SOUTH AFRICA'S AMBITIOUS GREEN FINANCE TAXONOMY

Why and how South Africa's ambitious Green Finance Taxonomy is aligned with the EU Sustainable Finance Taxonomy

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BRIEFING PAPER

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About

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 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. This initial phase of 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).

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

This briefing note provides an overview to the comparability of the first South African Green Finance Taxonomy with prominent supranational, national, and market-based finance taxonomies also in existence at the time of its first development.

The purpose of the comparison to highlight to what extent in the South African Green Finance Taxonomy is aligned to these examples, is twofold:

- To streamline international sustainable investment in South Africa, where minimum alignment of ambition and due diligence practices are crucial determinants.
- To contextualise and demonstrate how the South African Green Finance Taxonomy has built on and evolved international best practice for local suitability.

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Introduction

As sustainable finance becomes mainstream, there has been increasing interest in finance taxonomies as tools to help provide clarity and certainty in selecting investments aligned to sustainable outcomes. This need has been most clearly expressed by financial sector actors. However, the vision, ambition, planning and delivery of the constituents that contribute to and combine to make-up sustainable economies is evidently a subject for many others.

South Africa's National Treasury published the landmark draft Technical Paper "Financing a Sustainable Economy" with the aim to unlock access to sustainable finance and stimulate allocation of capital to support a development-focused and climate-resilient economy. Pertinently, 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".

The South African Green Finance Taxonomy (SA GFT) therefore establishes a national classification tool that defines the minimum requirements for a selection of assets, projects, and sectors that are eligible to be defined as "green"; that can be used by a range of actors but especially the financial sector, to track, monitor, and demonstrate the credentials of their green activities in a more confident and efficient way.

The SA GFT will have a range of benefits. Amongst these, is providing the financial sector with clarity and certainty in selecting green investments, and providing a common basis for development and communication between policy makers, industry and investors.

In so doing, the taxonomy is intended to support unlocking the significant investment opportunities for South Africa in a broad range of green and climate-friendly assets.

Over the past few years, many other regions and countries have developed and adopted green finance taxonomies, and there are further market-based examples. These taxonomies have by all accounts had an impact on sustainable finance market activity. While there are unifying objectives and similar approaches, the available examples take different structures, with different extents of coverage, depth, and user requirements.

There is a risk that fragmented approaches to regional and national taxonomy developments introduce significant additional friction to global economic and financial systems, and the financial flows to emerging markets for sustainable development objectives. A central premise is that, by ensuring harmonisation of environmental contribution related to economic activities defined as 'green', countries enable mutual recognition of taxonomy frameworks and enhance market understanding of economic activities and investment environmental performance across markets.

The use of the EU Sustainable Finance Taxonomy[1] as the foundation for development

[1] The technical screening criteria of the GFT is based on a hybrid of the criteria from the EU Sustainable Finance Taxonomy as developed by the Technical Expert Group (TEG) (being the first preference) as well as the updated EU Sustainable Finance Taxonomy of the European Commission's 's Taxonomy Climate Delegated Act (updates where this alignment was determined an improvement).

and domestication for a South African taxonomy was decided in combination through:

- Direct user surveys (incorporating different user groups within and beyond the financial sector), and a series of public consultation sessions with opportunity for direct and written inputs; these approaches tested users' preferences for coverage, depth, features and characteristics of a taxonomy.
- Under the steer of the Taxonomy Working Group, who ably expressed user needs and weighed different options.
- In consultation with international development and finance experts, who kindly shared their experiences supporting countries establish sustainable finance and developing and deploying taxonomies.

The EU Sustainable Finance Taxonomy was selected due to its global relevance, comprehensive technical foundation, and influence on the expectations of international investors.

At the same time, clearly, 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.

Discussed in this report, are the implications and considerations of the development of a South African taxonomy that is harmonised to major international examples, the principal ways in which this has been achieved, and why.

International precedent and the relevance of policy alignment

The South African taxonomy development follows – closely, but nonetheless – behind very detailed and ambitious taxonomy developments by international actors. The EU Sustainable Finance Taxonomy is by far the most comprehensive international example to date, and has been the subject of extensive technical review, as well as engagement with and coordination amongst many market actors. It has developed in a realm where clear policy direction has formed towards strong environmental objectives, and a comprehensive and supportive regulatory environment exists.

