

NOTICE

TO : ALL REGULATED ENTITIES

SUBJECT : User Guide for the Philippine Sustainable Finance Taxonomy Guidelines pursuant to SEC Memorandum Circular No. 05, series of 2024

DATE : 15 January 2025

Pursuant to Section 3 of SEC Memorandum Circular (MC) No. 05, series of 2024, or the “Guidelines on the Philippine Sustainable Finance Taxonomy” (SFTG), which directs SEC-regulated entities to deepen understanding and familiarity with the SFTG and encourages regulated entities to take into consideration its provisions and prescribed standards, the SEC hereby issues the attached **USER GUIDE** to serve as a quick reference on the SFTG.

The User Guide aims to facilitate the assessment process in determining if an economic activity contributes to the SFTG's environmental objectives (i.e., Climate Change Mitigation and Climate Change Adaptation) and meets the essential criteria of Do No Significant Harm, Remedial Measures to Transition (when necessary), and that the entity executing the activity fulfills the Minimum Social Safeguards provided therein.

SEC-regulated entities should refer to SEC MC No. 05, s. of 2024 for detailed guidance on the general taxonomy use. Regulated entities that are banks are encouraged to refer to additional guidance provided by the Bangko Sentral ng Pilipinas in relevant issuances.

The SEC will engage relevant industry associations for the conduct of capacity building activities on the SFTG and stakeholder consultations for future iterations of the taxonomy.

For information and guidance.





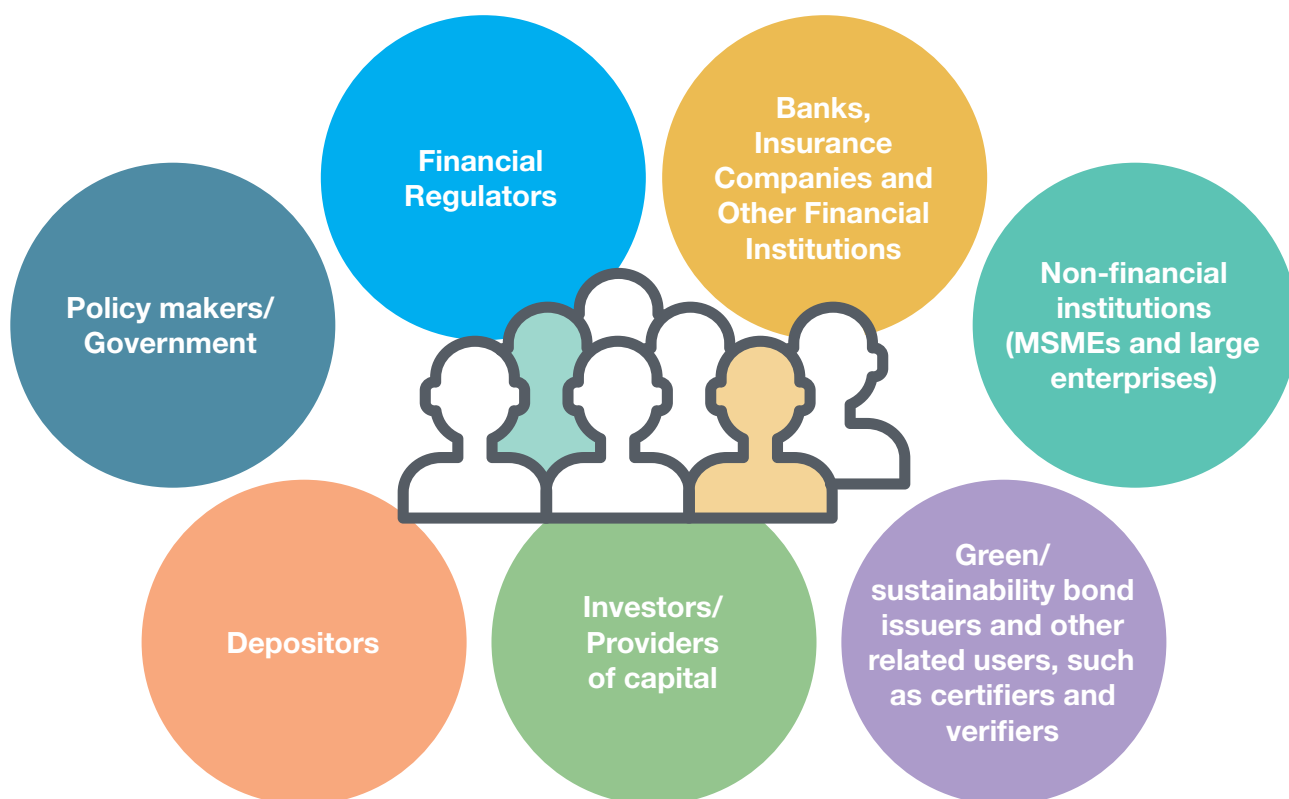
PHILIPPINE SUSTAINABLE FINANCE TAXONOMY GUIDELINES



The SFTG is a tool to classify whether an economic activity is environmentally and socially sustainable.

