UNLOCKING SUSTAINABLE FINANCE
GREEN AND SUSTAINABLE TAXONOMIES

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WHAT IS A GREEN TAXONOMY?

A green taxonomy is a framework intended to identify the activities, products, and investments that deliver environmental, social, or green (ESG) outcomes, helping steer capital towards priority sustainable projects for the transition to net zero and net positive. For financial institutions, a green taxonomy is helpful to originate and structure green financial products (loans, bonds, credits, guarantees, securities, stocks, ETFs, etc.) as well as comply with sustainability criteria for impact investments. On the other hand, for governments, a green taxonomy is a classification system for identifying activities or investments that will move a city/country towards meeting specific targets related to priority environmental objectives.1

The main target users for green taxonomies are banks, institutional investors, project developers, and investment funds. Setting national targets (such as Nationally Determined Contributions) are the bare minimum to comply with, as the target users forces all sectors to transition to a low carbon economy. It is in the interest of catalyzing sustainable finance that several government agencies, stock exchanges, and regulators have published guidance or green taxonomies intended to provide more comprehensive definitions.

In the interest of advancing green investments, several ministries, institutions, and regulators have published guidance or green taxonomies intended to provide more comprehensive definitions. In a strict sense, there are two types of taxonomies: those that are guidelines linked to specific financial instruments (e.g., bonds, loans, checks), and those that establish a general framework and categorization of sustainable activities, linked to specific environmental and/or social outcomes.


OVERVIEW OF IMPLEMENTED OR PROPOSED GREEN/SUSTAINABLE TAXONOMIES AROUND THE WORLD.

Globally, taxonomies are being developed and implemented with the objective of more objectively classifying green/sustainable activities and marshalling resources towards the low carbon economy. Taxonomies can also help prevent companies and investors from wrongfully claiming activities and practices as sustainable (greenwashing).

Along these lines, the Climate Bonds Initiative (CBI) has developed the Climate Bonds Taxonomy, a guide of climate-aligned assets and projects in order to “support the growth of a cohesive thematic bond market that delivers a low carbon economy.”2 The CBI taxonomy is described as a summary of areas where CBI has developed specific criteria for the certification of bonds under its Climate Bonds Standards scheme.

The map below shows an overview of where taxonomies are being developed and implemented.3

1Climate Bonds Taxonomy | Climate Bonds Initiative
2The writing of this report was finished on June 23, 2023. As a highly dynamic topic, green and sustainable taxonomies as well as green bond guidelines are being considered and published frequently around the world. Other sources might be needed to complement with the newest information.
Taxonomy published / implemented

Taxonomy in discussion / progress

Published guideline tied to a specific financial instrument (bonds)

Financial taxonomy in process and published taxonomy tied to a specific financial instrument (bonds)

Source: CBI, Natixis, Ecofact, and own consultations with government officials.

FIGURE 1. GREEN AND SUSTAINABLE TAXONOMIES AROUND THE WORLD (AS OF JUNE 2023)
To meet the objectives of the Green Deal and the climate commitments of the EU, which aim to achieve net-zero by 2050, the European Commission established a High-Level Expert Group (HLEG) in Sustainable Finance in 2016. The HLEG published several key recommendations, including the generation of a taxonomy to define investment areas, provide clarity to investors, and grant greater transparency and focus on ESG factors for investment decisions. The need for a green taxonomy was also identified as a requirement to close the financial gap for the transition to a low carbon economy and to have a collective understanding of activities that contribute substantially to environmental and social objectives.

However, companies and investors in Europe exerted intensive lobbying and pressure throughout the taxonomy regulation process, which ended on what some call “significant concessions from the European Commission,” when the European Parliament backed a proposal to allow some specific uses of natural gas and nuclear energy by considering them as “transitional” activities under the EU green taxonomy.

In 2020, the Taxonomy’s Regulation was published and entered into force in July of that year, and it establishes the basis for the EU taxonomy by setting out the following overarching conditions that an economic activity must meet to qualify as environmentally sustainable:

1. Make a substantive contribution to one of six environmental objectives; Do no significant harm (DNSH) to the other five, where relevant; and Meet minimum safeguards (e.g., OECD Guidelines on Multinational Enterprises and the UN Guiding Principles on Business and Human Rights).

