



Republic
of Rwanda



german
cooperation

DEUTSCHE ZUSAMMENARBEIT



Co-funded by
the European Union

Implemented by

giz

Deutsche Gesellschaft
für Internationale
Zusammenarbeit (GIZ) GmbH



RWANDA GREEN TAXONOMY

USER FREQUENTLY ASKED QUESTIONS

OCTOBER 2024

WITH THE SUPPORT OF

Climate Bonds



Published by:

Ministry of Finance and Economic Planning

12 KN 3 Ave, Kigali, Rwanda
T +250 252 577 581
E info@minecofin.gov.rw

Ministry of Environment

KN 3 Rd, Kigali, Rwanda
T +250 788 848 969
E info@environment.gov.rw

In cooperation with:

Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH

Registered offices
Bonn and Eschborn, Germany
T +49 61 96 79-0
F +49 61 96 79-11 15
E info@giz.de
I www.giz.de/en

Climate Bonds Initiative

First Floor, 10 Queen Street Place
London EC4R 1BE
United Kingdom
Office number: +44 (0) 2045824124.

Ambire Global

Office: Cr 13 # 83 -19 oficina-1, piso 2,
Bogotá, Colombia
vishwas@ambireglobal.com
aditi@ambireglobal.com



Sustainable Finance Advisory Hub
An EU-led Initiative

Disclaimer:

This document was published by the Ministry of Finance Rwanda. The development was supported by the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ) and co-funded by the European Union (EU) as part of the Sustainable Finance Advisory Hub and Global Gateway Initiative. Valuable technical expertise is provided by the Climate Bonds Initiative and Ambire Global. The content of this document does not necessarily reflect the views of the BMZ or the EU.

This document collects frequently asked questions that potential users of the Rwandan Green Taxonomy (hereinafter – the Taxonomy) may have. They are based on questions raised during the development process and various in-depth consultations and engagements with local experts from a variety of Ministries and public institutions in Rwanda.

Table of contents

General questions 4

1. What is a taxonomy? 4
2. Are there any other countries that have developed a taxonomy? 4
3. How can the Taxonomy be used? 4
4. How was the idea for the Rwandan Green Taxonomy born? 5
5. Which Rwandan institutions took part in preparing the Rwandan Taxonomy? 5
6. Does the taxonomy prescribe which economic activities can be invested in? 6

Objectives, activities, criteria, and thresholds 6

1. Why does the Taxonomy not cover additional economic sectors or more environmental objectives? 6
2. Why does the taxonomy so far focus primarily on climate change mitigation and climate change adaptation and resilience objectives? Aren't the promotion of a circular economy or pollution prevention more critical for countries like Rwanda? 6
3. How were activity criteria determined and thresholds calculated? 7
4. Why does the Taxonomy exclude activities such as coal/oil extraction or coal/oil-power generation? They are essential for the economy. 8
5. Why was tidal (ocean) energy generation included into the taxonomy, bearing in mind that Rwanda is a landlocked country? 8

Usability rules 8

1. How do I use the taxonomy in real life? Where should I go to get a Taxonomy alignment status for my business(es)? What advantage do I have if I receive this status? 8
2. Does my company's sustainability or green rating received from a third-party provider such as MSCI or Vigeo Eiris make its activities automatically aligned with the taxonomy? 8
3. How should I calculate my emissions for the purpose of using the Taxonomy? What scope of emissions should I consider for this? 8
4. Do I have to consider the source of electricity when considering taxonomy-alignment of EVs or other forms of green, low-carbon transport? 9

General questions

1. What is a taxonomy?

Taxonomies classify and define sustainable economic activities that are in line with environmental or climate objectives.

A taxonomy is an essential domestic policy tool that can significantly contribute to achieving environmental and/or climate goals. It creates a direct link between the economy and the financial market on the one hand and sustainability on the other, which can help a country achieve its Nationally Determined Contribution (NDC) goals, attract money from climate-conscious international investors, and adapt its economy to the inevitable negative consequences of climate change.

2. Are there any other countries that have developed a taxonomy?

Presently, more than 40 jurisdictions have either established or are in the process of implementing a green or sustainable finance taxonomy or a similar classification framework.¹ These jurisdictions amongst others include the European Union (EU)², ASEAN³, China⁴, Russia⁵, South Africa⁶, Colombia⁷, Mexico⁸. The taxonomies introduced by the EU, Climate Bonds, and ASEAN taxonomies are commonly used as benchmarks, with countries and regions aligning their national taxonomies to ensure compatibility with these established frameworks.

3. How can the Taxonomy be used?

A robust Green Taxonomy has significant advantages for different groups in Rwanda, including investors, issuers of green bonds, regulators, policymakers, financial institutions, and society.