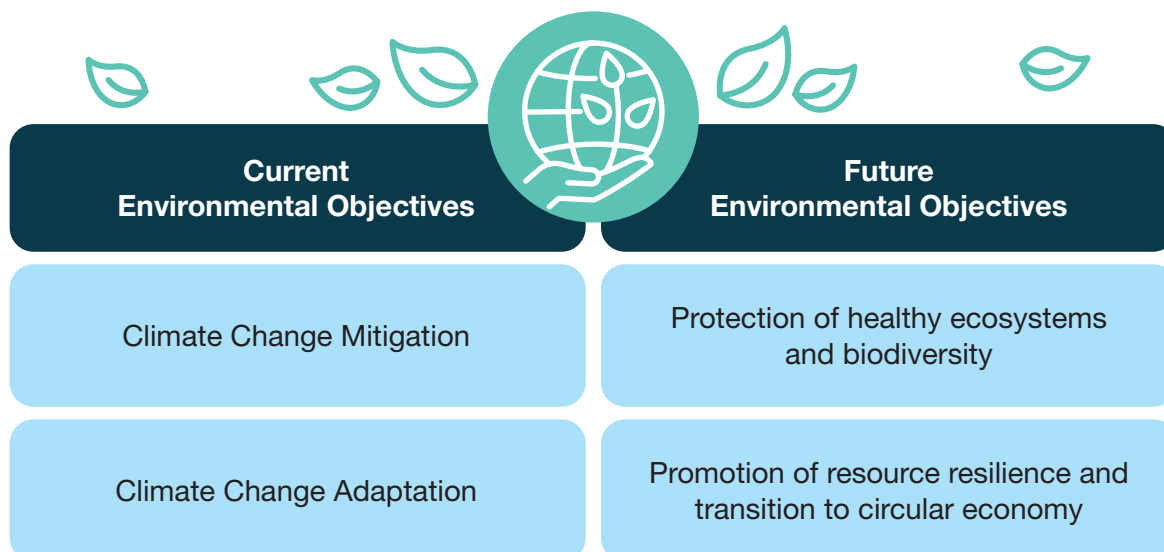
This guide summarises key elements of the comprehensive SFTG.

WHO ARE THE USERS OF THE SFTG?



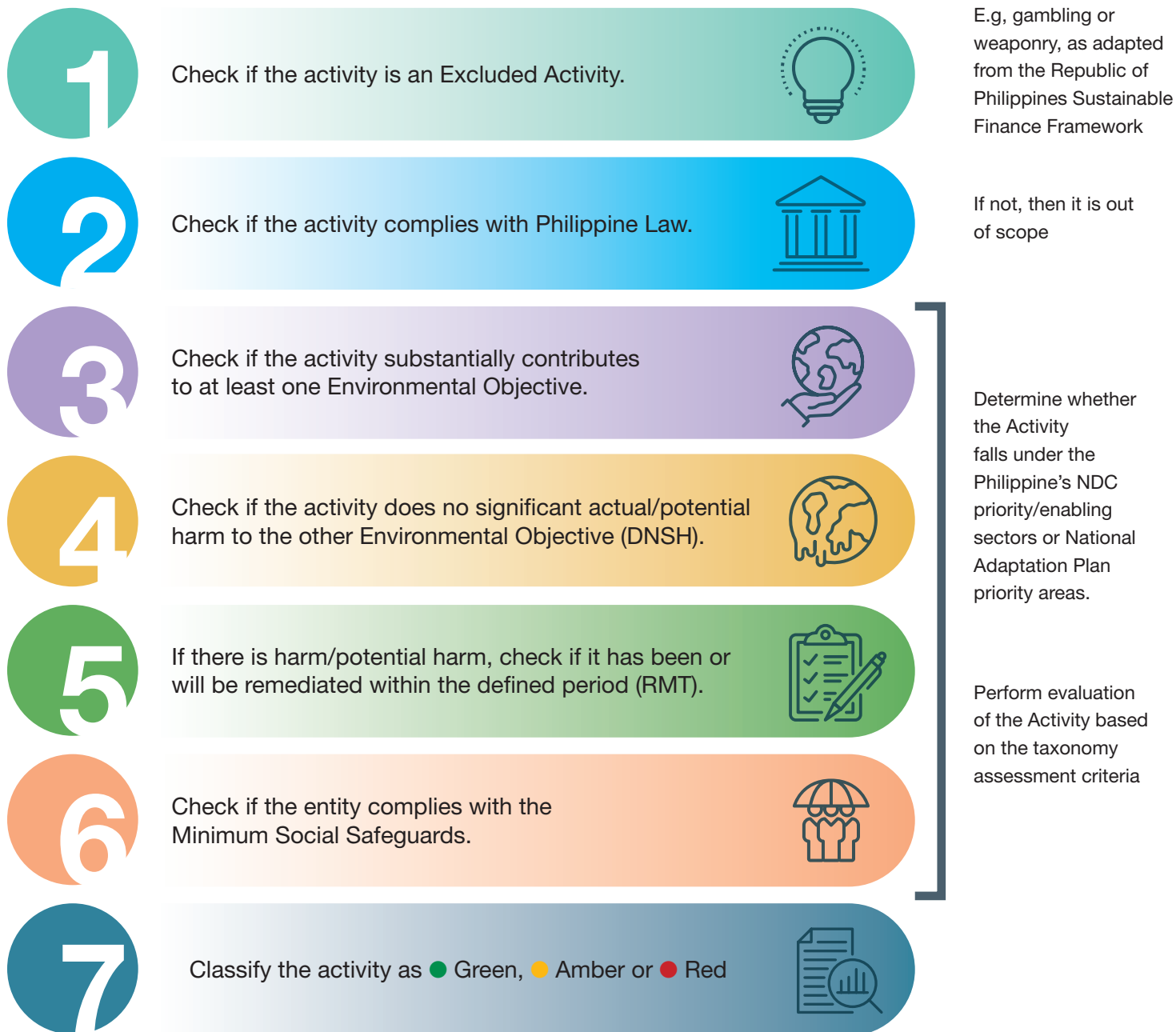
WHAT ARE THE OBJECTIVES?

In this first version, an activity should have either a climate change mitigation or climate change adaptation focus, or both to qualify for assessment.



HOW DOES IT WORK?

Apply 7 Key Steps



The SFTG is a qualitative, principles-based framework designed to assess and classify economic activities. Alignment with the SFTG designates an economic activity as environmentally and socially sustainable, enabling it to gain access to sustainable finance from domestic and international sources.

Further detailed guiding questions and decision trees are found in the SFTG.

WHAT ARE EXCLUDED ACTIVITIES?

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

And, if 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.

Excluded Activities which could be permitted as 'Amber' activities



Certain excluded activities 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.

GUIDANCE ON DNSH, RMT AND MSS



Do No Significant Harm (DNSH)

DNSH refers to the principle that an activity contributing to one environmental objective should not cause significant harm to another environmental objective.