The taxonomy determines which economic activities are environmentally sustainable—functioning as a classification system by enabling market participants to identify and invest in sustainable assets with more confidence. On the other hand, the taxonomy’s regulation places disclosure obligations on companies and on financial market participants tied to the taxonomy classification system.

The taxonomy’s six environmental objectives are:

- Climate Change Mitigation
- Climate Change Adaptation
- The Sustainable Use and Protection of Water and Marine Resources
- Pollution Prevention and Control
- The Protection and Restoration of Biodiversity and Ecosystems
- Circularity

TO WHOM DOES THE EU TAXONOMY REGULATION APPLY?

There are three main groups this green taxonomy disclosure regulation rules apply to:

- Financial market participants, including occupational pension providers offering financial products in the EU
- Large companies, which are required to report under the Non-Financial Reporting Directive (NFRD)
- The EU and its member states.

Thus, all financial market participants offering products in the EU that contain investments pursuing an environmental objective are required, for each relevant product, to disclose the proportion of underlying investments that are taxonomy-aligned.

WHAT IS THE CONNECTION BETWEEN THE EU GREEN TAXONOMY AND THE SUSTAINABLE FINANCIAL DISCLOSURE REGULATION?

Furthermore, the taxonomy’s regulation is accompanied by multiple secondary regulations and codes that will complement the enforcement of the taxonomy, one of which is the Sustainable Financial Disclosure Regulation (SFDR).

The SFDR was adopted in 2019 and it sets out the overarching framework for sustainability-related disclosures in the financial services sector at entity- and product-levels. The taxonomy regulation and the SFDR both apply to the same categories of funds and are designed to be complementary.

The EU green taxonomy is the key tool for assessing sustainability claims made under the SFDR. Financial market participants marketing products with investments that pursue an environmental objective must disclose how and to what extent the green taxonomy has been used in determining the sustainability of the underlying investments, the environmental objective(s) to which the fund contributes, and the percentage of the underlying investments that are taxonomy-aligned.
ASIA

ASEAN (Association of Southeast Asian Nations, formed by Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam). As the first regional taxonomy under development, it establishes a tiered system of qualitative vs quantitative metrics, in which only the former applies to all member states, and classifies pertaining activities or investments as “green,” “amber,” or “red.” It is meant to provide a common definition for economic activities and financial instruments across member countries.

China. In 2015, the Green Finance Committee of the China Society for Finance and Banking, a subsidiary of the People’s Bank of China (PBOC), published a Green Bond Endorsed Project Catalogue that is applicable for financial institutions and listed companies who want to issue a green bond. Even when other government authorities, commissions, and regional governments published other green standards and classification methods, the Green Bond Endorsed Project Catalogue 2015 Edition issued by PBOC is the main country’s guideline. The Catalogue, targeted at financial entities, defines eligible green projects, and provides guidance for project classification and eligibility criteria within the environmental sectors.

Bangladesh. In September 2017, Bangladesh Bank issued a list of green products eligible for financing. The bank aggregated these products into 8 categories (renewable energy; energy and resource efficiency; alternative energy; liquid and solid waste management; recycling and manufacturing of recyclable goods; environment-friendly brick production; green and environment-friendly establishments; and miscellaneous), and listing 52 green products, projects, or initiatives. This list was supplemented with a product innovation/development methodology that enabled banks and financial institutions to assess the financial profitability, environmental and social feasibility, and risk profile of innovative green finance products. The list was updated in April 2020.

India. The Securities and Exchange Board of India (SEBI) issued a Consultation Paper on Green and Blue Bonds as a guide for sustainable finance in 2022, seeking public comments on a proposed regulatory framework intended to a) amplify the definition of green debt securities, b) introduce and define the concept of blue bonds, and c) reduce the compliance cost for issuers of green debt securities and avoid any perverse incentives that may lead to ‘greenwashing’. As of 2023, SEBI is in the process of analyzing the comments and finalizing further proposals in consultation with stakeholders and an advisory committee.