- **Policymakers** can use the Taxonomy to modulate their policy, using government or central bank-led support measures to support certain private market players and demonstrate their commitment to decarbonization to international partners.
- **Regulators** can also benefit from the Taxonomy. It helps ensure compliance with environmental regulations and serves as a foundation for measuring progress towards sustainability goals.
- **For banks and financial institutions**, the Taxonomy allows for a faster identification of sustainability aligned investments, which reduces transaction costs. The Taxonomy further allow financial companies to restructure their product offering and appeal to sustainability conscious investors.

¹ Technically, a taxonomy is a classification framework which classifies sustainable economic activities based on concrete descriptions and/or criteria. A principles-based systems, such as Green Bond Principles, does not classify as taxonomies.

² <https://ec.europa.eu/sustainable-finance-taxonomy/>

³ <https://asean.org/wp-content/uploads/2021/11/ASEAN-Taxonomy.pdf>

⁴ <https://www.climatebonds.net/files/files/the-Green-Bond-Endorsed-Project-Catalogue-2021-Edition-110521.pdf>

⁵ <http://publication.pravo.gov.ru/Document/View/0001202109240043>

⁶ http://www.treasury.gov.za/comm_media/press/2022/SA%20Green%20Finance%20Taxonomy%20-%201st%20Edition.pdf

⁷ <https://www.taxonomiaverde.gov.co/webcenter/portal/TaxonomaVerde>

⁸ <https://www.gob.mx/shcp/documentos/taxonomia-sostenible-de-mexico?state=published>

-
- **Investors** benefit from the Taxonomy by receiving clear and standardized information about their investments. This reduces information disparities and enables better decision-making. Additionally, the Taxonomy helps to mitigate the risks associated with climate change and promotes sustainable long-term investments.
 - For **issuers of green bonds**, the Taxonomy provides credibility and legitimacy. This makes it easier for them to attract green investments and gain investors' trust.
 - **Society** benefits from the Taxonomy as it supports the transition towards a low-carbon, sustainable and more resilient economy. This fosters green economic growth, job creation and reduces environmental impact.

4. How was the idea for the Rwandan Green Taxonomy born?

The need for a Taxonomy to meet Rwanda's development objectives was first identified in the Rwanda Sustainable Finance Roadmap⁹ published in October 2022 by the Kigali International Finance Centre with support from UNDP. The objective was to create a document that would be 'suitable to the local context as well as interoperable with major international frameworks'. Further, the paper 'Diagnostic Review of National Bank of Rwanda (BNR) and Regulated Institutions' Capabilities to Implement the Rwanda Sustainable Finance Roadmap', prepared and published in May 2023 jointly by the BNR and the French Development Agency, envisioned the creation of a robust science-based sustainable Taxonomy. In the paper, the following requirements were highlighted for the national taxonomy:

- Ensure that the Taxonomy has the granularity and clarity required for financial institutions to qualify projects and assets efficiently.
- Discuss priorities to be considered when designing and deploying financial regulation and policy or when designing incentivising monetary policies. A clear focus on adaptation needs to be reflected in the Taxonomy.
- Understand the Taxonomy's governing and utilisation rules to translate them into sectoral guidance and support regulated institutions.
- Define the design process well and be able to share experience with peers and partners in the region and internationally.

5. Which Rwandan institutions took part in preparing the Rwandan Taxonomy?

The Taxonomy development process was co-chaired by the Ministry of Finance and Economic Planning (MINECOFIN) and the Ministry of Environment (MoE), facilitated and coordinated by Rwanda Finance Limited (RFL). The process involved collaboration with regulators and other public sector entities such as the BNR, Rwanda Environment Management Authority (REMA), Rwanda Development Board (RDB), Capital Market Authority (CMA), Rwanda Stock Exchange (RSE), Development Bank of Rwanda (BRD), Rwanda Green Fund (FONERWA), Institute of Certified Public Accountants of Rwanda (ICPAR) and Private Sector Federation (PSF).

A preliminary governance framework was established, comprising a Taxonomy Steering Committee of the aforementioned institutions, a Taxonomy Working Group, Technical Expert Groups, and Industry Working Groups. Private sector entities were primarily involved through their participation in the Industry Working Groups. In the long run, it is recommended to agree on a governance structure for the implementation of the Rwandan Green Taxonomy and to determine where the institutional home of the Taxonomy will be.

