport:** The transport sector, including road transport, aviation, and shipping, is the second-largest source of GHG emissions in the Philippines. (PSIC Section H).
  - **Waste:** The management of solid waste, including landfill sites and waste incineration, is a significant source of GHG emissions in the Philippines. (PSIC Section E).
  - **Industry:** The industrial sector, including manufacturing (PSIC Section C), construction (PSIC Section F), and mining (PSIC Section B), is a significant source of GHG emissions in the Philippines.
  - **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 (PSIC Section A).

[18] Philippines' NDC 2017

- **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 social aspects would be mitigated through the proposed adoption of minimum social safeguards as provided in Section 3.6.6.

- In addition, although some sectors were not highlighted in the Philippine NDC using GHG emission and economic data, several **'enabling' sectors** considered crucial for climate change mitigation and adaptation are included in this SFTG.

- For the **climate change adaptation objective**, it is not proposed that specific sectors be prioritised, though taking into account the Philippine adaptation plan, and the findings of the World Bank CCDR, particular attention could be given to financing of adaptation activities in support of:
  - Agriculture, Fisheries and Food Security
  - Water Resources
  - Health
  - Ecosystems and Biodiversity
  - Cultural Heritage, Population Displacement and Migration
  - Land Use and Human Settlements
  - Livelihood and Industries
  - Energy, Transport and Communications

2.4.2b Enabling Sectors

- **Enabling sectors are those which improve the performance of other sectors and activities and do not themselves risk harm to Environmental Objectives.**[19] 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 added are considered:[20]

  - **Information and Communication (ICT)**: This sector is important for digital transformation and the improvement of efficiency of activities in

[19] Taxonomy: Final Report of the Technical Expert Group on Sustainable Finance (March 2020)
[20] ASEAN Taxonomy for Sustainable Finance Version 2

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, research, and capacity building 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).

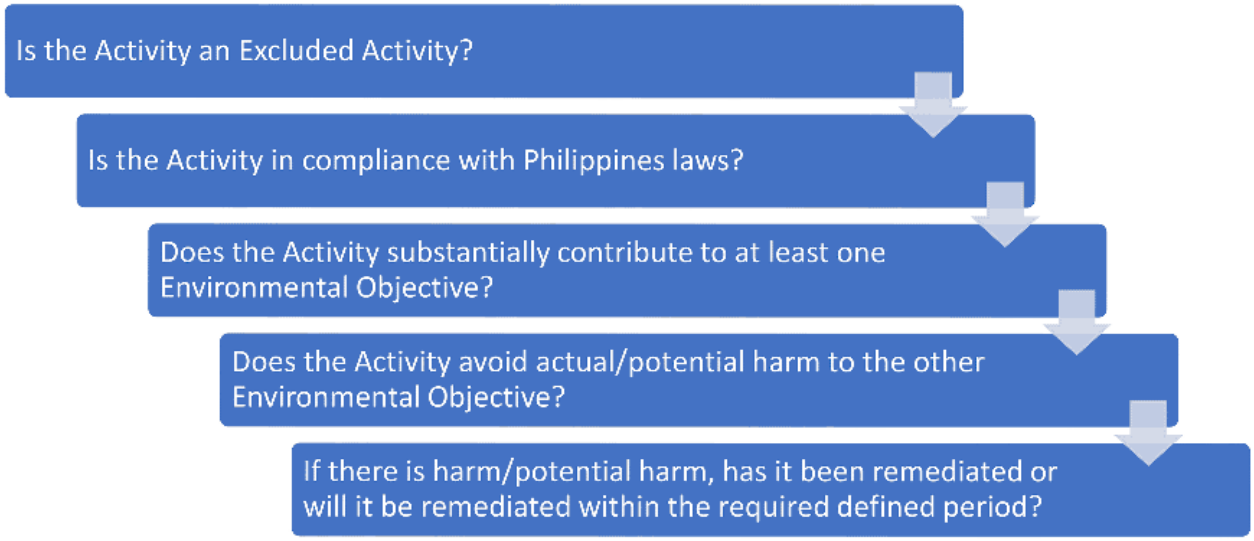
- The financial sector is also central to the implementation of the SFTG as they will develop green financial products, frameworks, and services supporting taxonomy aligned activities.

3. Assessment of Activities Under the SFTG

- The following section outlines the process of assessing an activity under the SFTG.

3.1 The Generic approach to assessment

- The following questions would be asked when assessing an activity.



3.2 Excluded Activities

- A user will first assess as part of its due diligence, if an activity is an 'Excluded Activity' as adapted from the Republic of Philippines Sustainable Finance Framework[21]:

  - Exploration, production or transportation of fossil fuel, fossil-fuel power-generation related projects;
  - Manufacture and production of finished alcoholic beverages;
  - Lethal defense 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;

[21] https://www.treasury.gov.ph/wp-content/uploads/2022/01/Republic-of-Philippines-Sustainable-Finance-Framework-vF-with-disclaimer.pdf

- Extractive mining;
- Production or trade in wood or forestry products other than from sustainably managed forests;

And, to the extent that DNSH and MSS requirements cannot be complied with:

- Projects involving 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.

- There are nonetheless certain excluded activities that may be considered enablers of climate change objectives (e.g., extracted minerals critical to the energy transition, renewable energy technologies or energy efficient products). In this instance, a user may consider an assessment under the Amber category, provided the activity meets all decision tree requirements.[22]

- Unless specified otherwise, an Excluded Activity is not aligned with the SFTG and is considered outside of scope.

3.3 Compliance with laws

- If the activity is illegal under Philippines law, or is in breach of environmental laws and regulations, as referenced in the Philippine Sustainable Finance Guiding Principles, the activity is considered out of scope of the SFTG.

- A non-exhaustive list of relevant environmental laws is included here:

1. Presidential Decree No. 1152 - Philippine Environment Code
2. Republic Act No. 9275 - Philippine Clean Water Act of 2004
3. Republic Act No. 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 No. - 9003 Ecological Solid Waste Management Act of 2000
7. Republic Act No. 6969 - Toxic Substances, Hazardous and Nuclear Waste Control Act of 1990
8. Presidential Decree No. 1586 - Environmental Impact Statement (EIS) Statement of 1978

[22] This recognizes the distinction between the Republic of Philippines Sustainable Finance Framework, which only recognizes "green" activities, and the SFTG, which also recognizes "Amber" categories.

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
13. Republic Act No. 9367 - the Biofuels Act of 2006
14. Republic Act No. 9513 - the Renewable Energy Act of 2008
15. Republic Act No. 11285 - the Energy Efficiency & Conservation Act of 2019
16. Republic Act No. 11697 - the Electric Vehicle Industry Act (the "EVIDA") of 2022
17. Republic Act No. 7611 – Strategic Environmental Plan for Palawan Act

3.4 The 'traffic light' classification system

- Activities are then assessed according to a series of criteria, guiding questions and decision trees to ultimately determine corresponding classification as "**Green**", "**Amber**" or "**Red**".

- The principles-based approach to classifying activities aims to offer simplicity by undertaking a **qualitative** assessment of an entity's **activity against the relevant Environmental Objectives (EO) and then applying the Essential Criteria**. They are designed to accommodate different users of the SFTG. A summary of the classifications is included below:

Table 5: Summary of Classification of Activities for SFTG

Category	Definition
Green	The Activity is making a substantial contribution to an EO and meets the Essential Criteria of DNSH and MSS.
Amber	The Activity makes a substantial contribution to an EO but causes significant harm to *another* EO. However, that harm can be remediated within 5 years or an independent verification supports a claim that remediation will take less than 10 years. It must also meet the Essential Criteria of DNSH and MSS.
Red	The Activity does not serve any EO or meet the Essential Criteria.

- An activity that falls under the "**Red**" classification may still be eligible for **'unlabelled'** financing, and it does not imply that the activity is unsustainable. Rather, it does not meet the higher sustainability ambition of the SFTG, nor pass the DNSH or MSS tests.

3.5 Choosing an Environmental Objective

- An EO (being either Climate Change Mitigation or Climate Change Adaptation in this version) is chosen first. Both EOs can be listed. However, a single EO must be considered as the 'primary' objective and stated in any assessment. Guidance on choosing the relevant EO considering certain factors is provided below.

Table 6: Choosing an 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 strategic focus of the Company doing the Activity? • Which EO(s) is most aligned to the Company's strategic focus?	• What is the investors' priority and investment strategy? • Which EO(s) is most aligned to the investors' priority and strategy?	• Has the government issued any guidance (including policies, roadmaps, and guidelines) which indicates that this Activity contributes to a specific EO under the NDC or national plans? • Is there guidance (including policies, roadmaps, and guidelines) from the sectoral bodies which indicates that this Activity contributes to a specific EO under a sectoral plan?
• Companies should use their judgement, given the responses to the questions, to determine which EO is the most relevant to the activity being assessed. • If the selections remain ambiguous, companies can refer to the guiding questions and narrative below for each EO to better understand its relevance.		

3.5.1 Guidance on 'substantial' contribution

- Some activities by their nature **substantially** contribute to an EO and are eligible for taxonomy alignment. 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 that reduce or avoid emission. For the climate change adaptation objective, this might include physical and non-physical solutions that substantially reduce the most important physical climate risks that are material to that activity. Adaptation should be achieved without increasing the risk of an adverse impact on other people, nature, and assets more broadly.