The EU's departure point has been that the definition of "green" should be science-based, and not be diluted to allow or compensate for market maturity or local context. Those obstacles and needs ought to be addressed through targeted, appropriate means and alternative instruments. I.e., don't change the definition from what is shown by science to be needed; rather complement the policies and measures to address the apparent challenges and stimulate the market accordingly.

While, in practice, some dilution has taken place in the finalisation of the EU Sustainable Finance Taxonomy; overall and significantly, it promotes a requirement for high ambition and strict performance for recognition.

Given the relative advancement and detail of the EU Sustainable Finance Taxonomy, the ambition it represents, and the extensiveness of technical and market engagement on its content and approach, it was a sensible starting

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The GFT maintains the TEG criteria for certain economic activities where this has been requested by South African stakeholders.

point for South Africa's taxonomy development.

However, going beyond convenience, the importance and relevance of the EU Sustainable Finance Taxonomy in foundational design decisions and development of the South African Green Finance Taxonomy, is amplified, because:

- The positioning and connectivity of the South African economy in global economic and financial systems is such that alignment to the shifting expectations of international finance is vital. (See next section)
- Perspectives on the direction of travel, the extent and possible effectiveness of international cooperation, seems to indicate coalescing international policies and developments.
- This seems even clearer, given the indications that China (via the People's Bank of China, PBC) and the EU are cooperating to realise greater convergence of taxonomies of green investment standards across the two markets, and that the subject of globally recognised taxonomies and interoperability was the subject of considered discussion by the G20 summit in October 2021.

As such, it could be expected that pressures to align with international good practice will become dominant over domestic concerns and circumstances. In other words, the EU example (or a derivation therefrom) may become the de facto reference for South Africa irrespective of our market and economic realities, even if our own taxonomy diverges from international ambition and practice expectations.

The learnings of the implementation of the PBC 2015 Green Bond Endorsed Project Catalogue, a list of projects eligible for green bond issuance, was also that inclusion of several types that would not necessarily be considered green under some other international definitions, was significantly criticised by the international financial actors and policy makers. An updated edition was released in April 2021 coming into effect in June 2021, excluding coal and other fossil fuels.

Central in the development of a South African Green Finance Taxonomy, has been the question of ambition, which informs the inclusion of economic activities and the definition of performance sufficiency of those activities. The challenge is amplified when domestic policy had not yet set a clear and unified direction. The South African taxonomy development process has confirmed these lacking or contested areas, and (re)emphasises the need to close these gaps.

To function, the taxonomy needs to provide definitional certainty, but a key question has been "how to do so", because the taxonomy shouldn't "wag the dog" in terms of policy development.

However, its development can play an important enabling role as experienced in South Africa, where the project has sparked significant debate and been a platform for cross-cutting engagement.

Thankfully, more recently, concerning environmental issues, the country appears to be taking a more progressive rather than insular policy position, and our cooperation aims for a more ambitious stance. Reframing the national debate regarding climate change – rather than being one of contention – being around its developmental benefits and opportunities; has been a vital shift in the national dialogue, as is recognising that adaptation and mitigation cannot be disengaged from equity and socio-economic development in the process to reshape the South African economy for long-term competitiveness and sustainability.

Although the taxonomy is intended eventually not to be confined to only climate change mitigation and adaptation, these developments are major strides that diminish the relevance of platforms contesting ambition or arguing for domestic considerations as a rationale for developing a taxonomy that defines lesser ambition, in so doing diverging significantly from the EU example.

Foreign direct investment, development finance, and the role of a taxonomy

It is vital to understand that our trade and financial structures are closely linked to international systems, especially the European Union, and to understand that national financial system architecture and financial flows incorporate significant international finance.

In 2020, foreign entities, such as development financial institutions (DFIs), corporates and banks, held R 3.3 trillion in assets in South African corporates, compared to R 1.9 trillion in assets held by South African inventors and finance institutions (or put another way, domestic investment holdings in South African assets constitute only about 37% of the total) (Boonzaaier, 2019). This emphasises the national importance of foreign capital in the South African economy and the interest in remaining attractive to such foreign investment.