Indonesia. In January 2022, as part of its Sustainable Finance Roadmap, the Financial Services Authority of Indonesia launched the first edition of its Green Taxonomy, which serves as a guideline for policy development in government agencies as well as a reference point for the industry.


Russia. In November 2021, the State Development Bank VEB.RF published the Russian Green Taxonomy, which covers waste management, energy, construction, industry, transport, water supply, biodiversity, and agriculture. The energy sector includes science-based thresholds for electricity generation, based on the recommendations of the technical expert group on sustainable finance for the EU. In addition, the taxonomy includes adaptation criteria that allow Russian companies to indicate to investors that they are making an effort to adapt to climate risks.

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9Bangladesh Bank’s Journey with financial inclusion and climate change (2018) AFI GFI_Bangladesh_CS_stg7.pdf afi-global.org
11International Platform on Sustainable Finance - Annual report 2022 (europa.eu)
12Russian Green Taxonomy | Green Finance Platform
LATIN AMERICA

Brazil. A sustainable taxonomy framework was developed and unveiled under Jair Bolsonaro’s administration, yet has not been validated by the current government. The proposal now must go through four government committees, and the process will likely take years. That said, even when it is not a current priority, a green taxonomy is aligned with Lula’s government climate policy.13

Chile. In 2021, the Climate Bonds Initiative in association with the Ministry of Finance of Chile, the Public-Private Roundtable for Green Finance (i.e., “La Mesa”) and the Inter-American Development Bank published a Taxonomy Roadmap, which would guide the government towards the development of a national green taxonomy.14 According to the roadmap, priority sectors include energy, transport, construction, and mining. Importantly, there are no other green taxonomies that include the mining sector, so the Chilean government would have to pioneer. Following the roadmap’s suggestions, at the beginning of the new administration in 2022, the Ministry of Finance established a Preparatory Committee to delineate the structural elements for the Chilean green taxonomy.15 As of June 2023, the taxonomy is still work in progress.

Colombia. Colombia’s Financial Superintendence collaborated with the Ministry of Finance and Public Credit to lead the development of the Colombian Green Taxonomy, published in April 2022 and that turned out to be the first green taxonomy officially launched in Latin America. Its objective is to avoid greenwashing by providing scientific-based guidelines on which economic activities or assets can be considered green, enhancing the development of green financial markets.

It is structured to contribute to the following environmental goals:
Mitigation and adaptation to climate change, Water management, Circular economy, Pollution prevention and control, Conservation of ecosystems and biodiversity.

Dominican Republic. In 2022, the country became the first in the Caribbean to launch a green taxonomy project, which seeks to implement strategies that promote the growth of the sustainable capital market and contribute to climate change mitigation. The green taxonomy will provide the country with classification tools to help investors and companies make informed, science-based investment decisions on sustainable environmental activities. As of June 2023, the taxonomy is currently undergoing public consultation, after which it is expected to incorporate comments and get ready for publication in the Official Gazette.

Mexico. In March 2023, Mexico’s Ministry of Finance and Public Credit published the country’s Sustainable Taxonomy with the initial aim of addressing three major sustainability challenges: i) climate change, ii) gender inequality and iii) access to basic services in municipalities. The taxonomy aims to target six environmental objectives – climate mitigation, climate adaptation, water and marine resources management, conservation of ecosystems and biodiversity, promotion of a circular economy, and pollution prevention and control—mirroring the EU green taxonomy16—in addition to five social objectives – gender equality, access to basic services (municipalities), health, education, and financial inclusion.

Mexico’s Sustainable Taxonomy includes 124 economic activities, categorized in six economic sectors that are aligned with more than 94% of the Mexican NDC mitigation goals for 2030:

These were selected because of their relevance to the country’s economy and their potential contribution to the national climate and environmental targets—and they are also similar in nature to those of the EU Green Taxonomy. The Colombian green taxonomy priority sectors are, first and foremost AFOLU (agriculture, forestry, and land use), buildings, energy, transport, water, industry, waste management, and ICT (information and communication technologies).