⁹ <https://kifc.rw/wp-content/uploads/2023/01/KIFCSustainableFinanceRoadmap.pdf>

6. Does the taxonomy prescribe which economic activities can be invested in?

The Taxonomy is not a mandatory list of economic activities for investors to invest in, nor does it set mandatory requirements on environmental performance for companies or financial products. The Taxonomy is merely a labelling system to provide guidance to economic and financial stakeholders on which activities are green and which are not. Compliance with the taxonomy indicates the alignment of the potential investment with climate and environmental objectives. Investors are free to invest in projects and activities that are not compatible with the taxonomy and at this stage there are no measures in place to penalise such investments.

Objectives, activities, criteria, and thresholds

1. Why does the Taxonomy not cover additional economic sectors or more environmental objectives?

Like other national taxonomies, the Rwandan Taxonomy was developed in phases. Phase I of the Taxonomy development took place from June 2023 – April 2024 and aimed to provide clarity about the **economic activities** needed to achieve **climate change mitigation** in three sectors: **energy, transport and construction**. Furthermore, **Rwanda's Green Taxonomy also** provided in the first phase a **more specific approach** for the agriculture and livestock sectors, delivering a list of basic, intermediate and advanced **sustainable practices** that contribute to various environmental and climate objectives, including **climate change adaptation, water and biodiversity protection, among others**.

Phase II of the Taxonomy development took place between April 2024 and November 2024. Considering the comments received from different stakeholders during the consultation process of Phase I, Rwanda's Green Taxonomy was expanded to include additional sectors (Manufacturing, Waste, Water, ICT, Forestry) that substantially contribute to climate change mitigation and to evaluate and include additional economic activities for sectors already included in Phase I (Agriculture & Livestock, Energy, Transport, Construction) and develop corresponding criteria.

Given Rwanda's vulnerability to consequences of climate change as described by Rwanda's Third National Communication on Climate Change⁹, Phase II also focused more strongly on the inclusion of **climate change adaptation and resilience sectors and activities**. As such, Rwanda's Green Taxonomy was updated to include the following sectors that significantly contribute to climate change adaptation and resilience: **Energy, Transport, Construction, Water Management, Environmental protection and restoration, Community services; Agriculture and livestock**.

2. Why does the taxonomy so far focus primarily on climate change mitigation and climate change adaptation and resilience objectives? Aren't the promotion of a circular economy or pollution prevention more critical for countries like Rwanda?

The selection of the different environmental objectives was informed by Rwandan development priorities and strategies. In the current Taxonomy (November 2024), some objectives are more comprehensively addressed than others and it is understood that during future iterations of the taxonomy, additional environmental objectives can be addressed.

⁹ The Third National Communication Report on Climate Change, Sept 2018.pdf (rema.gov.rw)

The climate change mitigation objective was addressed first because of several reasons:

- Mitigation is the primary and most elaborated objective within most science-based taxonomies, which will ensure **interoperability**¹¹ of the Rwandan Taxonomy with other international taxonomies.
- International climate-aware investors are looking for ways to best invest in activities that will stop global warming, so a focus on mitigation will best ensure the **flow of foreign capital**.
- Of all the tasks included in the Rwandan Taxonomy, mitigation technologies and activities (e.g., solar generation, hydrogen production, electric transportation, etc.) are also **the most likely to contribute to economic development** while reducing emissions.

During Phase I, a **more specific approach** for the inclusion of the **agriculture and livestock sectors**, was chosen. This approach led to a list of basic, intermediate and advanced **sustainable practices** that contribute to various environmental and climate objectives, including **climate change adaptation, water and biodiversity protection, among others**.

The **Adaptation and resilience objective** was primarily addressed during Phase II of the Taxonomy development process. It is aimed at increasing **stability** and **resilience** of Rwanda's communities, which are largely dependent on agriculture and natural water sources. Climate change is putting them under considerable pressure to adapt to new conditions, introduce new crops, agricultural practices, protect themselves from hazards and prepare people to cope with inevitable climate-induced disasters. The Taxonomy was significantly expanded to include activities and measures that contribute to climate change adaptation and resilience such as the introduction of engineered and nature-based solutions to help cope with floods and landslides, the establishment of public warning systems and the training of emergency workers, as well as the introduction of agricultural practices that increase the resilience of farms to droughts and heat waves, etc.

The development of Phase II of the Rwandan Taxonomy, coincided with a new climate change adaptation methodology that was finalised by the Climate Bonds Initiative through which it was possible to provide a **level of scientificity and credibility** for economic activities that contribute to climate change adaptation and resilience comparable to that of the mitigation part of the Taxonomy.

3. How were activity criteria determined and thresholds calculated?

All criteria and thresholds in this Taxonomy are based on the international best practices accumulated by the Intergovernmental Panel on Climate Change, the International Energy Agency, the Climate Bonds Initiative, Ambire Global and other organisations. The key basis for the criteria and thresholds used in the Rwandan Green Taxonomy are the documents and criteria developed by the Climate Bonds Initiative for other taxonomies, including the European Union, South Africa, Colombia, etc. The background papers for some of the criteria used can be found on a special taxonomy page on the Climate Bonds website¹².

