

# DEVELOPMENT PROCESS FOR THE SOUTH AFRICAN GREEN FINANCE TAXONOMY

The process and insights from the development of the 1<sup>st</sup> Edition of the South African Green Finance Taxonomy

March 2022

BRIEFING PAPER



IN PARTNERSHIP WITH



# About

## Context for this document

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" in line with international best practice and national priorities. It can be used by investors, issuers and other financial sector participants to track, monitor and demonstrate the credentials of their green activities in a more objective, confident and efficient way.

The development of the first South African Green Finance Taxonomy was overseen by the Taxonomy Working Group, a multi-representative group drawing from national government, financial sector regulators and the financial services sector, and chaired by National Treasury as part of the Climate Risk Forum.

The National Business Initiative (NBI) and the Carbon Trust were selected to carry out research, stakeholder consultation and drafting on behalf of the Taxonomy Working Group in this first phase (i) to establish a governance structure and principles for the development and ongoing maintenance of a national sustainable finance taxonomy (having a green finance taxonomy as its foundation), and (ii) to develop an initial draft taxonomy for green and climate finance activities, leveraging existing international frameworks.

This Briefing Paper provides an overview of the developmental steps taken in formulating the first South African Green Finance Taxonomy, capturing the critical phases and elements identified through the process and key insights gained. The purpose of this document is to:

- Communicate to stakeholders - including users of the 1st Edition of the Taxonomy - the key considerations and processes followed in its development; and therefore, also being a foundational reference for future expansions and maintenance processes.
- Share experiential and process knowledge with others also setting out on similar national taxonomy development processes.

For more information, please contact National Treasury at [financial.policy@treasury.gov.za](mailto:financial.policy@treasury.gov.za).

## Acknowledgements

The initial phase of taxonomy development work for the Taxonomy Working Group is supported by IFC, part of the World Bank Group, through IFC's Green Bond Market Development program in partnership with SECO (Swiss State Secretariat for Economic Affairs) and Sida (Swedish International Development Cooperation Agency). It also benefits from global support from the IFC-facilitated Sustainable Banking Network (SBN).

This paper has been written by Marc Coetzee, Christelle van Vuuren and Paul Wedgwood of the Carbon Trust, closely supported by the National Business Initiative and the International Finance Corporation (Alex McNamara and Louise Gardiner in particular), as well as the engagement of the South African National Treasury. This work has been made possible with the kind financial support of the funders noted above. The content of this publication is the

responsibility of the National Business Initiative and the Carbon Trust and does not necessarily reflect the views of the funders, project participants or the South African National Treasury.

As acknowledged in the 1st Edition of the South African Green Finance Taxonomy itself, the work has benefited beyond measure from the constructive input of a large and diverse collective of stakeholders and organisations, as well as the continued support of the IFC and many others. The process of development as captured in this Briefing Paper has been all the stronger for these inputs, encouragement, and steer.

We also warmly acknowledge the learnings and insights shared at the time of undertaking this work by those who have supported other national taxonomy developments and undertaken development of market-based taxonomies, including but not limited to the Climate Bonds Initiative and the World Bank.

### **About the Carbon Trust**

The Carbon Trust is a trusted, expert guide to Net Zero, bringing purpose led, vital expertise from the climate change frontline. We have been pioneering decarbonisation for more than 20 years for businesses, governments, and organisations around the world.

We draw on the experience of over 300 experts internationally, accelerating progress and providing solutions to this existential crisis. We have supported over 3,000 organisations in 50 countries with their climate action planning, collaborating with 150+ partners in setting science-based targets, and supporting cities across 5 continents on the journey to Net Zero. Carbon Trust is at the forefront of sustainable finance, with a dedicated green finance team based in London and in-country experts, including in South Africa. The green finance practice works with a diversity of financial institutions to help develop credible frameworks, quantify the environmental impacts of green finance, analyse, and transition investment portfolios, and provide assurance and verification.

Carbon Trust Africa was officially established in South Africa in 2016 and is now a dedicated pan-African team with experience in a host of Sub-Saharan African countries and a multitude of projects ranging across green finance, energy access, climate action, corporate sustainability, energy efficiency, and renewable energy.

### **About National Business Initiative**

The National Business Initiative (NBI) is an independent and voluntary coalition not-for-profit development organisation launched in 1995 by President Nelson Mandela that works to address South Africa's most pressing social and environmental challenges.

NBI's role remains to build a South African business community that plays a meaningful, trusted and action-orientated role in the achievement of a sustainable, equitable and inclusive society. The NBI's membership encompasses approximately 80 leading South African corporations and multi-nationals, including a significant proportion of the country's leading listed companies, a number of the major state-owned enterprises (Eskom, Transnet and the Industrial Development Corporation - IDC) and a variety of medium-sized firms. The NBI's strategic objective is to engage its member companies in economic and social transformation.

The NBI has long recognised and advocated for ambitious, collective, and coordinated climate action as a crucial mechanism for achieving sought-after socio-economic transformation and

has led the environmental agenda for business through work in the green economy, climate finance, sustainable finance, energy efficiency, water and climate change. The NBI's implementation track record is built on their ability to bridge between government and business, working collaboratively with business, government, and civil society organisations to build successful partnerships.

### **About IFC**

IFC (member of the World Bank Group) is the largest global development institution focused on the private sector in developing countries. The Bank Group has set two goals for the world to achieve by 2030: end extreme poverty and promote shared prosperity in every country. The IFC leverages its products and services—as well as products and services of other institutions across the World Bank Group—to create markets that address the biggest development challenges of our time.

The IFC applies financial resources, technical expertise, global experience, and innovative thinking to help clients and partners overcome financial, operational, and other challenges. IFC is also a leading mobilizer of third-party resources for projects. Its willingness to engage in difficult environments and leadership in crowding-in private finance enables it to extend its footprint and have a development impact well beyond its direct resources.

### **About the Climate Risk Forum Steering Committee**

The Climate Risk Forum's Steering Committee is a multi-representative coalition hosted by the Banking Association of South African (BASA) and chaired by National Treasury, also composed of representatives from the South African Reserve Bank, Financial Sector Conduct Authority (FSCA), Prudential Authority (PA), Department of Forestry, Fisheries and the Environment (DFFE), South African Insurance Association (SAIA), Association for Saving and Investment South Africa (ASISA), Johannesburg Stock Exchange (JSE), Batseta – Council for Retirement Funds, Department of Planning, Monitoring and Evaluation (DPME), local development finance institutions (DFIs) and the Southern Africa Venture Capital Association (SAVCA).

The Steering Group developed from a precedent sustainable finance working group supported by the IFC and SECO, initiated in 2016 to understand better the extent of the financial sector's vulnerability to environmental and social risks and governance mechanisms to effectively identify, quantify and manage these risks within South Africa's financial institutions and regulatory activities. The Steering Committee was revived in 2020 to advance the key recommendations of the National Treasury draft Technical Paper *Financing a Sustainable Economy* (May 2020) and has mandated five sub-working groups, including the Taxonomy Working Group.

# Table of Contents

About.....	i
Table of Contents.....	iv
Executive Summary .....	1
Overview.....	1
Key development considerations.....	2
Key development processes .....	4
Our advice for those developing taxonomies .....	6
Refer to existing taxonomies and taxonomy development guidance	6
Conduct effective stakeholder engagement and taxonomy testing	7
Develop resources and processes supporting the taxonomy	7
1. Introduction .....	8
1.1 The purpose and utility of a green finance taxonomy .....	8
1.2 The objectives and design of the South African Green Finance Taxonomy .....	8
2. Development process .....	10
2.1 Key development milestones .....	10
2.2 Building on the learnings of others .....	10
2.3 Core and cross-cutting technical development .....	11
2.3.1 Overview	11
2.3.2 Establish a development mandate, and ensure process and results validation	14
2.3.3 Integrate national vision and instruments	15
2.3.4 Learn from and advance taxonomy structural, development and mainstreaming practice	16
2.3.5 Develop taxonomy structure	29

2.3.6	Test the taxonomy and provide user and disclosure guidance	46
3.	Our advice for those developing taxonomies .....	52
3.1	Refer to existing taxonomies and taxonomy development guidance .....	52
3.2	Conduct effective stakeholder engagement and taxonomy testing .....	53
3.2.1	Engage stakeholders	53
3.2.2	Test the Taxonomy	53
3.3	Develop resources and processes supporting the taxonomy.....	54
Appendix	.....	55

# Executive Summary

## Overview

In October 2021, South Africa's National Treasury published the landmark draft Technical Paper *Financing a Sustainable Economy*<sup>1</sup> within their financial stability mandate, with the aim to protect the economy from shocks to the financial system by building resilience through solvency and effective risk management. The paper looked at the risks and emerging opportunities, which may unlock access to sustainable finance and stimulate the allocation of capital to support a development-focused and climate-resilient economy. One of the key recommendations of the paper was to "develop or adopt 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".

A national 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", in line with international best practice and national priorities. It is a reference tool that can be used by many different economic actors to play an impactful role in the financial ecosystem. Individual financial sector actors can use it to establish, monitor, and demonstrate the credentials of green activities in a more objective, confident, and efficient way. Regulatory agencies can use it to assess the green credentials of local financial institutions, issuers, companies and investors. In aggregate, it can also support tracking of and shifts in economic activity.

The South African Green Finance Taxonomy (SA GFT) takes this recommendation forward and establishes a national classification tool that defines the minimum requirements for the selection of assets, projects and sectors that are eligible to be defined as "green", in a credible, dynamic, and consistent way. While developed for the financial sector, the SA GFT can be used by a range of actors. It is fundamental to developments in sustainable finance in the country, as outlined in **Figure 1**.

This Briefing Paper provides an overview of the developmental steps taken in formulating the first South African Green Finance Taxonomy, capturing the critical phases and elements identified through the process and key insights gained. The purpose of this document is to:

- Communicate to stakeholders - including users of the first edition - the key considerations and processes followed in its development; and therefore, also being a foundational reference for future expansions and maintenance processes.
- Share experiential and process knowledge with others also setting out on similar national taxonomy development processes.

---

<sup>1</sup> Published as final on 15 October 2021, available online at National Treasury Communications and Media webpage [http://www.treasury.gov.za/comm\\_media/press/2021/Default.aspx](http://www.treasury.gov.za/comm_media/press/2021/Default.aspx). The draft Technical Paper was first published in March 2020.



**Figure 1: Aims for the SA GFT’s role in supporting sustainable finance**

## Key development considerations

While the taxonomy is fundamental to developments in sustainable finance, the taxonomy must recognise and respond to South Africa’s socio-economic context and development needs, while maintaining alignment with international best practice. The definition of ‘green’ itself is therefore paramount, as are the activities that are recognised in the taxonomy and the way the taxonomy integrates non-environmental performance considerations. Emanating from this, the project began by defining a design objective for the SA GFT, simply articulated in **Figure 2**.



**Figure 2: Objectives for the design of the South African Green Finance taxonomy**

The project also articulated a definition for green as a vision statement, that supported design and development processes, distilled from national policy, strategies, plans and legislation.

**Green Economy – a consolidated definition:**

- *Economic activities and infrastructure that enable a robust, efficient, competitive, lower carbon, resilient, and sustainable economy and society, and result in improved human well-being over the long term, as well as equitable and environmentally sustainable development; and*
- *That the society within which these economic activities take place, is committed to social equity, economic efficiency, environmental protection and sustainable ecological resource management, and has built sufficient resilience and emergency response capacity so as not to expose future generations to significant environmental risks or ecological scarcities.*

*In developing and transforming to such a green economy:*

- *our current system of economic activities must decouple economic growth from environmental impacts; protect, restore and preserve the natural environment, and sustainably manage and protect natural capital to ensure equitable benefits and realisation of people's environmental rights; make a fair, meaningful and timely contribution to the global effort to stabilise greenhouse gas emissions; build climate resilience and adaptive capacity; and take into account the economic, employment and societal risks and opportunities that are expected to arise from this; and*
- *our societal response must address the sustainable development challenges at a scale of economy that supports the required innovation and finance; be dynamic, evidence-based, balanced, cost effective, integrated, aligned, empowering and participatory; be driven and customised in the light of national circumstances; and prioritise sustainable economic growth, job creation, public health, risk management and poverty alleviation benefits within this framework*

Successfully developing a context-appropriate and trusted SA GFT required a robust and iterative approach that was stakeholder-driven from the outset, with appropriate oversight. The scope for the 1<sup>st</sup> Edition SA GFT was to leverage international examples and to cover an initial core set of green and climate-focused categories. This has been done in a way that recognises the need and scope for expanding over time to include other environmental categories in the SA GFT, as well as in future incorporating social dimensions.

Through a range of approaches, key aspects of development were agreed with key stakeholders, as below.

### The first development process will:

- Develop as a comprehensive principles-derived economic activity-based catalogue and standards, styling itself on the EU Sustainable Finance Taxonomy, with strong localisation – also largely following in the developmental footsteps of that Taxonomy and relying on its progress to adopt and amend content.
- Be focused on environmental objectives only, for the time being
- Commit to include six focus areas in these environmental objectives; focus on climate change mitigation and adaptation categories for this iteration
- Prioritise breadth over depth in terms of its development aspiration, using a catalogue approach with standards developed to the extent reasonably possible
- Use international examples of technical standards as a baseline, adjusted to align to local policy, noting:
  - Where there is a divergence between international examples and South African commitments and policy instruments, in principle South African policy alignment is preferred; however,
  - That these divergences must be highlighted to stakeholders for a case-by-case agreement of preferences, and
  - That aspiration and international alignment remain important but not overriding objectives.
- Include local contextualisation, particularly recognising South Africa-relevant:
  - economic activities
  - social safeguarding
  - policy alignment
- Recognise economic activities as green – based on environmental impact, provided they conform to social safeguard requirements and ‘do no harm’ principles
- Include social safeguards as a minimum requirement and encourage social contribution through disclosure
- Include recognition of green value chains and enabling activities, providing a clear link to green economy activities defined at least through principles and particular catalogue and standards inclusions as possible

## Key development processes

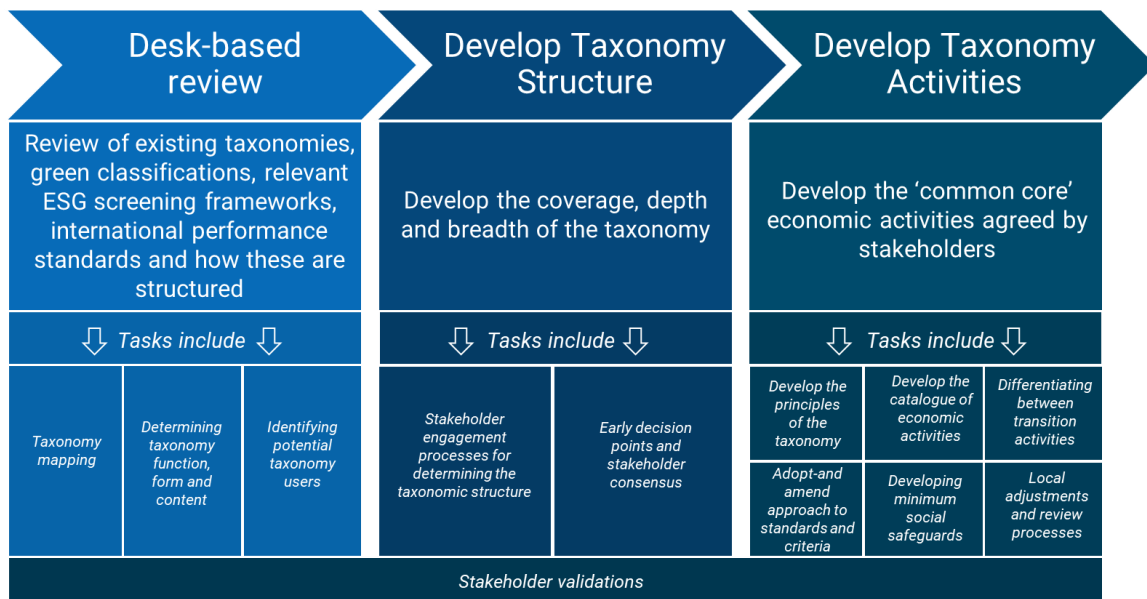
The SA GFT development process is summarised as a four-part framework with areas that underpin the approach taken, as illustrated in **Figure 3**. This provides a reference for others who wish to develop their own locally attuned taxonomies.



**Figure 3: Framework for the SA GFT taxonomy development process**

Successfully developing a context-appropriate and trusted green finance taxonomy for South Africa requires a robust yet iterative approach that is stakeholder-driven from the outset and founded in the national sustainable development ambition.

The SA GFT development process leverages existing examples by adopting and originating aspects needed to accommodate South African socio-economic development needs. This process is summarised in **Figure 4** and illustrates the approach taken in developing the structural components of the taxonomy and its associated economic activities. This process has progressively developed a series of taxonomy components and taxonomy drafts.



**Figure 4: Summary of the taxonomy development approach**

After the taxonomy has been developed it is important to test and validate the taxonomy and provide guidance that unpacks the process for users to follow for assessing the extent to which economic activities of interest are taxonomy-aligned. This process provides an opportunity for taxonomy users to get to grips with the requirements of the taxonomy and whether their internal systems and resources are adequate to conduct assessments against the criteria of the taxonomy.

## Our advice for those developing taxonomies

### Refer to existing taxonomies and taxonomy development guidance

Towards the later part of 2020, numerous green finance frameworks, taxonomies and tools have emerged, each unique in their function, form, and environmental ambition. The European Union (EU), Climate Bonds Initiative (CBI), and China are the most prominent taxonomies to date and are being utilised as a model for the establishment of country-specific taxonomies. There are also regional developments and harmonisation underway between these international taxonomies.

Wholesale adoption of international examples would be unlikely to fit with the developmental ambitions of individual countries. However, referring to the function and form of existing taxonomies provides valuable insight into how these tools are constructed and what components can be used for the development of new taxonomies.