Even though the finalized taxonomy has been published, to the writing of this briefing there had not been any significant advances in its implementation (as a new administration stepped in shortly after the text’s publication).

13Information quoted from Thiago Aragão, non-resident fellow, Institute of the Americas, and Partner at Arkos Advice.
14https://www.climatebonds.net/files/reports/hoja_de_ruta_para_una_taxonomia_en_chile_es.pdf
15International Platform on Sustainable Finance - Annual report 2022 (europa.eu)
Green Taxonomies

Peru. The Peruvian government started with consultations and technical workshops with more than 400 stakeholders in January 2022, with the purpose of creating a green taxonomy similar in framework to that of Colombia and the EU (such as the sector covered). It is meant to be one of the cornerstones of the country’s sustainable finance roadmap. As of June 2023, multiple technical and sectorial committees are working on the definitions of the taxonomy and there is no specific date for publication. As it happens with other examples, it is not a taxonomy linked to a particular financial instrument, reason why it is independent of the Peru Sustainable Bond Framework, which is limited to sovereign bonds.

Australia. The Australian Sustainable Financial Institute (ASFI) is developing an Australian sustainable finance taxonomy that can be used internationally, while reflecting the Australian economy and context. The elaboration of this instrument will be led by a Technical Expert Group comprised of 20-25 leading experts, to provide input and endorsement of technical screening criteria and other products prepared by the ASFI's technical team. The intention is to also coordinate with the development of taxonomies in other jurisdictions across the Asia-Pacific region, Canada, the European Union, and the United Kingdom.18

New Zealand. The New Zealand Government has also committed to supporting the development of definitional tools to encourage greater investment in green projects (National Adaptation Plan, p19, Action 5.14). With this in mind, the government is expected to start a collaborative approach with industry, academia, and the scientific community by 2024. This involves exploring alignment with international best practices and its applicability in their own country.19

South Africa. South Africa’s Green Finance Taxonomy was released in April 2022 as a catalogue that establishes a minimum set of assets, projects, and sectors that are eligible to be defined as “green” or environmentally friendly. It supports climate national policy and voluntary private sector initiatives toward sustainable finance by classifying a core set of green activities. It leverages upon the EU taxonomy to ensure interoperability in global reporting. The taxonomy focuses on the performance level of activities that make a substantial contribution to a set of six environmental objectives, while doing no significant harm to any and meeting minimum social safeguards.21

United Kingdom. In the UK, the Green Technical Advisory Group, chaired by the Green Finance Institute, was created as an expert group to provide independent, non-binding advice to Government on the design and implementation of a UK Green Taxonomy. As of June 2023, this work is still in progress. The UK Green Taxonomy will help investors determine what activities or products are considered ‘green’.

In addition, to be considered Taxonomy-aligned, an activity would need to meet three tests:

- Make a substantial contribution to one of the six environmental objectives.
- Do no significant harm to the other objectives.
- Meet a set of minimum safeguards (essentially, minimum standards for doing business).

OTHER COUNTRIES

Canada. In May 2021, the Sustainable Finance Action Council (SFAC) was mandated to provide advice and recommendations to Canada’s Minister of Finance and the Minister of Environment and Climate Change, on defining green and transition investment (i.e., a green taxonomy). Following substantial research and engagement, an expert group convened by the TTEG prepared the Taxonomy Roadmap Report—which was endorsed in September 2022.20

Canada’s future taxonomy will categorize economic activities (assets, projects, or revenue segments) that meet the following criteria:

- **Green**: low-or zero-emitting activities (e.g., green hydrogen, solar and wind energy generation) or those that enable them (e.g., electricity transmission lines, hydrogen pipelines); and

- **Transition**: decarbonizing emission-intensive activities that are critical for sectoral transformation and consistent with a net-zero, 1.5 °C transition pathway (e.g., installing lower-emitting electric furnaces to produce steel).