For example, a wind farm activity that is built in a coastal area may be vulnerable to significant storm surges and may significantly harm the climate change adaptation objective if it is not reasonably designed to withstand expected climate change impacts.

The SFTG has general and specific guiding questions to help assess the DNSH criteria. In this first version, an optional step for DNSH also includes assessment against the additional environmental objectives of circular economy and biodiversity, and a further optional step to align with an internationally recognized standard such as the IFC Performance Standards. These are part of a broader ESG risk management approach.



Remedial Measures to Transition (RMT)

If an activity does cause significant harm to another environmental objective, it may be taxonomy aligned, provided it has taken Remedial Measures to Transition (RMT). Any RMT should be fulfilled within a 5-year timeframe from the assessment date, or up to 10 years from the assessment date, provided that the longer remediation period is supported by an independent verification. Further guidance is included in the SFTG.



Minimum Social Safeguards (MSS)

These are standards to ensure that entities doing the activities comply at a minimum with Philippine 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. Specific guidance is given in the SFTG.



HOW TO CLASSIFY AN ECONOMIC ACTIVITY BASED ON THE TRAFFIC LIGHT SYSTEM?

The SFTG uses a Traffic Light System which classifies activities as Green, Amber and Red.

Category	Definition
	The Activity makes a substantial contribution to an Environmental Objective and meets the Essential Criteria of DNSH and MSS.
	The Activity makes a substantial contribution to an Environmental Objective but causes significant harm to another Environmental Objective. 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.
	The Activity does not serve any of the SFTG's Environmental Objectives or meet the Essential Criteria. An activity that falls under the Red classification does not imply that the activity is unsustainable and it may still be eligible for “unlabelled” financing. Rather, the activity is classified as Red since it does not meet the requirements of the SFTG or pass the DNSH or MSS tests.

WHAT ARE THE PRIORITY SECTORS AND ENABLING SECTORS' ACTIVITIES?

Any activities that fall under the priority and enabling sectors below are in-scope.

Users can apply the Philippine Standards Industrial Classification (PSIC) codes to identify the respective sector's eligible activities and to subsequently perform the activity's assessment and classification under the SFTG.

List of Priority Sectors for Climate Change Mitigation

	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).
	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.

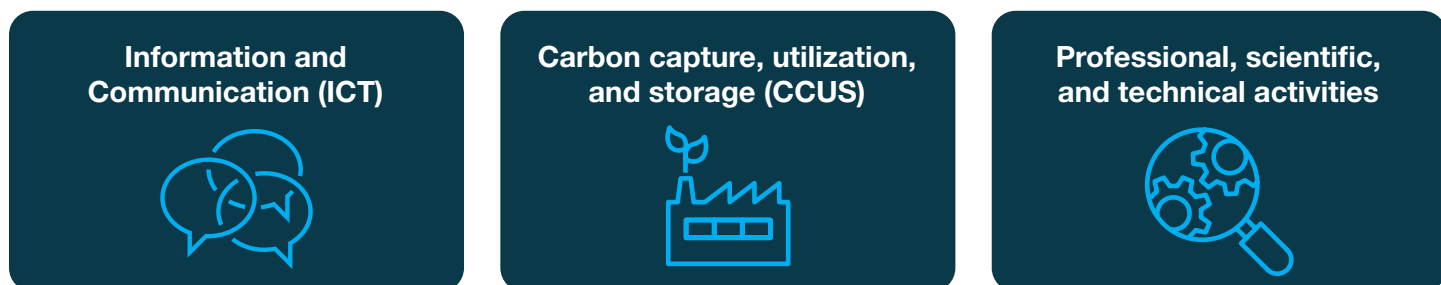
LIST OF PRIORITY SECTORS FOR CLIMATE CHANGE ADAPTATION ACTIVITIES

To strengthen climate resilience and deal with the adverse impact of climate change adaptation, particular attention is given to adaptation activities in support of the following sectors:



ENABLING SECTORS

Enabling sectors are those which improve the performance of other sectors and activities and do not themselves risk harm to environmental objectives. These sectors are important for the climate resilience and decarbonization of the economy and might not otherwise be included in the SFTG if only emissions intensity and gross value added are considered:



Financial Services are also central to the implementation of the SFTG as this sector will develop green financial products, services and frameworks supporting taxonomy-aligned activities.