- Some enabling activities *substantially* contribute to taxonomy objectives through the provision of their products or services. For example, manufacturing low-carbon technology such as wind farm blades, transmission line infrastructure to

service renewable energy supply, or developing technology for early warning systems for climate change adaptation. Provided they do not lock in assets undermining long term EOs, they can be considered to make an overall substantial contribution.

- 'Enabling' activities for adaptation can make a substantial contribution if that improves the performance of another activity, such as some non-life insurance products, research, and development (e.g., in natural sciences and engineering) and related technical consultancies. This is distinguished from adapted activities, which relate to expenditure in adaptation of an investment, such as renovation of a building to improve drainage.

- 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 as guided by the qualitative framework.

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

- Having decided on the primary EO, the user can assess their activity under the decision tree.

- In this first phase of the SFTG, there are two (2) decision trees: Climate Change Mitigation (EO1) and Climate Change Adaptation (EO2).

- Further decision trees would be added in later phases for the future objectives of Ecosystems and Biodiversity and Circular Economy.

3.6.1 Climate Change Mitigation Decision Tree and Guiding Questions (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 Foundation Framework Version 2 approach.

- If an activity makes a **contribution** in one or more of the following areas, **it will meet the climate change mitigation objective**:

  - Avoids GHG emissions;
  - Reduces GHG emissions; or
  - Enables others to avoid or reduce GHG emissions.

- If the level of contribution is judged by the assessor to be 'substantial' then it can proceed on the decision tree towards a green label, subject to meeting other requirements.

Figure 7: The EO1 Climate Change Mitigation Decision Tree - EO1 Decision Tree Assessment for Classification of Activity

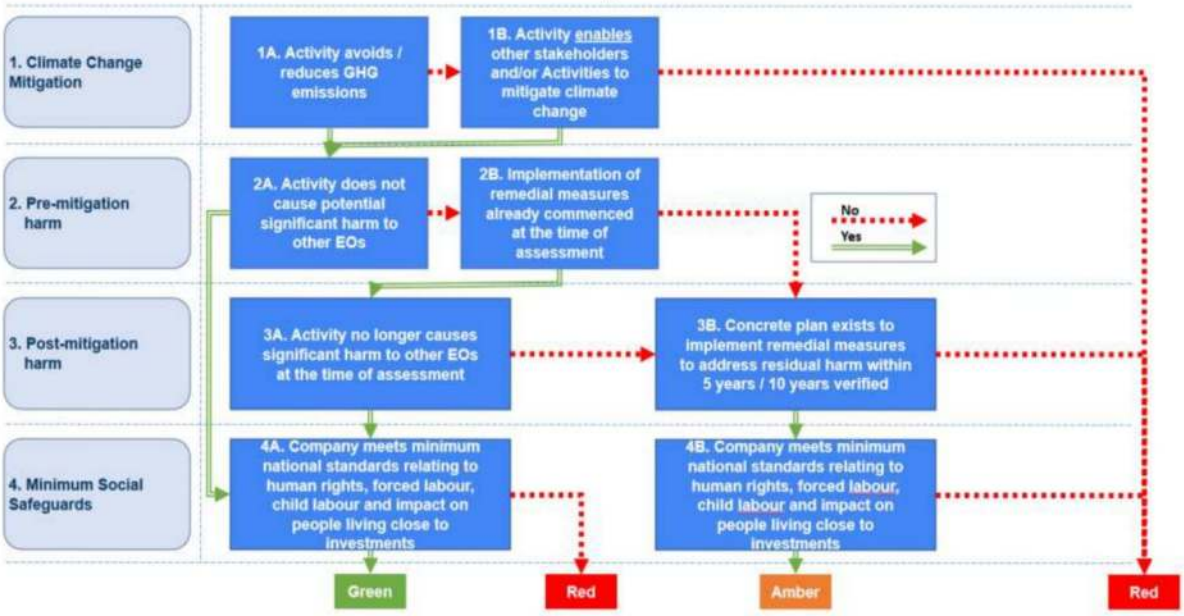


Table 7: Guiding Questions for EO1 Climate Change Mitigation – 1A and 1B

S/N	Guiding Questions - EO1 (Climate Change Mitigation)
1A	**Does the Activity avoid /reduce GHG emissions?** 1. How does the Activity substantially avoid or help reduce emissions? ○ 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, including Carbone Dioxide, Methane, Nitrous Oxide, Sulfur Hexafluoride, Nitrogen trifluoride, or Hydrofluorocarbons ○ Does the Activity avoid leading to or causing *extensive* deforestation practices? 2. Do the Company's policies and business strategy generally avoid contradicting or impeding alignment with the specified EO1 principles? 3. Where applicable and relevant is a 3rd party certification or verification of alignment of Activity with EO1 available? 4. Does the Activity comply with relevant environmental law(s) applicable to EO1? 5. Are the effects of climate change mitigation efforts measurable and observable? (e.g., data on amount of carbon emissions avoided)

S/N	Guiding Questions - EO1 (Climate Change Mitigation)
1B	**Does the Activity *enable* other stakeholders and/or other Activities to mitigate climate change?** 1. 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? 2. Does the Activity promote intersectoral collaborations for climate change mitigation without negatively affecting other sectors? 3. 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) 4. 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 using the separate Guiding Questions for DNSH, RMT and MSS.	

3.6.2 Climate Change Adaptation Decision Tree and Guiding Questions (EO2)

- An activity will meet the objective of Climate Change Adaptation if it 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.

  - For example, to protect against sea level rise and increased flooding, communities might build seawalls or relocate buildings to higher ground. Further guidance may be obtained from the Philippines Climate Change Adaptation Strategy on potential activities.[23]

  - Economic activities under this criterion would **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.

[23] https://seors.unfccc.int/applications/seors/attachments/get_attachment?code=6A8DFSD8UX2W3L1KUH9OU1RNESBQ8SET#:~:text=The%20development%20of%20the%20Philippine,Initiative%20of%20the%20Federal%20Mi%2D

- 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.

- This objective 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.

- If the level of contribution is judged by the assessor to be 'substantial' then it can proceed on the decision tree towards a green label, subject to meeting other requirements.

Figure 8: The EO2 Climate Change Adaptation Decision Tree - EO2 Decision Tree Assessment for Classification of Activity

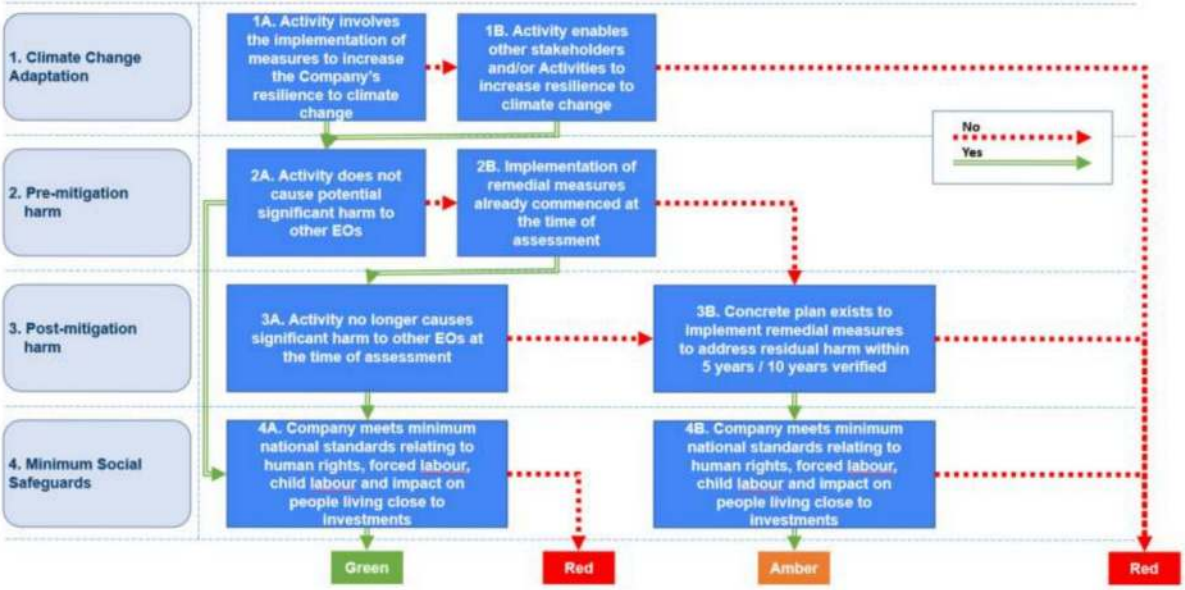


Table 8: Guiding Questions for EO2 Climate Change Adaptation

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)

S/N	Guiding Questions - EO2 (Climate Change Adaptation)
	○ Has a climate risk assessment been conducted to establish the 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 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? And in particular, does it include business continuity planning? 5. Is the reduction and/or prevention of increase in climate physical risks measurable and observable? (e.g., data on monthly transport accidents caused by 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) 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 using the separate Guiding Questions for DNSH, RMT and MSS.	