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17https://www.gob.pe/institucion/minam/noticias/581049-elaboran-sistema-de-clasificacion-de-finanzas-ambientales-basado-en-actividades-economicas-ecomericas-ecocomicables
18Sustainable Finance Taxonomy — ASFI
20Taxonomy Roadmap Report, Taxonomy Roadmap Report - Canada.ca
EXISTING AND POTENTIAL CHALLENGES WITH GREEN TAXONOMIES’ IMPLEMENTATION

Data collection remains an issue not only for taxonomy compliance, but also for ESG integration and approaches. Most investors outsource data collection to data providers due to the amount of work involved in obtaining data on the taxonomy alignment of individual issuers and assets. However, there are concerns around data quality from investees as well as the varying approaches taken by the data providers to share raw data and their methodologies to compare different providers.

Another challenge is to have updated data for investors, as it seems that the timings to report data by companies is not consistent with the timing investors must report their own. In Europe, for instance, investors are required to report on the level of alignment of their investment products with the green taxonomy, before companies that come under the scope of the European Union’s Non-Financial Reporting Directive (NFRD) have been mandated to report their own alignment with the EU taxonomy. This mismatch can create difficulties to ensure comparability amongst alignment by investors and investees. The Corporate Sustainability Reporting Directive (CSRD) is expected to resolve many of the issues with data availability and quality. The CSRD will require a far larger pool of companies to disclose green taxonomy alignment than is currently required by the NFRD. Under the CSRD, which will replace the NFRD, all large European companies and all large third-country companies that have a subsidiary or branch in the EU, will have to report on EU’s green taxonomy alignment. Furthermore, the CSRD also requires reported sustainability information to be audited.

Even when the CSRD will go some way to requiring non-EU companies to report against the green taxonomy, many third-country issuers will be outside its scope, notably small and medium enterprises (SMEs). This poses challenges for those investing in emerging markets—including Latin America.

LATIN AMERICA AND THE CARIBBEAN: OPPORTUNITIES FOR THE REGION

Green and sustainable taxonomies are particularly relevant for LAC due to the region’s rich biodiversity, high vulnerability to climate change, and the importance of natural resources for the national economies:

Biodiversity and ecosystem services. LAC accounts for around 40% of the world’s biological diversity. Protecting and conserving this biodiversity is crucial for the region’s sustainable development in the future. Green taxonomies can incentivize the flow of resources into projects that promote biodiversity conservation, such as sustainable forestry and agriculture, ecotourism, and wildlife protection. For example, Costa Rica has implemented a green tax incentive program that rewards businesses for maintaining and restoring ecosystems, leading to increased investment in sustainable tourism and agriculture.

The renewable energy transition. Transitioning from fossil fuels to clean energy sources is vital for reducing greenhouse gas emissions and combating climate change, and LAC has significant renewable energy potential including solar, wind, hydro, and geothermal resources. Here, sustainable taxonomies can provide the clarity, certainty, and transparency needed by investors to commit to long-term, capital-intensive projects by identifying renewable energy portfolios that meet specific environmental criteria, thus attracting investment to the sector. This is exemplified by the fact that the green and sustainable taxonomies published to date in the region have included power generation as part of the targeted sectors.
**Sustainable agriculture and land management.** Agriculture and forestry are key sectors in LAC, providing employment and contributing as levers of economic growth. However, unsustainable practices have historically led to high rates of deforestation, soil degradation, and greenhouse gas emissions. Green taxonomies can encourage investments in sustainable practices, such as organic farming, agroforestry, and precision agriculture, as well as responsible forest management. This, for instance, would be included in Brazil’s proposed taxonomy to address deforestation and ensure investments align with sustainable practices in the agriculture and forestry sectors—that are crucial for protecting the Amazon.

**Climate resilience and adaptation.** LAC is highly vulnerable to the impacts of climate change, including extreme weather events, sea-level rise, and changing precipitation patterns. In that sense, sustainable taxonomies can prioritize investments in climate-resilient and nature-based infrastructure, such as flood-resistant buildings, sustainable water management systems, and renewable energy microgrids. Furthermore, by leveraging green and sustainable taxonomies, LAC countries can improve their access to debt and international financial markets, attract investment, and thus invest in tackling and adapting to climate change.

