

PRI RESPONSE TO THE RUSSIAN GREEN FINANCE GUIDELINES AND APPENDIX 1 OF THE RUSSIAN NATIONAL TAXONOMY FOR GREEN PROJECTS

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INTRODUCTION

The United Nations-backed Principles for Responsible Investment (PRI)¹ is the world's leading initiative on responsible investment. The PRI has over 3500 signatories (pension funds, insurers, investment managers and service providers) globally, with approximately US \$100 trillion in assets under management.

Responsible investment explicitly acknowledges the relevance of environmental, social and governance (ESG) factors to investors and their decision-making for the long-term health and stability of financial markets.

The PRI welcomes the opportunity to respond to this consultation on the Russian finance guidelines and appendix 1 of the Russian national taxonomy for green projects.

ABOUT THIS CONSULTATION

In December 2019, the Central Bank of the Russian Federation signed into law Bill № 706-П on “Standards of issuing securities”². This describes for the first time, in paragraph V.4., the specifics of issuing bonds where proceeds are allocated to purpose-oriented projects. The Russian financial regulator identified such bonds as green, social and infrastructure bonds.

In July 2020, the Central Bank of the Russian Federation issued the Communication letter № УН-06-28/111 to financial market participants on “Recommendations for the implementation of the principles of responsible investment”³.

In September 2020, the Russian development finance institute VEB.RF published for public consultation the draft Russian green finance guidelines⁴ including, in the appendix, the draft Russian national taxonomy for green projects⁵. Consultation documents describe the procedure and criteria for alignment of financial instruments with the recommendations, as well as a detailed description of the primary areas for the realisation of green projects in the Russian Federation. Such methodology for assessment of green financial instruments has not been developed in Russia before.

On 18 November 2020, the Government of the Russian Federation issued the decree № 3024-p on “Coordination role of the Ministry of Economic Development and Trade of the Russian Federation on the issues of developing the investment activity and attracting extrabudgetary funds into sustainable (including green) projects in the Russian Federation”⁶. According to the decree, the Ministry of Economic Development and Trade of the Russian Federation is tasked to create a cross sectoral working group and further coordinate

¹ <https://www.unpri.org/>

² http://www.consultant.ru/document/cons_doc_LAW_344933/

³ http://www.cbr.ru/content/document/file/112325/in-06-28_111_e.pdf

⁴ <https://veb.ru/files/?file=70a471b4aec7d53a92c94edba906e9a9.pdf>

⁵ <https://veb.ru/files/?file=267a4f47e0ac607b212c5ec714c65772.pdf>

⁶ http://www.consultant.ru/document/cons_doc_LAW_205300/

its activity. It must also report the developments made by the working group towards its goals and primary areas of sustainable (including green) finance to the Government of the Russian Federation. This includes project criteria, project verification requirements, and approaches to project impact assessment on the environment in concern with appropriate federal executive authorities and the Bank of Russia. In line with the decree, VEB.RF will act as the methodological centre for developing and promoting investment activity in the area of sustainable (including green) finance.

KEY RECOMMENDATIONS

PRI welcomes the efforts of regulatory bodies, VEB.RF and of the expert community to develop a methodology for green finance in Russia, including a green taxonomy. We believe that the taxonomy will create an additional demand for, and supply of, sustainable finance products based on mutual understanding of the conditions and opportunities for private capital investments into economic activities and green projects consistent with the sustainability goals set by the EU and Russia.

On 2 June 2020, the EU issued regulation 2020/852 on the establishment of the unified classification system for sustainable activities (EU Taxonomy). Following this, PRI recommends that the key documents serving as the foundation of green finance in Russia (the taxonomy being one of them) are developed in consideration of global institutional investors, to help facilitate foreign investment flow.

To achieve this goal, PRI recommends applying common design principles for international taxonomy harmonisation as described in the EU TEG final taxonomy report (section 4.2)⁷ to the Russian taxonomy. The principles allow for variations between different taxonomies based on local market specifics, but at the same time require taxonomies to follow basic design rules such as alignment with clear environmental goals; establishment of an eligible sector and economic activity classification tool (or alternatively, an international comparison with other common classification schemes); and the setting of clear and common performance measurement metrics as well as of performance thresholds for each economic activity.

At the international level, the EU has convened an International Platform on Sustainable Finance, which will encourage a dialogue on the development of taxonomies.

Establishing a transparent and effective policy framework for sustainable development is of paramount importance in achieving the national sustainability goals set by Russia.

The PRI's key recommendations for further development of the Russian green taxonomy are:

- Define the key economic activities that would determine projects as green. This can be achieved through incorporation of existing sectoral standards and classifications - national⁸, European⁹ and global¹⁰.
- Specify the technical criteria, performance measurement metrics and thresholds for projects within the outlined areas which can be identified as sustainable or green. A lack of key technical parameters results in the lack of clear distinction between which activities are green and which are not and limits investors' opportunities to justify capital allocation to assets potentially suitable for their responsible investment strategies and aligned with environmental goals.
- Widen the scope of applicable principles for the minimum social safeguards. This should cover not only the OECD Guidelines for Multinational Enterprises, but also the UN Guiding Principles on Business and Human Rights, including the Declaration of Fundamental Principles and Rights at

⁷ https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/200309-sustainable-finance-teg-final-report-taxonomy_en.pdf

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https://economy.gov.ru/material/departments/d18/obshcherossiyskie_klassifikatory_zakreplennye_za_minekonomrazvitiya_rossii/

⁹ https://ec.europa.eu/eurostat/ramon/nomenclatures/index.cfm?TargetUrl=LST_NOM_DTL&StrNom=NACE_REV2&StrLanguageCode=EN&IntPcKey=&StrLayoutCode=HIERARCHIC&CFID=1110191&CFTOKEN=3ca0f6dad71d377-1F2DE4F0-F7BF-BCAE-31C18C386EA88F92&jsessionid=f900daad75c14b465532m

¹⁰ For example, <https://www.msci.com/gics>

Work, the International Bill of Human Rights as well as similar regulatory guidelines at the national level, where relevant. The inclusion of minimum social safeguards should be one of the guiding principles of environmentally sustainable activities.