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

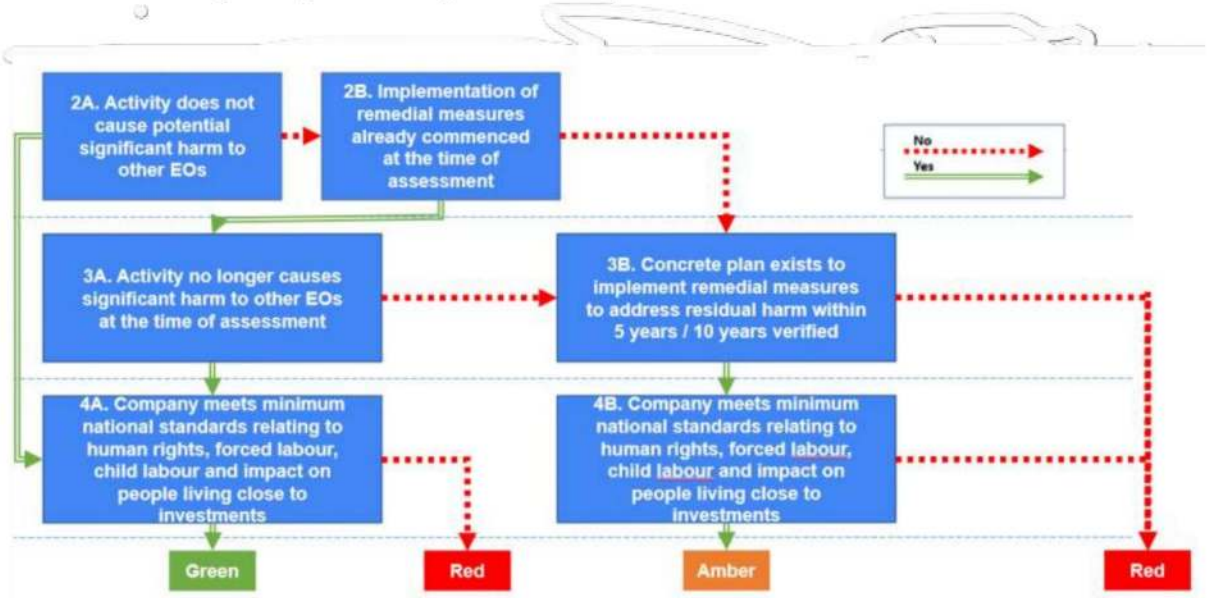
- For an activity to be taxonomy aligned, the assessor should determine if the activity fulfils the following three (3) Essential Criteria:

  (a) Do No Significant Harm (DNSH)
  (b) Remedial Measures to Transition (RMT)
  (c) Minimum Social Safeguards (MSS)

- Following the EOs - Climate Change Mitigation and Climate Change Adaptation - assessment above, the assessor proceeds to the next layer of the decision tree, and assesses the Activity against each of the Essential Criteria on DNSH, RMT and MSS.

- An extract of the full decision tree used above is repeated here for easier reference:

Figure 9: The logic flow and decision-tree diagram for assessing essential criteria (excerpt from Figure 8 above)



- Each decision box within the decision tree in Figure 9 above contains a binary question, that the assessor will need to answer. The assessor answers 'Yes' or 'No' to the binary question based on information pertaining to the Activity being assessed.

Table 9: Guiding details to the decision box in the flow diagram

Decision Box	Details to Guide Decision
2A. Activity does not cause potential	The Activity potentially causes harm to EOs other than the one against which it is being assessed. It is important to understand

Decision Box	Details to Guide Decision
significant harm to other EOs.	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, or 10 years on independent verification	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, or if the harm is not expected to be remediated within 5 years, it obtained independent verification that it will be remediated within 10 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.

3.6.4 Do No Significant Harm (DNSH) - Guidance and Guiding Questions

- **Do no significant harm (DNSH)** refers to the principle that an activity contributing to one EO should not cause significant harm to another EO.

- 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.

- The DNSH assessment is a more focused approach than the previous general screening for compliance with national laws in Section 3.3 above, as it focuses **solely on the potential or actual harm to another EO**.

- Together with the initial screening for compliance with laws, and with the MSS assessment below, they reflect an overall sustainability risk management approach.

- **An assessment of DNSH classification of an activity**
  - **Mandatory step 1:** The user will have already assessed for compliance with Philippines laws.
  - **Mandatory step 2:** As a next step, the DNSH analysis looks at whether the activity significantly harms the other EO. In future versions, this will extend to an assessment of harm against other defined EOs. This is the core element of the DNSH assessment.
  - **Optional step 3:** A user may assess whether the activity seeks to avoid harm to other EOs (such as circular economy and ecosystems and biodiversity). This is part of a broader ESG risk management approach.
  - **Optional step 4:** A user may adopt an ESG management system approach aligned with an internationally recognised standard such as the IFC Performance Standards or the OECD Guidelines for Responsible Business Conduct. This is part of a broader ESG risk management approach.

- In addition, even though DNSH relates to an activity's significant harm to *other* EOs, an activity may also be rejected for an environmentally sustainable classification if the activity causes some direct or indirect effect which detracts from the contribution to the intended EO itself.

- Assessments should clearly disclose which steps were taken in the assessment.

- The following are general guiding questions for DNSH. 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 a principles-based approach.[24]

Table 10: General Guiding Questions for DNSH

S/N	Guiding Questions - Do No Significant Harm
2A	If an Environmental Impact Assessment (EIA) is required, has it been conducted and approved for the Activity? Has the Activity otherwise been assessed as material in its potential to cause significant harm? 1. What are the results of the EIA and where are the impacts of the activity? 2. Have remedial measures recommended in the EIA been implemented?

[24] 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

S/N	Guiding Questions - Do No Significant Harm
	3. 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 the wider ecosystem (including to biodiversity)? 4. Have due diligence practices of the assessor been adopted that are aligned with the IFC Performance Standards, the Equator Principles or the World Bank Environmental, Health and Safety Guidelines? This is not a mandatory question or step; however, it may simplify the assessment process and provide alignment with international frameworks used by investors.

- The assessor decides which of the EO(s) could experience significant harm because of the Activity. Additional guidance is included below.

Table 11: Environmental Objective Specific guiding questions for DNSH

EO	Guiding Questions - DNSH
2A EO1 (CC Mitigation)	1. Does the Activity avoid significant GHG emissions, incl. CO_2, CH_4, N_2O, SF6, NF_3 and/or HFCs (using, for example, GHG Protocol standards to support measurement)? 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 (including on biodiversity) 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?

3.6.5 Remedial Measures to Transition - Guidance and Guiding Questions

- If an activity **does** cause significant harm to another EO, 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.

- If an assessment shows that an activity that substantially contributes to an EO is causing or may cause significant harm, the classification shall be **Amber**, pending effective remediation.

- Any RMT should be fulfilled within a 5-year timeframe from the assessment date, or an independent verification supports a claim that remediation will take 10 years or less.

- Any expected remediation beyond 5 years without independent verification, or beyond 10 years is not eligible for the Amber category and will be classified as Red.

- The following guidance applies regarding the independent verifier:
  (a) The independent external reviewer must assess and verify the credibility of the remediation timeline and plan confirming a maximum of 10 years to remediate, with specification of the expected number of years (for example, with limited or reasonable assurance and where feasible, with reference to other remediation benchmark timeframes and any Philippine Environmental Impact System requirements).
  (b) The reviewer should have relevant expertise.
  (c) The reviewer must disclose their relevant credentials and expertise and the scope of the verification conducted in an assurance report.

- 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**.

- RMT may refer to the Philippines' Environmental Impact Assessment System as reference on practices imposing time limits.

- A series of guiding qualitative questions is outlined below to assess whether significant harm has been or would be caused and remedial measures are or would be taken.

- Assessors are expected to encourage, support, and take into account the remedial efforts of businesses to align their operations with a low-carbon and climate resilient economy. Financial institutions can play a particularly important role in encouraging MSMEs to consider their business activities and plans to align their operations.

Table 12: Guiding Questions for RMT

S/N	Guiding Questions – RMT
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? 1. Do the planned remedial measures fall within 5 years? If longer than 5 years and up to 10 years, is there independent verification of the credibility of the longer timeframe for example, by reference to similar benchmark projects? 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)?

3.6.6 Minimum Social Safeguards – Guidance

- **Minimum Social Safeguards (MSS)** are the standards to ensure that the entities doing the activities comply at a minimum with Philippines social regulatory requirements. This assessment is 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 thus promoting conduct for responsible business.

- The following constitute the MSS:

(a) Promotion and protection of human rights

  - Compliance with the Philippines laws on human rights, labor rights, corruption, fair competition, the Constitution, and international conventions ratified by the Philippines.

(b) Prevention of forced labour and protection of children's rights

  - Philippines laws including exploitation, trafficking in persons, violence, and abuse, as well as the core ILO conventions ratified by the Philippines[25]. 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 Consensus on the Protection and Promotion of Rights of Migrant Workers (ASEAN, 2012).

(c) 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.

- A non-exhaustive list of regulations pertaining to social aspects for the Philippines are listed in **Appendix 1**.

[25] 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

- The **boundary** of MSS coverage is as follows:

  a. 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.
  b. 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.
  c. 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.