Significant international developments that mainstream sustainable finance; practical developments in clean technologies, markets and practice norms; policy, regulatory and supervisory advancements; Covid-19 and an emphasis on post-pandemic 'green recovery' amongst other factors; have all accelerated a shifting paradigm of what constitutes 'attractive' investment. Whilst risk and return remain a central tenet for most inventors, a broader and more holistic understanding of the interconnected nature of environmental, social and economic opportunity and need is in play. Corroborating research indicates that economic recovery plans formulated as inclusive, green stimulus plans, are more likely to attract international funding, estimated for South Africa as access to an additional $83bn, potentially as cheaper funding, with attendant direct and indirect job creation benefits (BCG & NBI, 2020).

The critical underpinning benefit of a taxonomy is that investors can trust that minimum requirements are uniformly agreed for 'what constitutes good enough'. This is especially important for those international investors who are concerned with the credibility and impact of local investments. There are also compliance and disclosure drivers coming into effect internationally that may shift international investor preferences to investments that can be shown to meet international green standards, as described in a detailed green taxonomy.

These are central reasons why it should be ensured that the SA GFT is a tool that aligns with international best practice and sets minimum standards with high ambition. By contrast, setting less rigorous standards would introduce additional obstacles as international investors could not trust the sufficiency or would need to undertake additional diligence – creating disincentives for capital flow.

South Africa's rising to meet these evolving expectations and requirements stands the economy in better stead to continue to access discriminating FDI and even broaden the investor base.

Alignment with the EU Sustainable Finance Taxonomy is especially pertinent, given that the EU is a strategic development partner and provides a significant portion of external assistance funding the country receives. EU-based companies invest across the South African economy, are contributors to its industrialisation and transformation agenda, and are likely to be increasingly directed by the EU Sustainable Finance Taxonomy, directly and indirectly, including in their international investment decisions. (European Commission, 2021)

How taxonomies are typically structured and some challenges

The project evaluated prominent supranational, national and market-based finance taxonomies in existence at the time of its first development. The analysis highlighted various differences, similarities and unifying elements of purpose, users, structure, content and relationship with international / national policy. The taxonomies studied that were evaluated are shown in **Figure 1**, and the detailed analysis allowed testing of alternatives in the context of South African user needs and objectives.

Commonly, taxonomies illustrate the same broad objective of encouraging the development of green industries by providing classifications that avoid greenwashing. These objectives to date, have been largely climate-related, specifically looking to progress climate change mitigation ambitions by driving investment into eligible economic activities or assets and project types.

For determining eligibility, two types of approaches have emerged for taxonomy construction:

> The first focuses on registers or catalogues of eligible economic activities, sometimes with additional performance detail but usually fairly high-level or simplistic.
> The second establishes eligibility through conformance with technical screening criteria.

The first approach is conceptually relatively simple to apply, because the data requirements are limited and matching of the definitions could be done at a high-level. Some market-based taxonomies and typical taxonomies applied by development finance institutions have followed this approach.

The technical screening approach is more elaborate and specific about performance requirements, so that "good performance" could be more specific and "real" – a means for capital to be applied discriminately to activities that genuinely align with green performance. Having high resolution of qualifying requirements, also allows acknowledgement of efforts and pathways towards those standards – the essence of transition. However, it is also more complex to use and requires greater data availability and due diligence to be conducted.

Generally, national taxonomies have shown alignment with each jurisdiction's environmental policy ambition, which differs from country to country. Adapting or developing detailed criteria for a national level taxonomy may be a complex undertaking, requiring criteria to be adapted to local regulations which may not exist yet or may not be aligned with international good practice.

The development of individual national taxonomies can give rise to fragmented practices and increase the obstacles to international capital allocation, if harmonising efforts are not a priority, with regards approach, structure, and ambition, as noted before. This highlights the importance of convergence behind a best suited international example.

Underpinning principles for taxonomy development espoused by the EU and how this translated for South Africa

Clarity of vision and objectives for taxonomy design and development is vital. During the development, much debate may be had regarding economic activity inclusions and performance and having clear development principles assists to ensure principled consistency of development overall.