Also, various institutions have recently developed guidance to how countries and organisations can develop their own taxonomies. The body of knowledge and support for developing, implementing, regulating, and using national and market-based sustainable finance taxonomies continues to grow, and should be reviewed by those beginning their development processes. Broadly, the guidance indicates five key areas as noted in **Figure 9**.



**Figure 5: Taxonomy development steps**

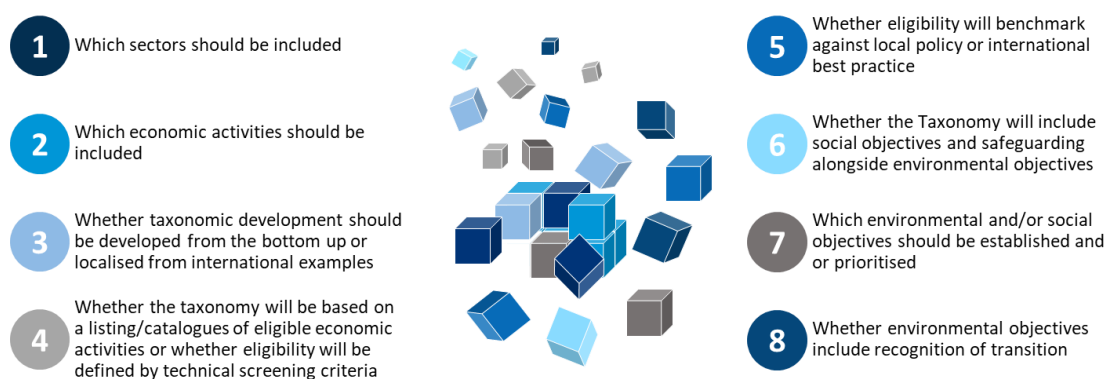
Relying on these internationally recognised guidance materials will substantiate taxonomy development decisions made and support uptake.

## Conduct effective stakeholder engagement and taxonomy testing

### Engage stakeholders

Once a clear taxonomy development path has been established it is crucial to start testing the development concepts and taxonomic components with stakeholders to ensure consensus on what it is that taxonomy is designed to achieve, how it will achieve this and who the key role players are to activate and implement the taxonomy in practice.

**Figure 6** illustrates some of the typical taxonomic development discussion points that require consensus early in the taxonomy development and implementation process.



**Figure 6: Stakeholder engagement considerations**

### Test the Taxonomy

To support the conceptualisation of the taxonomy and its implementation, pilot testing-testing the draft taxonomy (allowing taxonomy users to apply the taxonomy to economic activities within their organisations) proved insightful in assessing taxonomy challenges and limitations. This also provided an opportunity for taxonomy users to get to grips with the requirements of the taxonomy and whether internal systems and resources are adequate to conduct assessments against the criteria of the taxonomy.

### Develop resources and processes supporting the taxonomy

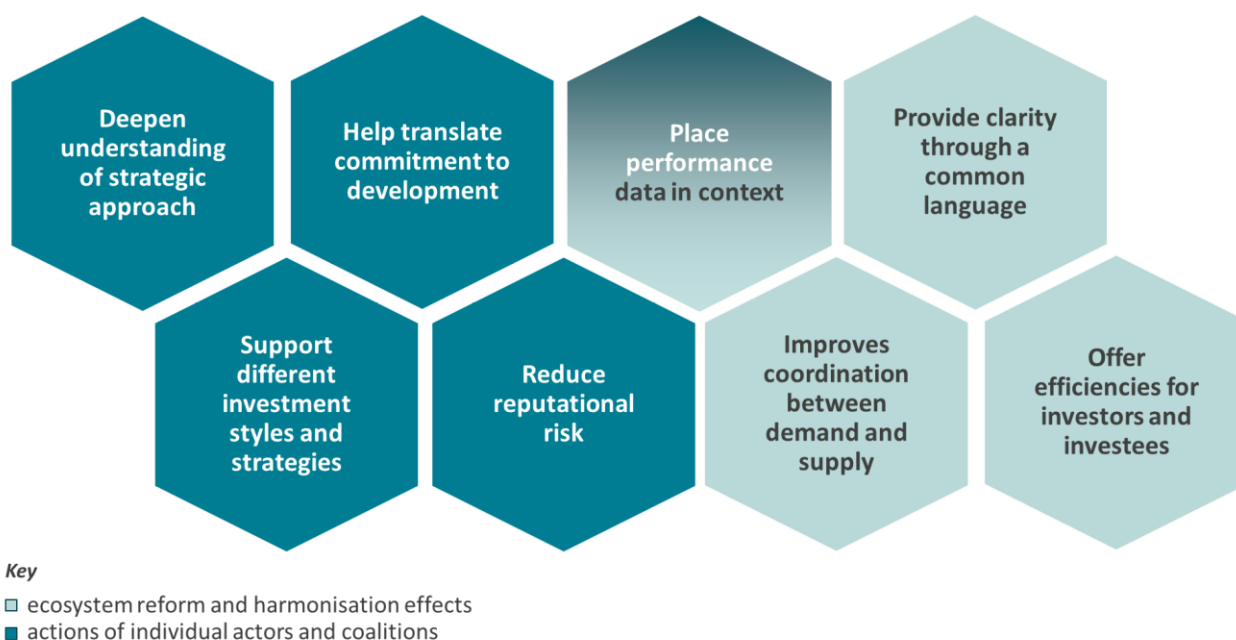
While not intrinsic to taxonomy development, it is vital for buy-in and likelihood of adoption of the taxonomy, that stakeholders had confidence in the development process and understood the fundamentals. Whether the taxonomy developed is voluntary or mandatory, understanding the concerns and needs of taxonomy end users was a core part of the development process.

# 1. Introduction

## 1.1 The purpose and utility of a green finance taxonomy

A national 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", in line with international best practice and national priorities.

It is a reference tool that can be used by many different economic actors to play an impactful role in the financial ecosystem, as summarised in **Figure 7**. Individual financial sector actors can use it to establish, monitor, and demonstrate the credentials of green activities in a more objective, confident, and efficient way, and regulatory agencies can use it to assess the green credentials of local financial institutions, issuers, companies and investors. In aggregate, it can also support tracking of and shifts in economic activity.



**Figure 7: Opportunity for impact of a finance taxonomy**

## 1.2 The objectives and design of the South African Green Finance Taxonomy

The South African Green Finance Taxonomy ("SA GFT") is fundamental to developments in sustainable finance in the country. Its principal function is to define what is recognised as "green" in a credible, dynamic, and consistent way. The development of the SA GFT seeks to be practical for users, while guided by principles and aspirational – as outlined in **Figure 8** below.



**Figure 8: Aims for the SA GFT’s role in supporting sustainable finance**

It is imperative that the taxonomy recognises and responds to South Africa’s socio-economic and development context while also maintaining alignment with international best practices. The definition of ‘green’ itself is therefore paramount, as are the activities that are recognised in the taxonomy and the way the taxonomy integrates non-environmental performance considerations. Emanating from this, the project began by defining a design objective for the SA GFT, simply articulated in **Figure 9** below.



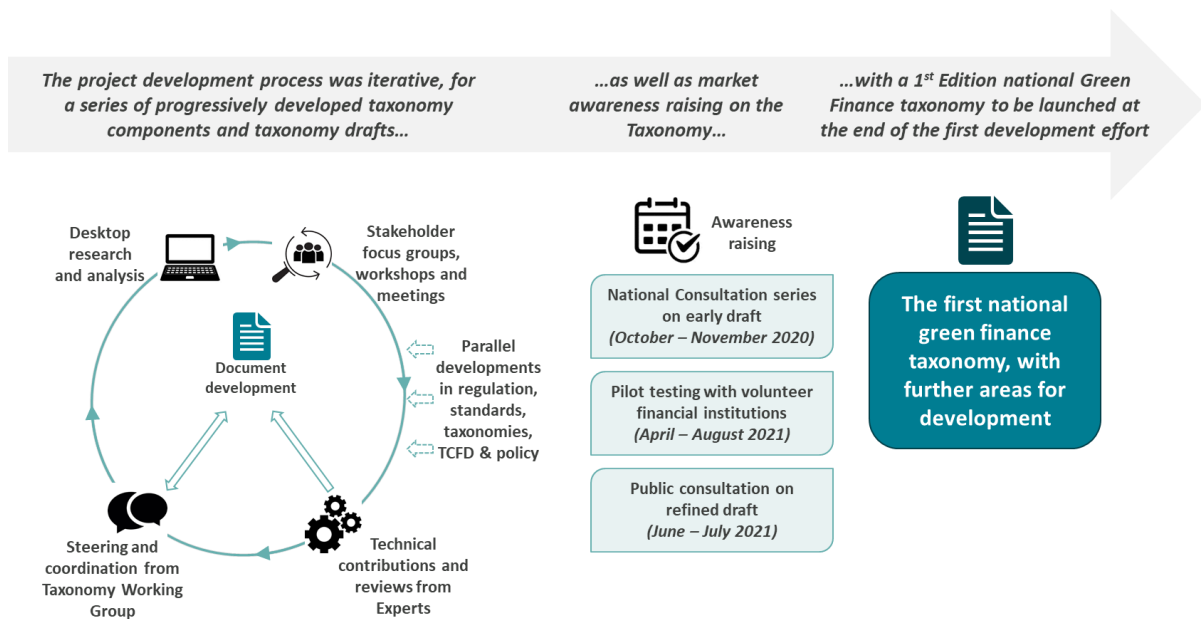
**Figure 9: Objectives for the design of the South African Green Finance taxonomy**

Successfully developing a context-appropriate and trusted SA GFT required a robust and iterative approach that was stakeholder-driven from the outset, with appropriate oversight. The scope for the 1<sup>st</sup> Edition SA GFT was to leverage international examples and to cover an initial core set of green and climate-focused categories. This has been done in a way that recognises the need and scope for expanding over time to include other environmental categories in the SA GFT, as well as in future incorporating social dimensions.

# 2. Development process

## 2.1 Key development milestones

As depicted in **Figure 10**, the 1<sup>st</sup> Edition SA GFT was developed iteratively as a series of progressively developed taxonomy components and drafts, with stakeholder engagement and validation at key junctures, and oversight from a Taxonomy Working Group.



**Figure 10: Iterative and sequential development process**

A series of targeted stakeholder engagements and calls for technical contributions from experts were undertaken, as well as market awareness-raising activities to garner widespread engagement. Market and user engagement informed the prioritisation of the constituent elements of the taxonomy which were developed during the project and illuminated how international practice could be leveraged (including consideration of green transitional activities). Engagement with experts helped refine the technical components of the taxonomy for South African context, and user engagement allowed adjustments so that the SA GFT would be fit for use.

## 2.2 Building on the learnings of others

The SA GFT development processes benefited from and built on preceding thought leadership in taxonomy comparisons and development, including:

- > Climate Bonds Initiative (CBI) 'Comparing China's Green Bond Endorsed Project Catalogue and the Green Industry Guiding Catalogue with the EU Sustainable Finance Taxonomy' ([link](#))
- > International Capital Market Association (ICMA) 'Recommendations for Sustainable Finance Taxonomies' ([link](#))

- > Global Financial Markets Association (GFMA) '*Globally consistent principles underpinning the development of sector and region specific taxonomies*' ([link](#))
- > Technical Expert Group on Sustainable Finance '*Common design principles for international taxonomy harmonisation*' ([link](#))
- > World Bank Group '*Developing a national green taxonomy*' ([link](#))
- > UN PRI '*Testing the Taxonomy: Insights from the UN PRI Taxonomy Practitioners Group*' ([link](#))
- > UNEP FI '*Testing the Application of the EU Taxonomy to Core Banking Products: High Level Recommendations*' ([link](#))

The body of knowledge and support for developing, implementing, regulating, and using national and market-based sustainable finance taxonomies continues to grow.

## 2.3 Future-proofing and maintaining the taxonomy

From the outset it was recognised that the South African Green Finance Taxonomy will need to be refined and advanced over time, particularly in its initial developmental stages. Refinement could be needed in response to new information, technological advancement or changes in legislation, for example, to maintain the relevance and robustness of the taxonomy in the South African market.

It is for this reason that a Sub-Group of the Taxonomy Working Group, a multistakeholder group a subset of the Taxonomy Working Group, was formed in mid-2021 to identify the overarching principles, institutional arrangements and governance structure by which taxonomy review would be undertaken. This working group was convened and focused on setting out principles for when and how changes are to be made, ways in which the taxonomy could be refined or amended, key review moments. The formation of an oversight committee is an essential and central part of future development processes.

The development team also considered the taxonomy principles and development processes applied to the 1<sup>st</sup> Edition green finance taxonomy, in terms of future coverage expansions for other taxonomy chapters, e.g., social, just transition, non-compatible etc. The team developed conceptual expansion designs, conducted internal development testing workshops, and tested early stage thinking with stakeholders, as part of a parallel project. The conceptual designs and stakeholder feedback validated the appropriateness of the taxonomy design principles, and their indicative suitability for guide future developments for other chapters.

## 2.4 Core and cross-cutting technical development

### 2.4.1 Overview

The four central areas and main activities that supported the development of the SA GFT are set out in **Figure 11** below, and discussed in detail in the following sections. These are:

- > **Establish a development mandate, and ensure process and results validation**

The development process was overseen by a multi-representative working group; that had a broad mandate to progress the recommendations of the National Treasury Technical Paper, *Financing a Sustainable Economy*. The Taxonomy Working Group's first phase of work was operationalised through a term of reference for its functioning, nominations for representatives, the development of a scope of work, and the appointment of service providers with the financial support of key funders. Under its steer

with technical and industry inputs, key decisions were made, and systematic development progress was reviewed. The working group included representatives with insights to parallel and landscape developments for ecosystem integration and alignment.

➤ **Integrate national vision and instruments**

The vision provides the strategic direction of the taxonomy and development process lodestar. It guided development principles supporting the adoption and adjustment process that was used, and brought clarity in communications and engagement, to help actors identify and communicate whether an economic activity or project is consistent with an objective. The objectives distinguish what is considered green and how this can be integrated into the development of the taxonomy.

➤ **Learn from and advance taxonomy structural, development and mainstreaming practice**

The taxonomy has a designed structure, function, form, and contents, with principles, objectives and technical criteria developed to define the country's sustainable development priorities and performance requirements. Stakeholder engagement and user understanding is integral to the development process, alongside purely technical considerations, to ensure relevance and usability.

➤ **Test the taxonomy and provide user and disclosure guidance**

The taxonomy was tested through a pilot test process with volunteer organisations, as well as through stakeholder and public consultations. Users of South Africa's first Green Finance Taxonomy will require guidance for its application, as well as disclosure guidance, to understand how the taxonomy functions and its associated purposes.



Figure 11: Key elements of South Africa’s Green Finance Taxonomy development process

## 2.4.2 Establish a development mandate, and ensure process and results validation

Developing a nationally appropriate green or sustainable finance taxonomy is a complex undertaking that requires input from a broad range of stakeholders with varying viewpoints and differing agendas. It therefore warrants appropriate balancing of the needs of each, in a manner that ensures development is well informed and maintains alignment with the sustainability objectives of the country. To maintain this ambition and ensure the development is relevant and practical, a representative working group (Taxonomy Working Group) was formed, chaired by the South African National Treasury, including standing representatives from the following organisations:

- > ABSA Bank
- > Association for Savings and Investment South Africa (ASISA)
- > Banking Association South Africa (BASA)
- > Batseta (Council of Retirement Funds for South Africa)
- > BNP Paribas
- > Department of Planning, Monitoring and Evaluation (DPME)
- > Department of Forestry, Fisheries and the Environment (DFFE)
- > Development Bank of Southern Africa (DBSA)
- > Financial Sector Conduct Authority (FSCA)
- > FirstRand Bank
- > Industrial Development Corporation of South Africa (IDC)
- > International Finance Corporation (IFC)
- > Johannesburg Stock Exchange (JSE)
- > Old Mutual
- > South African Reserve Bank Prudential Authority (PA)
- > South African National Treasury
- > Standard Bank

The Taxonomy Working Group included members from other working groups (those convened in relation to sustainable finance and climate risk) to support integration across the different workstreams.

The function of the Taxonomy Working Group is to:

- > Ensure alignment with national policy and legislation
- > Provide input on design decisions for the taxonomy
- > Ensure the expectations of local financial market participants and other key stakeholders are considered
- > Monitor and evaluate taxonomy development progress and outputs
- > Provide steer on points of contention and stakeholders' perspectives
- > Provide a platform for testing taxonomy usability
- > Provide a platform for assessing feedback from periods of public commentary

Taxonomy subgroups were formulated to assist with validating technical details and to design approaches that informed how the taxonomy should be developed and maintained in future.

### 2.4.3 Integrate national vision and instruments

The development focus for a national green finance taxonomy is differentiated by country-specific focus areas, development priorities, regulations, and sectoral objectives. For South Africa, these were identified through mapping out a long list of national documents and other strategies and studies which focus on developing the green economy and advancing sustainable development in South Africa (see list in Appendix 1).

This included identifying and comparing the vision and objectives in these various documents to develop a coherent vision statement for coverage and criteria of the taxonomy. The conceptualisation of a green economy provides a useful focus for establishing a mutually agreed development vision.

Through the analysis of South African sustainability-related strategies and policy documents, it was evident that 'green' objectives are expressed in a variety of policies and strategies, as well as legal and regulatory mechanisms. This is largely a result of South Africa's mainstreaming approach to sustainable development.

Drawing from and recognising the interactions and particular foci of key national policy documents it has been possible to consolidate and propose a more detailed definition for a green economy, as indicated below, which was the foundation on which the taxonomy was developed. The most closely considered included:

- > National Environmental Management Act (NEMA)
- > National Climate Change Response Policy White Paper (NCCRP)
- > National Strategy on Sustainable Development
- > National Biodiversity Strategy and Action Plan 2015-2025
- > South Africa's Low Emission Development Strategy

While these documents have environmental outcomes as central, social elements are closely intertwined in the South African landscape and these offered definitions promoting sustainable development.