- 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 (such as controversy and adverse media screenings), but it is ultimately up to the Company's discretion to voluntarily disclose such violations or breaches.

- **The summary of guiding questions for the EOs and Essential Criteria on DNSH, RMT and MSS is provided in Appendix 2. Sample use cases on climate change mitigation and adaptation are provided in Appendices 3 and 4, respectively.**

3.7 External verification and use of Industry Standards

- Except for the mandatory external verification for remedial measures to address harm in the Amber category, assessors can, but are not required to use third-party verifications or recognised certifications by local agencies, national

authorities, or international accreditation bodies to inform their internal screening and assessment process.

- External verifiers can give investors comfort regarding the status of an activity's alignment with a taxonomy, for example, regarding a capital markets transaction.

- The external verifier process includes but is not limited to engagement planning, pre-assessment preparation, on-site or remote assessment, data collection and analysis, verification reporting, feedback and validation, recommendations and corrective actions, communication of results and continuous monitoring.

- When assessing contribution to EOs, DNSH, RMT and MSS, verifiers, for example, can assess the company's internal remediation processes add/or mechanisms against a range of industry standards and certifications. 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. These include industry standards and certifications which may be particularly relevant to MSME's, taken from the IFC Sustainable MSME Finance Reference.[26]

- Sustainability reporting disclosures, issued by the SEC relating to Publicly Listed Companies and by the BSP in relation to BSP-supervised financial institutions, and internationally recognised disclosure standards may also assist in providing evidence of Company practices.

3.8 Assessment of Exposures to MSMEs

- Micro, small, and medium enterprises (MSMEs) in the Philippines, comprising 99.59 percent (1,105,143)[27] of the total 1,109,684 business enterprises in 2022[28], continue to be a significant source of revenue for the country, with a 40 percent contribution to the country's GDP[29]. Around 87 percent of the total MSMEs are distributed across the following top five industry sectors, namely: (1) Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles; (2) Accommodation and Food Service Activities; (3) Manufacturing; (4) Other Service Activities; and (5) Financial and Insurance Activities.[30]

[26] https://www.ifc.org/content/dam/ifc/doclink/2023/sustainable-msme-finance-reference-guide-ifc-2023.pdf
[27] Micro, small, and medium enterprises constitute 90.49 percent, 8.69 percent, and 0.40 percent of the total establishments, respectively.
[28] https://www.dti.gov.ph/resources/msme-statistics/
[29] UNDP 2020 report (https://philippines.un.org/en/93680-msme-sector-key-covid-19-inclusive-recovery-ph)
[30] https://www.dti.gov.ph/resources/msme-statistics/

- Because of their limited size and resources, MSMEs also heavily bear the negative effects of climate change in their respective businesses. Climate change risks and natural hazards have an impact on the continuity of business operations of MSMEs, and on the health and safety of their employees. Meanwhile, the aggregate global environmental footprint of SMEs contributes around 60–70 percent to industrial emissions.[31]

- Initiatives to promote sustainable finance and efforts to address climate change should be inclusive and should not result in unintended consequences at the disadvantage of the vulnerable sector, that includes the MSMEs. MSMEs provide 65.1 percent of the total employment[32] in the Philippines and can therefore substantially contribute to strengthening the country's resilience to climate change.[33] MSMEs can likewise support climate change mitigation by transitioning to renewable energies, adopting green technology for sustainable production, and contributing to the low-carbon value chain.[34] Given this, the SFTG can be a tool to channel funds to MSMEs' climate change mitigation or adaptation efforts to make their businesses climate smart and environment-friendly.

Assessment of MSMEs' Activities

- Given the diversity of MSMEs, this SFTG intends to provide a simplified approach for the assessment of their activities or projects. The approach shall be periodically reviewed and updated to reflect developments in the sustainable finance space.

    a. First, the activity must not be considered as an "excluded" activity and is compliant with national laws, rules, and regulations, consistent with Section 3.

    b. Second, financing an activity should align with an appropriate Use of Proceeds (UoP) standard. **Samples of certifications and activities/ projects[35] that can be considered as eligible sustainable UoP for MSME financing are provided in Appendices 5 and 6.**

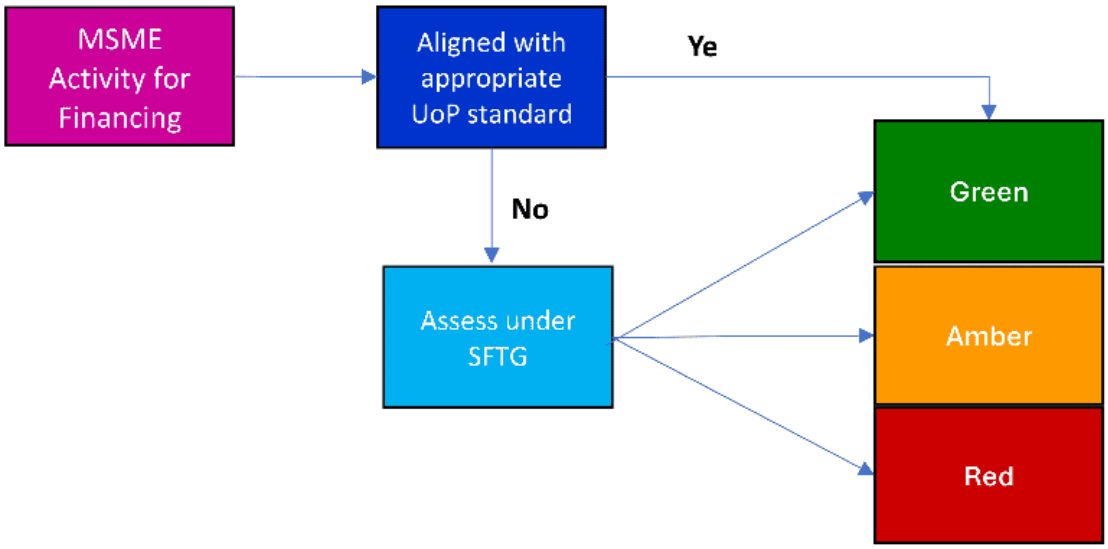
[31] https://www.ifac.org/knowledge-gateway/contributing-global-economy/discussion/no-net-zero-without-smes-strengthening-policy-and-collective-action-sme-greening
[32] https://www.dti.gov.ph/resources/msme-statistics/
[33] Climate information for climate change adaptation. 2018. Hoedjes, Miller & Usher. United Nations Environment Programme & Technical University of Denmark (UNEP DTU). Available at: https://www.researchgate.net/publication/324654215_Private-sector_action_in_adaptationPerspectives_on_the_role_of_micro_small_and_medium_size_enterprises
[34] https://www.afi-global.org/wp-content/uploads/2020/07/AFI_SMEF_IGF-MSMEs_AW_digital_0.pdf
[35] IFC Sustainable MSME Finance Reference Guide (Chapter III. Eligible sustainable MSME Use of Proceeds)

c. Third, if an appropriate UoP cannot be identified, the activity should be assessed following the "traffic light" classification system provided in Section 3.4 and the assessments from Sections 3.5-3.7.

- An MSME's activity may achieve appropriate green or social standards as assessed by an independent third party as referenced in Section 3.7. Environmental-focused international sustainable certifications and standards obtained by the MSME provide assurance that the processes and practices of the MSME do not constitute significant harm to other environmental objectives. These certifications may include, but are not limited to, Rainforest Alliance Certification, Forest Stewardship Council Certification, Fairtrade Certification, Sustainable Rice Platform, Sustainably Grown, etc. (as outlined in Appendix 5). National or local government environmental clearances may also be considered in the assessment.

- However, these certifications and clearances should be complemented by sound judgment and some form of assessment by the bank/finance provider concerned to check for evidence or consideration that suggests the activity could make a significant contribution to an environmental objective and does not cause significant harm to the wider ecosystem (including to biodiversity) or if the MSME has the capability to conduct the activity that will not cause significant harm. This may include, checking publicly available data on possible environmental violations or negative records attributable to the MSME. They may also conduct interviews with the borrower/activity proponent using the guiding questions, but this does not preclude banks/finance providers from adopting additional questions that may draw the needed information from the MSME as long as this information can be reasonably provided for by the MSME.