Figure 1: Compositional and structural aspects of taxonomies

Taxonomy/ classification system	Aligned to policy environment	Uses principles to guide inclusion	Identifies taxonomy-aligned themes/sectors	Includes detailed technical standards	Integrates social aspects
EU taxonomy	✓	✓	✓	✓	✓
China's catalogues*	✓	-----	✓	Not that granular	-----
Malaysia taxonomy^	✓	✓	✓	-----	✓
Bangladesh taxonomy^	✓	✓	✓	✓	✓
Mongolian Green taxonomy^	✓	✓	✓	Not that granular	✓
CBI taxonomy (market based)	Aligned to Paris Agreement	✓	✓	✓	-----
South Africa Taxonomy^	✓	✓	✓	✓	✓
MDB-IDFC taxonomy	High level	-----	✓	-----	-----

* Includes The Green Bond Endorsed Project Catalogue and the Green Industry Guidance Catalogue
^ Not yet in use
MDB-IDFC - Multilateral Development Banks Climate Finance Tracking Working Group and the International Development Finance Club

The EU Sustainable Finance Taxonomy adopted the following principles (Climate Bonds Initiative, 2019):

> "Help identify the short- and long-term contributions of an economic activity to environmental objectives
> Specify the minimum requirements that need to be met to avoid significant harm to other objectives
> Develop methods, regulations, and sound market classification approaches based on EU labelling and certification schemes
> Rely on conclusive scientific evidence, thorough research, and market experience to develop standards
> Consider the lifecycle of an economic activity
> Adopt the Technology Neutral Methodology
> Introduce Social Safeguards to project screening
> Transit from climate finance, green finance to sustainable finance at the objectives level".

These development principles have been intentionally applied or intrinsically adopted in the development of the SA GFT, save for EU based regulations, labelling and certification schemes where South African equivalents were sought.

Fundamentally, these development principles exist amongst the development principles and ambitions listed below, that were defined and tested with stakeholders at the outset and through the project.

> Deliver a robust, credible, market-led development process, that:
  - Reflects stakeholder engagement, consensus, and broad-based support.
  - Draws from and is in line with international practice for development and results.
  - Draws on data and evidence where possible, follows good practice otherwise.

> Deliver a first taxonomy that supports users, in so much as it:
  - Allows users to identify 'green', credibly
  - Is practical to use – easy to navigate and communicate results
  - Has suitable coverage to support user priorities
  - Is feasible to adopt/align to
  - Can support users' related needs

> Ensure it is a dynamic credible tool that drives the national ambition, namely:
  - Is foundational; allows future development
  - Is responsive to and appropriate for the South African context and development priorities
  - Reinforces other national mechanisms and instruments driving green transition
  - Is in line with international best practice, reducing challenges to international investment flows.

In practice, some of these early ambitions were anticipated and proven to be conflicting, and complex to reconcile. For instance, the issue of national context whilst being in line with international practice. Where these challenges have been most acute, the first Edition of the SA GFT has excluded those economic activities or standards for the time being. Thereby, alignment to the EU Sustainable Finance Taxonomy has been maintained in these challenging areas, where further consultation and study is needed.

The key functional elements of the EU Sustainable Finance Taxonomy and how South Africa aligns and evolves

As noted, the EU Sustainable Finance Taxonomy's development process provided a tested approach that could be conceptually reapplied, and a robust departure point for domestication in the following ways.

> The EU Sustainable Finance Taxonomy laid out a more advanced architecture for finance classification tools than was present before. I.e. it combines breadth (objectives) with depth (economic activity categories through to sub-activity technical standards per economic objective), with the dual-dimensions of "doing good" whilst "not doing harm elsewhere" (principles), as well as translating this into financial metrics (reporting). This architecture can be replicated flexibly enough for different countries and for different issues sustainable finance areas.

> Its Principles established that there would not be trade-offs between objectives, and the respective guiding principles were considered universally appropriate. Therefore, the Principles could be adopted and be applied as guiding statements to differentiate 'good' from 'not good enough' when adjustments standards and identifying new economic activities and standards to be included or developed. I.e. while the specific priorities for South Africa would shift the emphasis, these founding principles helped navigate complex value judgements whilst providing some flexibility.