#### **Green Economy – a consolidated definition:**

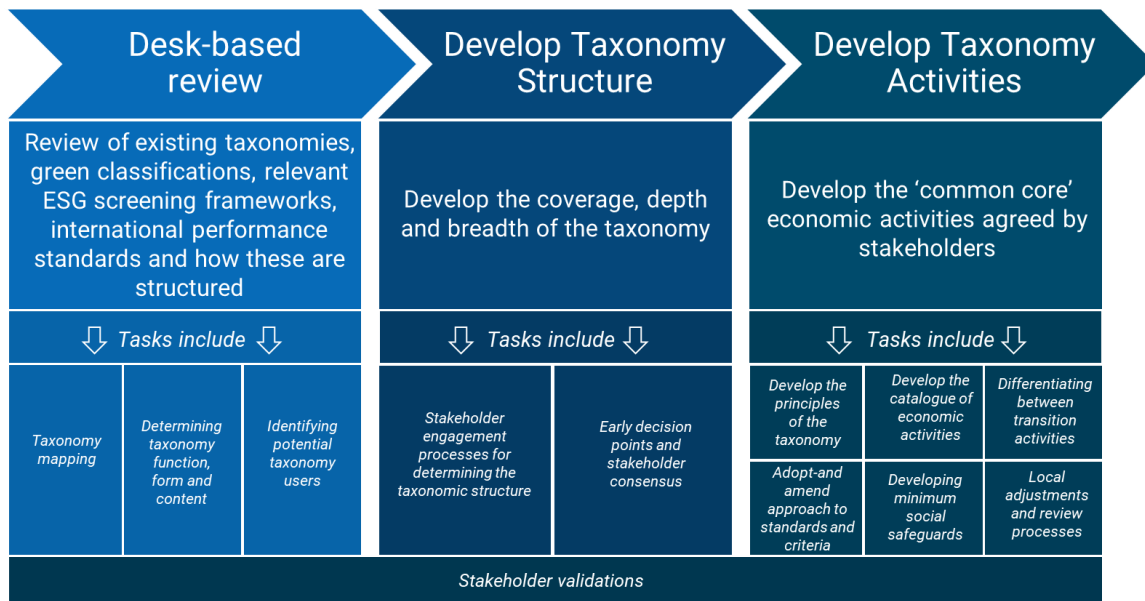
- *Economic activities and infrastructure that enable a robust, efficient, competitive, lower carbon, resilient, and sustainable economy and society, and result in improved human well-being over the long term, as well as equitable and environmentally sustainable development; and*
- *That the society within which these economic activities take place, is committed to social equity, economic efficiency, environmental protection and sustainable ecological resource management, and has built sufficient resilience and emergency response capacity so as not to expose future generations to significant environmental risks or ecological scarcities.*

*In developing and transforming to such a green economy:*

- *our current system of economic activities must decouple economic growth from environmental impacts; protect, restore and preserve the natural environment, and sustainably manage and protect natural capital to ensure equitable benefits and realisation of people's environmental rights; make a fair, meaningful and timely contribution to the global effort to stabilise greenhouse gas emissions; build climate resilience and adaptive capacity; and take into account the economic, employment and societal risks and opportunities that are expected to arise from this; and*
- *our societal response must address the sustainable development challenges at a scale of economy that supports the required innovation and finance; be dynamic, evidence-based, balanced, cost effective, integrated, aligned, empowering and participatory; be driven and customised in the light of national circumstances; and prioritise sustainable economic growth, job creation, public health, risk management and poverty alleviation benefits within this framework*

#### **2.4.4 Learn from and advance taxonomy structural, development and mainstreaming practice**

Most existing sustainable finance taxonomies are differentiated by their purpose and the granularity provided. To assess which elements are appropriate and practical for the development of a South African taxonomy, different approaches were considered. The starting point was to review existing taxonomies and 'green' classifications and systematically build out economic activities aligned to South Africa's economic environment and objectives. This process is illustrated in **Figure 12** and is described in more detail in the sections that follow.



**Figure 12: Framework for learning from existing taxonomies to develop a local taxonomy**

#### 2.4.4.1 Desk-based review

To assess how existing taxonomies are structured and function, a desk-based review process was undertaken to provide perspectives on adopting existing international taxonomies, developing local taxonomies, and the key elements which require detailed consideration.

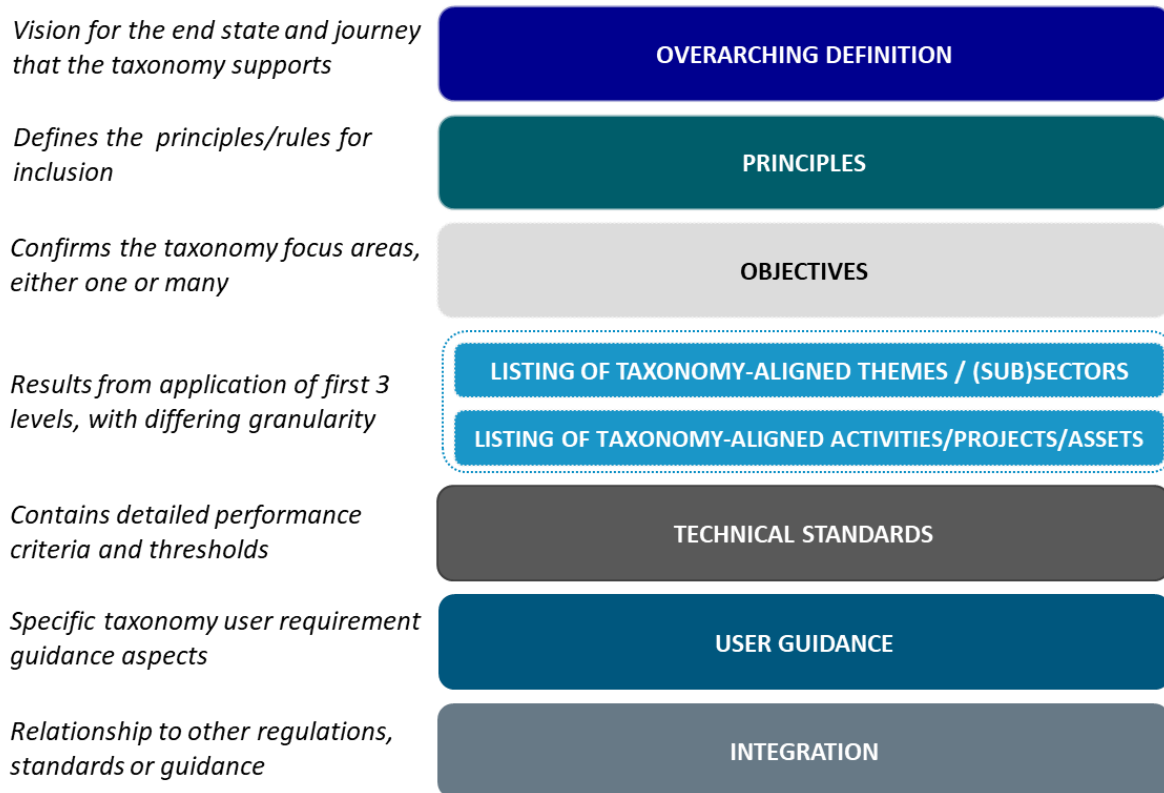
##### (i) Determining taxonomy function, form, and content

Studying the most prominent international examples of green and climate taxonomies available at the time, illustrated that taxonomies vary on several structural and functional aspects. Understanding these functions provided valuable insight regarding the different development approaches that can be followed when designing a taxonomy.

The following details how existing taxonomies are designed and how they function:

1. Taxonomies differentiate on their foundations, granularity, and the inclusion of standards, with four general options, ranging from most to least detailed:
  - a. Comprehensive principles-derived economic activity-based catalogue and standards, e.g., EU Sustainable Finance Taxonomy
  - b. Comprehensive project/asset-based catalogue and standards, e.g. Climate Bonds Initiative Taxonomy
  - c. Activity/project/asset type catalogue
  - d. Thematic catalogue.
2. Most international taxonomies have taken one of the above forms and have either:
  - a. Replicated the original example exactly, or identified the original example as the reference

- b. Styled on the original example in most aspects, with minor-to-moderate modification for local context
  - c. Take lessons from the original example and applying strong localisation.
3. Taxonomies may be defined in terms of their “depth” of coverage, including some combination of the elements noted in **Figure 13**, which vary across the existing examples.



**Figure 13: Generally applicable taxonomic elements in international examples**

4. Taxonomies may be defined in terms of their “breadth” of coverage, being:
- a. Determined because of local objectives for developing a green and/or sustainable economy and/or targeting aspects of economic transformation
  - b. May include some combination of environmental, social, and socio-economic aspirations, though largely confined to environmental performance in currently existing examples
5. Have listings, catalogues and/or standards arranged according to economic themes, most often with some form of the following, with further sub-classifications:
- a. Agriculture, marine and ecosystem
  - b. Energy, manufacture, industry, water, and waste
  - c. Information and communication
  - d. Transportation
  - e. Buildings

Through this assessment it was found that the EU's taxonomy is the most extensive in both depth and breadth dimensions. For each of the activities selected in the EU Taxonomy, technical screening criteria have been developed and are based on<sup>ii</sup>:

- > **Principles:** The underlying rationale for how the activity will result in a substantial contribution and/or avoidance of significant harm to the environmental objective in question.
- > **Criteria:** including both metrics and thresholds, i.e., the method(s) by which the environmental performance of the economic activity will be measured, including defining the boundary for this measurement and the qualitative or quantitative conditions which must be met to enable the performance of the activity in a way that is considered environmentally sustainable.

While the EU taxonomy had not yet developed technical standards (detailed screening criteria) beyond the focus areas of climate change mitigation and adaptation, it remained the most comprehensive taxonomy and, consequently, the most complex. The PBOC Green Bond Endorsed Project Catalogue and the Mongolia Green Taxonomy, on the other hand, were more reflective of a catalogue or listings approach, having sectors and activities/projects and assets pre-screened; these do not provide detailed technical standards for each category.

These taxonomic details raise questions as to how comprehensive South Africa's first Green Finance Taxonomy should be and whether development should focus on comprehensively developing all taxonomy elements or on limited elements across many objectives; alternatively, development may be focused on selected elements together with prioritised objectives. Furthermore, questions arise concerning the extent to which the SA GFT might adopt and amend existing practices, and to what extent 'adaptation' or 'origination' are required to address the local context needs.

The determination was made to align to the EU Taxonomy, with different considerations weighed and stakeholders engaged on the matter (refer Briefing Paper '*South Africa's Ambitious Green Finance Taxonomy*'). In addition to its comprehensive nature, a central consideration was access and attractiveness to foreign direct investment (FDI). The materiality of European FDI to South Africa, combined with European sustainable finance regulatory trends which have since been definitive concerning the need for alignment to reduce investment obstacles, encouraged the adoption of the EU Taxonomy approach for the South African developments.

The timing, approach and adopted development principles for the South African 1<sup>st</sup> Edition Green Finance Taxonomy development stages, was such that the recommendations of the EU Technical Expert Group on Sustainable Finance (TEG) were predominantly adopted and later changes to the EU Taxonomy that incorporated natural gas and nuclear related economic activities have not been followed by South Africa. These further developments were considered inconsistent with the development principles, and are proposed to be evaluated through future engagement processes as appropriate.

---

<sup>ii</sup> EU, 2020. Taxonomy report: Technical Annex, [Online] Available at [https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/eu-taxonomy-sustainable-activities\\_en](https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/eu-taxonomy-sustainable-activities_en).

**(ii) Identifying potential taxonomy users and uses**




Understanding how and by whom the taxonomy can be used reveals functional processes to which a Green Finance Taxonomy could be integrated and assisted in the design and development decisions as well as determining which existing examples might best be leveraged.

Potential users were grouped in three user groups, as in



**Table 1** that identified potential users of a Green Finance Taxonomy and the functional processes that to which it could be integrated and for which the end design was considered.

**Table 1: Potential users and uses of the taxonomy**

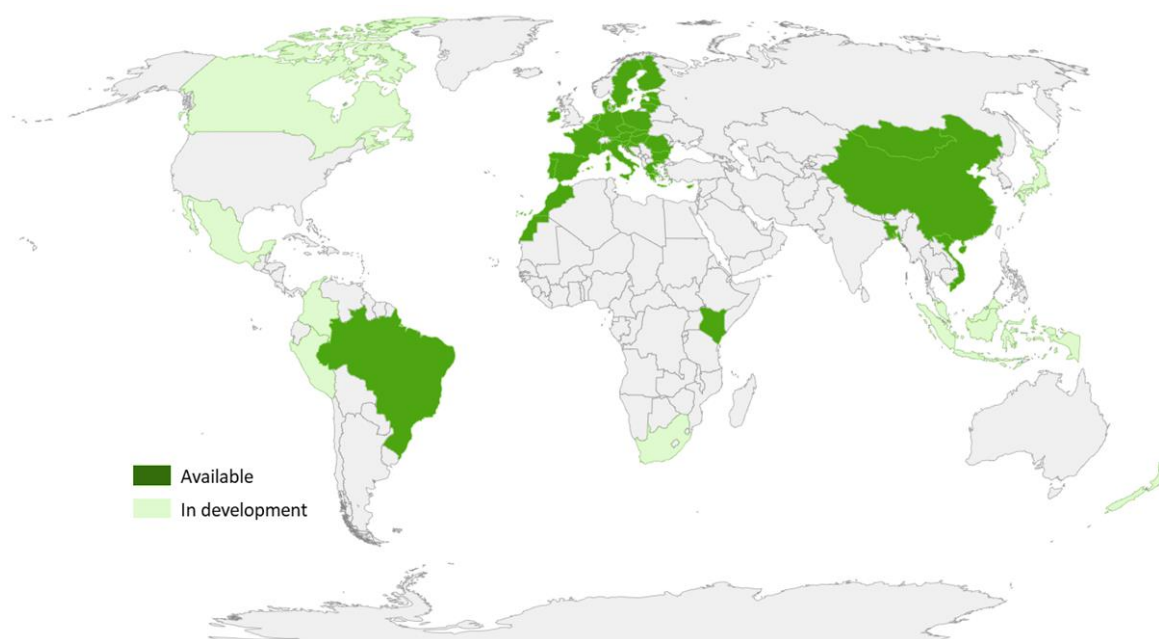
<i>User Group</i>	<i>Example user</i>	<i>Typical user applications for the Green Finance Taxonomy<sup>iii</sup></i>
<b>POLICY MAKERS &amp; GOVERNMENT AGENCIES</b> 	Includes law makers and government departments e.g., National Treasury and Municipalities	<ul style="list-style-type: none"> <li>• Develop policy and delegated acts/regulations</li> <li>• Measure and account for aligned financial flows at different economic levels and improve and align tracking systems</li> <li>• Identify areas of underinvestment relative to objectives</li> <li>• Facilitate aligned pipeline development</li> <li>• Align to or reference elements of the taxonomy, such as in the context of setting public measures and standards of labels for green financial products or green bonds and in reporting on economic, Nationally Determined Contributions (NDCs) and Sustainable Development Goals (SDGs) monitoring purposes</li> </ul>
<b>FINANCIAL MARKET PARTICIPANTS</b> 	Includes market participants offering financial products e.g., financial institutions, banks, investors, bond issuers, pension providers	<ul style="list-style-type: none"> <li>• Identify opportunities that align to taxonomy and criteria</li> <li>• Support investee engagement</li> <li>• Evaluate investment portfolios for taxonomic alignment and exposure</li> <li>• Evaluate new investments' taxonomic alignment</li> <li>• Evaluate existing products alignment, and originate and structure aligned new products</li> <li>• Design and shift investment and product policies and strategies</li> <li>• Understand and compile disclosures concerning exposure, in terms of or in addition to regulatory requirements</li> </ul>
<b>ASSET OWNERS</b> 	Include non-financial companies and developers with non-financial reporting directives. e.g., mining houses and manufacturers	<ul style="list-style-type: none"> <li>• Compile disclosures against the taxonomy regarding capital expenditure, operational expenditure and turnover</li> <li>• Support engagement of investors and capital markets, to attract financing based on being taxonomically and thematically aligned</li> </ul>

**(iii) Taxonomy mapping**

The desk-based review process mapped major, existing taxonomies to determine what function and content would be fit-for-use by the South African market, appropriately aligned to the green economy vision which had been established.

<sup>iii</sup> World Bank 2020: Developing a National Green Taxonomy: A World Bank Guide

Figure 14 shows those national and international jurisdictions with existing taxonomies or taxonomies in development at the outset of this project. Other notable early-stage taxonomy development programmes have been initiated in Canada, New Zealand, Indonesia, Bangladesh, Colombia, and Japan.



**Figure 14: Taxonomies available or in stages of development internationally (as of June 2020)**

From the available taxonomies, the development of South Africa's GFT considered six examples:

- EU Sustainable Finance Taxonomy
- Climate Bonds Initiative (CBI) Taxonomy
- Multilateral Development Banks - International Development Finance Club (MDB-IDFC)
- International Capital Market Association (ICMA) Green Project Mapping
- People's Bank of China (PBOC) Green Bond Endorsed Project Catalogue
- Mongolia Green Taxonomy

These were examined to capture and support understanding of taxonomy development approaches and results. The six existing taxonomies studies are introduced in **Table 2**.

**Table 2: Introduction to six existing green finance-type taxonomies**

#### ***European Union Sustainable Finance Taxonomy***

Result of a multiyear technical and cooperative development process, with an EU-wide classification system for sustainable activities, integrated into regulation, aimed at a range of financial market participants.

#### ***Climate Bonds Initiative Taxonomy***

The Climate Bonds Initiative (CBI) champions the Climate Bonds Standard and Certification Scheme, which was launched in 2010 and systematically developed since then. It is a labelling scheme for bonds and loans, focused on addressing climate change.

Final report on European Union (EU) Taxonomy published in March 2020, with:

- > Technical screening criteria for 70 climate change mitigation and 68 climate change adaptation activities, including criteria for doing no significant harm to other environmental objectives
- > Methodology to support recommendations on the technical screening criteria.