Figure 10: Decision Tree for Assessing MSME Activity



Appendix 1: Non-Exhaustive List of Laws for Minimum Social Safeguards

Respect human rights	• Constitution of the Philippines
Prevention of forced and child labor	• Expanded Anti-Trafficking in Persons Act of 2012 (R.A. No. 10364) • Anti-Trafficking of Persons Act, 2003 (R.A. No. 9208) • Department Order No. 149-A of 2017 amending the Guidelines on Assessing and Determining Hazardous Work in the Employment of Persons Below the Age of 18 Years • Department Order No. 149 of 2016 on the Guidelines on Assessing and Determining Hazardous Work in the Employment of Persons Below the Age of 18 Years • Expanded Anti-Trafficking in Persons Act of 2012 (R.A. No. 10364) • Special Program for Employment of Students (R.A. No. 9547) • Rules and Regulations implementing R.A. No. 9231, Amending R.A. No. 7610, as amended (Department Order 65-04) • Department Order No. 04 on hazardous work and activities to persons below 18 years of age • Department Order No. 18 of 12 May 1994 on Rules and Regulations implementing R.A. No. 7658 Act prohibiting the employment of children below 15 years of age in public and private undertakings, amending for this purpose Section 12, Article VIII of R.A. No. 7610 (R.A. No. 7658) • Rules implementing R.A. No. 6727 (Wage Rationalization Act) • List of Hazardous Occupations to Young Workers, 1973 (Department Order No. 4) • Department Order No. 5. Rules XIV of the Rules Implementing Book III of the Labor Code on Employment of Homeworkers, 1992

Impact on people living close to investments	• Child and Youth Welfare Code • Special Protection Against Child Abuse, Exploitation and Discrimination Amendment Act (R.A No. 9231) • Executive Order No. 310 authorizing the adoption and implementation of the Philippine National Strategic Framework for plan development for children, 2000-2025 • Proclamation No. 855 proclaiming the adoption and implementation of the Philippine Program of Action for Children in the 1990s • Department of Natural Resources and Environment Administrative Order No. 30 Series of 2003 • Indigenous Peoples' Rights Act 1997

Source: Annex 5 to the ASEAN Taxonomy for Sustainable Finance Version 2 – social regulations by ASEAN Member State

Appendix 2: Compilation of Guiding Questions for Environmental Objectives (EOs) and Essential Criteria (EC)

EO1 – CLIMATE CHANGE MITIGATION

Step	Processes	Reference
0.1	**Is the Activity an Excluded Activity?**	3.2
0.2	**Is the Activity in compliance with Philippine laws?**	3.3
1A	**Does the Activity contribute to Climate Change Mitigation?** *Guiding Questions:* **Does the Activity avoid / reduce GHG emissions?** 1. How does the Activity substantially avoid or help reduce emissions? • 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, including CO2, CH4, N2O, SF6, NF3 and/or HfCs? • Does the Activity avoid leading to or causing extensive deforestation practices? 2. Do the Company's policies and business strategy generally avoid contradicting or impeding alignment with the specified EO1 principles? 3. Where applicable and relevant is a 3rd party certification or verification of alignment of Activity with EO1 available? 4. Does the Activity comply with relevant environmental law(s) applicable to EO1? 5. Are the effects of climate change mitigation efforts measurable and observable? (e.g., data on amount of carbon emissions avoided)	3.6.1 (Table 7)
1B	**Does the Activity contribute to Climate Change Mitigation?** *Guiding Questions:* **Does the Activity *enable* other stakeholders and/or other Activities to mitigate climate change?** 1. 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? 2. Does the Activity promote intersectoral collaborations for climate change mitigation without negatively affecting other sectors? 3. 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)	3.6.1 (Table 7)

Step	Processes	Reference
	4. Are the effects of climate change mitigation efforts by the enabled Activity measurable and observable? (e.g., data on amount of carbon emissions avoided)	
EC1	**DO NO SIGNIFICANT HARM**	
2A	**Activity does not cause potential significant harm to other EOs.** *General Guiding Questions:* **If an Environmental Impact Assessment (EIA) is required, has it been conducted and approved for the Activity? Has the Activity otherwise been assessed as material in its potential to cause significant harm?** • What are the results of the EIA and where are the impacts of the activity? • Have remedial measures recommended in the EIA been implemented? • 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 the wider ecosystem (including to biodiversity)? • Have due diligence practices of the assessor been adopted that are aligned with the IFC Performance Standards, the Equator Principles or the World Bank Environmental, Health and Safety Guidelines? This is not a mandatory question or step; however, it may simplify the assessment process and provide alignment with international frameworks used by investors.	3.6.4 (Table 10)
2A	**EO-specific guiding questions (assessing against EO2 Climate Change Adaptation:** • Does the Activity avoid leading to an increase in the vulnerability of human or natural systems (including on biodiversity) because of climate change and climate variability-related risks? • Does the Activity avoid impeding upstream and/or downstream stakeholders from increasing their resilience to climate change? • 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? • Does the Activity avoid impeding the adjustment to actual and expected climate change and its impacts? • Does the Activity consider the expected future climate in its current and planned practices?	3.6.4 (Table 11)
EC2	**REMEDIAL MEASURES TO TRANSITION**	
2B	**Have remedial measures already started to be implemented at the time of assessment?**	3.6.5 (Table 12)

Step	Processes	Reference
	• 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? • What are these proposed actions and their contributions to remediation (e.g., avoidance, minimization, reduction)? • Is there available technology for this Activity in place for compliant risk management measures against the adverse effects of climate change? • 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?** • 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.	3.6.5 (Table 12)
3B	**Are there concrete plans established for remedial measures to address the residual harm within a defined timeframe?** • Do the planned remedial measures fall within 5 years? If longer than 5 years and up to 10 years, is there independent verification of the credibility of the longer timeframe for example, by reference to similar benchmark projects? • What is the expected output for results of tracking and monitoring (e.g., annual reports, sustainability reports, other publications)? • Are the remedial measures and assessments done appropriate/proportionate to the business' scale of operations and industry benchmarks? • 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, minimization, reduction)?	3.6.5 (Table 12)
EC3	**MINIMUM SOCIAL SAFEGUARDS**	
	Does the company comply with relevant laws, rules, and regulations, which include the following: • Promotion and protection of human rights	3.6.6

Step	Processes	Reference
	➢ Compliance with the Philippines laws on human rights, labor rights, corruption, fair competition, the Constitution, and international conventions ratified by the Philippines. • Prevention of forced labour and protection of children's rights ➢ Philippine laws including exploitation, trafficking in persons, violence, and abuse, as well as the core ILO conventions ratified by the Philippines. 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 Consensus on the Protection and Promotion of Rights of Migrant Workers (ASEAN, 2012). • 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.	

EO2 – CLIMATE CHANGE ADAPTATION

Step	Processes	Reference
0.1	**Is the Activity an Excluded Activity?**	3.2
0.2	**Is the Activity in compliance with Philippine laws?**	3.3
1A	**Does the Activity contribute to Climate Change Adaptation?**	3.6.2 (Table 8)

Step	Processes	Reference
	Guiding Questions: **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? • 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? And in particular, does it include business continuity planning? 5. Is the reduction and/or prevention of increase in climate physical risks measurable and observable? (e.g., data on monthly transport accidents caused by disasters against maintenance activities delivered, data on houses repaired due to floods against budget increase for building safeguards)?	
1B	**Does the Activity contribute to Climate Change Adaptation?** *Guiding Questions:* **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	3.6.2 (Table 8)

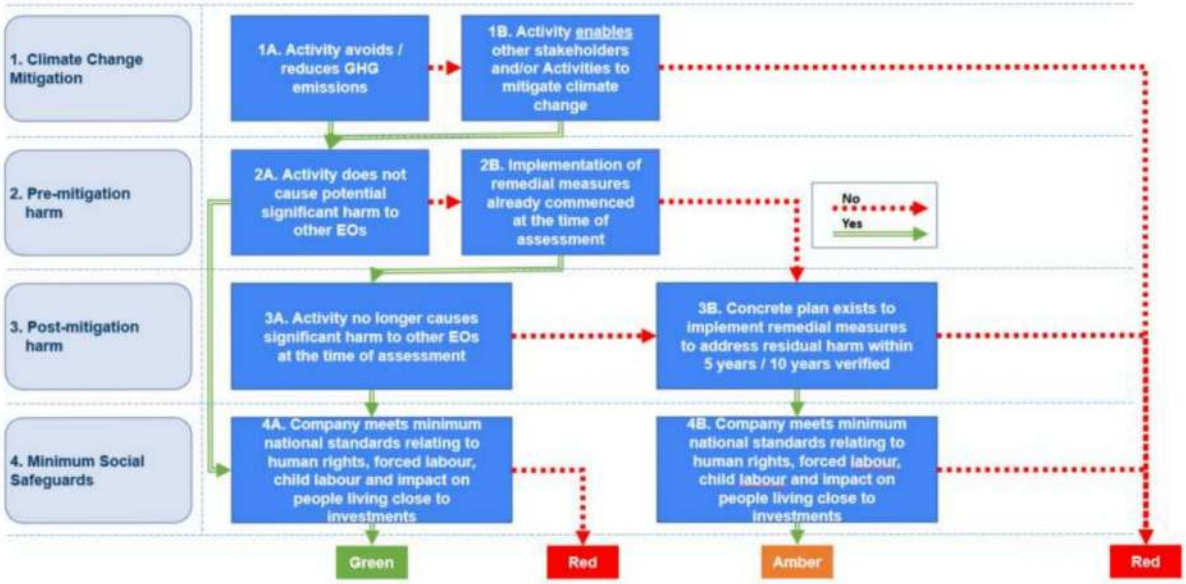
Step	Processes	Reference
	infrastructure to facilitate climate change adaptation of stakeholders) • Does the Activity avoid impeding upstream and/or downstream stakeholders from increasing their resilience to climate change? 2. Does it promote intersectoral collaborations for climate change adaptation 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)? 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?	
EC1	**DO NO SIGNIFICANT HARM**	
2A	**Activity does not cause potential significant harm to other EOs.** *General Guiding Questions:* **If an Environmental Impact Assessment (EIA) is required, has it been conducted and approved for the Activity? Has the Activity otherwise been assessed as material in its potential to cause significant harm?** • What are the results of the EIA and where are the impacts of the activity? • Have remedial measures recommended in the EIA been implemented? • 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 the wider ecosystem (including to biodiversity)? • Have due diligence practices of the assessor been adopted that are aligned with the IFC Performance Standards, the Equator Principles or the World Bank Environmental, Health and Safety Guidelines? This is not a mandatory question or step; however, it may simplify the assessment process and provide alignment with international frameworks used by investors.	3.6.4 (Table 10)
2A	**EO-specific guiding questions (assessing DNSH to EO 1 – Climate Change Mitigation):**	3.6.4 (Table 11)