These financial frameworks can help overcome fiscal constraints by creating opportunities for sustainable economic growth and resilience-building, while also addressing environmental and social challenges through some of the following:

**Enhanced creditworthiness:**
- By aligning with international standards and best practices, countries in LAC can attract a wider range of investors, including those specifically interested in green and sustainable investments. This expanded investor base can help diversify funding sources and reduce reliance on traditional debt markets, mitigating the risks associated with limited access to international financial markets and with dependence on fossil fuel-based income.
- Per a 2022 analysis, for instance, bank financing for fossil fuels in LAC was more than three times that of clean energy. And of the 20 most emitting countries in the region, the 20 of them received at least ten times more financing for carbon-intensive industries than what they received in sustainable finance. This speaks to a large need to work towards greening the financial systems.

**More investment opportunities:**
- Green and sustainable taxonomies provide clarity and transparency to investors by identifying environmentally friendly projects and activities.
- By establishing clear criteria for sustainable investments and projects, these frameworks create an enabling environment that attracts capital flows towards LAC countries—leveraging the region’s vast natural capital—including foreign direct investment and green finance.
- This increased investment can stimulate economic growth, job creation, and support the transition to a low-carbon and sustainable economy.

**Access to international climate funds:***
- International climate funds, such as the Green Climate Fund (GCF) and the Global Environment Facility (GEF), prioritize funding for projects that align with green and sustainable principles. By adopting green taxonomies, LAC countries can enhance their eligibility for accessing these funds, which provide financial resources to support climate change mitigation and adaptation initiatives. Furthermore, access to these funding opportunities can help address the low fiscal space of many countries in the region.

**Concluding public-private partnerships to unlock resources:**
- Green and sustainable taxonomies can facilitate partnerships between public and private sectors by providing a common framework for identifying and assessing sustainable investment opportunities. Public-private partnerships can leverage private sector expertise, innovation, and funding to address infrastructure needs. Green taxonomies can further serve as a guide for structuring and evaluating these partnerships, ensuring alignment with the larger climate commitments established by the governments.

**CONCLUSIONS**

Green and sustainable taxonomies play a crucial role in sustainable finance, as they serve as a powerful avenue to ramp up resources for the net-zero transition. By establishing clear criteria and guidelines for sustainable investments, these frameworks provide a transparent and standardized approach to identifying environmentally friendly projects, helping deter and avoid greenwashing. This, in turn, attracts a wider pool of investors—including those specifically seeking to support sustainable initiatives. By aligning financial flows with climate and sustainability goals, green taxonomies mobilize capital towards renewable energy, sustainable infrastructure, and climate resilience projects. This also allows countries to diversify their public finances away from fossil fuels, lowering potential future transitional risks.

Data access and integration remains an obstacle. Similarly, as national taxonomies are published around the world, this myriad of frameworks investors must attend and, in some cases, comply with, understanding similarities and differences amongst them will be important. Furthermore, without a regulation that ties such classification systems to an obligation, such as disclosures—as in the case of the European Union—along with penalties, these instruments remain strictly voluntary.

Finally, green and sustainable taxonomies enhance access to funding from international climate funds and encourage public-private partnerships, thus fostering collaboration and innovation in pursuit of a net-zero future. They will be a key instrument to unlocking the trillions in financing needed to achieve it.
The Institute of the Americas (IOA) is a non-partisan, independent nonprofit organization whose mission is to be a catalyst for promoting economic development and integration, emphasizing the role of the private sector, as a means to improve the economic and social well-being of the people of the Americas.

The Institute’s Environment & Climate Change Program (EC2) strives to catalyze climate leadership amongst the private sector and local/regional governments in the Americas to promote sustainable growth, tackle climate change and minimize environmental impacts in the region with the goal of protecting its rich marine and land-based natural capital.

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