The Standard functions with a guide to climate-aligned assets and projects in the form of a Taxonomy with detailed technical standards being developed for the various categories of the Taxonomy.

It is proposed as a tool for issuers, investors, governments, and municipalities to determine what key investments deliver a low carbon economy.

#### ***MDB-IDFC***

The principles and listing of categories, sub-categories and example projects and assets were developed jointly by the climate finance group of multilateral development banks.

The principles outline a methodology for tracking their climate finance contributions in a manner which is comparable, transparent, and consistent for adoptees. The principles set out consistent and harmonised definitions and guidelines for activities. Version 2 was released in June 2015, covering 10 categories and 28 sub-categories specific to climate change mitigation finance reporting.

#### ***ICMA Green Project Mapping\****

Published June 2019, the mapping is presented as a “broad frame of reference” rather than as a detailed taxonomy. It maps broad categories of projects to the five environmental objectives referenced in the ICMA Green Bond Principles.

Though not a taxonomy by intent, the listing of themes/categories has been referenced by bond issuers and by the likes of the Moroccan Green, Social and Sustainability Bond Guidelines.

#### ***PBOC Green Bond Endorsed Project Catalogue***

People's Bank of China (PBOC) Guidelines published in 2015 define criteria and categories for green bond projects, also covering green financial bonds within the inter-bank market.

The Project Catalogue is specifically set up for the development and oversight of the green bonds market and to provide green labelled capital raising opportunities for corporates, assets, and projects with environmental benefits.

#### ***Mongolia Green Taxonomy***

The first Mongolian Green Taxonomy was approved in December 2019, after a year-long process.

It is intended for financial market participants as well as policymakers, verification and standards setters, and industry. It also seeks to boost investment in green projects, track private sector flows, and inform national policies and strategies on green finance. It will be updated every two years, in line with market, technology, and policy developments.

Each of these taxonomies differs in terms of depth (taxonomic levels of detail) and breadth (environmental subject area coverage), as demonstrated in Figure 15 below.

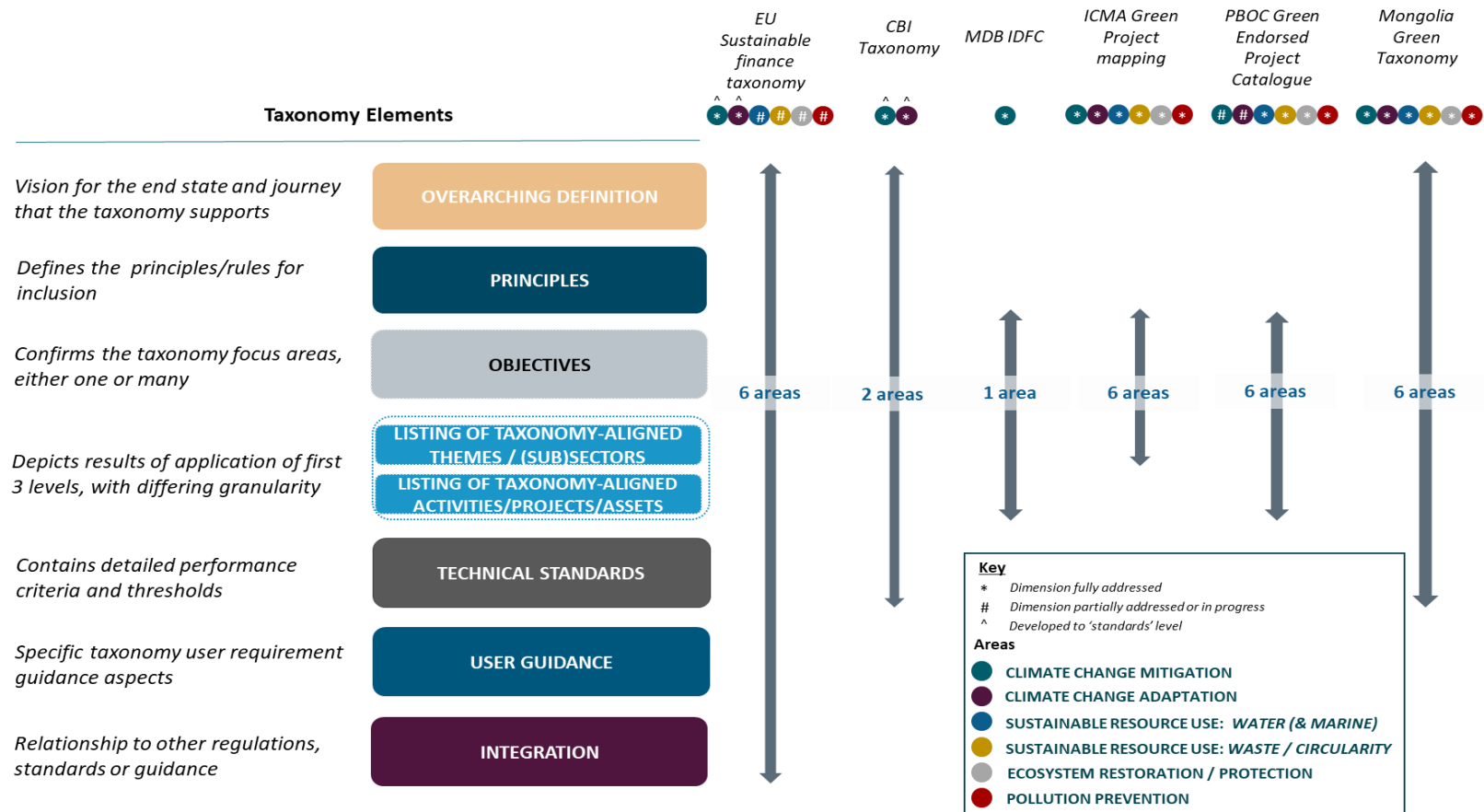


Figure 15: Taxonomic structural depth and breadth of coverage across focus areas of the six taxonomies studied

Each taxonomy further follows a different approach to key development aspects, as illustrated in

Figure 16.

**Key**  
 ✓ Dimension fully addressed  
 ✓ Dimension partially addressed or in progress



	 <b>EU Sustainable finance taxonomy</b>	 <b>CBI taxonomy</b>	 <b>MDB-IDFC</b>	 <b>ICMA Green Project Mapping*</b>	 <b>PBOC Green Bond Endorsed Project Catalogue</b>	 <b>Mongolia Green Taxonomy</b>
① <i>Uses principles to guide inclusion</i>	✓	✓	not evident	✓	not evident	✓
② <i>Aligned to policy environment</i>	✓	not relevant	not relevant	not relevant	✓	✓
③ <i>Identifies taxonomy-aligned themes/sector</i>	✓	✓	✓	✓	✓	✓
④ <i>Identifies taxonomy-aligned activities/projects/assets</i>	✓	✓	not that granular	not that granular	✓	✓
⑤ <i>Includes detailed technical standards</i>	✓	✓	not that granular	not that granular	not that granular	not that granular
⑥ <i>Uses industrial codes for activities/projects/assets</i>	✓	uses descriptions	uses descriptions	uses descriptions	✓	uses descriptions
⑦ <i>Relates thresholds to regulations</i>	✓	not relevant	not relevant	not relevant	not that granular	not that granular
⑧ <i>Provides a revision mechanism</i>	✓	✓	not evident	not evident	not evident	✓
⑨ <i>Includes green value chain activities</i>	✓	✓	✓	not that granular	✓	✓
⑩ <i>Includes "transition" activities/projects/assets</i>	excludes all fossil fuel without CCS	excludes all fossil fuels without CCS	includes selected measures only	not relevant	includes 'clean coal' (considered for revision)	includes 'low pollution' options to coal
⑪ <i>Integrates social aspects</i>	✓	not relevant	✓	not relevant	not evident	✓

Figure 16: Taxonomic development aspects of six taxonomies studied (in their form at the time of beginning this project)

The desk review supported an assessment of aspects South Africa could leverage in developing its own taxonomy, as summarised in Figure 17 below.



**EU Sustainable finance taxonomy**

- **Founded in clearly articulated principles** supports understanding and confidence
- **Includes a review & development mechanism**
- **Includes the value chain** contributing to low-carbon shift
- **Provides to the level of detailed technical standards**, should we want to do the same
- **Relates to progressive regulations**; could localise the thresholds where relevant
- **Does not yet have detailed standards for assessing outside of CC**
- **Applies EU NACE codes**
- **No “transition” inclusions**



**CBI taxonomy**

- **Uses descriptions instead of economic codes**
- **Includes a review & development mechanism**
- **Includes the supply chain** directly contributing to the covered assets/projects
- **Provides to the level of detailed technical standards**, should we want to do the same
- **Does not yet have detailed standards for assessing outside of CC**
- **No “transition” inclusions**



- **Includes selected “transition” measures** for energy production shift to renewable energy technologies, and the modal shift to low-carbon modes of transport with specifics regarding application circumstances
- **No standards, just a listing** of types of activities/assets/ projects
- Includes capacity and awareness projects in the catalogue as **social aspect**
- **Does not include scope outside of CC**



**ICMA Green Project Mapping\***

- **Reinforces relevance of ‘green’ to SDGs**



**PBOC Green Bond Endorsed Project Catalogue**

- **No standards, just a listing** of types of activities/assets/ projects
- **Inclusion of clean coal is being re-evaluated just now**



**Mongolia Green Taxonomy**

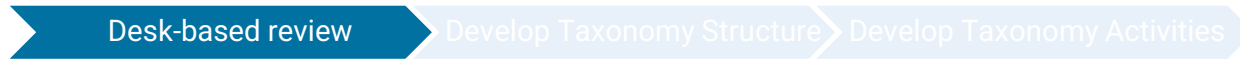
- **Includes a review & development mechanism**
- **No standards, just a listing** of types of activities/assets/ projects
- **Livelihoods** considered in terms of improvements brought by technologies (e.g. clean appliances) as social aspect
- **Inclusion of ‘low pollution’ options** an example to be considered

**Key**

Good example to follow

Option to consider

Challenge in application



**Figure 17: Insights and/or elements for the SA taxonomy to leverage from the six taxonomies studied (in their form at the time of beginning this project)**

## 2.4.5 Develop taxonomy structure

After conducting a detailed desk-based review of existing taxonomies and identifying key structural and functional components, these elements need to be tested with stakeholders to determine what development approach may be suited to address the needs of institutions while maintaining alignment with the ambition and purpose of the taxonomy.

### (i) Stakeholder engagement processes

The structural development involved stakeholder engagement to ascertain the appropriate levels of taxonomic detail and subject area coverage, as well as to determine which taxonomic objectives/focus areas should be included.

Driving a climate response and green economy is a complex undertaking, requiring the consideration of numerous factors and, the coordination, alignment and sequencing of policies, response measures and actions, implemented by a variety of actors. All these separate elements comprise South Africa's green economy ecosystem. As a result, stakeholder mapping was undertaken to identify and rank the influence and potential taxonomy application and use cases. The key green economy and climate ecosystem actors with various levels of involvement and influence are shown on a high level in **Figure 18**.



**Figure 18: South African green economy and climate ecosystem**

Having identified and mapped the key stakeholders for consultation, means of engagement and communication were identified and multiple communications channels employed. In addition, a series of one-on-one consultation and engagement were undertaken to test technical content and usability. Consultation was directed based on the following discussion points:

- > Taxonomy framework and use
- > Taxonomy scope and vision
- > Taxonomy principles and objectives
- > Establish priority objectives and depth
- > User needs expression
- > Views on ambition and particular preferences
- > Technical focus elements

**Figure 19** illustrates an overview of the South African Green Finance Taxonomy Development and stakeholder engagement process.



**Figure 19: Stakeholder engagement and communication channels for the development of a National Green Finance Taxonomy**

**(ii) Stakeholder survey**

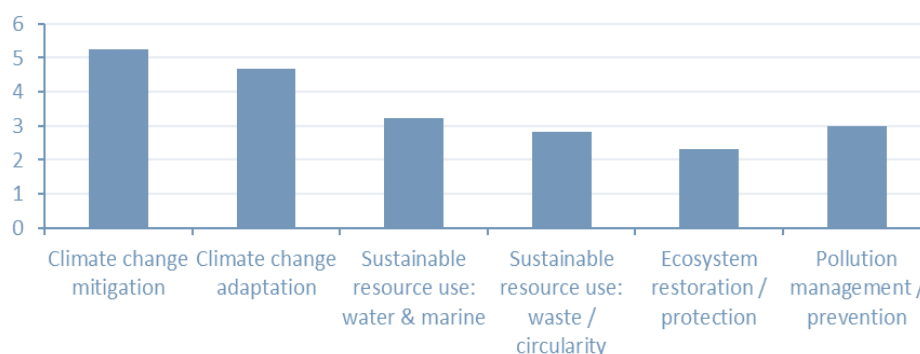
To garner specific input on certain design elements early on from a variety of stakeholders, a survey was developed and distributed. The survey contained questions to clarify perspectives, user needs and to validate the following key aspects for the development of the taxonomy:

- > Locally relevant economic activities
- > Taxonomic alignment process and related disclosure
- > Taxonomic alignment financial disclosure
- > Approach to transition
- > Locally-adjusted performance criteria and thresholds
- > Approach to contribution of social and socio-economic development in the SA GFT

The results of the survey informed decisions for the formulation and structural development of the taxonomy. Key feedback is summarised below.

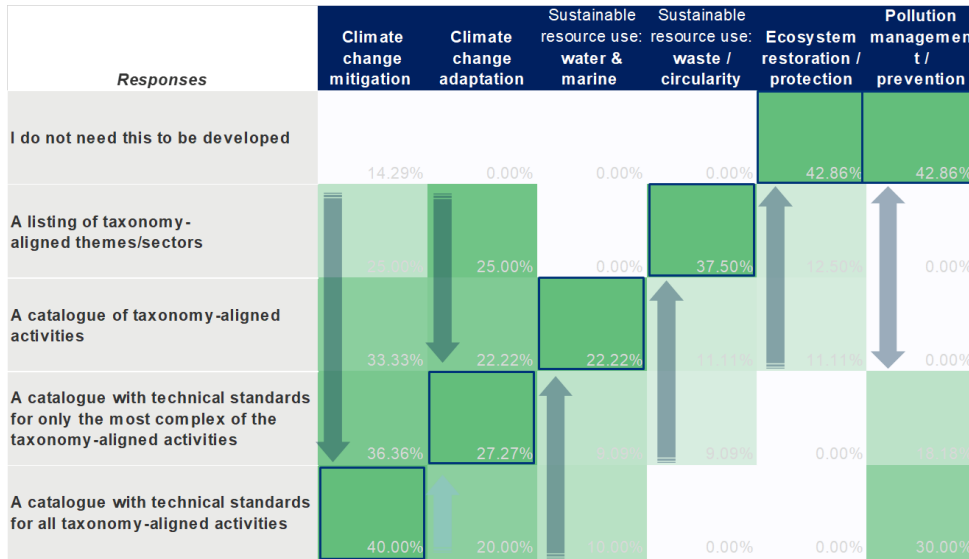
- > Respondents indicated a definite preference, at the time, for prioritising development of climate change objectives, as in **Figure 20**:

**Please rank the taxonomy thematic categories in the order of their importance or urgency to be included in the first version of a green finance taxonomy**



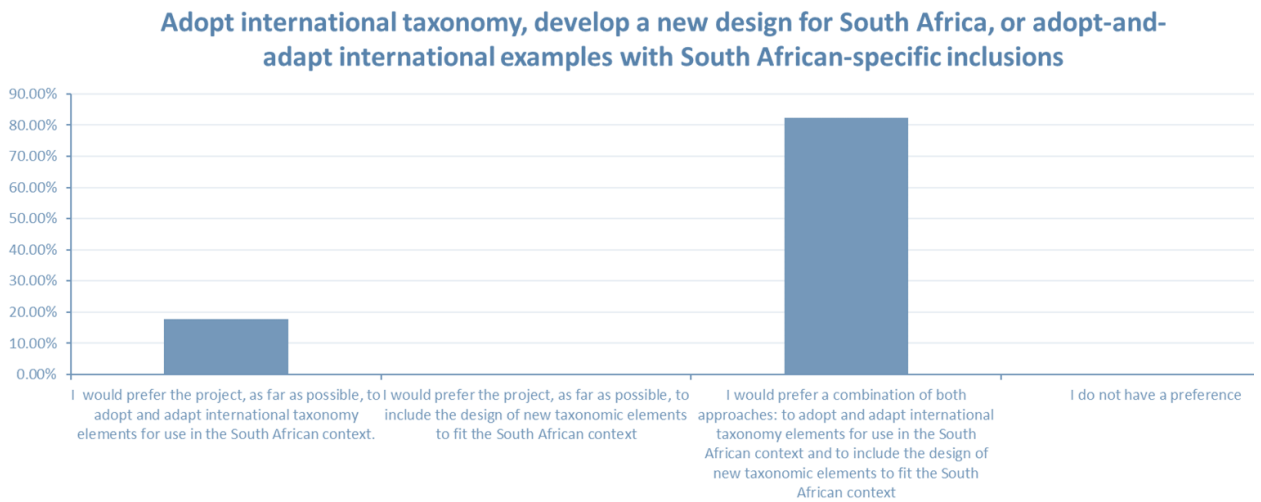
**Figure 20: User survey results for environmental objectives' development priorities**

- > Respondents were spread across catalogue to detailed standards for climate change objectives, but expected to require less detail for other objectives, as in **Figure 21**



**Figure 21: User survey results for desired depth for each taxonomic objective**

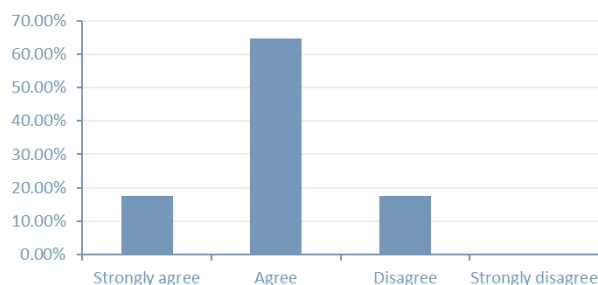
- > Majority respondents preferred a combination of adjusted international and domestically developed taxonomy entries to ensure domestic suitability, as in **Figure 22**