Step	Processes	Reference
	• Does the Activity avoid significant GHG emissions, incl. CO_2, CH_4, N_2O, SF6, NF_3 and/or HFCs (using, for example, GHG Protocol standards to support measurement)? • Does the Activity avoid leading to or causing extensive deforestation? • Does the Activity avoid impeding upstream and/or downstream stakeholders from reducing their GHG emissions?	
EC2	**REMEDIAL MEASURES TO TRANSITION**	
2B	**Have remedial measures already started to be implemented at the time of assessment?** • 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? • What are these proposed actions and their contributions to remediation (e.g., avoidance, minimization, reduction)? • Is there available technology for this Activity in place for compliant risk management measures against the adverse effects of climate change? • 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.	3.6.5 (Table 12)
3A	**Does the Activity no longer cause significant harm to other EOs at the time of assessment?** • 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.	3.6.5 (Table 12)
3B	**Are there concrete plans established for remedial measures to address the residual harm within a defined timeframe?** • Do the planned remedial measures fall within 5 years? If longer than 5 years, is there independent verification of the credibility of the longer timeframe for example, by reference to similar benchmark projects? • What is the expected output for results of tracking and monitoring (e.g., annual reports, sustainability reports, other publications)?	3.6.5 (Table 12)

Step	Processes	Reference
	• Are the remedial measures and assessments done appropriate/proportionate to the business' scale of operations and industry benchmarks? • 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, minimization, reduction)?	
EC3	**MINIMUM SOCIAL SAFEGUARDS**	
	Does the company comply with relevant laws, rules, and regulations, which include the following: • **Promotion and protection of human rights** ➢ Compliance with the Philippines laws on human rights, labor rights, corruption, fair competition, the Constitution, and international conventions ratified by the Philippines. • **Prevention of forced labour and protection of children's rights** ➢ Philippine laws including exploitation, trafficking in persons, violence, and abuse, as well as the core ILO conventions ratified by the Philippines. 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 Consensus on the Protection and Promotion of Rights of Migrant Workers (ASEAN, 2012). • **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	3.6.6

Step	Processes	Reference
	(iii) promoting sustainable development benefits and opportunities for indigenous peoples in a culturally appropriate manner.	

Appendix 3: Use Cases on Climate Change Mitigation[36]



Example 1: Hydropower

Background

An electricity utility company that is involved in power generation and the transmission and distribution of electricity to its customers is raising long-term capital for a 300MW hydropower plant. The company intends to issue a long-term financial instrument e.g., labelled bonds to increase support the financing of the hydropower plant.

Setting the Environmental Objective

Threshold question for the Entity/Issuer:

- Which of the Environmental Objectives is most relevant to the activity?
- What is the strategic focus of the company doing the activity?
- Which environmental objective is most aligned with the company's strategic focus?

Answer

In determining the primarily environmental objective, the renewable energy hydropower project should align with the strategic focus of the Company which mitigates climate risks i.e., by substantially reducing GHG emissions and by generating the abundance of hydropower. The economic activities of reducing GHG emissions meet one of the environmental objectives i.e., climate change mitigation.

[36] Adapted from case studies developed in the SRI Taxonomy for the Malaysian Capital Market.

Step	Processes
0.1	**Is the Activity an Excluded Activity?** No, the activity is not in the excluded activity list.
0.2	**Is the Activity in compliance with Philippine laws?** The Activity complies with Philippine laws.
1A	**Does the Activity contribute to Climate Change Mitigation?** • Does the Activity avoid / reduce GHG emissions? How does the Activity substantially avoid or help reduce emissions? Implementing a hydropower project shifts the fossil fuel-based emissions to a renewable source of emissions.
1B	**Does the Activity contribute to Climate Change Mitigation?** • Does the Activity enable other stakeholders and/or other Activities to mitigate climate change? Not relevant as an enabling activity.
EC1	**DO NO SIGNIFICANT HARM**
2A	**Activity does not cause potential significant harm to other EOs.** • Has the Activity been assessed as material in its potential to cause significant harm? • Is the economic activity harmful to the healthy condition of ecosystems and biodiversity, including threatening the protection and conservation of natural areas, habitats, and species? • Does the Activity avoid leading to or causing extensive deforestation? The construction of hydropower plant of this size requires inundation of a large land area which may cause significant harm, if poorly managed due to the impact on biodiversity, as well as causing methane emission, which is a GHG emission with high global warming potential. The company will mitigate GHG emissions from the inundation of a large land area by applying global best practices in hydropower plant development by meeting a power density of more than 5W/m2 and a GHG emissions intensity of less than 50g CO2e/kWh.
EC2	**REMEDIAL MEASURES TO TRANSITION**
2B	**Have remedial measures already started to be implemented at the time of assessment?** • Has implementation of remedial measures been taken or implemented at the point of assessment?

Step	Processes
	No remedial measures have been implemented at the point of assessment.
3B	**Are there concrete plans established for remedial measures to address the residual harm within a defined timeframe?** • In the absence of implementing remedial measures at the point of assessment, does it have credible remedial plans to mitigate the residual harm (for implementation and completion) within a period of five (5) years or an independent verification supports a claim that remediation will take less than 10 years. How does the business propose to minimize or eliminate the effects of its activity on the ecosystem and biodiversity and whether this can be remediated within the stipulated period? The residual harm will be mitigated within the stated period, and with external verification, through global best practices in hydropower plant development by: ➢ conducting Hydropower Sustainability Assessment Protocol (HSAP) and the Hydropower Sustainability ESG Gap Analysis Tool (HESG) that are developed through a collaborative forum comprising the International Hydropower Association (IHA), The Nature Conservancy, The World Bank Group and The World Wide Fund for Nature (WWF); and ➢ addressing the gaps identified through an Environmental and Social Action Plan (ESAP).
EC3	**MINIMUM SOCIAL SAFEGUARDS**
	• Does the entity comply with the SFTG minimum social safeguards? Does entity comply with relevant laws, rules and regulations which includes promotion of human rights, prevention of forced labor and protection of children's rights? Yes, the entity meets the SFTGs MSS.
Traffic light classification: The activity is considered **AMBER.**	

Example 2: Floating solar power plant

Background

A forward-thinking company is dedicated to revolutionizing the renewable energy landscape through innovative and sustainable solutions. With a focus on harnessing the power of the sun, the company is at the forefront of the floating solar power industry. The company specializes in designing, implementing, and operating state-of-the-art floating solar power plants, contributing to a cleaner and more resilient energy future. The company intends to expand their floating power plant to contribute to renewable energy transition and obtain bank and capital market financing to support its projects.

Setting the Environmental Objective

Threshold question for the Entity/Issuer:

- Which of the Environmental Objectives is most relevant to the activity?
- What is the strategic focus of the company doing the activity?
- Which Environmental Objective is most aligned with the company's strategic focus?

Answer:

The company's strategic focus is sustainability, clean energy, and environmental responsibility. The company emphasis on reducing carbon emissions, hence the Environmental Objective Mitigation is most suitable for the activity.

Step	Processes:
0.1	**Is the Activity an Excluded Activity?** No, the activity is not in the excluded activity list.
0.2	**Is the Activity in compliance with Philippine laws?** The Activity complies with Philippine laws.
1A	**Does the Activity contribute to Climate Change Mitigation?** • Does the Activity avoid / reduce GHG emissions? How does the Activity substantially avoid or help reduce emissions? While production of the materials to produce the solar plant produces emissions, the end product is renewable energy generation, which is lower than fossil fuel energy generation. The economic activity meets one of the environmental objectives on climate change mitigation by avoiding GHG emissions (EO1).
1B	**Does the Activity contribute to Climate Change Mitigation?** • Does the Activity enable other stakeholders and/or other Activities to mitigate climate change? Not relevant as an enabling activity.
EC1	**DO NO SIGNIFICANT HARM**
2A	**Activity does not cause potential significant harm to other EOs.** • Has the Activity been assessed as material in its potential to cause significant harm? Is the economic activity harmful to the healthy condition of ecosystems and biodiversity, including threatening the protection and conservation of natural areas, habitats, and species? (Additional). Does the Activity avoid leading to or causing extensive deforestation?