- Include a large community of relevant experts with diverse backgrounds in the development of the taxonomy and validate the final document through the Russian Parliament. This will ensure the taxonomy will have the highest level of validation and implementation requirements from relevant authorities and institutions.
- Join the International Platform for Sustainable Finance (IPSF)¹¹ to be able to contribute to the dialogue on taxonomies between participating governments.

DETAILED RESPONSE

In July 2020, VEB.RF brought up for discussion methodological recommendations to develop green finance investment activity in Russia. One of these recommendations is the creation of a Russian national taxonomy for green projects, which was agreed by the internal Green Finance Committee of VEB.RF, as of 8 July 2020.

According to the Russian taxonomy, the environmental goals that green projects in Russia should aim to achieve are closely aligned with the environmental goals defined by the EU Taxonomy in the context of technical terms, but they differ in their wording. The EU Taxonomy goals “sustainable use and protection of water and marine resources” and “protection and restoration of biodiversity and ecosystems” are combined into one goal in the Russian taxonomy (see table below). The sustainable use and protection of water and marine resources are part of the Sustainable Development Goals and an important part of the long-term sustainable development of the Russian economy, as Russia holds one of the world’s leading positions in the amount of renewable water resources.

Comparison of environmental goals

EU Taxonomy	Russian taxonomy
Climate change adaptation	Adaptation to climate change
Climate change mitigation	Greenhouse gas emissions reduction
Transition to a circular economy	Energy efficiency enhancement
Pollution prevention and control	Pollution reduction
Protection and restoration of biodiversity and ecosystems	Environmental improvement
Sustainable use and protection of water and marine resources	

The classification scheme proposed in the Russian taxonomy defines primary areas for the development of green projects, which are further divided into various sub-directions. The classification scheme proposed by the EU Taxonomy is based on the principle of economic activity.

The difference in classification approach of the Russian taxonomy could create certain challenges for international investors in terms of comparability of assets across geographies. Overall, this may discourage foreign investment flow into the Russian market.

In most general terms the proposed by VEB.RF classification of primary areas for the development of green projects is aligned with the economic activities defined in the classification of the EU Taxonomy. One key exception is that agriculture is not included in the Russian taxonomy, while it contributes significantly to air and soil pollution.

¹¹ https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/international-platform-sustainable-finance_en

Comparison of the EU Taxonomy economic activities and the primary areas of green project development by the Russian taxonomy

EU Taxonomy economic activities (as proposed by the EU TEG)	Primary areas of the Russian taxonomy
Forestry	Forestry
Agriculture	
Manufacturing	Industrial production
Electricity, gas, steam and air conditioning supply	Energy
Water, sewerage, waste and remediation	Water supply and wastewater disposal Waste management and recycling
Transport and storage	Transport
Information and communication technologies	Information and communication technologies
Buildings, construction and real estate activities	Construction
	Conservation of natural landscapes and biodiversity
Financial and insurance activities	
Professional, scientific and technical activities	

Given the different approach in the development of the Russian taxonomy, PRI recommends that VEB.RF consider establishing a comparison between the EU and Russian taxonomy classifications. The International Platform on Sustainable Finance (IPSF) initiated work to compare approaches to sustainable finance, including on classifications of economic activities of its member states. The working group, led by the EU and China, will work towards developing a “common taxonomy” to find common characteristics of economic activity alignment with environmental goals of the existing taxonomies.

The Russian taxonomy lists primary areas for project development, which should identify a project as green, but there is no justification of why these areas have been selected. There is no clarification about 1) which projects within the identified primary areas of development significantly contribute to climate mitigation, or 2) which projects significantly contribute to climate adaptation. In addition, the Russian taxonomy does not specify technical criteria, or performance metrics and thresholds, according to which the development of a green project within the identified primary areas can be considered sustainable.

Such criteria will help align investment goals with the goals of sustainable development and create enabling conditions for foreign investment flow into green projects. Lack of technical criteria for sustainable projects will result in project owners being unable to offer meaningful and valuable reporting to investors on the progress of achieving sustainability goals.

In addition, the lack of technical criteria for environmentally sustainable economic activities within the Russian taxonomy does not allow to evaluate if an asset meets the dual principle: a) the project makes significant contribution to one of the outlined environmental goals, and b) the project does no significant harm to the rest of the goals.

This response has been prepared by Svetlana Bik.

The PRI has experience of public policy on sustainable finance policies and responsible investment across multiple markets and stands ready to further support the work of Russian regulatory authorities in developing financial regulation to facilitate the promotion of sustainable finance in Russia. Any question or comments can be sent to policy@unpri.org.