

Launch of SA's first national green finance taxonomy

Today marks the formal launch of South Africa's first national Green Finance Taxonomy, a project developed by the Taxonomy Working Group, as part of South Africa's Sustainable Finance Initiative, chaired by National Treasury.



Source: [Pixabay](#)

Investors, issuers, lenders and other financial-sector participants can use the taxonomy to track, monitor, and demonstrate the credentials of their green activities in a more confident and efficient way.

A green finance taxonomy is an official classification or catalogue that defines a minimum set of assets, projects and sectors that are eligible to be defined as "green" or environmentally friendly.

It supports emerging national policy and voluntary private-sector initiatives toward sustainable finance by reducing costs and uncertainty in classifying a core set of green activities.

South Africa's taxonomy responds to recommendations from National Treasury's 2021 *Technical Paper: Financing a Sustainable Economy*, which calls for the development or adoption of "a taxonomy for green-, social- and sustainable finance initiatives, consistent with international developments, to build credibility, foster investment, and enable effective monitoring and disclosure of performance."

The technical paper focuses on addressing climate risk and the opportunities for the financial sector to contribute positively

to sustainability objectives and to support a just transition to a low-carbon, socially inclusive, and resilient economy.

Benefits of a green finance taxonomy

South Africa's taxonomy ensures that national priorities are reflected while remaining aligned with international trends. It takes account of the model adopted by the European Union, which identifies activities that contribute to a set of six environmental objectives and includes requirements for activities to adhere to social safeguards and for activities that "do no significant harm" to any environmental objectives.

In particular, the taxonomy:

- Provides clarity and certainty in selecting green investments in line with international best practices and national priorities and standards;
- Helps unlock large-scale capital for climate-friendly and green investment in South Africa by increasing the credibility and transparency of green activities;
- Reduces financial risks through enhanced management of environmental and social performance;
- Reduces the costs associated with labelling and issuing green financial instruments; and
- Supports regulatory and supervision oversight of the financial sector.



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The taxonomy is intended to be a living document, to be updated and expanded over time through a governance process.

Market participants are encouraged to use the taxonomy while further developments are underway. The Intergovernmental Sustainable Finance Working Group, comprising of South African regulatory authorities like the Prudential Authority and Financial Sector Conduct Authority, will provide oversight and governance and inform the development of future regulatory instruments.

This regulatory guidance will consider emerging international best practices and approaches, including work led by the International Sustainability Standards Board to deliver a comprehensive global baseline for sustainability-related disclosure standards. These will provide investors and other capital market participants with information about companies' sustainability-related risks, and help them make informed decisions.

Development of the taxonomy

The taxonomy's development has been overseen by a Taxonomy Working Group under South Africa's Climate Risk Forum, a multi-representative group drawing from the national government, financial-sector regulators and the financial-services sector, chaired by National Treasury and hosted by the Banking Association South Africa.

Support for the taxonomy's development has also been provided by the International Finance Corporation (IFC), through IFC's Green Bond Market Development programme, in partnership with the Swiss State Secretariat for Economic Affairs (SECO) and the Swedish International Development Cooperation Agency (SIDA), with technical support provided by the National Business Initiative (NBI) and Carbon Trust.

Extensive stakeholder consultations were undertaken between July and November 2020. A draft was released in June 2021 for public comments and tested in six financial institutions. Presentations, webinars, and an additional briefing report are available [here](#).

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