Step	Processes:
	Technically, the only mandatory DNSH assessment is against EO2 in this phase of the SFTG. However, the entity has optionally taken into consideration potential harm in respect of biodiversity and to ensure resilience of the project against physical risks of climate change adaptation. The company has followed the Philippine Environmental Impact Assessment System processes. It does not cause significant harm to other environmental objectives (notably climate change adaptation) as best practices are applied including conduct of site environmental impact assessment prior to project construction and implementation of health, safety and environmental policies during the operations and maintenance stage, and an assessment of the vulnerability of the solar plant to physical risks from climate change has been found to be low. They have been engineered to withstand significance rises and falls in water levels as well as strong winds and heavy rain. In fact, they have found to be a potential emergency source of power in the event of land-based impacts of a disaster disrupting terrestrial power sources. An assessment of the biodiversity of the area has been conducted and the proposed design of the solar power plant has been found to present low risks to biodiversity in the area of coverage as it is being constructed on a previously human-made reservoir.
EC2	**REMEDIAL MEASURES TO TRANSITION** – NOT APPLICABLE
EC3	**MINIMUM SOCIAL SAFEGUARDS**
	• Does the entity comply with the SFTG minimum social safeguards? Yes, meet the SFTGs MSS.
Traffic-light Classification: The economic activity is classified as **GREEN.**	

Example 3: Biogas Power Plant

Background

A dynamic and innovative company at the forefront of sustainable energy solutions, with a strong commitment to environmental responsibility and a focus on harnessing the potential of biogas. The company is dedicated to transforming organic waste into a clean and renewable source of energy. The company plan to implement biogas power plant project, providing clean energy solution to local communities and industries. This project involves the construction and operation of facilities that harness biogas through anaerobic digestion process, ensuring a closed-loop system that maximise energy efficiency.

Setting the Environmental Objective

Threshold question for the Entity/Issuer:

- Which of the Environmental Objectives is most relevant to the activity?
- What is the strategic focus of the company doing the activity?
- Which Environmental Objective is most aligned with the company's strategic focus?

Answer:

The strategic focus of the company is providing sustainable solutions through conversion of organic waste into biogas. Implementing waste-to-energy projects that align with circular economy projection. As the primary driver for the company's biogas power plant projects, mitigating climate change through the reduction of greenhouse gas emissions directly aligns with the strategic focus on providing sustainable energy solutions.

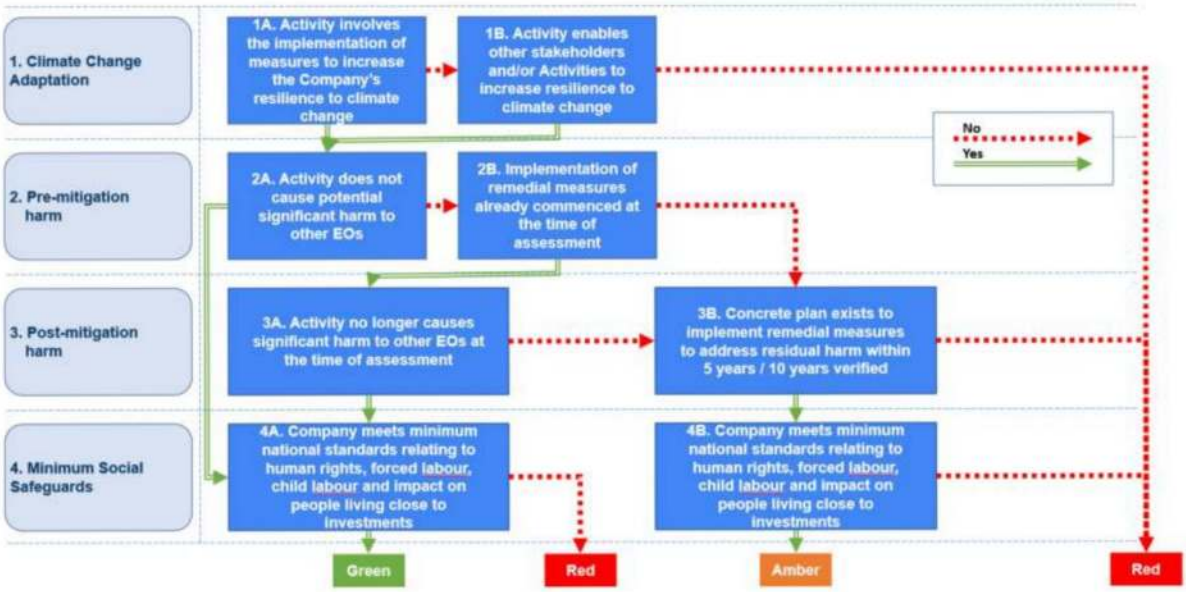
Step	Processes:
0.1	**Is the Activity an Excluded Activity?** No, the activity is not in the excluded activity list.
0.2	**Is the Activity in compliance with Philippine laws?** The Activity complies with Philippine laws.
1A	**Does the Activity contribute to Climate Change Mitigation?** • Does the Activity avoid / reduce GHG emissions? How does the Activity substantially avoid or help reduce emissions? The economic activity meets the environmental objectives on climate change mitigation by reducing GHG emissions (EO1). It captures methane produced from palm oil mill effluent (POME) and is expected to remove 80 percent of GHG emissions that will be emitted from POME if left untreated.
1B	**Does the Activity contribute to Climate Change Mitigation?** • Does the Activity enable other stakeholders and/or other Activities to mitigate climate change? Not relevant as an enabling activity.
EC1	**DO NO SIGNIFICANT HARM**
2A	**Activity does not cause potential significant harm to other EOs.** POME is a by-product of the palm milling process. It does not cause significant harm to other environmental objectives as best practices are applied including the conduct of site environmental impact assessment prior to project construction and

Step	Processes:
	implementation of health, safety and environmental policies during the operations and maintenance stage.
EC2	**REMEDIAL MEASURES TO TRANSITION** – NOT APPLICABLE
EC3	**MINIMUM SOCIAL SAFEGUARDS**
	• Does the entity comply with the SFTG minimum social safeguards? Yes, meet the SFTG's MSS.
Traffic-light Classification: The economic activity is classified as **GREEN.**	

NOTE: For example, and as an illustration, the issuance of Bonds under the Philippine SEC's GSS and SLB framework, the Bonds issuance, e.g., Green Bond, needs to comply with the SEC's regulatory requirements as provided in the respective SEC's GSS and SLB guidelines. While the SEC framework provides lists of eligible green and social project categories, nonetheless, the Bond issuer may voluntarily apply the principles under the respective components of the SFTG to assess if such issuance is aligned with the Taxonomy framework. In addition, the considerations for the environmental objectives could provide additional guidance in determining eligible green projects (e.g., in determining substantial contribution).

In this example, although the hydropower plant project is classified as AMBER, the project could still be financed through the issuance of the Green Bond because it promotes the use of renewable energy and is aligned with the categories of the eligible green projects in the SEC's GSS framework. In addition, the company has adopted best practices to mitigate the harm caused to the environment. The floating solar power plant and biogas power plant projects identified for the Green Bond issuance support the environmental objective of climate change mitigation (EO 1). In addition, the solar power plant and biogas power plant projects do not cause significant harm to the other environmental objectives based on the Guiding Questions. Hence, the Green Bond issuance could be considered to be aligned with the SFTG.

Appendix 4: Use Cases on Climate Change Adaptation



Real Estate and Construction[37]

Background

The Company is a land developer with operations across ASEAN. 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.

The company's sustainability practices and actions are:

- 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

[37] Adapted from ASEAN Taxonomy Version 2

Setting the Environmental Objective

Threshold question for the Entity/Issuer:

- Has the government issued any guidance (including policies, roadmaps, and guidelines) which indicates that this Activity contributes to a specific EO under their NDC, sectoral policies or national plan?
- For investors, what is their priority and investment strategy? Which EO(s) is most aligned with its priority and strategy?

Answer:

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, climate change adaptation (EO2) is most aligned to the priorities of the government of the Philippines.

For investors, they are focused on realigning their exposure into sustainable and responsible investments. Understanding the Philippines' vulnerability to climate change-related extreme weather conditions, they are 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 with their priorities and strategies. **Climate Change Adaptation is therefore the investors' primary Environmental Objective.**

Step	Processes
0.1	**Is the Activity an Excluded Activity?** No, the activity is not in the excluded activity list.
0.2	**Is the Activity in compliance with Philippine laws?** The Activity complies with Philippine laws.
1A	**Does the Activity contribute to Climate Change Adaptation?** • 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

Step	Processes
	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? 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. • Does the activity enable other stakeholders and/or activities to increase resilience to climate change? Yes, the activity implements measures that increase the Company's resilience to climate change.
EC1	**DO NO SIGNIFICANT HARM**
2A	**Activity does not cause 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? Technically, the assessment at this phase of the SFTG is only mandated for significant harm to CCM. The buildings will not be dedicated to the extraction, storage, transport of manufacture of fossil fuels. Buildings will be constructed in accordance with the Department of Energy's energy efficiency guidelines, including the use of LED lighting throughout the buildings, double glazed windows, and a green roof. It therefore is not considered to cause significant harm to EO1. 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. The activity causes potential significant harm, and the entity has optionally decided to take this into consideration in assessing taxonomy alignment.
EC2	**REMEDIAL MEASURES TO TRANSITION**
2B	**Have remedial measures already started to be implemented at the time of assessment?**

Step	Processes
	Yes. To minimize 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.
EC3	**MINIMUM SOCIAL SAFEGUARDS**
	• 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 organizations 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: ➢ Respecting human rights (Constitution of the Philippines) ➢ 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) The Company, supplier and subcontractor uphold the rights and principles indicated in the AHRD and ACPPRMW such as but not limited to the following: ➢ 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". ➢ 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".