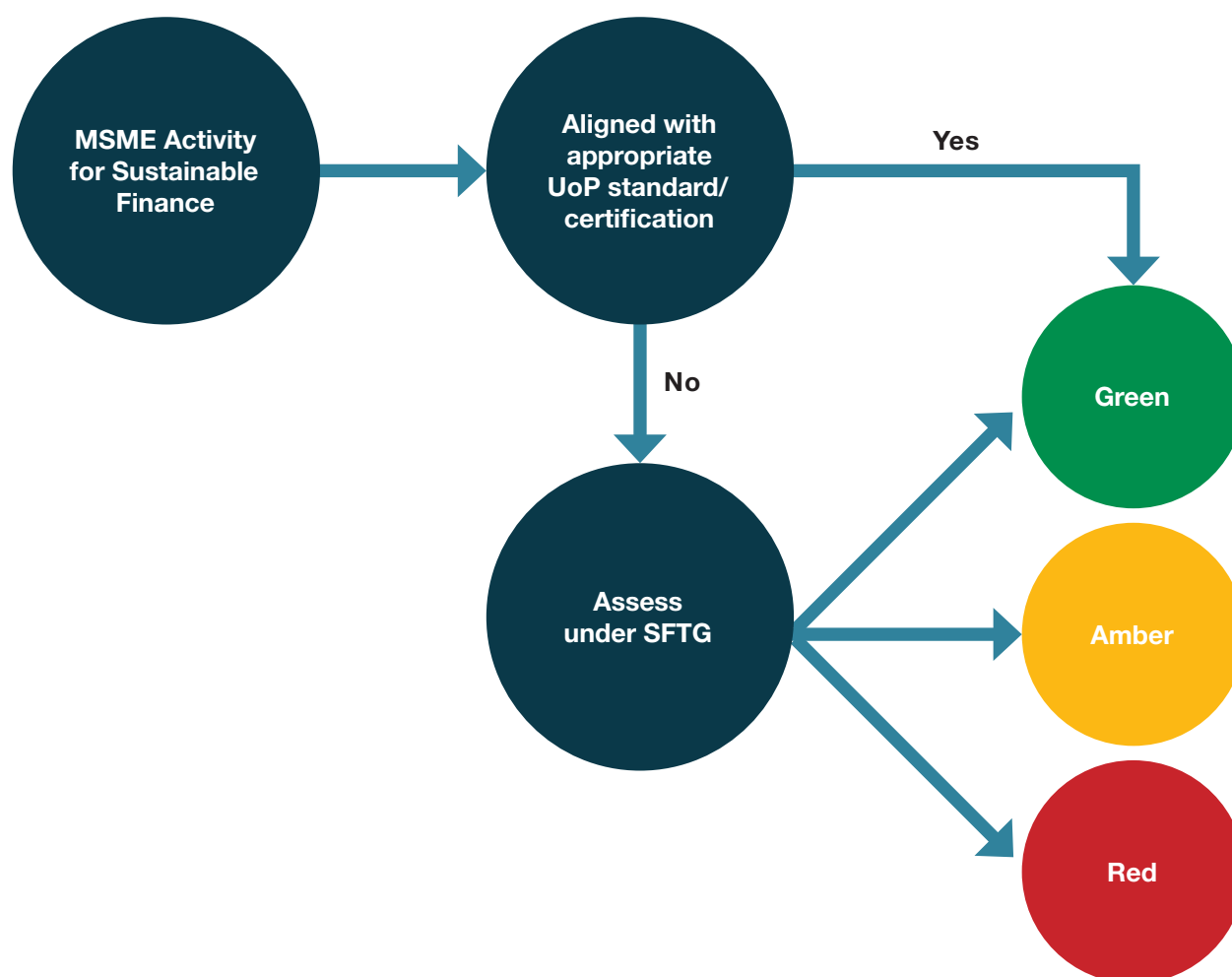
ASSESSING MSMEs' ACTIVITIES THROUGH A SIMPLIFIED APPROACH

MSME activities must still comply with Step 1- Excluded Activities and Step 2 – compliance with Philippines laws.

The activity is then assessed to align with an appropriate Use of Proceeds standard, including those listed in Appendices 5 and 6 of the SFTG, such as a Roundtable on Sustainable Palm Oil standard, or production of agricultural products under the Rainforest Alliance. This may then merit classification as 'Green'.

If the activity is not aligned or certified under an appropriate UoP standard, it may follow the full assessment process under the SFTG.

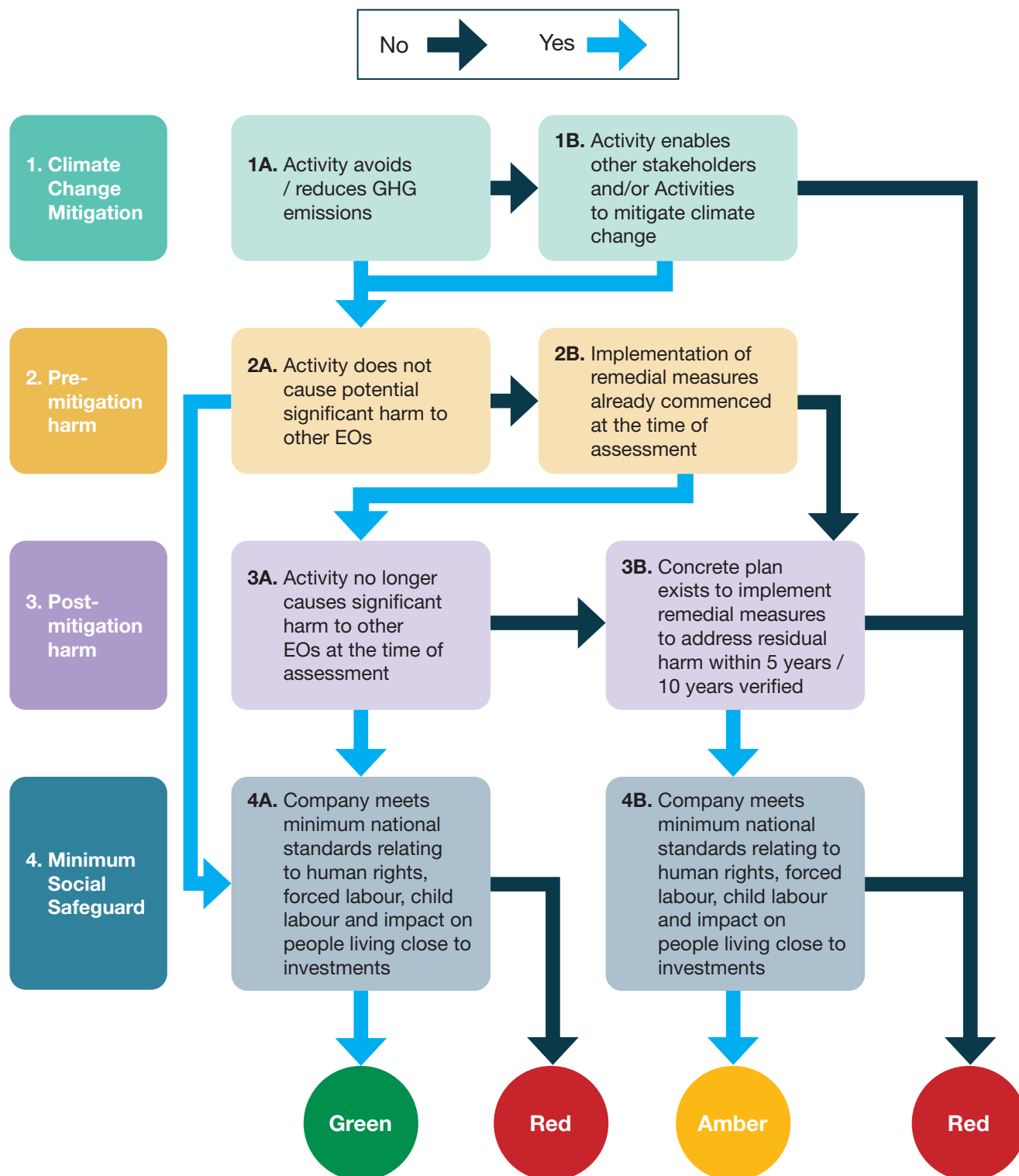
The diagram below illustrates the pathways to navigating MSME Activities for access to sustainable finance:



CASE STUDIES

Case Example 1: Climate Change Mitigation Activities

Users can navigate the assessment and classification of activities as guided by the decision tree below.