**Figure 22: User survey results for development approach weighing domestic needs and international practice**

- > While some participants disagreed, overall, it was determined that environmentally impactful activities should be included and not disqualified if not making an additional positive social contribution, as in **Figure 28** (noting that safeguards were considered vital and failure to safeguard would disqualify)

**Activities with clear environmental benefits, even if creating no jobs or social benefits, should be recognised under a South African Green Finance Taxonomy**



**Figure 23: User survey results for delimiting performance to qualify for inclusion in the taxonomy**

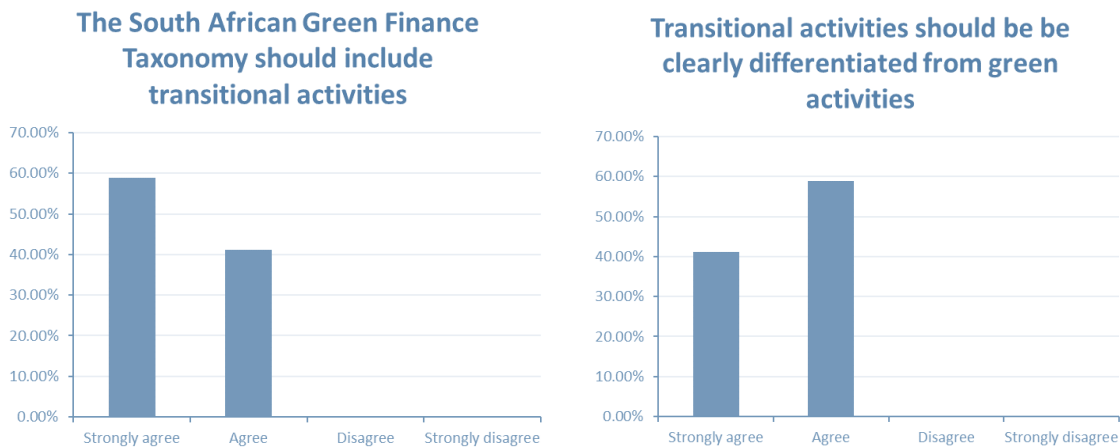
- > Inclusion of social safeguarding was strongly supported, as in **Figure 24**

**How important is it to include minimum social safeguards in the South African Green Finance Taxonomy?**



**Figure 24: User survey results supporting inclusion of social safeguarding**

- > Users had a definite interest in transition activities inclusion in the taxonomy, but needed these to be identified distinctly, as in **Figure 25**. While the first phase of development was not intended to cover transition, these results have supported proposals for further development work.



**Figure 25: User survey results for transitional activity inclusion expectations**

However, certain structural development decisions required further discussion to reach agreement on the way forward, described in the following section.

### (iii) Early decision points and stakeholder consensus

From the responses to the survey, it was noted that four pivotal decision points would require further consensus-building. These are explained in [Table 3](#).

**Table 3: Early decision points presented to prospective South African taxonomy users**

*Key decision points*

**Localise international work or develop from the bottom up?**

At the outset, it is uncertain how many economic activities might be identified within the taxonomy and how extensive the development, consultation and technical inputs will need to be to arrive at robust criteria. Given the project timeframe and whether development should focus on comprehensively developing all taxonomy elements, two options were considered as poles, with a spectrum of options in between for consideration, namely:


**1**

First SA green investment taxonomy looks to international examples and develops to the extent these already exist; allow current international developments to progress and we consider these for future iterations



Spectrum →

First SA green investment taxonomy takes a developmental lead on current international taxonomic gaps, and sets the example



### **2** Benchmark against local policy or international best practice?

This question highlights the degree to which specific criteria or sets of thresholds for economic activities will harmonise with international best practice. Should the taxonomy not be ambitious enough, then it risks deterring international investment; however, if the criteria and thresholds are too ambitious and stray far from local policy, then there is a risk that these will be challenging to implement, and economic activities become unachievable.

Two options were considered as poles, with a spectrum of options in between for consideration, namely:

An option that could apply consistently

**Taxonomy references national policy, legislation and regulation for principles, eligibility tests and performance standards**



Supportive policy environment, but gaps in policy for many critical instances, concerns over targets

An option that could allow us to go beyond policy if needed

**Taxonomy takes a position on principles, eligibility tests and performance standards, relying on international example and independent data and approaches**



Look to credible international examples for decarbonisation trajectories, principles for transition

Spectrum

### Apply at an asset level or a value chain level?

Inclusion of economic activities should not only focus on assets that are globally recognised as green but also consider activities that can enable the green industry in a way that is considered environmentally sustainable and thereby substantially contribute to one of the taxonomy objectives. Developing the SA GFT should therefore enable the transition of critical systems such as energy in addition to activities that make a substantial contribution on their own and, as a result, create the opportunity to stimulate investment into local transition pathways and the overall systems. Such activities can, however, be ambiguous and ill-defined, creating a risk of 'greenwashing'.

3

Two options were considered as poles, with a spectrum of options in between for consideration, namely:

Minimum

**Typically focuses on an asset or project, operating in a recognised green industry / technology with an evident environmental impact**



E.g. a wind farm development, a land rehabilitation project, a water saving installation

Beyond minimum

**A broad approach to including value chains that exhibit green traits and enable green industry / technologies, in addition to assets or projects**



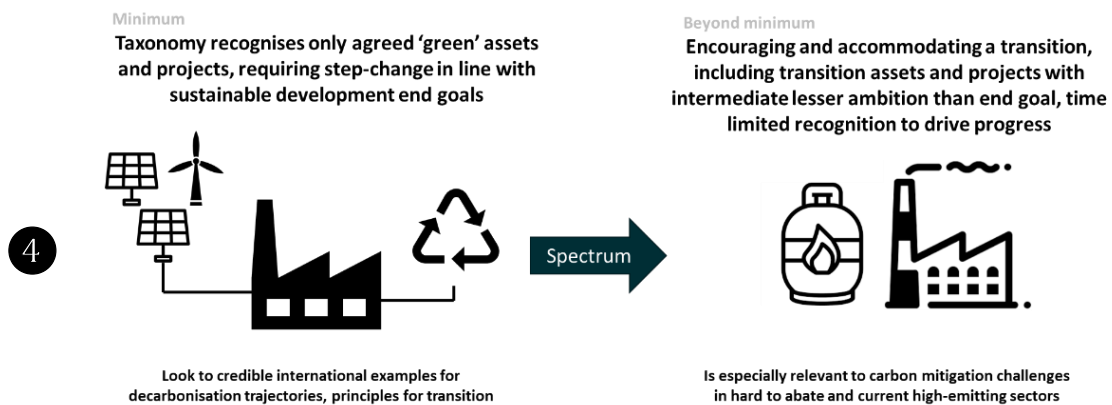
E.g. manufacturing wind farm components, ESCo services, green logistics providers

Spectrum

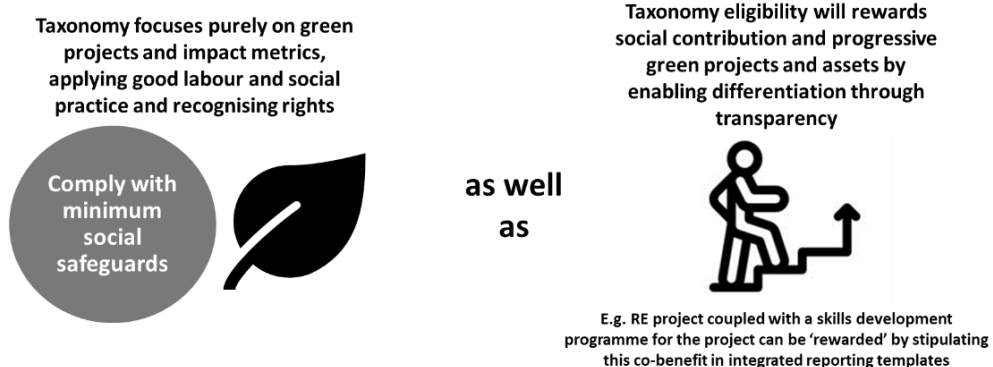
**Focus only on green or include transition (or even social investment)?**

The question ‘what is green’ has a second interpretation and that is to ask how the performance of a particular asset might be considered ‘green’ in the local context. A particular process may in the South African context be considered relatively ‘green’ compared to business as usual, even if it does not meet international best practice. Furthermore, economic activities might be exposed to physical or transition risk in the South African context that may invalidate eligibility for consideration as ‘green’ internationally. This issue raises the question of how to treat South Africa’s position as a developing country, and how to encourage investment in so-called ‘transition assets’<sup>4</sup>.

In terms of transition, two options were considered as poles, with a spectrum of options in between for consideration, namely:



In terms of social investment, options considered were (i) compliance with a minimum requirement and (ii) encouraging social contribution through transparency mechanisms, without disqualifying projects for their lack of social contribution. These need not be mutually exclusive:



<sup>4</sup> Transition assets are assets which might not be considered ‘green’ according to international best practice but form an important part of South Africa’s development and decarbonisation pathways.

**(iv) Summary of results directing design**

Through the survey and the stakeholder engagement process the following key aspects were determined.

**Therefore, in the context of an iterative development approach for the South African Green Finance Taxonomy, the first development process will**

- Develop as a comprehensive principles-derived economic activity-based catalogue and standards, styling itself on the EU Sustainable Finance Taxonomy, with strong localisation – also largely following in the developmental footsteps of that Taxonomy and relying on its progress to adopt and amend content.
- Be focused on environmental objectives only, for the time being
- Commit to include six focus areas in these environmental objectives; focus on climate change mitigation and adaptation categories for this iteration
- Prioritise breadth over depth in terms of its development aspiration, using a catalogue approach with standards developed to the extent reasonably possible
- Use international examples of technical standards as a baseline, adjusted to align to local policy, noting:
  - Where there is a divergence between international examples and South African commitments and policy instruments, in principle South African policy alignment is preferred; however,
  - That these divergences must be highlighted to stakeholders for a case-by-case agreement of preferences, and
  - That aspiration and international alignment remain important but not overriding objectives.
- Include local contextualisation, particularly recognising South Africa-relevant:
  - economic activities
  - social safeguarding
  - policy alignment
- Recognise economic activities as green – based on environmental impact, provided they conform to social safeguard requirements and ‘do no harm’ principles
- Include social safeguards as a minimum requirement and encourage social contribution through disclosure
- Include recognition of green value chains and enabling activities, providing a clear link to green economy activities defined at least through principles and particular catalogue and standards inclusions as possible

### 2.4.5.1 Develop economic activities of the taxonomy

The catalogue of economic activities featured in the taxonomy are to provide the list of eligible activities that can be recognised as green by the SA GFT, at this juncture. This eligibility can be defined in several ways, including but not limited to:

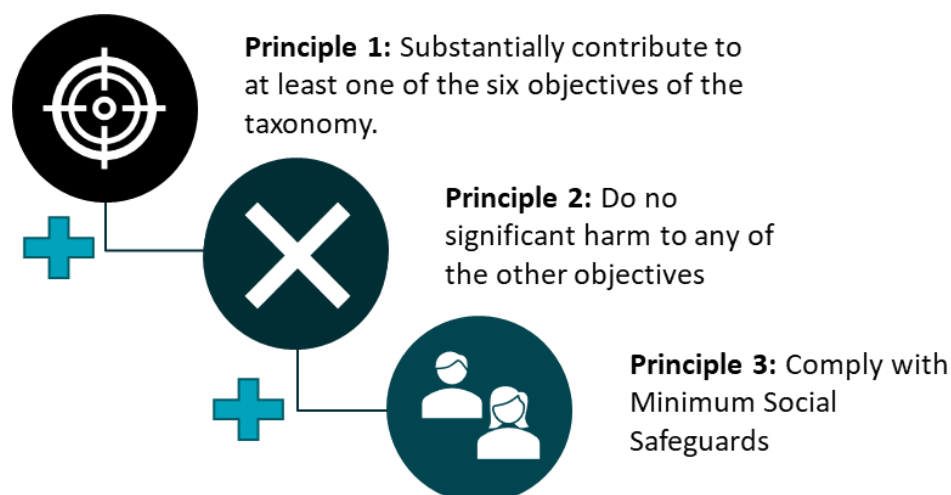
- > Principles
- > Metrics and thresholds
- > Minimum safeguards

The development approach and the associated rationale is discussed in the following sections.

#### (i) Develop the principles of the taxonomy

Fundamental to the development and inclusion of economic activities in the taxonomy are the decisions on whether economic activities align with a set of principles which determine that the activities can be considered 'green'. As determined by the consensus from stakeholder engagement, the SA GFT adopts the principles from the EU Sustainable Finance Taxonomy. These inform the basis of the SA GFT, requiring that:

- > Activities substantially contribute or enable (under defined thresholds) at least one of the objectives; and
- > Do no significant harm to any of the other objectives and
- > Comply with minimum safeguards and
- > Meet the applicable technical standards and
- > Are resilient to the physical impacts of climate change



**Figure 26: Principles to be met to be taxonomically aligned**

Once the principles were developed, objectives were defined to which each activity would substantially contribute. These were also directed by stakeholder engagement consensus, again adopting, and adjusting the environmental objectives from the EU Sustainable Finance Taxonomy. **Table 4** indicates the objectives adapted from the EU, illustrating slight wording differences (yet maintaining the core focus of the objectives).

**Table 4: Taxonomy objectives in the EU and South Africa**

EU Sustainable Finance Taxonomy Environmental Objectives	South Africa's Green Finance Taxonomy objectives
1. Climate change mitigation	1. Climate change mitigation
2. Climate change adaptation	2. Climate change adaptation
3. Sustainable use and protection of water and marine resources	3. Sustainable use of water and marine resources
4. Transition to a circular economy	4. Sustainable resource use and circularity
5. Pollution prevention and control	5. Pollution prevention
6. Protection and restoration of biodiversity and ecosystems	6. Ecosystem protection and restoration

**(ii) Develop the catalogue of economic activities**

The rationale for inclusion or exclusion of economic activities for the first SA GFT was guided by a decision process outlined in

**Figure 27**, which hinges on three points:

1. Economic activities that align to the vision for the South African green economy are included in the Green Finance Taxonomy as fully green – that includes both existing economic activities and innovations on the near- and medium-term horizon that has been identified through technological and sectoral roadmaps. These economic activities are relatively under-represented or absent in the current South African economy and are to be encouraged for development.
2. Economic activities that are envisioned as part of the future South African green economy but that presently operate in modes that are significantly detrimental to environmental objectives. These would be identified as economic activities that must transition. The green performance thresholds set in the Green Finance Taxonomy support differentiating operations that have reduced environmental impacts to the required level to be recognised as 'green'. There may or may not currently be known means to achieve operational modes for these activities that are not environmentally detrimental. The benefit to encourage the transition of these economic activities and the avoidance of the present environmental harm.
3. Economic activities that are inconsistent with the vision for the South African green economy are expressly excluded from the taxonomy. In future, a "non-compatible taxonomy" may be developed as a negative list to identify these specifically. At present, their exclusion is similar to the omission of economic activities that are largely neutral in terms of environmental performance.

For the EU Sustainable Finance Taxonomy, covered economic activities were classified with NACE codes (Statistical Classification of Economic Activities in the European Community) and narrowed down to a handful of sectors with the greatest climate change impact (in alignment with the taxonomy's strategic objective of a net-zero emissions economy in 2050 and beyond) by using Eurostat 2016 emission inventory. The priority economic activities were then identified, and technical screening criteria developed.