Step	Processes
	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: ➢ 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.
Traffic-light Classification: The economic activity is classified as **RED.**	

Appendix 5: Examples of Industry Standards with Certifications and Verification

Examples taken from various sources, including the IFC Sustainable MSME Finance Reference Guide

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	❑ Climate change mitigation ❑ Protect biodiversity	Yes – formal registration and certification process by independent

Sector Group	Sub-sector	Standard or Certification title	Relevant objectives	Independent verification?
		Certification (ISCC)	❑ Resource resilience ❑ No negative impact on communities' social and economic well-being	certification bodies approved by ISCC.
	Agriculture – Cotton	Better Cotton Initiative (BCI)	❑ Protect biodiversity ❑ Resource resilience ❑ No negative impact on communities' social and economic well-being	Yes – formal membership and certification process 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	Yes – formal registration and certification process by independent certification bodies

Sector Group	Sub-sector	Standard or Certification title	Relevant objectives	Independent verification?
			❑ No negative impact on communities' social and economic well-being	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 Sustainable Rice Platform (SRP)	❑ 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. SRP focuses on environmental and labor aspects of rice cultivation and production.
	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	❑ Protect biodiversity	Yes – formal registration and

Sector Group	Sub-sector	Standard or Certification title	Relevant objectives	Independent verification?
		Council (FSC) Forest Management Certification and Chain of Custody Certification	❑ Resource resilience ❑ No negative impact on communities' social and economic well-being ❑ Comply with law	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	❑ Protect biodiversity	Yes – formal registration and

Sector Group	Sub-sector	Standard or Certification title	Relevant objectives	Independent verification?
		Council (ASC) Certification	❑ Resource resilience ❑ No negative impact on communities' social and economic well-being	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 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 BREEAM.
	Buildings – Construction and real estate	Leadership in Energy and Environmental Design (LEED)	Climate change mitigation 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 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	Climate change mitigation Climate change adaption	No – voluntary initiative adopted by companies to reduce GHG emissions in line with Paris-

Sector Group	Sub-sector	Standard or Certification title	Relevant objectives	Independent verification?
		Sector Guidance & Tools		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 adaptation 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 Textile Exchange Standard Bluesign Certification	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. Textile Exchange Standard offers various responsible textile standards that are often specific to the textile.

Sector Group	Sub-sector	Standard or Certification title	Relevant objectives	Independent verification?
				Bluesign offers apparel and textile certifier focusing on reducing the use of chemicals.
	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 recognized 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: Non-exhaustive list of potentially eligible projects or activities for MSMEs[38]

Examples of potentially eligible projects of activities are listed below. They are taken from the IFC Sustainable MSME Reference Guide, which focused on five specific sectors – agribusiness, textile, tourism, other services, and other manufacturing. These are examples only and do not constitute an automatic endorsement of alignment under the SFTG.

Sector	Project/Activity	Mitigation	Adaptation	Suggested Metric
Agribusiness				
	Aquaculture with a certification that confirms that the investment does not undermine the function and resilience of ecosystems, such as mangroves, salt marshes, seagrasses, and critical habitats			Certification Document
	Production or trade of sugar certified under Bonsucro			Certification Document
	Production or trade of agricultural products certified under Rainforest Alliance			Certification Document
	Efficient cold chain with low Global Warming Potential (GWP) refrigerant (e.g., ammonia)			Avoided food losses based on annual capacity or use of equipment (ton/y)
	Biomethane collection and use			Biomethane collected and used (ton/y or MMBTU/y)
	Reduction by more than 20% in water consumption per ton of product over the life of the project			Annual water savings (m3/y and % of the total water consumption)
	Renewable energy applications (solar, wind, sustainable biomass) in power generation,			Annual Renewable Energy Consumed or

[38] Source: IFC Sustainable MSME Finance Reference Guide (Chapter III. Eligible sustainable MSME Use of Proceeds)

Sector	Project/Activity	Mitigation	Adaptation	Suggested Metric
	pumping, drying, heat and/or steam generation			Generated (MWh/y); GHG emissions savings (tCO2eq/y)
	Electric vehicles			Avoided fuel consumption (m3/y) or avoided GHG emissions (tCO2eq/y)
	Efficient irrigation – promote efficient water allocation, water recycling, sustainable reuse of graywater, rainwater harvesting, and utilization of native species that have low water consumption, conditional to avoid depletion of natural water resources			Annual water savings (m3/y and % of the total water consumption)
	Climate adaptation and resilience measures that also conserve and/or restore ecosystems (for example, drought-resistant seeds, nutrient cycling, water storage, ecotone levees, floodplain restoration, water storage with watershed restoration or conservation – all projects that make agribusiness more resilient to threats like flooding and drought)			Increase in agricultural land using more drought resistant crops (hectares); Reduction in land-loss from inundation and/or coastal erosion (km^2)
	Reduction in synthetic fertilizer use by at least 20% over the life of the project to reduce downstream eutrophication, and to promote use of biofertilizer and other organic solutions (for example, composting)			Annual fertilizer savings (ton/y and % of the total fertilizer used)
	Switching from monocropping to diversified cropping systems, including intercropping and use			Area covered by sustainable land and

Sector	Project/Activity	Mitigation	Adaptation	Suggested Metric
	of cover crops to improve resilience and soil quality			water resources management practices (ha and % of the total area)
	Significant reduction of tillage or implementation of no-till practices			Hectares under no tillage (ha/y)
	Cultivation of native or naturalized species that can more readily adapt to variations in production cycles, water quality/quantity, and temperatures			Area covered (acres); Number of native or naturalized species
	Use of sustainable agricultural practices/varieties/technology and/or infrastructure that increases crop yields/quality on existing land without increasing the environmental footprint			Additional production (ton/y) without increasing GHG emissions
	Adoption of practices and/ or technologies for zero deforestation or other positive effects on biodiversity			Avoided deforestation (ha/y)
Textiles				
	Manufacture or trade of sustainable hemp, wool, organic cotton, soy silk, bamboo fabrics, jute, corn fiber			Units of production (e.g., ton/y)
	Recirculation and water reduction in water consumption per unit of product (e.g., m3 of saved water per m2 of fabric) by more than 20% over the life of the project			Annual water savings (m3/y and % of total water consumed)
Tourism				
	Electric vehicles (bikes, boats, passenger vehicles)			Avoided fuel consumption (m3/y) or avoided GHG

Sector	Project/Activity	Mitigation	Adaptation	Suggested Metric
				emissions (tCO2eq/y)
	Sustainable or ecotourism ventures that meet established standards for best practices, conserve or restore habitats or avoid increasing encroachment on habitat, and work to reduce carbon emissions			Certification document
Other Services				
	Electric vehicles (bikes, boats, passenger vehicles)			Avoided fuel consumption (m3/y); Avoided GHG emissions (tCO2eq/y)
	Renewable energy applications for power, heat, drying, etc.			Annual renewable energy consumed (MWh/y); GHG emissions savings (tCO2eq/y)
Other manufacturing				
	Variable speed drive efficient motor			Energy savings (MWh/y)
	Waste-to-energy projects			Avoided fuel consumption (m3/y); Avoided GHG emissions (tCO2eq/y)
	Waste collection, recycling and management projects that recover or reuse materials and waste (only if net emission reductions can be demonstrated)			Amount of materials recycled (ton/y)
	Energy efficiency improvement in lighting, appliances, and			Energy savings

Sector	Project/Activity	Mitigation	Adaptation	Suggested Metric
	equipment, including energy-management systems			(MWh/y); Avoided GHG emissions (tCO2eq/y)
	Substitution of existing heating or cooling systems for buildings by co-generation plants that generate electricity in addition to providing heating or cooling			Energy savings (MWh/y); Avoided GHG emissions (tCO2eq/y)
	Optimize the use of compressed air to address inefficiencies such as leaks in the distribution network and oversized air compressors			Energy savings (MWh/y); Avoided GHG emissions (tCO2eq/y)
	Treatment of wastewater, including wastewater collection networks			Avoided discharge of untreated water (m3/y); Wastewater collected or treated (m3/y)
	Waste management projects that capture or combust methane emissions			Avoided GHG emissions (tCO2eq/y)
	Charging stations and other infrastructure for electric vehicles, hydrogen or dedicated sustainable biofuel fueling			Number of charging, hydrogen, or sustainable biofuel stations
	Projects producing components, equipment or infrastructure dedicated to the renewable and energy efficiency sectors, or low-carbon technologies			Energy savings (MWh/y); Avoided GHG emissions (tCO2eq/y)
	Measures in existing supply chains dedicated to improvements in energy efficiency or resource efficiency upstream or downstream,			Avoided GHG emissions (tCO2eq/y)

Sector	Project/Activity	Mitigation	Adaptation	Suggested Metric
	leading to an overall reduction in GHG emissions			
	Equipment or appliances with an energy efficiency label and score A on a scale of A-F			Energy efficiency label