

Green taxonomies as an enabling instrument for mobilizing climate finance in Central Asia

*Building climate finance
architecture in support
of NDC implementation and
transparency*

Policy Brief

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Building climate finance architecture in support of NDC implementation and transparency

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Date: December 31, 2025

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PREPARED UNDER

The Initiative for Climate Action Transparency (ICAT), supported by Austria, Canada, Germany, Ireland, Italy, and the Children's Investment Fund Foundation.

Supported by:



on the basis of a decision
by the German Bundestag



 Federal Ministry
Republic of Austria
Climate Action, Environment,
Energy, Mobility,
Innovation and Technology



Environment and
Climate Change Canada

Environnement et
Changement climatique Canada

 CHILDREN'S
INVESTMENT FUND
FOUNDATION



Rialtas na hÉireann
Government of Ireland



MINISTERO DELL'AMBIENTE
E DELLA SICUREZZA ENERGETICA

ICAT is hosted by the United Nations Office for Project Services (UNOPS)

EXECUTIVE SUMMARY

All countries of Central Asia, alongside the global community, have committed to implementing the Paris Agreement, including the formulation and delivery of Nationally Determined Contributions (NDCs) and compliance with Article 13 on transparency under the Enhanced Transparency Framework (ETF). NDCs define national climate mitigation and adaptation targets, but their implementation requires substantial financial resources and transparent reporting on progress and support received.

Mobilizing sufficient climate finance therefore represents a critical challenge for Central Asia. While a wide range of financing instruments already exists (public budgets, international climate funds, development finance, green and sustainability bonds, blended finance, and carbon-related mechanisms) their effectiveness depends on the existence of a common and credible framework for identifying and classifying climate-relevant investments.

This policy brief examines green taxonomies as a policy instrument that can help align climate objectives with financial flows. Drawing on guiding principles developed for Central Asia and the practical experience of Kazakhstan, it demonstrates that green taxonomies are effective only when embedded within a broader institutional, legal, and financial architecture.

CLIMATE COMMITMENTS, TRANSPARENCY OBLIGATIONS, AND THE FINANCE GAP

Under the Paris Agreement, Central Asian countries have committed to achieving economy-wide climate objectives through their NDCs. These commitments are accompanied by reporting obligations under Article 13, which require countries to transparently track progress, including information on climate finance needs, mobilization, and use.

NDC implementation is inherently investment-intensive. Achieving mitigation and adaptation targets requires large-scale financing for renewable energy, energy efficiency, sustainable agriculture, water management, resilient infrastructure, and ecosystem protection. Public budgets alone are insufficient to meet these needs, creating a persistent climate finance gap.

As a result, countries increasingly rely on a mix of domestic and international financial instruments, including climate funds, development bank financing, capital market instruments, and private investment. However, without a shared classification framework, these flows remain fragmented and difficult to scale or track consistently.

GREEN TAXONOMY AS A POLICY INSTRUMENT

A green taxonomy is a structured classification system that defines which economic activities and investments can be considered environmentally sustainable. Its primary function is to provide clarity and credibility by linking climate policy objectives to financial decision-making.

For Central Asia, a green taxonomy can serve as a bridging instrument between NDC objectives, climate finance mobilization, and transparency requirements. By providing clear and science-based criteria, a taxonomy supports investor confidence, facilitates the development of sustainable

financial products, and strengthens the basis for climate finance reporting under the ETF and Biennial Transparency Reports (BTRs).

KEY DESIGN ELEMENTS OF A GREEN TAXONOMY

Based on guiding principles developed for Central Asia, an effective green taxonomy should include the following elements:

- **Strategic objectives**, aligned with national climate priorities and international frameworks such as the Paris Agreement and the SDGs;
- **Environmental objectives**, including climate change mitigation and adaptation, sustainable resource management, pollution prevention, and biodiversity conservation;
- **Principles**, including the use of science-based criteria, application of the Do No Significant Harm (DNSH) principle, and minimum social safeguards;
- **Sectoral coverage**, focusing on sectors with significant environmental impacts and transformation potential (e.g. energy, transport, agriculture, water, industry, infrastructure);
- **Clear criteria and metrics**, using quantitative thresholds and qualitative benchmarks to assess environmental performance;
- **Defined target users**, including policymakers, regulators, financial institutions, investors, businesses, and donors;
- **Implementation arrangements**, including monitoring, evaluation, and periodic updates to ensure continued relevance.