- The conceptual approach to identifying materially impactful sectors and economic activities, was a useful means for prioritising South African efforts. Reapplying the approach assisted to identify South African-unique economic activities and considerations to include, and some EU Sustainable Finance Taxonomy elements as not relevant.
- While the technical standards of the EU Sustainable Finance Taxonomy are linked to the legal and institutional structures of the EU, the significant work of crafting performance standards had already been undertaken and could be moderated or adjusted to South African examples where possible. Provided our ambition remained commensurate, it was possible to tailor and adjust the existing materials to local context or accepted market-based alternatives.
- The structure of the EU Sustainable Finance Taxonomy provided a blueprint – a process by which users would evaluate sufficiency of environmental performance using standards, and then also go on to declare financial and non-financial performance, appropriate to different financial instruments and actors.

How the SA GFT remains aligned while being domestically suited

The SA GFT adopts appropriate elements and objectives, and amends criteria for economic activities to local environmental legislation, regulation, and standards, while seeking to maintain alignment with international best practice.

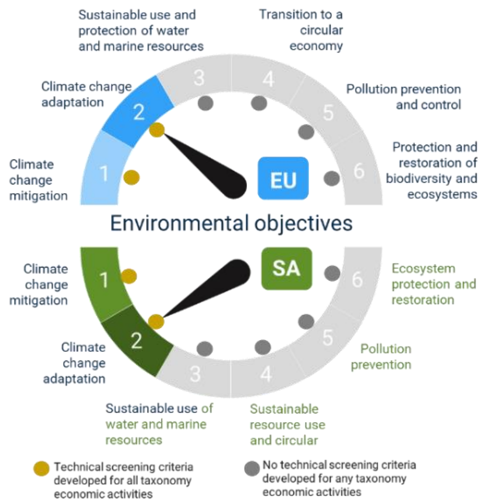
The SA GFT has similar elements and employs the same mechanics as the EU Sustainable Finance Taxonomy; namely:

- Principles dictate the major requirements for activities; specifying that these:
  - Make a significant contribution (MSC Principle) to at least one of a group of defined objectives;
  - Do no significant harm (DNSH Principle) to any other of these agreed objectives;
  - Confirm the sufficiency of social risk and impact management, by meeting specified minimum safeguards.

- Six environmental objectives are defined – with the SA GFT reflecting local priorities distilled from national policy and legislation, that align conceptually to those of the EU, as shown in **Figure 2**.
- The inclusion of specific technical criteria, that have been moderated to South African requirements, having considered the robustness of those examples compared with international practices and specifications. **Annexure A** explains the detail of the moderation / adjustment for each taxonomy entry in greater detail.
- The SA GFT recognises that an economic activity cannot be considered sustainable independent from the wider system in which it operates. As in the EU Sustainable Finance Taxonomy, life cycle assessments were brought into consideration for economic activities where appropriate.
- An activity may directly create impact or contribute to indirect impact, both positive and negative. To accommodate for this, the technical standards seek to consider and address broader life cycle impacts, thereby drawing in the South African landscape whilst driving for its holistic impact improvement (e.g., the mining of key minerals in low-carbon technology).

The significance of having aligned elements between the two taxonomies cannot be underestimated, explained below:

Figure 2: Comparing environmental objectives between the EU and SA

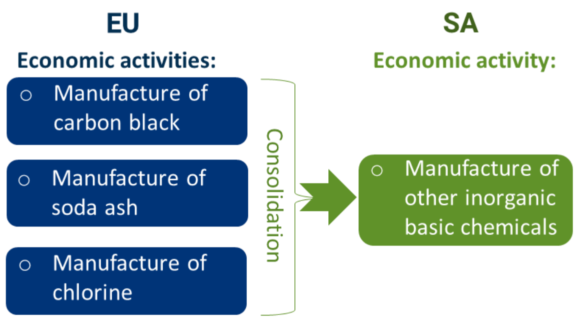


- The aligned MSC and DNSH principles are powerful unifying indications to not compromise on ambition, and not to prioritise one objective to the detriment of another.
- The technical standards being developed and being science-based and ambitious, similarly signify that high performance expectations can be set for defining green. (By acknowledging that a journey to that performance is likely needed, and may be accommodated through distinguished transition mechanisms, the SA GFT does not compromise the ultimate objective.)
- The inclusion of MSS requirements makes it clear that social safeguarding practice is fundamental to development, and links the taxonomy practically to risk and impact management good practice.