The development process also considered the Rwandan context, so that international criteria were adapted to local realities without losing scientific rigour and credibility. Two rounds of public stakeholder consultations with Rwandan technical and sectoral experts, private sector representatives and Development Partners were conducted. More than 100 comments were collected and incorporated during Phase I. The Phase II stakeholder consultation process continues till October 2024. These rigorous stakeholder consultations seek to ensure that the Rwandan Taxonomy reflects international best practices while sufficiently considering the local context to ensure wide-spread usability.

¹¹ Interoperability relates to the degree in which taxonomies are comparable. Common methodologies, sector classifications and eligibility criteria amongst other foster the interoperability of taxonomies.

¹² <https://www.climatebonds.net/standard/taxonomy>

4. Why does the Taxonomy exclude activities such as coal/oil extraction or coal/oil-power generation? They are essential for the economy.

The international climate science, which serves as the basis of the present Taxonomy, is clear: To achieve the goals of the Paris Agreement and therefore to avoid the catastrophic consequences of climate change, all fossil fuels must be phased out as soon as possible. The Taxonomy includes only activities relevant for specific environmental objectives but not for purely economic development or a specific political agenda. However, no obligation prevents investors from investing in activities outside the scope of the Taxonomy. The Taxonomy does not penalise them in any way.

5. Why were certain economic activities such as tidal (ocean) energy and activities related to rail transportation added, even if they are not directly applicable at this point?

Rwanda is actively building financial infrastructure and promoting itself as a regional financial centre in general and a powerhouse for green finance in particular. In this situation the inclusion of some activities that cannot be implemented directly in Rwanda is justified. For instance, Rwanda's neighbours with access to seas and oceans may well be interested in hosting this type of energy-related financial instruments. There are studies¹³ pointing to the great potential for this type of energy development in East Africa.

In addition, Rwanda is actively developing and its economy is growing rapidly. It is likely that new industries will be created from scratch in the very near future, and the Taxonomy will provide guidance to meet the highest climate standards.

Usability rules

1. How do I use the taxonomy in real life? Where should I go to get a Taxonomy alignment status for my business(es)? What advantage do I have if I receive this status?

The Taxonomy provides many opportunities for public authorities and economic agents to link it to domestic policy, including the provision of incentives for taxonomy-aligned economic activities (cheaper access to capital for individuals, lower reserve requirements for banks with taxonomy-aligned portfolios, reimbursement of MRV costs etc.). Making it usable for the real economy requires additional regulation and guidance in the form of e.g. disclosure regulations or financial product standards. These instruments can be developed by respective Rwandan institutions over time and further guidance on the application of the Taxonomy provided to the market.

2. Does my company's sustainability or green rating received from a third-party provider such as MSCI or Vigeo Eiris make its activities automatically aligned with the taxonomy?

No. The Taxonomy focuses on the environmental and climate aspects of an entity and its business operations. It helps to evaluate green and non-green activities within an entity. A sustainability rating incorporates social and governance aspects of a business model, too, and as such, a company with activities that are not aligned with the present Taxonomy can technically still have a good sustainability rating due to the S and G element of ESG. Rwanda's Green Taxonomy, in this current version, deals primarily with the environmental aspects of the company's activities, while including safeguards for conformity with minimum social standards.

¹³ <https://academiccommons.columbia.edu/doi/10.7916/stsj-v860/download>

3. How should I calculate my emissions for the purpose of using the Taxonomy? What scope of emissions should I consider for this?

Unless stated otherwise, the emission thresholds in the Taxonomy relate to Scope 1 and 2 emissions. In this case, the owner of the activity should calculate the emissions of the activity itself as well as the emissions of associated electricity, heating, cooling and water supply. All Greenhouse Gas emissions should be translated into CO₂ equivalent. If the Taxonomy criteria state that the emissions must be calculated according to the LCA (Lifecycle Assessment Approach), the owner must go beyond Scope 1 and 2 and calculate emissions using an LCA calculation methodology (GHG Emission Protocol¹⁴ or any international equivalent).

4. Do I have to consider the source of electricity when considering taxonomy-alignment of EVs or other forms of green, low-carbon transport?

No. The Taxonomy does not consider the electricity source used to power the EVs. Only the car's direct (tailpipe) emission is important; it must be 0 gCO₂e.

¹⁴ https://ghgprotocol.org/sites/default/files/standards/Product-Life-Cycle-Accounting-Reporting-Standard_041613.pdf