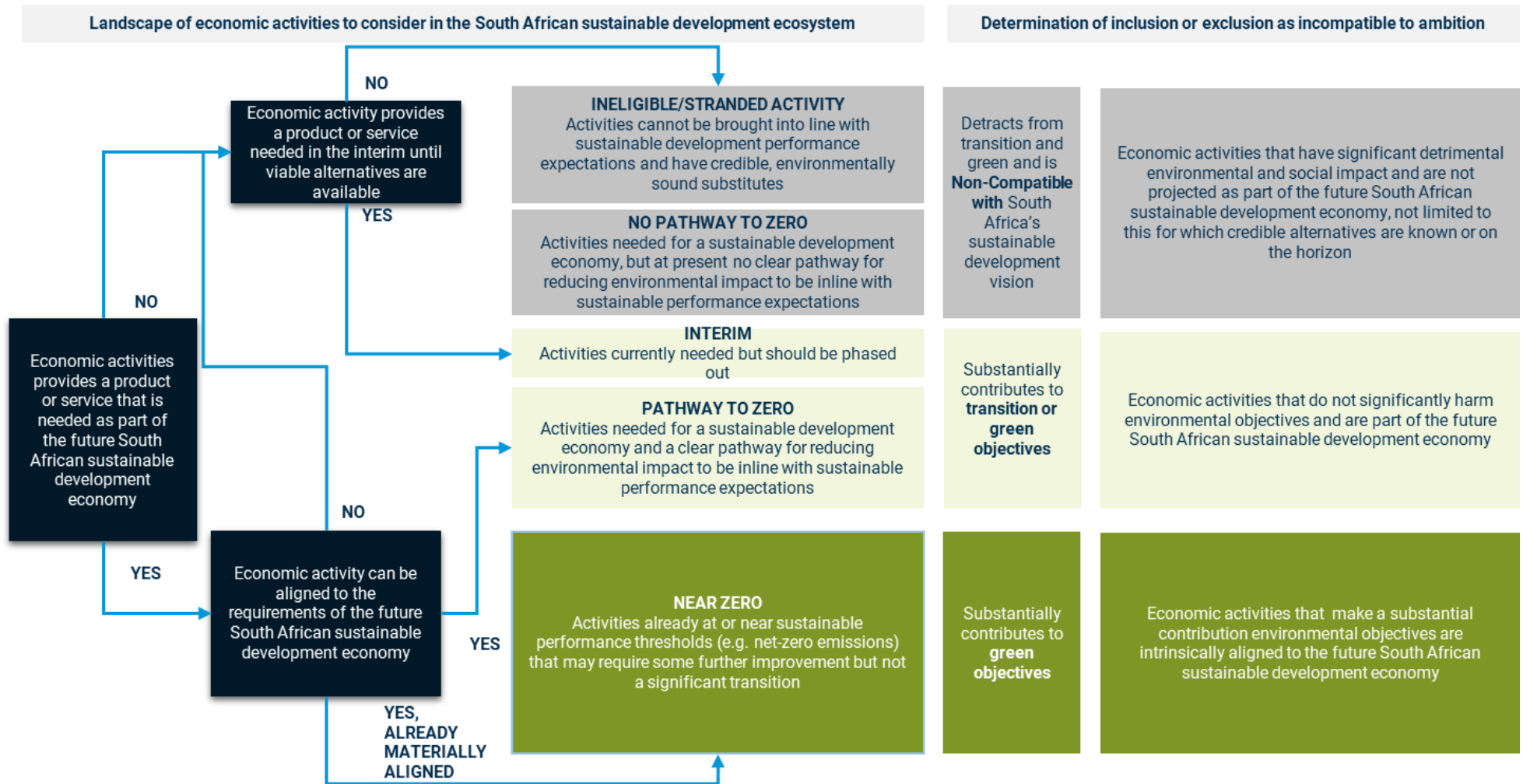
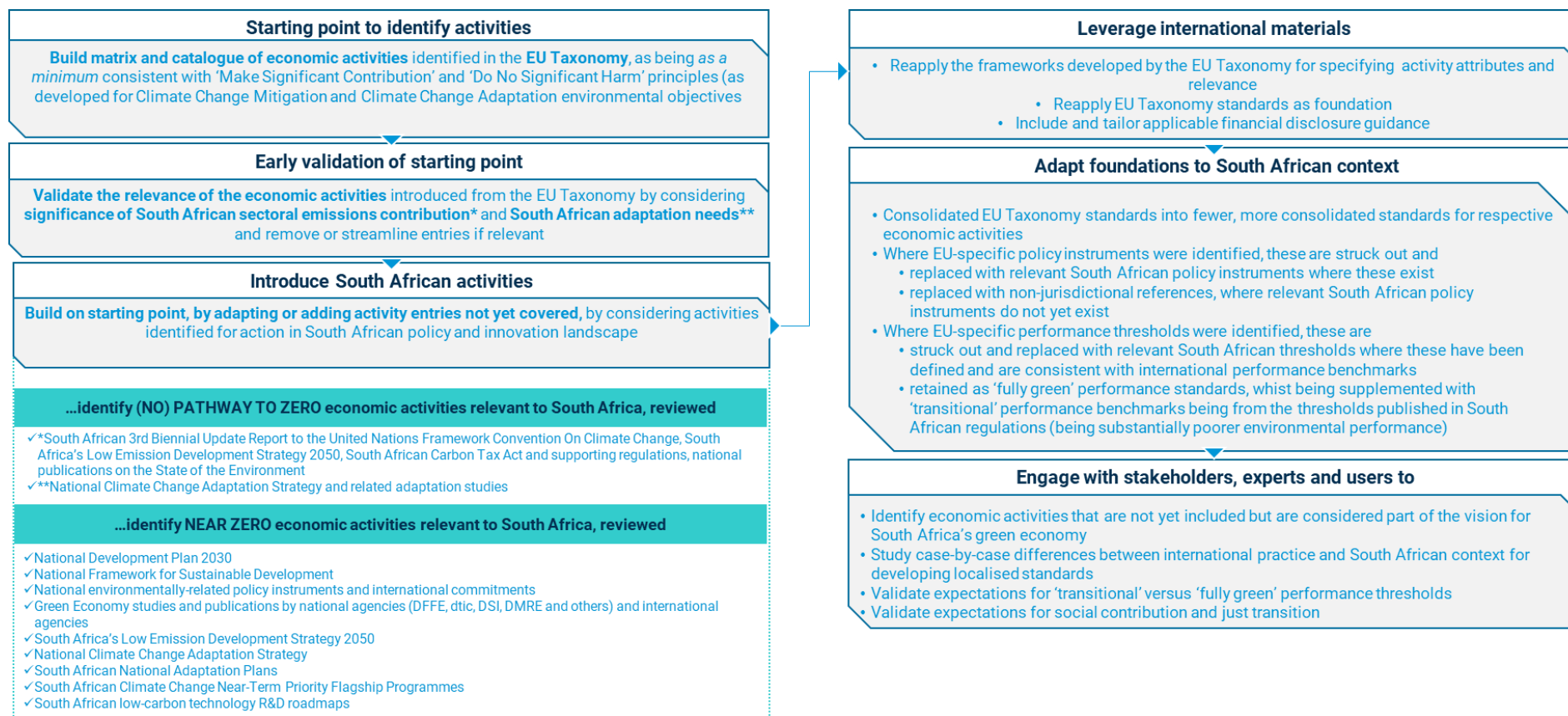


Figure 27: Consideration of economic activities to be included in the South African Green Finance taxonomy (adapted from (Climate Bonds Initiative, 2020))

Leveraging taxonomy development efforts employed by the EU and other international countries, international priority economic activities were mapped and assessed for inclusion into South Africa's Green Finance Taxonomy by aligning them with the vision of this taxonomy. **Figure 28** describes the process of localisation with **Figure 29** summarising the universe of sectors and activities within different international taxonomies and catalogues assessed for inclusion into South Africa's Green Finance Taxonomy, which applies SIC (Standard Industrial Classification) codes.



**Figure 28: Practical process of local adaptation of economic activities and localisation of international standards**

Desk-based review → Develop Taxonomy Structure → **Develop Taxonomy Activities**

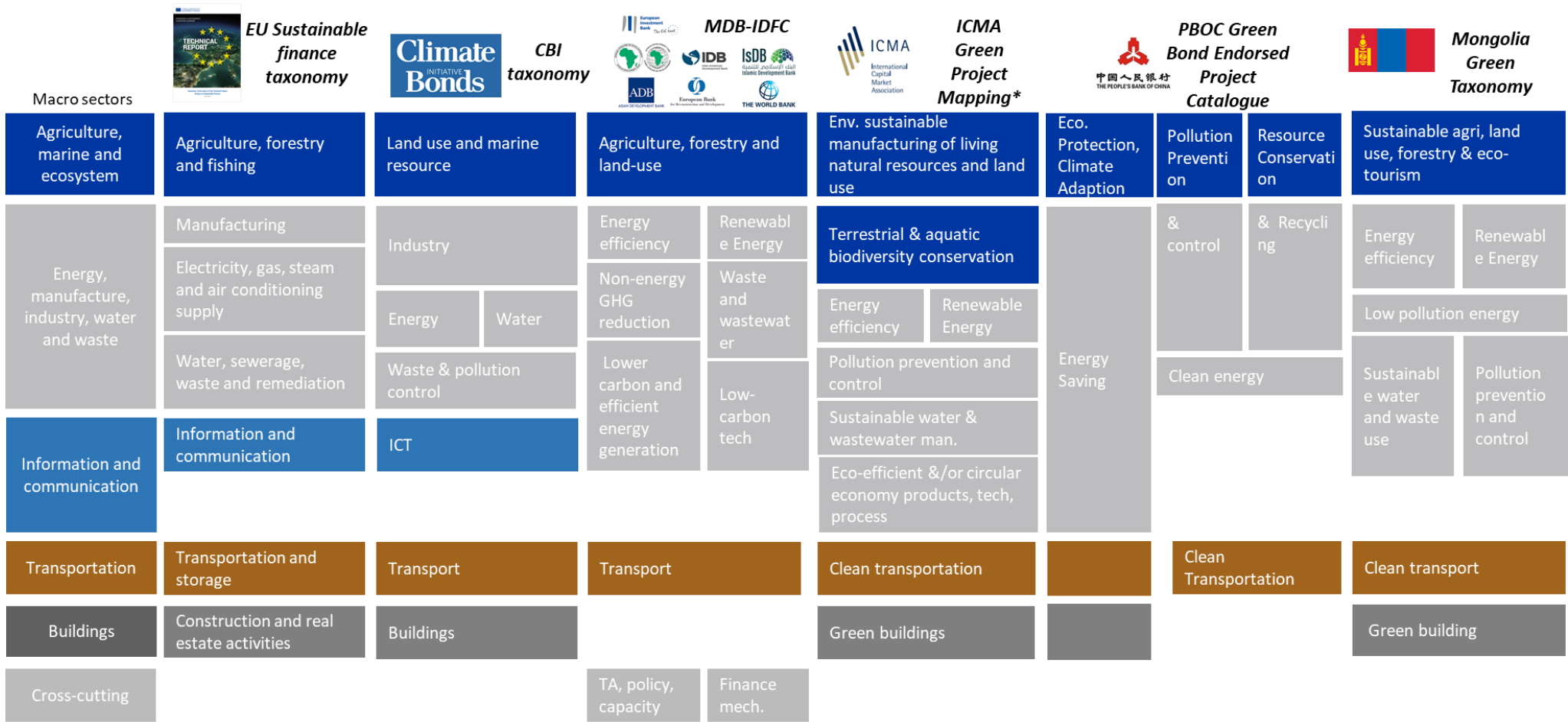


Figure 29: Sector and activity mapping

As the EU Sustainable Finance Taxonomy is the most comprehensive, it was decided to use its various activities as a starting point, building from it with:

- > The inclusion of economic activities applicable to South Africa's green economy objective leveraging activities from other international taxonomies
- > Include additional sectors and activities identified from the desk-based review of documents, strategies and reports as indicated in List of South African documents, strategies and reports assessed
- > Inclusion of activities additionally considered covering all relevant economic activities as defined by Standard Industrial Classification (SIC) with the inclusion of SIC codes for these activities where appropriate

### **(iii) Differentiating green and transition activities**

South Africa clearly states the need to ensure a just climate transition within Chapter 5 of the National Development Plan (NDP) and further recognises the just transition playing a key role in the country's greenhouse gas emission (GHG) reduction efforts as stated in the NCCRP and South Africa's Nationally Determined Contribution (NDC) under the Paris Agreement of the United Nations Framework Convention on Climate Change (UNFCCC).

The South African Green Finance taxonomy will recognise green activities and define measurement and the qualitative or quantitative conditions which must be met to enable the performance of the activity to substantially contribute to the objectives of the green taxonomy.

Activities that undermine the transition to and/or achievement of a green economy must be excluded from the green taxonomy as they do harm to the objectives of the taxonomy. Including these activities in a 'green' taxonomy would send inappropriate signals to regarding the taxonomy's vision.

The transition taxonomy on the other hand would include activities that involve the phasing out of, for example, unabated fossil fuel-based activities, yet avoid activities that lock in such assets for fossil fuel purposes over the long term. This allows transition activities that have the potential to transform, for example, heavy fossil fuel industries such as energy.

It is envisaged that a transition taxonomy is developed separately from the Green Finance Taxonomy but leverages its development process.

### **(iv) Adopt-and-adjust approach to standards and criteria**

The foundation of South Africa's Green Finance Taxonomy is the detail and guidance provided by the final report on EU Sustainable Finance Taxonomy, developed by the Technical Expert Group (TEG) on Sustainable Finance. The foundation is reliant on the following steps:

- > Adopting and adjusting the EU Sustainable Finance Taxonomy: The process of adjustment included reviewing all parts of each standard, maintaining contribution ambition of each threshold, replacing references to policy instruments, and streamlining the standards (i.e. reconciling into fewer individual standards) where appropriate.

- > Reviewing the South African economic and policy landscape to identify additional economic activities needed in a South African taxonomy. These additional activities do not yet have criteria and will should be developed in future versions of the taxonomy.
- > Metrics and thresholds included through this process are designed to be updated based on government policy and regulation updates (e.g., sectoral emission targets).

#### **(v) Developing minimum social safeguards**

The South African Green Finance Taxonomy adopts the EU Sustainable Finance Taxonomy minimum social safeguards that require users to evaluate conformance to standards embedded in:

- > the Organisation for Economic Co-operation and Development (OECD) Guidelines on Multinational Enterprises (MNEs) and
- > the United Nations (UN) Guiding Principles on Business and Human Rights,
- > with specific reference to the International Labour Organization (ILO) Core Labour Conventions

To further localise social safeguards, requirements that complement the above standards have been added to recognise compliance with South African labour law which includes:

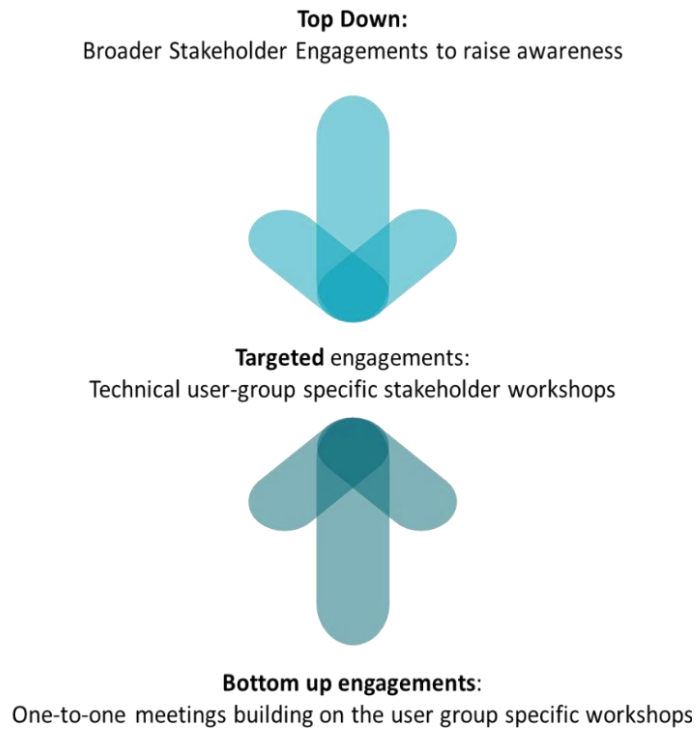
- > The Bill of Rights as contained in the Constitution of South Africa
- > The Labour Relations Act, Act 66 of 1995 as amended
- > The Basic Conditions of Employment Act, Act 75 of 1997 as amended
- > The Employment Equity Act, Act 55 of 1998
- > The Unemployment Insurance Act, Act 30 of 1996
- > The Occupational Health and Safety Act, Act 85 of 1993 as amended
- > The Compensation for Occupational Injuries and Diseases Act, Act 130 of 1993
- > Protection of Personal Information Act, Act 4 of 2013

#### **(vi) Local adjustment and review process**

Once a list of economic activities and criteria was defined for the South African Green Finance Taxonomy, it was vital to engage stakeholder concerning:

- > Consensus on economic priorities and objectives
- > Identifying where activities have been excluded
- > User orientation and accessibility of the design and materials
- > The basis for the technical standards and development approach

To convene, engage, and manage inputs from stakeholders, both top down and bottom up approaches were used. **Figure 28** illustrates this to validate the development of the taxonomy and its contents.



**Figure 30: Approach to stakeholder engagement in validating the development of South Africa’s Green Finance Taxonomy**

## 2.4.6 Test the taxonomy and provide user and disclosure guidance

### 2.4.6.1 Testing the taxonomy

#### (i) Pilot testing applications

Through national consultation on early drafts of the South Africa GFT, prospective users and stakeholders expressed that application of the taxonomy seemed at first glance to be complicated, highlighted a potential challenge with technical understanding of finance classification (taxonomy) and the possibility of slow and low initial uptake of the developed tool.

At the same time, a few organisations expressed a desire to get an early start to test how the taxonomy might be applied within their organisations. As such, they requested technical support for buy in and organisational testing.

South Africa's National Treasury echoed the ambition that early adopters serve as 'beta test' organisations and "champions" for voluntary adoption.

In parallel, the EU Sustainable Finance Taxonomy use case studies were published, highlighting user challenges and practical, self-developed solutions in their context. This publication showcased the opportunity to create similar but locally based case studies through testing of the South Africa GFT draft taxonomy, which would also serve as a method of stakeholder feedback on the process underway.

Therefore, as part of stakeholder engagement and as a validation step in the development process, beta testing was undertaken. That is, during May to August 2021, seven South African volunteer financial institutions undertook to apply a draft version of the first South African Green Finance Taxonomy in selected practical applications, and to report their insights to the team developing the South Africa GFT. These entities were referred to as beta testing pilots.

The purpose of the beta testing pilots was threefold, namely to:

1. Test the viability of applying the draft South Africa GFT in practice, so feedback could be integrated before publication of the first Edition of the South Africa GFT
2. Fast track the process to developing technical capabilities in financial sector actors, for the application of the South Africa GFT
3. Showcase demonstration projects and develop knowledge of the practical application processes, for information sharing and to bridge technical knowledge gaps in the market

In general, the tests aimed to assess:

- > Sufficiency of measures and standards applied compared to taxonomy requirements (Procedural application)
- > Sufficiency of monitoring and evaluation processes (M&E application)
- > Sufficiency of performance reporting and communication processes (disclosure application)

In advance of these pilots, the development team had already considered insights from the publications of UNEP FI and UN PRI concerning the implementation case studies by banks and asset managers.

The pilot case studies provided insights to the user friendliness of the materials and provided opportunity for refinements and enhancement from volunteer insights.

**(ii) Public consultation on pre-final 1<sup>st</sup> edition draft**

The pre-final draft of the taxonomy was published for national consultation over a period of 6 weeks in June - July 2021. The documents for consultation were placed on a dedicated taxonomy working group page of [sustainablefinanceinitiative.org.za](https://sustainablefinanceinitiative.org.za) and a wide range of stakeholders notified of the consultation period, key stakeholders having been identified through the project or having expressed interest in various forums, as well as through the Taxonomy Working Group outreach.