Enhancements were brought to the SA GFT, evolved from the EU Sustainable Finance Taxonomy and learnings since its initial development concerning users' experiences and accessibility; in particular:

- To streamline the SA GFT, 25 EU Sustainable Finance Taxonomy economic activities have been consolidated into 12, leaving 45 standalone economic activities in the SA GFT, with the result (as shown in **Figure 4**). This was to reduce the bulk and simplify use and referencing (e.g., as in **Figure 3**). By this means, repetition was reduced and document length reduced, relying on descriptive clarity for the economic activity.
- Visual aids, user navigation tools and user guides were created to aid an understanding of the taxonomy mechanism and user steps.
- Based on draft taxonomy user testing regarding accessibility, additional refinement to navigation and FAQs were included.

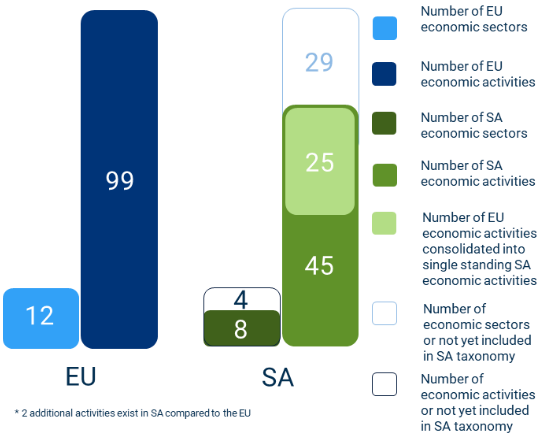
Figure 3: Example of how economic activities are consolidated in SA GFT



The SA GFT also maintains alignment with the EU by excluding fossil fuel-related activities and activities related to electricity generation from natural gas. The latter economic activity has been earmarked to be considered under a transition taxonomy presently under development.

Regarding minimum social safeguards, the SA GFT models the EU by requiring companies to implement policies, procedures and governance mechanisms that put into effect the UN Guiding Principles on Business and Human Rights, the OECD Guidelines for Multinational Enterprise and the principles related to the International Labour Organisation (ILO) core labour conventions, as is done in the EU. In addition, the SA GFT localises requirements by including conformance with South Africa labour law (refer to **Annexure B**).

Figure 3: Comparing economic activities between the EU and SA



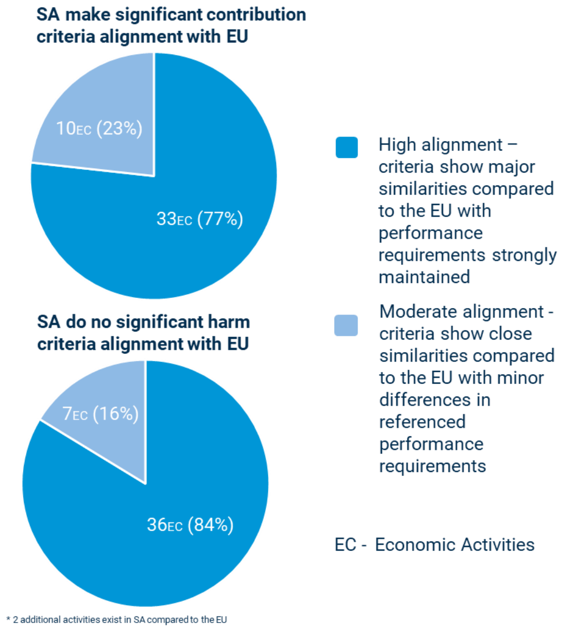
As the SA GFT leverages the technical screening criteria provided by the EU, the criteria provide in the SA GFT very closely mirror the performance ambitions of the EU. Criteria related to making significant contribution to climate change adaptation and climate change mitigation remain largely unchanged (80% of total economic activities show strong alignment in performance ambition) with the minor differences illustrated when local regulations are references for conformance. This is also true regarding the do no significant harm criteria that show close alignment performance ambitions of the EU (86% of total economic activities show strong alignment in performance ambition).

As a result, domestication has not comprised performance ambition with the EU as alignment is largely maintained.

Advancements made through the South African Green Finance Taxonomy

The application of sustainable finance taxonomies is relatively new with many institutions applying country/region level taxonomies for the very first time.