USE CASE 1:

Renewable Energy Company – Hydropower Plant

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.

1. Set Activity Environmental Objective

Determine Environmental Objective	Answer
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?	● In determining the primary 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.

2. Guiding Questions

Step	Process
0.1	Is the Activity an Excluded Activity? Answer: No, the activity is not in the excluded activity list.
0.2	Is the Activity in compliance with Philippine laws? Answer: 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? Answer: 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? Answer: Not relevant as an enabling activity.
DO NO SIGNIFICANT HARM (DNSH)	
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? Answer: 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.

2. Guiding Questions (cont..)

Step	Process
REMEDIAL MEASURES TO TRANSITION (RMT)	
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? Answer: 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? Answer: 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).
MINIMUM SOCIAL SAFEGUARDS (MSS)	
	● 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? Answer: Yes, the entity meets the SFTG MSS.
Traffic light classification: The economic activity is classified as ● AMBER.	

USE CASE 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.

1. Set Activity Environmental Objective

Determine Environmental Objective	Answer
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?	● The company's strategic focus is sustainability, clean energy and environmental responsibility. ● The company focuses on reducing carbon emissions, hence the most suitable environmental objective for this activity is climate change mitigation.

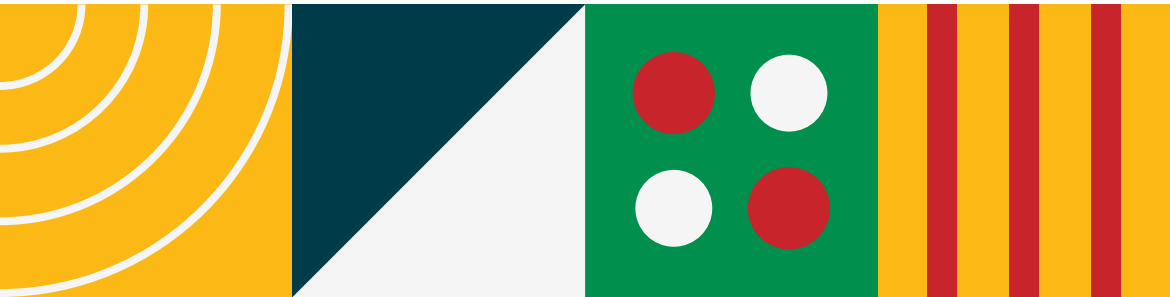


2. Guiding Questions

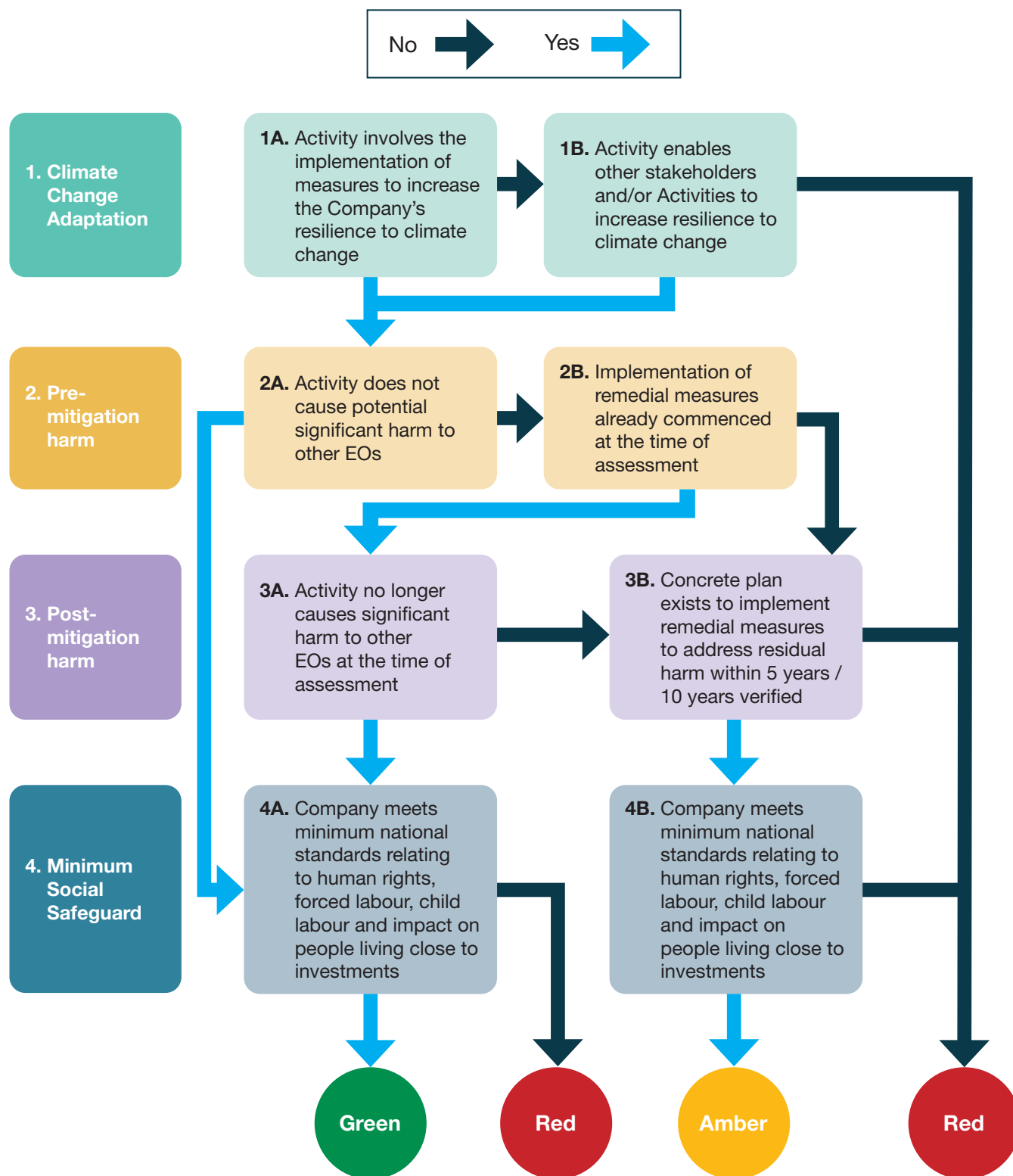
Step	Process
0.1	Is the Activity an Excluded Activity? Answer: No, the activity is not in the excluded activity list.
0.2	Is the Activity in compliance with Philippine laws? Answer: The Activity complies with Philippine laws.
1A	- Does the Activity contribute to Climate Change Mitigation? - Does the Activity avoid / reduce GHG emissions? - How does the Activity substantially avoid or help reduce emissions? Answer: 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? Answer: Not relevant as an enabling activity.
DO NO SIGNIFICANT HARM (DNSH)	
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? Answer: 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.