During this period stakeholders were requested to consider these documents and provide feedback regarding:

- > General documentation usability and ease of navigation.
- > Technical details of technical screening criteria.
- > Practicality and level of ambition of each principle, metric and threshold.
- > Practicality of the “Do No Significant Harm” (DNSH) criteria related to the Environmental Objectives.
- > Alternative principles, metrics and thresholds which should be included or substituted.
- > Alternative policies and specific technical industry documents which should be referenced.

Over 30 institutions provided more than 440 comments, statements, queries, and recommendations were received, and comments covered general elements as well as all 46 economic activities of the South African Green Finance Taxonomy.

The project team carefully considered each comment and used an assessment approach to draw out the most pertinent elements. Where feasible, the taxonomy was updated to address key comments received, especially for those related to technical accuracy, clear areas for further domestication adjustments consistent with development principles, and user accessibility. Many comments related to user expectations for increased coverage of the taxonomy; these feedback themes were noted for future consideration and recommendations for expanding taxonomy coverage.

**Table 5** outlines the major comments themes and approach to consideration in the 1<sup>st</sup> Edition SA GFT, where appropriate.

**Table 5: Major themes of consultation feedback and approach to integration to 1<sup>st</sup> Edition SA GFT or recommendations for future consideration**

Consultation feedback summary	Proposed responding action
<p><b>Greater transparency on the current development process</b></p> <ul style="list-style-type: none"> <li>• Consultation participants were interested to understand the process by which the draft included or excluded economic activities, what was considered and excluded, and why</li> </ul>	<ul style="list-style-type: none"> <li>• Describe in detail the systematic process followed (contained in this Briefing Paper)</li> <li>• Where examples were adopted and revised, specified changes and made clear rationale and implication of</li> </ul>

<ul style="list-style-type: none"> <li>• Consultation participants also wanted to understand consequences of adjustments in the adopt-and-adapt process</li> <li>• Comments on adaptation specifics from adopted international examples</li> </ul>	<p>changes (map “level of ambition”) (contained in this and related project Briefing Papers)</p> <ul style="list-style-type: none"> <li>• Considered respective technical suggestions and determined principles-consistent validation/adjustment to technical criteria</li> </ul>
<p><b>Challenges in orientation</b></p> <ul style="list-style-type: none"> <li>• Many participants found the first introduction to the detailed draft overwhelming and/or did not understand all evaluation steps</li> <li>• Overall, the (i) multi-step process for determining taxonomic eligibility; (ii) need for contextual evaluation is also experienced as complicated</li> </ul>	<ul style="list-style-type: none"> <li>• Taxonomy User Guide was developed and simplified to the extent possible</li> <li>• Simplified the language across all materials</li> <li>• Combined all materials into a single document with sections and upfront orientation</li> </ul>
<p><b>Questions about and challenges in implementation</b></p> <ul style="list-style-type: none"> <li>• Some participants enquired after planning and implementation support resources</li> <li>• Engagement also highlighted that social safeguards’ guidance for SA would need to be elaborated to ensure the taxonomy is practical to use and emphasise consistent and effective practices</li> </ul>	<ul style="list-style-type: none"> <li>• Briefing Papers developed on key topics and themes</li> <li>• Social safeguards section elaborated for SA-specific user guidance and resources</li> <li>• Implementation demonstration pilots underway in parallel project, with public resources to be made available</li> <li>• Further considerations for implementation support may be needed</li> </ul>
<p><b>Transition Taxonomy</b></p> <ul style="list-style-type: none"> <li>• Technical queries raised in terms of the options for setting transition technical standards and thresholds, and suitability of alternatives. Still to bottom-out depth and format of transition taxonomy (i.e. principles, register of activities, technical standards)</li> <li>• Questioned whether transition and green technical standards should be within the same “chapter”</li> <li>• The initial development period allowed project team to engage and explore the alternatives; meantime international interest has also increased. Additional recent international guidance released, and indication of EU and others beginning transition taxonomy development processes</li> </ul>	<ul style="list-style-type: none"> <li>• Briefing Papers developed on key topics and themes, including increased taxonomic coverage</li> <li>• Options to undertake a dedicated technical and consultative development process for transition taxonomy to be considered in future, towards developing a standalone ‘chapter’ for a robust transition taxonomy, separately from ‘green’</li> </ul>
<p><b>Development of green finance taxonomic entries that do not have technical standards yet</b></p> <ul style="list-style-type: none"> <li>• Some organisations indicated interest to undertake or support development of technical standards for entries that lack this detail in the Draft Zero. This includes diverse natural capital/ecosystem services activities and the MSC criteria for existing entries</li> </ul>	<ul style="list-style-type: none"> <li>• Briefing Papers developed on key topics and themes, including increased taxonomic coverage</li> <li>• Consider implications of EU timeframes for MSC criteria for environmental objectives</li> <li>• Options to undertake a dedicated technical and consultative development process for green</li> </ul>

	taxonomy environmental objectives beyond climate change mitigation and adaptation, to be considered for future
<p><b>Discussions on coal mining and other fossil fuels, industry and waste</b></p> <ul style="list-style-type: none"> <li>Several views were expressed concerning the appropriateness of inclusion of coal mining, coal-powered electricity generation (with CCS) and the applications of coal ash within the taxonomy, with both opposing and supportive views, as well as views differentiating between fossil fuels</li> </ul>	<ul style="list-style-type: none"> <li>Fossil-fuel based activities (including the use of coal ash waste) were removed from the 1<sup>st</sup> Edition draft, and may be considered in future through future developments to be governed by taxonomy principles and engagement and maintenance processes</li> </ul>
<p><b>Interlinkages to TCFD, adaptation and sector resilience</b></p> <ul style="list-style-type: none"> <li>It was re-validated that the taxonomy's interaction with Task force on Climate-related Financial Disclosures (TCFD) and other carbon-related policies and just transition developments in South Africa must be considered</li> </ul>	<ul style="list-style-type: none"> <li>Coordination with TCFD and disclosures working group continued</li> <li>Briefing Papers developed on key topics and themes, including increased taxonomic coverage concerning social and just transition</li> </ul>
<p><b>Social taxonomy development, advancement of social aspects of green</b></p> <ul style="list-style-type: none"> <li>Need to maintain focus on social taxonomic development urgency and recent just transition topical progress in SA.</li> </ul>	<ul style="list-style-type: none"> <li>Briefing Papers developed on key topics and themes, including increased taxonomic coverage concerning social and just transition</li> </ul>
<p><b>"Brown" taxonomy proposal / exclusions or risk-based list</b></p> <ul style="list-style-type: none"> <li>Key stakeholders suggested the need for a form of exclusions list to support climate risk and non-compatible investments screening to be included in the taxonomy coverage</li> </ul>	<ul style="list-style-type: none"> <li>Briefing Papers developed on key topics and themes, including increased taxonomic coverage concerning non-compatible screening</li> </ul>

### (iii) Buildings' sector technical standard

Especially with regards the technical criteria for buildings, many technical and general comments were received concerning the suitability of the early draft that attempted to adjust the EU Taxonomy to South African circumstances. It was determined that the early draft was not suitable, but it was critical for a standard to be detailed. Further stakeholder engagement was undertaken, and a process initiated for the development of a new set of technical criteria specific for South Africa.

The bespoke South African buildings standards for new build and renovation is differentiated by a stratified approach for recognition, to encourage developments towards green buildings through a net zero carbon route for the time being (other environmental objectives' Make Significant Contribution specifications for green buildings to be defined in future developments), without invalidating the early movers in a nascent and relatively small market with great potential.

The details for the development process, stakeholder engagement, technical reviews and objectives of this standard, are contained in a Briefing Paper '*Why and how South Africa's ambitious Green Finance Taxonomy for Buildings is encouraging domestic Net Zero carbon market transformation*'.

#### (iv) Peer review of the taxonomy

The SA GFT received kind peer reviews from:

- > Climate Bonds Initiative, considering the SA GFT's usability, appropriateness, and coverage
- > The EU, in validating alignment and common approaches with the EU Sustainable Finance Taxonomy

#### 2.4.6.2 Developing guidance

The application of sustainable finance taxonomies is a relatively new practice. Stakeholders made clear requests for clarifications and guidance materials, and pain points were also identified during stakeholder engagement. Supplemental user and disclosure guidance was developed to foster effective taxonomy uptake.

The guidance developed unpacks the process that users would follow for assessing the extent to which economic activities of interest are Taxonomy-aligned. It provides step-wise guidance concerning how to use the taxonomy to determine taxonomic-alignment as well as guidance to determine financial metrics and related impact metrics. Key areas of guidance covered:

- > The benefits of using the taxonomy
- > Different users of the taxonomy and what they would use it for
- > The fundamentals of how the taxonomy principles relate to sectors, assets, and projects level alignment
- > How to navigate the taxonomy to assess whether economic activities under user consideration are included in the taxonomy's economic activity scope
- > How substantial contribution is assessed and where this relates to the technical screening criteria of the taxonomy
- > How to evaluate performance against Do No Significant Harm criteria of each of the other taxonomy objectives
- > How climate resilience is assessed
- > How to evaluate compliance with minimum social safeguards
- > What resources could be used, and approaches followed for effective evaluation against taxonomy criteria
- > How to disclosure taxonomic alignment
- > What financial metrics could be associated with taxonomically-aligned sectors, assets, and projects and how this related to taxonomic application practically
- > Typical challenges users would face in the application of the taxonomy and potential solutions to those challenges

Illustrative materials were also developed, to improve accessibility and encourage prospective users, such as the overview seven-step process set out in [Figure 31](#).

On finalisation, it was decided to incorporate the guidance and the taxonomy into a single document, to reduce navigation challenges for prospective users.

# Seven-step approach to determine alignment with the Taxonomy

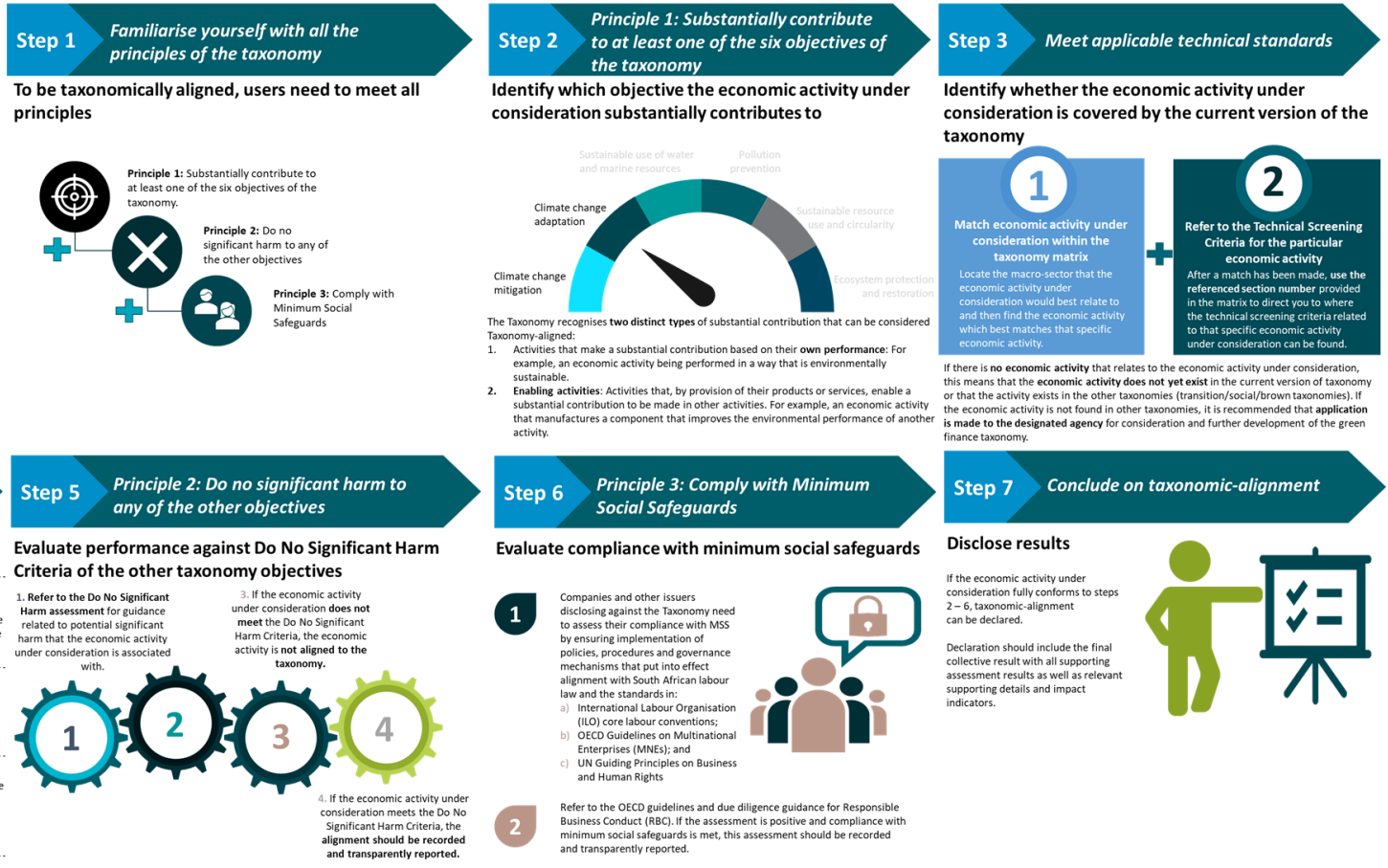
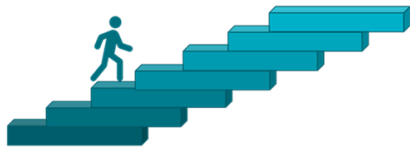


Figure 31: Seven-step approach to determine alignment with the taxonomy

# 3. Our advice for those developing taxonomies

## 3.1 Refer to existing taxonomies and taxonomy development guidance

Towards the later part of 2020, numerous green finance frameworks, taxonomies and tools have emerged, each unique in their function, form, and environmental ambition. The European Union (EU), Climate Bonds Initiative (CBI), and China are the most prominent taxonomies to date and are being utilised as a model for the establishment of country-specific taxonomies. There are also regional developments and harmonisation underway between these international taxonomies.

Commonly, each of these taxonomies illustrates the same broad objective of encouraging the development of green industries by providing classifications that avoiding greenwashing. However, different countries have different economic, social, and environmental contexts and development needs. Therefore, wholesale adoption of international examples would be unlikely to fit with the developmental ambitions of individual countries. However, referring to the function and form of existing taxonomies provides valuable insight into how these tools are constructed and what components can be used for the development of new taxonomies.

Various institutions have recently developed guidance to how countries and organisations can develop their own taxonomies. Broadly, the guidance indicates five key areas as noted in **Figure 32**.



Figure 32: Taxonomy development steps

Relying on these internationally recognised guidance materials will substantiate taxonomy development decisions made and support uptake. However, the risk of fragmentation must be considered and generally alignment and harmonisation with existing taxonomies is advocated for taxonomic convergence.

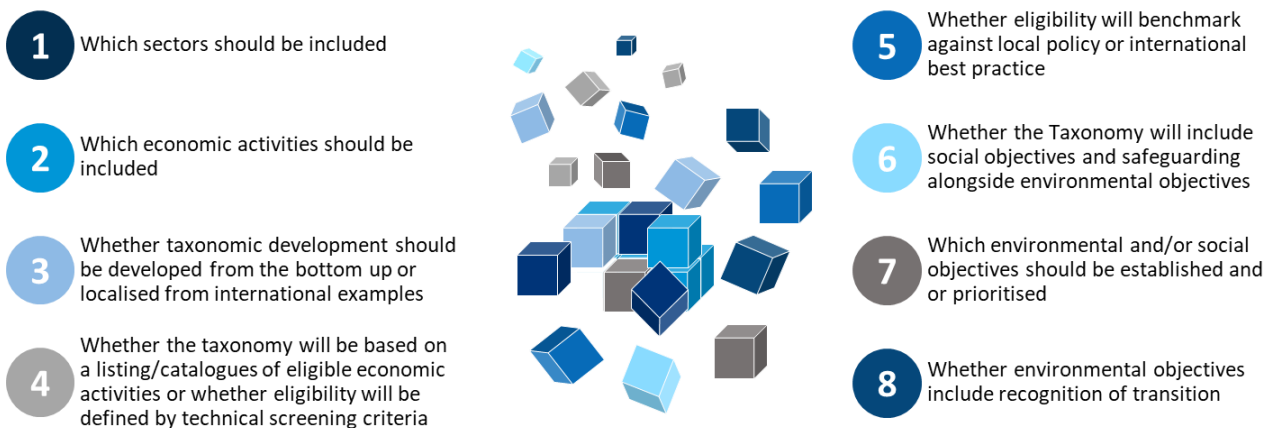
## 3.2 Conduct effective stakeholder engagement and taxonomy testing

### 3.2.1 Engage stakeholders

Once a clear taxonomy development path has been established it is crucial to start testing the development concepts and taxonomic components with stakeholders to ensure consensus on what it is that taxonomy is designed to achieve, how it will achieve this and who the key role players are to activate and implement the taxonomy in practice.

The level of engagement and awareness raising needed will depend on the maturity of the market in using such tools. Where the market is well versed regarding sustainable finance classifications systems, frameworks, and tools; engagement may focus less on bringing taxonomy users up to speed on the foundations and principles of the taxonomy and more on how the taxonomy will function practically considering country specific nuances.

**Figure 33** illustrates some of the typical taxonomic development discussion points that require consensus early in the taxonomy development and implementation process.



**Figure 33: Stakeholder engagement considerations**

### 3.2.2 Test the Taxonomy

To support the conceptualisation of the taxonomy and its implementation, pilot testing-testing the draft taxonomy (allowing taxonomy users to apply the taxonomy to economic activities within their organisations) proved insightful in assessing taxonomy challenges and limitations. This also provided an opportunity for taxonomy users to get to grips with the requirements of the taxonomy and whether internal systems and resources are adequate to conduct assessments against the criteria of the taxonomy.

