



Roadmap for Advancing Interoperability and Comparability of Sustainable Finance Taxonomies

I. Rationale for the Roadmap

While climate financing has grown rapidly in recent years, it remains significantly smaller than what is needed to meet the objectives of the Paris Agreement on Climate Change agreed by signatories in 2015. One key challenge is the lack of interoperability among frameworks that guide and enable sustainable finance at jurisdictional, regional, and global levels. Effective sustainable finance frameworks are essential to fulfill article 2.1.(c) of the Paris Agreement: “Making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.” For many jurisdictions, this includes sustainable finance taxonomies, which are agreed catalogues of activities that substantially contribute to achieving sustainability goals. For these jurisdictions, a sustainable finance taxonomy is a fundamental tool for directing capital flows to projects that have environmental and social benefits, including climate mitigation and adaptation. However, enabling the effective global flow of capital into such projects requires taxonomies to be interoperable across borders so that finance providers can more efficiently allocate capital in a way that is consistent with their climate finance strategies and commitments. Interoperability helps increase consistency across the various tools and frameworks used in the market and can ensure greater success in achieving climate goals. The G20 Sustainable Finance Roadmap, calls for improving, at international level, comparability, interoperability, and as appropriate the consistency of different alignment approaches. The need for interoperability also aligns with the UAE Consensus, which calls for the development of a new global climate finance architecture in support of the post-2025 climate goals, to be delivered at COP29.

There is a broad consensus among policymakers and practitioners that improving comparability and interoperability is crucial for scaling international climate finance. Globally interoperable taxonomies can help reduce transaction costs, avoid unnecessary duplication of verification processes, increase market confidence, reduce unnecessary market fragmentation and therefore ultimately facilitate cross-border green capital flows.

In response to this need, the Central Bank of Azerbaijan, as the central bank of the COP29 host country, has initiated the "Roadmap for Advancing Interoperability and Comparability of Sustainable Finance Taxonomies" in collaboration with the IFC-supported Sustainable Banking and Finance Network (SBFN), the International Platform on Sustainable Finance (IPSF), and the United Nations Development Programme (UNDP). The objective is to connect and coordinate various ongoing efforts related to sustainable finance frameworks and operationalize them through clear, practical, and coordinated actions.

II. Key technical elements of the Roadmap

As the first step, it is proposed that the Roadmap will focus on three key technical elements, with actionable steps designed to enhance interoperability and comparability of sustainable finance taxonomies.

Identifying a Common Core Set of Taxonomy Economic Activities: This element aims to identify a core set of economic sectors and economic activities, particularly for Emerging Markets and Developing Economies (EMDEs), which are critical for advancing decarbonization. Existing comparison exercises, such as the IPSF's Common Ground Taxonomy, will inform this exercise. Interoperability for these core sectors and activities can be explored through, among other things, i) use of a shared classification system, such as the International Standard Industrial Classification (ISIC), to serve as a reference for identifying relevant economic activities, ii) a shared approach for defining categories, activities, metrics, and technical criteria, and iii) recommendations for possible tiered approaches to treat common activities differently based on market maturity and national pathways, while maintaining science-based ambition in meeting Paris Agreement goals.

Developing Common Technical Approaches for Alignment with Taxonomy Principles and Essential Criteria. Guided by the G20 Principles for Alignment Approaches this element will seek to develop common technical approaches on how to consider each one of the principles in a way that promotes interoperability; for example, how taxonomies incorporate jurisdictional sustainability (environmental, social, and governance (ESG)) regulations and guidelines; the "Do No Significant Harm" (DNSH) principle and Minimum Social Safeguards (MSS); and use of global good practice frameworks, such as the IFC Performance Standards and OECD Guidelines for Multinational Enterprises on Responsible Business Conduct, among others.

Formulating Common Approaches to Finance the Transition Through Taxonomies. Despite the rapid growth in climate finance, much of the focus has been on "pure green" activities that make a positive contribution to climate goals, with less attention given to transition activities needed across more emissions-intensive sectors. The Roadmap seeks to operationalize Pillar 1 of the G20 Transition Finance Framework through developing guidelines for defining and supporting the financing of these transition activities. The core of this approach will involve setting technical directions that define what qualifies as a transparent, credible, comparable and accountable way for activities and companies to decarbonise and improve sustainability. For example, companies can use taxonomy criteria to set targets as part of transition and investment plans. Alternatively, a "traffic light" system can be considered, similar to the approach adopted by the Association of Southeast Asian Nations (ASEAN) Taxonomy Board. Such approaches may help distinguish sectors that are aligned with sustainability goals from those that need significant transformation over a longer period.

Additional areas for even greater alignment may also be explored.

Collecting and Sharing Good Practice Globally. The roadmap partners will also seek to support research and knowledge sharing on complementary areas of interest, such as:

Inclusivity in Alignment Approaches: Ensuring that alignment mechanisms are inclusive of all parts of the economy, including small and medium enterprises (SMEs), women, and vulnerable parts of society. For instance, EMDEs express interest in how taxonomies can be designed/used to enable financing for activities led by and benefitting for all parts of society. Simplified rules and best practices for SMEs will be explored, recognizing that complex criteria and reporting requirements may disproportionately affect smaller enterprises; *Verification and Assurance Mechanisms:* Verification and assurance of taxonomy alignment are still evolving. While countries set market expectations at their own pace and to fit their local regulatory context, research could be undertaken to identify a menu of options most likely to promote credibility while minimizing costs and the burden to disclosing entities.