2. Guiding Questions (cont..)

Step	Process
	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.
REMEDIAL MEASURES TO TRANSITION (RMT)	
Answer: Not applicable.	
MINIMUM SOCIAL SAFEGUARDS (MSS)	
	Does the entity comply with the SFTG minimum social safeguards? Answer: Yes, the company meets the SFTG MSS.
Traffic light classification: The economic activity is classified as ● GREEN.	



Climate Change Adaptation Activities Decision Tree



USE CASE 3:

Real Estate and Construction Activities

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.



1. Set Activity Environmental Objective

Determine Environmental Objective	Answer
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?	● 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.

2. Guiding Questions

Step	Process
0.1	Is the Activity an Excluded Activity? Answer: No, the activity is not in the excluded activity list.
0.2	Is the Activity in compliance with Philippine laws? Answer: 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? Answer: 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 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? Answer: 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? Answer: Yes, the activity implements measures that increase the Company's resilience to climate change.
DO NO SIGNIFICANT HARM (DNSH)	
2A	Activity does not cause potential significant harm to other EOs. - Has an EIA been conducted and approved on the Activity? Answer: Yes - What are the results of the EIA and where do the impact of the activity lie? Answer: 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.

2. Guiding Questions (cont..)

Step	Process
	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.
REMEDIAL MEASURES TO TRANSITION (RMT)	
2B	Have remedial measures already started to be implemented at the time of assessment? Answer: 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? Answer: Yes. Harm has been mitigated, as recycled materials will be primarily used, and construction waste will be recycled.
MINIMUM SOCIAL SAFEGUARDS (MSS)	
2B	Does the Company meet minimum national standards relating to human rights, forced labour, child labour and impact on people living close to investments? Answer: 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.

2. Guiding Questions (cont..)

Step	Process
	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 ASEAN Human Rights Declaration and ASEAN Consensus on the Promotion and Protection of the Rights of Migrant Worker 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". 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 ASEAN Declaration on Strengthening Social Protection 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.	

USE CASE 4:

Development of Rainwater Collection System as Catch Basin*

Background:

- **ABC Realty Company, a real estate developer, is planning to avail a loan for the development of two rainwater collection systems in its AURORA township, which is located a few kilometers outside of Metro Manila.** The area surrounding the AURORA township has experienced flooding in the past few years due to persistent and extreme rainfall events. To prevent possible flooding within the township during the wet season and to provide alternative sources of water during the dry season, the Company plans to dig two water cisterns, both with a height of a five-storey building, along with laying down a network of pipes and drains, that will serve as a catch basin and will collect and store rainwater to prevent flooding within the township. The water collected will then be used for gardening, cleaning and sanitation purposes by the commercial establishments, infrastructures and community parks in the township.
- ABC Realty Company has recently launched its Sustainability Framework wherein the Company commits to integrate and apply sustainability principles and practices within its organization, including the development and maintenance of its real estate portfolio. It plans to introduce sustainability elements in the designs of its township including use of natural and/or energy-efficient lighting, solar-powered lighting at night, expanded open spaces, water recycling, water impounding, upcycling facilities, electric service vehicles, planting of more endemic trees, among others.

1. Set Activity Environmental Objective

Determine the Environmental Objective	Answer
• 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 plan?	• For the climate change adaptation objective under the SFTG, particular attention could be given to financing of adaptation activities in support of water resources. • The development of the rainwater collection system is to prevent possible flooding in the

*This sample use case was inspired by the water collection facility located underneath Burgos Circle, Bonifacio Global City, Taguig City.
Source: <https://newsinfo.inquirer.net/248007/5-story-deep-cistern-in-the-fort-water-impounding-model>

• Which EO(s) is most relevant to the Activity? • What is the strategic focus of the Company doing the Activity?	township and enhances the resilience among people within the township from the negative effects of climate change (i.e. intense and frequent typhoons that cause flooding and shortage of freshwater from extreme drought episodes). • While the Company launched its sustainability framework, its proposed projects address several environmental objectives – climate change mitigation, climate change adaptation and circular economy. Specific to the rainwater collection system, climate change adaptation is the appropriate environmental objective given the climate resilience goal. • In this regard, the proposed rainwater collection system fits climate change adaptation as the main environmental objective.
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2. Guiding Questions

Step	Process
0.1	Is the Activity an Excluded Activity? Answer: The Activity is not in the excluded activity list.
0.2	Is the Activity in compliance with Philippine laws? Answer: The Activity complies with Philippine laws including obtaining an Environmental Impact Assessment (EIA).
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 substantially contribute to Company's resilience against adverse physical impacts of current and future climate change? Answer: The Activity can contribute to the Company's resilience to climate change as the rainwater collection system will be able to provide additional water supply for the township especially during summer months when there is shortage of water supply from the utility company. Rainwater collected will primarily be used for gardening, cleaning and sanitation purposes for the commercial establishments, infrastructures, and community parks in the township. Meanwhile, during the rainy season, the rainwater collection system will serve as a water impounding facility to prevent flooding within the township. The activity also contributes to Climate Change Adaptation by mitigating flood hazards generally.