### 3.3 Develop resources and processes supporting the taxonomy

In national consultation and within the Taxonomy Working Group, stakeholders had many questions concerning the approach, rationale for design decisions, and technical user details. Therefore, in support of the 1<sup>st</sup> Edition SA GFT, which is a technical document, a series of supporting materials were developed to communicate the key elements to stakeholders and support adoption.

While not intrinsic to taxonomy development, it is vital for buy-in and likelihood of adoption of the taxonomy, that stakeholders have confidence in the development process and understand its fundamentals. Whether the taxonomy developed is voluntary or mandatory, understanding the concerns and needs of taxonomy end users was a core part of the development process.

# Appendix

---

## Appendix 1: List of South African documents, strategies and reports assessed

Document name	Author	Source
<b>National Development Plan 2030, South Africa</b>	South Africa's National Planning Commission	<a href="https://www.gov.za/sites/default/files/gcis_document/201409/ndp-2030-our-future-make-it-workr.pdf">https://www.gov.za/sites/default/files/gcis_document/201409/ndp-2030-our-future-make-it-workr.pdf</a>
<b>South Africa's Green Economy Accord</b>	South Africa's Economic Development Department	<a href="http://www.economic.gov.za/communications/publications/green-economy-accord">http://www.economic.gov.za/communications/publications/green-economy-accord</a>
<b>South Africa's Intended Nationally Determined Contribution</b>	South African Government	<a href="https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/South%20Africa%20First/South%20Africa.pdf">https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/South%20Africa%20First/South%20Africa.pdf</a>
<b>Near-term Priority Flagship Programme</b>	South African Department of Environmental Affairs	<a href="http://www.dhs.gov.za/sites/default/files/u19/SA%20Govt%20Flagships%20Human%20Settlements%20Roundtable%2029%20May%202019.pdf">http://www.dhs.gov.za/sites/default/files/u19/SA%20Govt%20Flagships%20Human%20Settlements%20Roundtable%2029%20May%202019.pdf</a>
<b>Renewable Energy Near-term Priority Flagship Programme</b>	South African Department of Environmental Affairs	<a href="http://southafricaclimateexplorer.org/mitigation/flagship-programmes/the-renewable-energy-flagship-program">http://southafricaclimateexplorer.org/mitigation/flagship-programmes/the-renewable-energy-flagship-program</a>
<b>The Climate Change Response Public Works Flagship Programme</b>	South African Department of Environmental Affairs	<a href="http://southafricaclimateexplorer.org/mitigation/flagship-programmes/the-climate-change-response-public-works-flagship-program">http://southafricaclimateexplorer.org/mitigation/flagship-programmes/the-climate-change-response-public-works-flagship-program</a>
<b>Energy Efficiency and Energy Demand Management Near-term Priority Flagship Programme</b>	South African Department of Environmental Affairs	<a href="http://southafricaclimateexplorer.org/mitigation/flagship-programmes/the-energy-efficiency-and-energy-demand-management-flagship-program">http://southafricaclimateexplorer.org/mitigation/flagship-programmes/the-energy-efficiency-and-energy-demand-management-flagship-program</a>
<b>Water Conservation and Water Demand Management Flagship Programme</b>	South African Department of Environmental Affairs	<a href="http://southafricaclimateexplorer.org/mitigation/flagship-programmes/the-water-conservation-flagship-program">http://southafricaclimateexplorer.org/mitigation/flagship-programmes/the-water-conservation-flagship-program</a>
<b>Transport Near-term Priority Flagship Programme</b>	South African Department of Environmental Affairs	<a href="http://southafricaclimateexplorer.org/mitigation/flagship-programmes/the-transport-flagship-program">http://southafricaclimateexplorer.org/mitigation/flagship-programmes/the-transport-flagship-program</a>
<b>Waste Management Near-term Priority Flagship Programme</b>	South African Department of Environmental Affairs	<a href="http://southafricaclimateexplorer.org/mitigation/flagship-programmes/the-waste-management-flagship-program">http://southafricaclimateexplorer.org/mitigation/flagship-programmes/the-waste-management-flagship-program</a>
<b>Agriculture, Food Systems and Food Security Flagship Programme</b>	South African Department of Environmental Affairs	<a href="https://unfccc.int/sites/default/files/resource/Final%203rd%20BUR%20of%20South%20Africa%20100.pdf">https://unfccc.int/sites/default/files/resource/Final%203rd%20BUR%20of%20South%20Africa%20100.pdf</a>
<b>Carbon Capture and Storage (CCS) Flagship Programme</b>	South African Department of Environmental Affairs	<a href="http://southafricaclimateexplorer.org/mitigation/flagship-programmes/the-carbon-capture-and-sequestration-flagship-program">http://southafricaclimateexplorer.org/mitigation/flagship-programmes/the-carbon-capture-and-sequestration-flagship-program</a>
<b>Adaptation Research Flagship Programme</b>	South African Department of Environmental Affairs	<a href="http://southafricaclimateexplorer.org/mitigation/flagship-programmes/long-term-adaptation-scenarios-flagship-research-program">http://southafricaclimateexplorer.org/mitigation/flagship-programmes/long-term-adaptation-scenarios-flagship-research-program</a>
<b>National Climate Change Response Green Paper 2010: Draft</b>	South African Department of Environmental Affairs	<a href="https://www.environment.gov.za/sites/default/files/legislations/national_climatechnage_response.pdf">https://www.environment.gov.za/sites/default/files/legislations/national_climatechnage_response.pdf</a>

<b>National Climate Change Response White Paper</b>	South African Department of Environmental Affairs	<a href="https://www.environment.gov.za/sites/default/files/legislations/national_climatechange_response_whitepaper.pdf">https://www.environment.gov.za/sites/default/files/legislations/national_climatechange_response_whitepaper.pdf</a>
<b>Climate change response strategy</b>	Department of Environmental Affairs and Tourism	<a href="https://unfccc.int/sites/default/files/sem_sup3_south_africa.pdf">https://unfccc.int/sites/default/files/sem_sup3_south_africa.pdf</a>
<b>Green Economy Inventory for South Africa</b>	South African Department of Environmental Affairs and PAGE	<a href="https://www.unpage.org/files/public/green_economy_inventory_for_south_africa.pdf">https://www.unpage.org/files/public/green_economy_inventory_for_south_africa.pdf</a>
<b>Green Economy Discourse in South Africa, by Carl Death</b>	Carl Death	<a href="https://www.unpage.org/files/public/green_economy_inventory_for_south_africa.pdf">https://www.unpage.org/files/public/green_economy_inventory_for_south_africa.pdf</a>
<b>National Climate Change Adaptation Strategy Republic of South Africa</b>	South African Department of Environmental Affairs	<a href="https://www.environment.gov.za/sites/default/files/reports/nationalclimate_changeadaptation_strategyforcomment_nccas.pdf">https://www.environment.gov.za/sites/default/files/reports/nationalclimate_changeadaptation_strategyforcomment_nccas.pdf</a>
<b>National Biodiversity Strategy and Action Plan 2015-2025</b>	South African Department of Environmental Affairs	<a href="https://www.environment.gov.za/sites/default/files/docs/publications/SAsnationalbiodiversity_strategyandactionplan2015_2025.pdf">https://www.environment.gov.za/sites/default/files/docs/publications/SAsnationalbiodiversity_strategyandactionplan2015_2025.pdf</a>
<b>NEMA – National Environmental Management Act 107 of 1998</b>	The Presidency, Republic of South Africa	<a href="https://cer.org.za/wp-content/uploads/2010/03/107-of-1998-National-Environmental-Management-Act_18-Dec-2014-to-date.pdf">https://cer.org.za/wp-content/uploads/2010/03/107-of-1998-National-Environmental-Management-Act_18-Dec-2014-to-date.pdf</a>
<b>Draft Climate Change Bill, 2018</b>	The Presidency, Republic of South Africa	<a href="https://cer.org.za/wp-content/uploads/2018/05/Draft-Climate-Change-Bill.pdf">https://cer.org.za/wp-content/uploads/2018/05/Draft-Climate-Change-Bill.pdf</a>
<b>Carbon Tax Act, 2019</b>	The Presidency, Republic of South Africa	<a href="https://cer.org.za/wp-content/uploads/2017/12/Carbon-Tax-Act.pdf">https://cer.org.za/wp-content/uploads/2017/12/Carbon-Tax-Act.pdf</a>
<b>Industrial Policy Action Plan 2018/19-2020/21</b>	The Department of Trade and Industry	<a href="https://www.gov.za/sites/default/files/gcis_document/201805/industrial-policy-action-plan.pdf">https://www.gov.za/sites/default/files/gcis_document/201805/industrial-policy-action-plan.pdf</a>
<b>South African National Terrestrial Carbon Sink Assessment</b>	South African Department of Environmental Affairs and Cirrus Group Consortium	<a href="https://www.environment.gov.za/sites/default/files/reports/nationalterrestrial_carbonsinks_synopsisreport.pdf">https://www.environment.gov.za/sites/default/files/reports/nationalterrestrial_carbonsinks_synopsisreport.pdf</a>
<b>SA Low Emission Development Strategy</b>	South African Department of Environmental Affairs	<a href="https://www.environment.gov.za/sites/default/files/strategic_plans/southafricas_lowemission_development_strategy_dec2018draft.pdf">https://www.environment.gov.za/sites/default/files/strategic_plans/southafricas_lowemission_development_strategy_dec2018draft.pdf</a>
<b>National strategy for sustainable development and action plan (National Strategy on Sustainable Development)</b>	South African Department of Environmental Affairs	<a href="https://www.environment.gov.za/sites/default/files/docs/sustainabledevelopment_actionplan_strategy.pdf">https://www.environment.gov.za/sites/default/files/docs/sustainabledevelopment_actionplan_strategy.pdf</a>
<b>Towards a green economy (priority 3 of the National strategy for sustainable development and action plan)</b>	South African Department of Environmental Affairs	<a href="https://www.environment.gov.za/sites/default/files/docs/sustainabledevelopment_actionplan_strategy.pdf">https://www.environment.gov.za/sites/default/files/docs/sustainabledevelopment_actionplan_strategy.pdf</a>
<b>South-Africa-Green-Economy-Barometer-2018-</b>	The African Centre for a Green Economy, Trade & Industrial Policy Strategies, Green Economy Coalition	<a href="https://www.greeneconomycoalition.org/assets/reports/Barometers-2018/South-Africa-Green-Economy-Barometer-2018-Final-WEB.pdf">https://www.greeneconomycoalition.org/assets/reports/Barometers-2018/South-Africa-Green-Economy-Barometer-2018-Final-WEB.pdf</a>

<b>Green economy modelling report of South Africa</b>	South African Department of Environmental Affairs	<a href="https://www.environment.gov.za/sites/default/files/docs/greeneconomy_modellingreport.pdf">https://www.environment.gov.za/sites/default/files/docs/greeneconomy_modellingreport.pdf</a>
<b>Towards sustainable development and green economy evidence strategy: Workshop Report</b>	South African Department of Environmental Affairs	<a href="https://www.environment.gov.za/sites/default/files/reports/towardssustainable_developmentgreen_economy_evidence_frameworkworkshop.pdf">https://www.environment.gov.za/sites/default/files/reports/towardssustainable_developmentgreen_economy_evidence_frameworkworkshop.pdf</a>
<b>Strategy toward gender mainstreaming in the environmental sector 2016 - 2021 (Draft)</b>	South African Department of Environmental Affairs	<a href="https://www.environment.gov.za/sites/default/files/docs/publications/strategytowardgendermainstreamingintheenvironmentsector2016_2021.pdf">https://www.environment.gov.za/sites/default/files/docs/publications/strategytowardgendermainstreamingintheenvironmentsector2016_2021.pdf</a>
<b>South Africa's 3<sup>rd</sup> Climate Change Report 2017</b>	Department of Environmental Affairs: Climate Change and Air Quality Branch	<a href="https://www.environment.gov.za/sites/default/files/reports/SouthAfricas-3rd-climate-change-report2017.pdf">https://www.environment.gov.za/sites/default/files/reports/SouthAfricas-3rd-climate-change-report2017.pdf</a>
<b>A Just transition to a low carbon, climate resilient economy &amp; society</b>	South Africa's National Planning commission	<a href="https://www.environment.gov.za/sites/default/files/docs/justtransitiontoalowcarbon_telenoadialogue.pdf">https://www.environment.gov.za/sites/default/files/docs/justtransitiontoalowcarbon_telenoadialogue.pdf</a>
<b>A just transition to a low-carbon and climate resilient economy</b>	Congress of South African Trade Unions	<a href="https://www.sagreenfund.org.za/wordpress/wp-content/uploads/2017/05/Naledi_A-just-transition-to-a-climate-resilient-economy.pdf">https://www.sagreenfund.org.za/wordpress/wp-content/uploads/2017/05/Naledi_A-just-transition-to-a-climate-resilient-economy.pdf</a>
<b>Social Partner Dialogue for a Just Transition</b>	South Africa's National Planning commission	<a href="https://oneworldgroup.co.za/wp-content/uploads/2019/10/NPC-JT-Vision-and-Pathways-draft-2-final.pdf">https://oneworldgroup.co.za/wp-content/uploads/2019/10/NPC-JT-Vision-and-Pathways-draft-2-final.pdf</a>
<b>South Africa's 3<sup>rd</sup> Biennial Update Report to the United Nations Framework Convention on Climate Change</b>	South African Department of Environmental Affairs	<a href="https://unfccc.int/sites/default/files/resource/Final%203rd%20BUR%20of%20South%20Africa%20100.pdf">https://unfccc.int/sites/default/files/resource/Final%203rd%20BUR%20of%20South%20Africa%20100.pdf</a>
<b>Unlocking barriers and opportunities for land-use based climate change mitigation activities in South Africa</b>	Cirrus group, Ecometrix, Palmer Development Group (Pty) Ltd, Beatus, Geoterra Image (Pty) and South African Department of Environmental Affairs,	<a href="https://www.environment.gov.za/sites/default/files/reports/unlockingbarriers_land-usebasedclimatechangemitigation.pdf">https://www.environment.gov.za/sites/default/files/reports/unlockingbarriers_land-usebasedclimatechangemitigation.pdf</a>
<b>Green Transport Strategy</b>	Department of Transport, Republic of South Africa	<a href="https://www.transport.gov.za/documents/11623/89294/Green_Transport_Strategy_2018_2050_onlineversion.pdf/71e19f1d-259e-4c55-9b27-30db418f105a">https://www.transport.gov.za/documents/11623/89294/Green_Transport_Strategy_2018_2050_onlineversion.pdf/71e19f1d-259e-4c55-9b27-30db418f105a</a>
<b>DEA Website 'About Green Economy'</b>	South African Department of Environmental Affairs	<a href="https://www.environment.gov.za/projectsprogrammes/greeneconomy/about">https://www.environment.gov.za/projectsprogrammes/greeneconomy/about</a>
<b>Green economy summit report</b>	Departments of, Economic Development, Environmental Affairs, Science and Technology, Trade and Industry South African Cities Network, South African Local	<a href="https://www.sagreenfund.org.za/wordpress/wp-content/uploads/2015/04/Green-Economy-Summit.pdf">https://www.sagreenfund.org.za/wordpress/wp-content/uploads/2015/04/Green-Economy-Summit.pdf</a>

	Government Association	
<b>Integrated Resource Plan 2019</b>	Department of Energy Republic of South Africa	<a href="http://www.energy.gov.za/files/docs/IRP%202019.pdf">http://www.energy.gov.za/files/docs/IRP%202019.pdf</a>
<b>Steering towards a Green Economy</b>	Council for scientific and Industrial Research	<a href="https://www.csir.co.za/sites/default/files/Documents/GE%20guide.pdf">https://www.csir.co.za/sites/default/files/Documents/GE%20guide.pdf</a>
<b>Medium Term Strategic Framework</b>	South Africa's National Planning commission	<a href="https://www.gov.za/sites/default/files/gcis_document/201409/mtsf2014-2019.pdf">https://www.gov.za/sites/default/files/gcis_document/201409/mtsf2014-2019.pdf</a>
<b>The New Growth Path Framework</b>	The Department of Economic Development, Republic of South Africa	<a href="http://www.economic.gov.za/communications/publications/new-growth-path-series">http://www.economic.gov.za/communications/publications/new-growth-path-series</a>
<b>A New Climate of Risk Report</b>	National Business Initiative	<a href="http://piv.nbi.org.za/2017/Website%202017/NBI%20Adaptation%20Case%20Studies%20Report%202017%20(Final).pdf">http://piv.nbi.org.za/2017/Website%202017/NBI%20Adaptation%20Case%20Studies%20Report%202017%20(Final).pdf</a>
<b>NBI Green Economy Finance Project</b>	National Business Initiative	<a href="https://www.nbi.org.za/wp-content/uploads/2016/06/NBI-Report-Green-Economy-Finance-Research-Report-January-2016-1.pdf">https://www.nbi.org.za/wp-content/uploads/2016/06/NBI-Report-Green-Economy-Finance-Research-Report-January-2016-1.pdf</a>

[www.carbontrust.com](http://www.carbontrust.com)

+44 (0) 20 7170 7000

Whilst reasonable steps have been taken to ensure that the information contained within this publication is correct, the authors, the Carbon Trust, its agents, contractors and sub-contractors give no warranty and make no representation as to its accuracy and accept no liability for any errors or omissions. Any trademarks, service marks or logos used in this publication, and copyright in it, are the property of the Carbon Trust. Nothing in this publication shall be construed as granting any licence or right to use or reproduce any of the trademarks, service marks, logos, copyright or any proprietary information in any way without the Carbon Trust's prior written permission. The Carbon Trust enforces infringements of its intellectual property rights to the full extent permitted by law.

The Carbon Trust is a company limited by guarantee and registered in England and Wales under Company number 4190230 with its Registered Office at: 4th Floor, Dorset House, 27-45 Stamford Street, London SE1 9NT.

© The Carbon Trust 2021. All rights reserved.

Published in South Africa: 2021