

Section 4: Usability, Impacts and What's Next

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Introduction

In recent years, the global economies have observed more and more countries announcing publications of their own green or sustainable taxonomies, which in most cases would signal an optimistic growth in the sustainable finance landscape of each respective jurisdiction.

The case of the Thailand Taxonomy, it is expected to impact all sectors, particularly the financial sector, in their planning for transition to net-zero. The importance of Taxonomy in establishing foundation and facilitate expansion of sustainable financing are evident in many countries. However, there are other multi-faceted implications and impacts on business due to its multiple usability. This section will cover the examples of the taxonomy usability, our initial analysis of potential impacts, as well as what business and the public can expect in the coming future.

Usability Examples

In addition to the primary objective of mitigating the climate change impacts and transitioning towards a greener economy, the draft Taxonomy provides several examples on its usability. However, it is important to note that a separate set of legislation will be needed to make the taxonomy usable in each sphere of application.



Source: Thailand Taxonomy Paper: Draft for public consultations (Climate Bonds Initiative, 2022)

Issuing green finance instruments

Green finance instrument such as green bonds, loans, structured products and project finance always have been core applications of taxonomies. However, to make this possible, the country also needs guiding principles and standards for the instrument, such as the frameworks for green bonds or loans issuance. These frameworks would determine the use and management of the capital proceeds, the evaluation process, the selection criteria of projects, and relevant disclosure rules and regulations. Examples include, among the other, CBI Green Bonds Standard, China Green Bond Principles, ICMA Green Bond Principles (International Capital Market Association), Loan Markets Association Green Loan Principle, etc. (Climate Bonds Initiative, 2022).

An example of application would be the case of a Company A who proposed an investment to expand the company's solar infrastructure through a loan. As solar generation is directly eligible under the energy sector criteria, the loan may be qualified as green as long as the DNSH requirements are met. (Climate Bonds Initiative, 2022). At the firm level, this will enhance their opportunity to access green financing, and issue green financial instruments, such as green bonds.

From the experience of the EU, where regulators are setting for the Green Bond regulations to align with the EU Taxonomy, Taxonomy sets the important background for strengthened green bonds market through greater certainty and comparability

of green activities in the market (IFLR, 2022). The alignment will help investors in their investments in green bonds, as they have the standardized classification to identify green assets and activities and decreased risks of greenwashing.

Financing and refinancing of green projects

The taxonomy can be used for financing and refinancing of assets and sustainable projects, which would act as a guide to facilitate verification and enhance transparency through the disclosures in line with the Taxonomy's criteria set for the sector and the environmental objective of the activity. To illustrate at company level, example would be the report aligned with Taxonomy reporting requirements, which requires companies to disclose the key characteristic of the project in line with the sectoral threshold and criteria, particularly whether their activities are in line with net-zero trajectory. This reporting may facilitate the company in applying new loans or refinancing from financial institutions that align their green investment policies or green bond framework with the national taxonomy. Moreover, it will assist the company in external verification process, such as before the company issues green bonds for the proceed to be used for a green project.

From the experience of Bangladeshi Central Bank, taxonomy is the main supervisory tool for financial institutions for sustainable loans and investments decisions. Moreover, Bangladeshi Central Bank also used the classification to set the criteria for bank assets refinancing with the Central Bank, under the Refinance Scheme for Green Finance (ICMA, 2021). This reflects the important role of Taxonomy in creating official classification for the green projects for financial institutions in considering their financing and refinancing, increase opportunities for existing and new green activities for capital access, and help boosting the proportion of green investment in the economy.

Reporting and disclosures

The Taxonomies come with reporting requirements, which enhances the transparency of the reporting companies' green activities and its alignment with the criteria set forth in the Taxonomy. In this light, Taxonomy can be used along with, and strengthen corporate environmental disclosures assets and operations, particularly for the objective of sustainable investments.

On a macro perspective, this increases the transparency of the entire market and creates an opportunity for the public to assess the share of green products and companies on the country's financial market and in economy in general. The taxonomy contributes to this objective by preventing greenwashing through setting the criteria for companies to align their claimed green activities with, clarify if the claimed green activities do harms to other environmental objectives, or meet minimum social safeguards. (Climate Bonds Initiative, 2022).

Guidance for regulations and structuring of upcoming green incentives



From a regulatory perspective, Taxonomy can be used to establish government incentives and support measures for market participants, which will help promoting investment in green or Taxonomy-aligned projects and facilitate the development of green finance market and transition to net-zero economy.

Examples of such incentives include the provision of government guarantees to de-risk green bond issuance, the introduction of green product labelling that are climate aligned, and set guidance for climate risk integration for commercial banks. (Climate Bonds Initiative, 2022).