It is expected that the rainwater collection system will provide savings to the Company in terms of its utility bill as well as preserving the integrity of the infrastructure within the township in the long run as it will prevent possible flooding incidents in the area.

DO NO SIGNIFICANT HARM (DNSH)

2A

- Does the activity cause potential significant harm to other EOs?

Answer:

Technically, the assessment at this initial phase of the SFTG is only mandated for significant harm towards climate change mitigation. The construction of the rainwater collection system will not be dedicated to the extraction, storage, transport or manufacture of fossil fuels. Although the company is still developing its GHG Protocol-based accounting to support measurement, the activity is not inherently considered to contribute to significant GHG emissions, does not lead to extensive deforestation and does not impede upstream or downstream stakeholders from reducing their GHG emissions (per the guiding questions).

- Has an EIA been conducted and approved on the Activity?

Answer:

As part of its application for an Environmental Compliance Certificate (ECC) from the Department of Environment and Natural Resources (DENR), the Company conducted an EIA.

- What are the results of the EIA and where are the impacts of the activity?

Answer:

Based from the plans submitted by the Company, two cisterns for rainwater collection will be built located underneath an existing parking lot for a community mall within the township and underneath an existing nature park where there are several trees.

The EIA report noted that in the construction of the cistern at the current nature park, several trees and a significant amount of soil will be displaced and might have an impact on biodiversity and climate change adaptation efforts. The construction of the cistern at the parking lot is also expected to generate a considerable amount of construction waste.

For the strict purposes of the first phase of the taxonomy, these factors do not affect the assessment as only harm to climate change mitigation is assessed. However, the company seeks to implement best practices including and not limited to using SMART (self-monitoring, analysis and reporting technology) technology, and accordingly will apply the 'Optional Step 3' of the DNSH assessment: *'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'.*

The location and design of the cistern at the nature park was carefully considered to ensure that century-old trees endemic to the area will not be affected and will not be uprooted,

	since these cannot be balled for temporary relocation. Trees that will be uprooted at the nature park that can be balled will be temporarily relocated to other parts of the township. The other trees that need to be uprooted and cannot be balled will be sent to a company manufacturing wood plastic composite (WPC) panels, of which the Company will purchase to be used at the parking lot after the other cistern has been installed underneath as well as heat diffusers on the roofing of several structures in the townships The Company has obtained the necessary permits from the DENR and the LGU to move the trees for temporary relocation. A portion of the soil to be excavated will be transferred by the Company to develop nature parks in other township projects. The remaining soil will be used to recreate the nature park on top of the cistern. Concrete excavated from the parking lot will be used, to the extent possible, as fillers (<i>panambak</i>) for other township projects. Other waste, such as steel, will be sent to third-party recycling companies. In the construction of the cistern as well as other components of the rainwater collection system, the Company will purchase inputs from suppliers that adhere to green or sustainable standards, as available. The uprooted trees will be returned to its original location and remaining soil excavated from the nature park will be used to the recreate the park. The recreation of the park is targeted to be completed within 6 months after the construction of the cistern and accompanying pipes and drains has been completed, which is targeted at 12 months. Taking the abovementioned in consideration, as well compliance with other requirements, the Company received an ECC from the DENR for the construction of the rainwater collection system. Overall, while some harm is being caused, this is not considered to meet a threshold of significant harm.
REMEDIAL MEASURES TO TRANSITION	
2B	Have remedial measures already started to be implemented at the time of assessment? Answer: The activity does not cause significant harm to the Climate Change Mitigation Objective therefore this assessment is not required.
3A	Does the Activity no longer cause significant harm to other EOs at the time of assessment? Answer: Not relevant at this at this initial phase of the SFTG. Nonetheless, users may apply industry best practices and the broader ESG framework to deal with the activity's adverse impact onto the broader environment.
3B	Are there concrete plans established for remedial measures to address the residual harm within a defined timeframe?

Answer: Not relevant, as above.

MINIMUM SOCIAL SAFEGUARDS

4A

- Does the Company meet minimum national standards relating to human rights, forced labor, child labor and impact on people living close to investments?

Answer:

The Company has no violations on human rights, forced labor, child labor over the development of its townships.

The Company also has a policy for its subcontractors and supplies on abiding with labor and environmental laws.

During the development of the AURORA township, the Company has been called as a co-defendant in a labor case filed by former workers in the township over unfair labor practices. However, the National Labor Relations Commission (NLRC) dismissed the case against the Company as it was found that the Company's subcontractor is the party guilty to the case and was ordered to pay for damages. The Company blacklisted the said subcontractor over future projects, which shows that the Company is committed to upholding the Company's policy towards its subcontractors and suppliers.

Traffic light classification: The economic activity is classified as ● GREEN.