Figure 4: Comparing performance ambition between the EU and SA

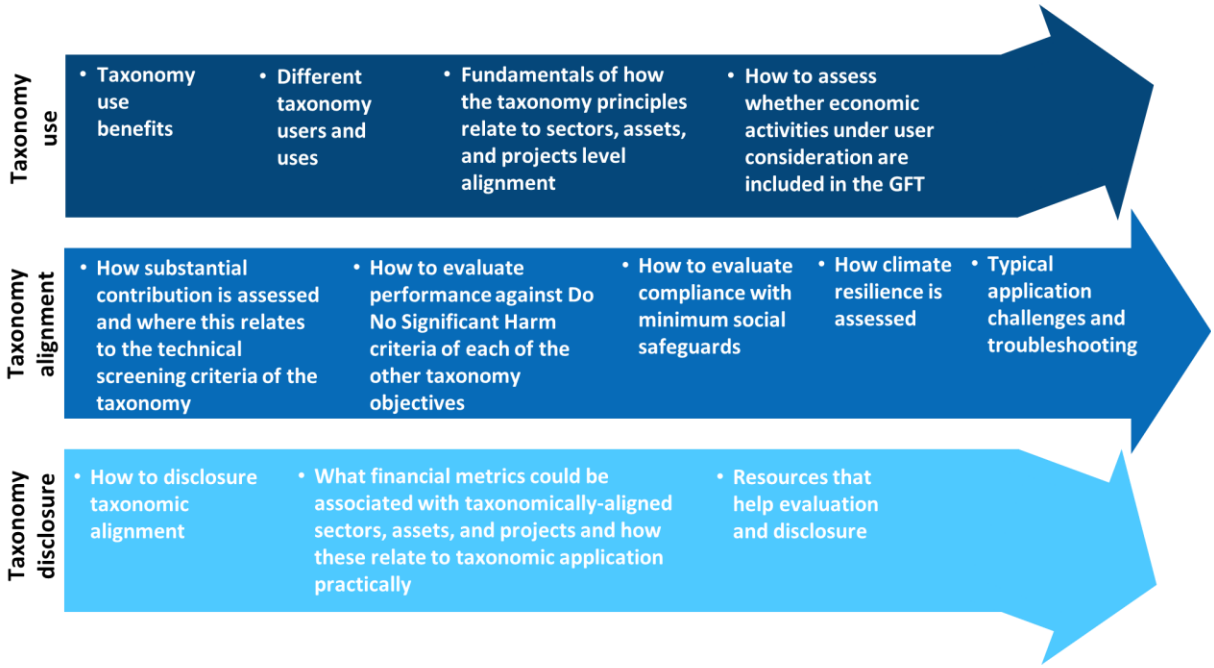


Unsurprisingly, users have expressed the need for detailed guidance unpacking each of the elements that constitute the functioning and purpose of the taxonomy (simplistically depicted in **Figure 5**). In response, SA GFT user and disclosure guidance has been developed to facilitate effective use and conceptualisation of the taxonomy for further institutionalisation. The SA GFT guidance provides a detailed stepwise process that users can follow for assessing the extent to which economic activities of interest are taxonomy-aligned. Furthermore, the SA GFT guidance describes and illustrates the financial metrics (turnover, CAPEX and OPEX) recognised by the taxonomy and how users would determine and report financial alignment. In so doing, users can start to get accustomed to the disclosure of finances that are aligned to economic activities that are internationally recognised as green.

In addition to the detailed guidance provided, the SA GFT has been streamlined to simplify the complexity of taxonomy application to increase ease of use. As mentioned above, several economic activities have been consolidated into single standing economic activities that share criteria that are alike. Furthermore, the SA GFT streamlines documentation by including substantial contribution criteria related to climate change adaptation under the same section where technical screening criteria for climate change mitigation is presented while making clear distinctions between the two. This has significantly decrease documentation length for navigation purposes.

the disclosure of whether the assessment has been undertaken independently by a suitably qualified third party or if the assessment has been undertaken by the entity itself and how assessment remains appropriate to ensure climate resilience. In addition, the SA GFT has practicalised the application of the MSS by incorporating conformance requirements to local legislation that shows equal ambition to international best practices.

