

## Treasury launched SA’s first Green Finance Taxonomy on 1 April 2022: What is this about?

### 1 APRIL 2022: LAUNCH OF SA’S GREEN FINANCE TAXONOMY

On 1 April 2022, Treasury launched South Africa’s first national Green Finance Taxonomy. Treasury describes, in a [note](#) on its website, that 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. This follows after extensive stakeholder consultation between July and November 2020 and a draft that was released in June 2021 for public comment and tested in six financial institutions.

### What is this thing, “taxonomy”?

“Taxonomy” is a word used in science, rather than in tax and refers to, according to the “the science of naming, describing and classifying organisms and includes all plants, animals and microorganisms of the world.” In the sense used by Treasury, it refers to 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.

This taxonomy follows in response to recommendations from National Treasury’s 2021 *Technical Paper: Financing a Sustainable Economy*. Herein it was recorded that “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” should be established and adopted. The Paper’s focus is on addressing climate risk and the opportunities for the financial sector to contribute positively to sustainability objectives. Such focus should then result in support for a just transition to a low-carbon, socially inclusive, and resilient economy.

### How will investors, issuers, lenders and other financial sector participants benefit from this Green Finance Taxonomy?

The taxonomy that was established aims to assist (and ensure) that our national priorities are reflected while remaining aligned with international trends. According to the Treasury, our model takes account of the European Union’s model, which identifies activities that contribute to a set of six environmental objectives and includes requirements for activities to adhere to social safeguards and “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;

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- 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;
- Supports regulatory and supervision oversight of the financial sector.

## Next Steps

The taxonomy is intended to be a living document, to be updated and expanded over time through a governance process. Market participants are therefore encouraged to use the taxonomy whilst 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.

## Want to know more?

Presentations, webinars, and additional briefing reports on this subject are available [here](#).

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