USE CASE 5:

Mangrove Plantation as Sea Wall*

Background:

- **MABUHAY FISHERIES INC. is a fish and shrimp producer and exporter.** It produces several varieties of milkfish, catfish and *tilapia* as well as prawns and tiger shrimps for local and foreign consumption. It currently has a network of fish and shrimp farms with a total pond length of 12 kilometers located along the coastline of the Municipality of Katularan in Central Visayas facing the Cebu Strait. The coastline along the area of the ponds is composed mainly of mud soil as well as shallow rocky structures. The fish and shrimp ponds have repeatedly been encroached and damaged in recent years by sea and brackish water coming from the Cebu Strait as a result of intensified typhoons caused by climate change. **The Company, adhering to its sustainability and nature-based solutions approach, intends to plant mangroves along the coastline to provide natural protection and breakwater for its fish and shrimp ponds as well as to serve as a carbon sink, and seeks financing in order to fund the mangrove project.**

1. Set Activity Environmental Objective

Determine the Environmental Objective	Answer
• 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 plan? • Which EO(s) is most relevant to the Activity? • What is the strategic focus of the Company doing the Activity?	• For the climate change adaptation objective under the SFTG, particular attention could be given to financing of adaptation activities in support of fisheries and food security, as well as in ecosystems and biodiversity. In this regard, the proposed mangrove sea wall fits Climate Change Adaptation as the main environmental objective. • Mangrove planting act as natural barriers against coastal erosion and storm surges. Their intricate root systems stabilize shorelines, reducing the impact of waves and protecting coastal areas from flooding and property damage. With sea levels rising due to climate change, mangroves play a crucial role in safeguarding vulnerable coastal areas. The Company's intention to create a mangrove plantation as a coastal protection

This sample use case was inspired from a project cited in the report "Operationalizing Sustainable Finance for Ecosystem-based Adaptation Projects: A Primer for Bank and Financial Institutions" published by the AIM - Gov. Jose B. Fernandez Jr. Center for Sustainable Finance. Source: <https://aim.edu/news/financing-and-valuation-ecosystem-based-adaptation-philippines>

	along its fish and shrimp ponds shows the climate change adaptation is the appropriate environmental objective for this activity. Absence of the plantation might lead to operational disruption and economic losses from extreme weather. While mangrove plantations also provide carbon sequestration benefits (therefore mitigating the effects of climate change), this is only secondary to the primary purpose of the activity, i.e., coastal protection to provide resilience to the effects of climate change.
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2. Guiding Questions

Step	Process
0.1	Is the Activity an Excluded Activity? Answer: The Activity is not in the excluded activity list.
0.2	Is the Activity in compliance with Philippine laws? Answer: 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 substantially contribute to Company's resilience against adverse physical impacts of current and future climate change? Answer: The proposed Activity is seen to contribute to the Company's resilience to climate change as the mangrove plantation acting as sea wall will provide adequate cover to the fish and shrimp ponds from the rising sea levels that is encroaching the ponds as well as the coastline. This will reduce the risk of operational disruption and economic losses from damage caused to the ponds from extreme weather events. Mangrove ecosystems support a diverse array of plant and animal species, many of which are uniquely adapted to these habitats. By restoring and expanding mangrove forests, biodiversity is improved and it can provide habitats for numerous marine and terrestrial organisms. This biodiversity is essential for ecosystem resilience and adaptation to changing environmental conditions.
1B	Does the Activity enable other stakeholders and/or activities to increase resilience to climate change? Answer:

	The natural protection from the proposed mangrove plantation will secure the supply of fish and shrimp from the ponds, offering security in fish supply as well as demand for labor in the area. The population near the coastline will also benefit from the mangrove plantation as this will also provide protection from storm surges that may possibly destroy their residences. Meanwhile, the presence of mangroves will provide a breeding ground for fishes and crabs and can introduce a new ecosystem along the coastline.
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DO NO SIGNIFICANT HARM (DNSH)

2A	- Does the activity cause potential significant harm to other EOs? Answer: Technically, the assessment at this phase of the SFTG is only mandated for significant harm towards Climate Change Mitigation. The proposed mangrove plantation will not be dedicated to the extraction, storage, transport or manufacture of fossil fuels. On the contrary, it is seen to capture carbon and act as a carbon sink, thereby contribution to GHG emission reduction. Nevertheless, the company wishes to assess potential harm to biodiversity given the novelty of mangroves being planted in the area. - Has an Environmental Impact Assessment (EIA) been conducted and approved on the Activity? - What are the results of the EIA and where are the impacts of the activity? Answer: Given the extent of the project to be financed, the bank requested the Company for an EIA on the proposed activity. The EIA report shows that the topography of the coastline along the fish and shrimp ponds (mud soil) as well as the thickness of the mud can sustain the growth of mangroves. Oxygen availability along the target area proved to be viable for the growth of mangrove seedlings. The EIA further mentioned that while the rocky structures along the coastline provide natural protection and barrier, these are shallow and may not withstand increased water encroachment brought about by intense storms and typhoons. The mangrove plantation can provide additional protection and barrier to the coastline. While the topography supports the growth of mangroves, the EIA mentions that the coastline has not been inhabited by mangroves, and introducing an incompatible species of mangroves may cause habitat degradation and vulnerability over biodiversity in the area.
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REMEDIAL MEASURES TO TRANSITION

2B	Have remedial measures already started to be implemented at the time of assessment?
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	Answer: In preparation for the mangrove plantation, the Company, requested assistance from the Local Government Unit (LGU) Agricultural Officer and a non-governmental organization (NGO) and planted a sample of various species of mangroves in the area to assess which type will be viable along the coastline. The testing and assessment will take around 3 months.
3A	Does the Activity no longer cause significant harm to other EOs at the time of assessment? Answer: Technically, the only remedial measures assessment required under this phase of assessment is against climate change mitigation, for which there is no harm to remediate. However, the company seeks to apply best practices, and having conducted the sample planting and while awaiting for its results, the assessed significant harm to biodiversity have been addressed at the time of assessment. Full implementation of the mangroves is pending the guidance on the appropriate species.

MINIMUM SOCIAL SAFEGUARDS

4A	Does the Company meet minimum national standards relating to human rights, forced labor, child labor and impact on people living close to investments? Answer: The Company has no violations of human rights, forced labor, child labor over the operations of the fish and shrimp ponds. The Company hires most of its workers from the Municipality of Katularan and are paid according to the mandated wages in the region.
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Traffic light classification: The economic activity is classified as ● GREEN.

