

GREEN FINANCE TAXONOMY BHUTAN

Training on Sustainability Bond Issuance in the Bhutan Context

13. May 2024

Michel Köhler, the greenwerk.

for a better climate

How to cope with the climate change problem?

- To address the global warming problem, the Paris Agreement defines three key objectives:

(a) Holding the increase in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels, recognizing that this would significantly reduce the risks and impacts of climate change;

(b) Increasing the ability to adapt to the adverse impacts of climate change and foster climate resilience and low greenhouse gas emissions development, in a manner that does not threaten food production; and

(c) Making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.

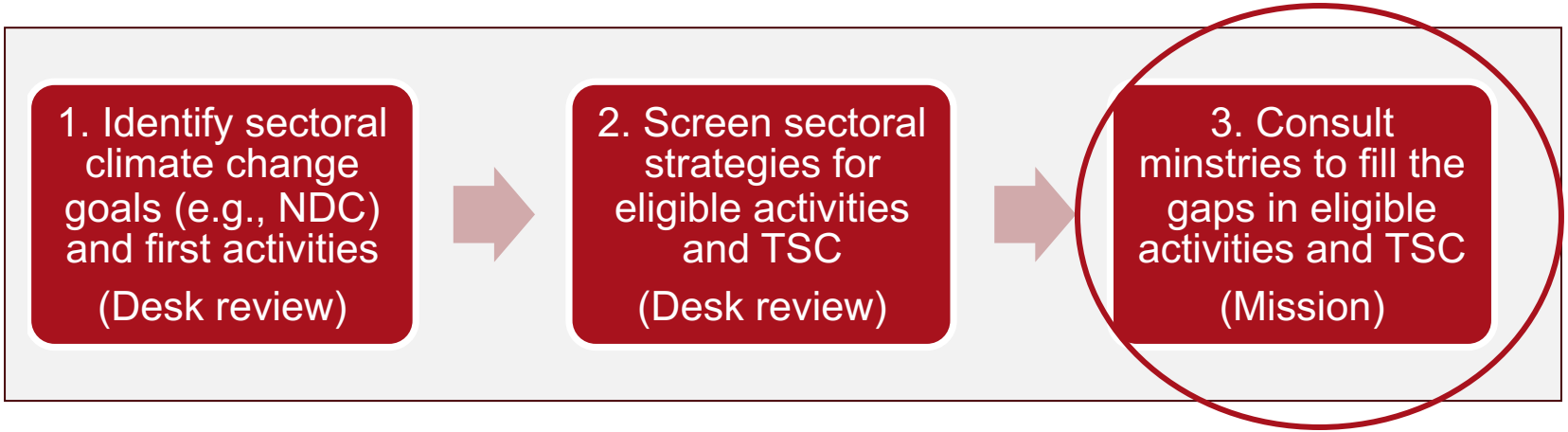
HOW TO DEVELOP BHUTAN‘S GREEN FINANCE TAXONOMY?

How to develop a Green Finance Taxonomy?



Source: GIZ, 2023

Approach to develop Bhutan‘s Green Finance Taxonomy



Approach applied: Step 1 – Literature Review (international)

- Screened Taxonomy Guidance:
  - World Bank
  - GIZ
  - IFC
- Screened existing Taxonomies:
  - EU
  - South Africa
  - Sri Lanka
  - Mexico
  - Mongolia
  - Nepal (draft)
  - Criteria of Climate Bonds Initiative

- Selected focus for first Version of Bhutan‘s Green Finance Taxonomy:
  - Mitigation
  - Cross-cutting (Mitigation & Adaptation)
- Reason:
  - Pure adaptation focus is more complex and needs more consultation
  - Less inspiration of Technical Criteria from other Taxonomies
  - Private investments focus on revenue generating activties

Approach applied: Step 2 – Literature Review (Bhutan)

- Assessed climate change related documents:
  - NDC 2021
  - NAP 2023
  - LTS 2020
  - Policies (Forestry, RNR, Sustainable Hydropower, Waste)
- Assessed Low Emission Development Strategies:
  - Energy
  - Food Security
  - Surface Transport
  - Industries
  - Human Settlements

Step 3 - Workshop Impressions







Covered sectors and approach of capturing TSCs

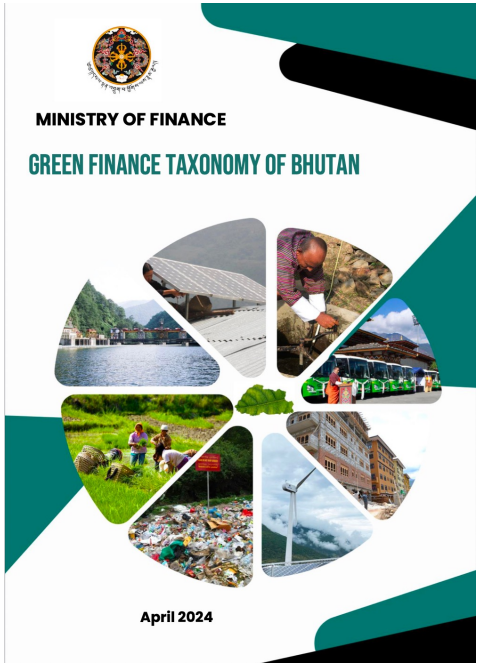
Categorisation sheet:

Sector [national code]	
Subsector/Activity	
Description	List of eligible economic activities within the specific subsector that contribute to the goal of climate change mitigation, e.g., reducing or avoiding greenhouse gas emissions.
Technical screening criteria 'significant contribution to climate change mitigation'	Metrics and thresholds that specify the concrete requirements under which the above listed activities make a 'significant contribution to climate change mitigation', which is important for implementation. The metrics and thresholds need to be based on existing policies and regulations.
Technical screening criteria 'significant contribution to climate change adaptation'	Metrics and thresholds that specify the 'significant contribution to climate change adaptation. The metrics and thresholds need to be based on existing policies and regulations.
'Do no significant harm' (DNSH) criteria	This means that the 'significant contribution to climate change mitigation' should not come at the cost of significantly harming other objectives, which often include other environmental and social goals. Bhutan could integrate the 9 domains of GNHI.

Focus of first Green Finance Taxonomy Version is on mitigation sectors:

- Agriculture
- Buildings and Infrastructure
- Energy supply
- Forestry
- Industry
- Transportation
- Waste

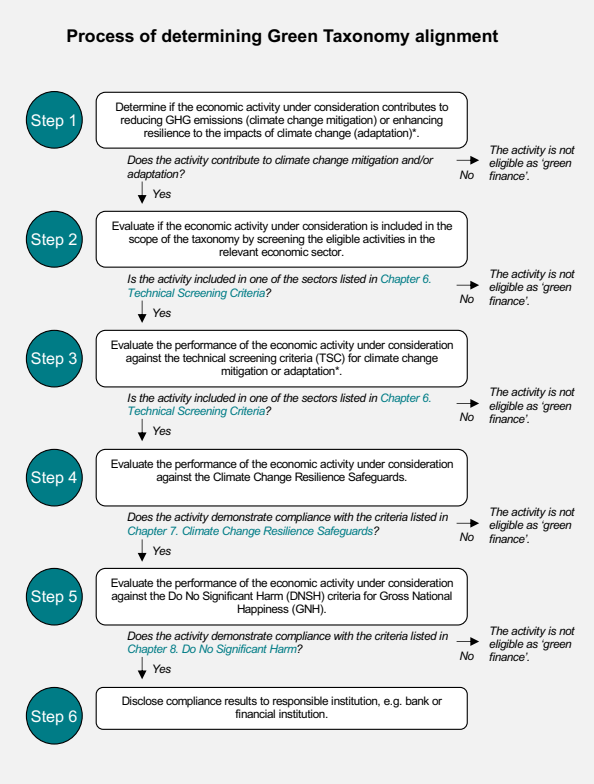
Green Finance Taxonomy Bhutan



Example of TSCs:

1. Hydropower	
Description	According to the LETS 2021, clean hydropower enables low GHG emissions from Bhutan and the achievement of carbon neutral status. Hydropower is the main source of electricity in Bhutan. Eligible activities include: • Construction and operation of electricity generation facilities that produce electricity from hydropower including run-of-river, with or without storage impoundment, reservoir, and pumped storage
Technical screening criteria 'significant contribution to climate change mitigation and adaptation'	The following criteria apply for hydropower activities: • Activities need to be aligned with the Sustainable Hydropower Policy 2021 • The power density of the electricity generation facility is above 5 W/m^2 • The life-cycle GHG emissions from the generation of electricity from hydropower are lower than 100 g CO2e/kWh. The life-cycle GHG emissions are calculated using the 2013/179/EU recommendation or alternatively, ISO 14067:2018 standard, ISO 14064-1:2018 standard or the G-res tool • Hydropower projects with pumped storage/reservoir need to be adaptable to changes in water flows and ensure energy security

Governance aspects are key





How will Bhutan‘s Green Finance Taxonomy be applied?

Guidelines on Environmental and Social Risk Management and Climate Finance

- Objective: Defining **“green growth” parameters and ESRM guidelines** to **financial intermediaries**
- Helps them **monitoring** whether their own operations are sustainable
- **Green Finance Taxonomy** shall provide TSC

Sustainable Financing Framework (SFF)

- Objective: Issuance of **green bonds** by RGoB
- SFF defines **eligible climate change mitigation** expenditures
- **Green Finance Taxonomy** shall serve as TSC

Longer-term objective: **Green Finance Taxonomy** might steer & regulate all investments economy-wide


better climate
the green werk.
THANK YOU FOR YOUR ATTENTION!
LET‘S SHIFT THE TRILLIONS TOGETHER!