Incorporating environmental and sustainability criteria into strategic plans

Companies can use the threshold and criteria mentioned in the taxonomy as the guiding principles and key considerations in making their environmental and sustainability transition strategies and plans (Climate Bonds Initiative, 2022). Taxonomy can guide companies to strategize and prioritize investments in long-term green project, while planning on divestment from red projects, or future phase-out from implementing amber projects after 2040. Moreover, the reporting requirements set by Taxonomy will enhance the companies' analysis in the green investments and activities in its portfolio. This will help the company to understand their priorities and opportunities in expanding investments in green activities and assets.

Impacts & Challenges in Implementing the Taxonomy

 <h3>Potential impacts</h3> <ul style="list-style-type: none"> • Accelerating the development of the sustainable finance market in Thailand • Companies in the energy and transportation sectors will realize the impacts first • Broader scope of market participants will be able to speak in the “same language” when referring to green activities. 	 <h3>Challenges to look out for</h3> <ul style="list-style-type: none"> • Data implications – more data & transparency needed • Changing criteria in future iterations • Surrounding regulations around the use of taxonomy • Question of interoperability
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Upon addressing the impacts of the implementation of the Thailand Taxonomy, it is important to emphasize again that the taxonomy is a classification system of economic activities that are deemed green or sustainable, not a compulsory list of reporting requirements. Therefore, the official issuance of the taxonomy will not drastically change the business operational or the financial landscape in Thailand just yet.

It is likely, however, that the adoption of the taxonomy will likely accelerate the development of the sustainable finance market in Thailand, as financial institutions will have a clearer view of green economic activities to finance. It is expected that companies operating green or amber activities will be able to mobilize financing support at a lower cost, and in comparison, companies running red-or non-listed activities may experience a more limited access to capital.

Companies in the energy and transportation sectors will naturally realize the impacts first as they are the two focused sectors in this edition of the Taxonomy – although the initial effect will not be as severe given the emerging state of the sustainable finance landscape in Thailand. However, the impacts of the taxonomy will not limit only to business sectors, as it will provide a common understanding across the entire economy. This means that a broader scope of market participants, from regulators to business operators, from financial institutions to investors, as well as the general public, will be able to speak in the “same language” when referring to what constitutes as green activities in Thailand. This will put in place a stronger check and balance mechanism and companies will now find it more difficult to greenwash their activities.

Our View on Future Challenges and Implication

The implication of data requirements

More data and transparency needed: Since the Technical Screening Criteria requires a certain level of data granularity. Companies may find the process of collecting and sorting of data, as well as determining the use of estimates and third-party data a challenge.

This may pose a risk of impaired or fragmented assessment and disclosure for companies that are unable to collect relevant data, and further disadvantage small companies with limited in-house expertise to conduct assessments, and potentially leaving them less market attractive as a financing prospect.

Changing criteria in future iterations

The taxonomy is a living document: Given the dynamic, constantly changing nature of the Technical Screening Criteria (due to technology advancement), the taxonomy is considered a living document which will be reviewed and updated every 3 years (Bank of Thailand, 2022).

This suggests that the thresholds and criteria may be replaced in future editions and certain technologies may become obsolete over time. Changing of such criteria means that the submitted Taxonomy alignment reports will need to be correspondingly updated, which may have either positive or negative implications to the attractiveness and valuation of the activities according to the alignment with the taxonomy.

Surrounding regulations around the use of Taxonomy

Good rules to operationalize the classification: The wider adoption of the taxonomy may be able to influence how businesses alter their green product designs to be more in alignment with the taxonomy.

However, the taxonomy alone will not determine how the green business landscape will have to adapt. In this regard, the use of the taxonomy will be in tandem with future regulations and guidelines to accompany businesses towards their climate change transitions.

Question of interoperability

Different classification leads to limited synchronized identification of green activities: The compatibility of the Thailand Taxonomy with regional and international taxonomies will determine the possibility to cross-reference the assessment of projects in a wider scope.

Lack of interoperability may impact the attractiveness of their claimed green activities from the perspective of international investors. In respond to this, further analyses of detailed comparison and alignment between Thailand taxonomy and those of other jurisdictions, including the future versions of Thailand Taxonomies and other jurisdictions' Taxonomies, are needed.

All in all, the Thailand Taxonomy serves as a classification of economic activities which sets mutual understanding among market participants, not a mandatory list for investors to strictly follow, nor does it set requirements (and the 'good' or the 'bad' branding) on environmental performance for companies and products.

What's next can we expect?

While the period of the public hearing will end on 26th January 2023, and the first official Taxonomy will be published by 1st Quarter of 2023, as planned by the BOT.

For the next steps, there should be issuance of guidance or recommendations on how to use Taxonomy, particularly among financial institutions. The addition to the other 3 prioritized sectors, and expansion of the environmental objectives to the other 5 objectives are expected.

Although the Taxonomy will lay a strong ground for sustainable finance landscape in Thailand, the Taxonomy alone would not be sufficient in driving Thailand towards its climate commitments and sustainability goals. Implementing these key initiatives will require a close cooperation between the public and private sectors, regulators, market participants, along with the involvement of international development partners to mobilize their knowledge, expertise, experiences as well as financial resources towards our common goals. (Bank of Thailand, 2021).

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