LEGAL ANCHORING AND INSTITUTIONALIZATION

International experience demonstrates that a green taxonomy alone does not mobilize finance. Its effectiveness depends on **legal recognition** and **institutional ownership**. Formal anchoring of the taxonomy in legislation or regulatory acts enables its consistent application across public finance, financial regulation, and market-based instruments.

Institutionalization is equally critical. Clear responsibility must be assigned for governance, maintenance, and updates of the taxonomy, as well as for coordination among relevant public authorities and stakeholders. Without such arrangements, taxonomies risk remaining voluntary guidance rather than functioning policy instruments.

KAZAKHSTAN CASE: FROM CLASSIFICATION TO CAPITAL MOBILIZATION

Kazakhstan provides a practical example of how a green taxonomy can function as part of a broader policy and financial architecture. The national green taxonomy was adopted at the government level and integrated into the country's environmental and financial policy framework.

Crucially, taxonomy application was linked to concrete financing mechanisms, including green bonds, bank lending, and public support instruments. As a result, the taxonomy evolved beyond a technical classification tool and became an operational filter for investment decisions.

Within four years of implementation, this integrated approach contributed to the mobilization of more than **USD 1.69 billion in green bonds and loans**. The Kazakhstan experience illustrates that green taxonomies are effective only when embedded in legal frameworks, institutional processes, and financing channels.

BENEFITS FOR CENTRAL ASIA

When implemented as part of a broader architecture, a common green taxonomy for Central Asia can:

- enhance investor confidence and attract climate finance;
- support economic diversification and resilience;
- improve coherence between climate policy and financial regulation;
- strengthen tracking and reporting of climate finance under the ETF;
- reduce risks of misclassification and credibility loss in sustainable finance markets.

POLICY RECOMMENDATIONS

Based strictly on the guiding principles developed for Central Asia and the Kazakhstan case, the following recommendations are proposed:

1. **Provide legislative and regulatory support for taxonomy application.** Ensure that taxonomy criteria and related reporting requirements are supported by appropriate legal and regulatory frameworks.
2. **Establish governance and implementation arrangements.** Put in place clear institutional responsibility, monitoring and evaluation systems, and procedures for periodic updates.
3. **Pilot taxonomy application before scaling.** Use pilot projects to test criteria applicability, stakeholder engagement, and implementation processes.
4. **Build capacity and provide training.** Strengthen technical capacity among regulators, financial institutions, and other users to ensure consistent application.
5. **Strengthen transparency and verification mechanisms.** Apply clear reporting and verification procedures to enhance accountability and support credible climate finance tracking.
6. **Use the taxonomy to support climate action reporting.** Apply taxonomy outputs to strengthen reporting under the ETF and the preparation of Biennial Transparency Reports.
7. **Ensure alignment with international standards.** Maintain consistency with international approaches to enhance comparability and investor confidence.
8. **Connect taxonomy application to financing mechanisms.** Apply the taxonomy through concrete financial channels, including sustainable financial products and public support instruments, as demonstrated by the Kazakhstan experience.

CONCLUSION

Green taxonomies can play a decisive role in mobilizing climate finance for NDC implementation, but only when they operate as part of a coherent legal, institutional, and financial architecture. The experience of Kazakhstan demonstrates that a taxonomy becomes impactful when it is anchored in regulation, institutionalized in governance processes, and linked to practical financing mechanisms. For Central Asia, adopting this systemic approach can transform green taxonomies from technical classifications into effective enablers of climate action and transparency under the Paris Agreement.