Figure 5: Taxonomy guidance



Moreover, the SA GFT fully integrates Minimum Social Safeguards (MSS) and the Do No Significant Harm (DNSH) criteria into the taxonomy to ensure that there are no trade-offs between the objectives of the taxonomy and necessitating positive-sum classification. In this way, these criteria inform every element of the taxonomy and safeguard environmental and social contributions.

The SA GFT has also progressed the DNSH assessment related to climate change adaptation that requires entities to undertake a vulnerability assessment for their respective projects. The enhancement requires entities to disclose the credibility of the assessment and the associated adaptation plan. This involves

Annexure A: Mapping of economic activity ambition in ‘Make Significant Contribution’ and ‘Do No Significant Harm’ criteria between the SA GFT and the EU Sustainable Finance Taxonomy technical criteria

Table 1: Mapping key for comparison between SA GFT and EU Sustainable Finance Taxonomy

Criteria maintain the same performance requirements compared to the EU Sustainable Finance Taxonomy	**Identical to DR (or near identical with only minor editorial changes)**
Criteria show major similarities compared to the EU with performance requirements strongly maintained. Difference due to localisation to SA regulations.	**Equivalent in ambition to DR, localised references**
Criteria show close similarities compared to the EU with minor differences in referenced performance requirements. Differences largely as a result of maintaining TEG performance criteria and localisation to SA regulations	**At least equivalent in ambition to TEG**

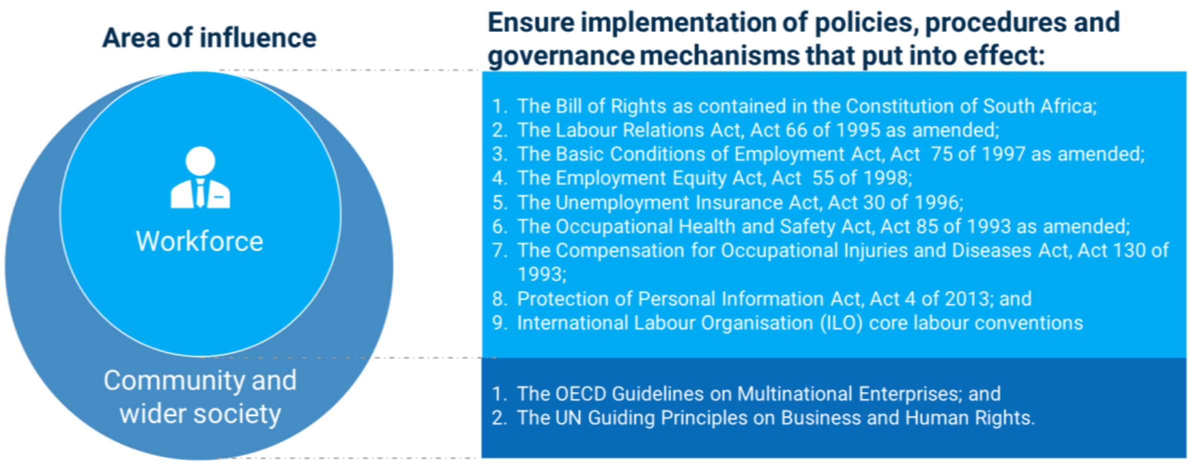
Table 2: Comparing MSC and DNSH alignment between SA and EU Sustainable Finance Taxonomy

Environmental objectives	**Sector**	**SA economic activity**	**Comparison**	
			Economic activities that maintain EU Sustainable Finance Taxonomy MSC criteria level of ambition	**Economic activities that maintain EU Sustainable Finance Taxonomy DNSH criteria level of ambition**
Climate mitigation and adaptation objectives	**Agriculture, Forestry and Fisheries**	Forestry and Land Rehabilitation		
	Industry	Manufacture of low carbon and resource efficiency technologies		
		Manufacture of Cement		
		Manufacture of Aluminium		
		Manufacture of Iron, Steel and Ferroalloys		
		Manufacture of Hydrogen		
		Manufacture of other inorganic basic chemicals		
		Manufacture of other organic basic chemicals		
		Manufacture of fertilizers and nitrogen compounds		
		Manufacture of plastics in primary form		
	Energy	Production of electricity, heating and cooling from Solar PV, Concentrated Solar Power, Wind Power and Ocean Energy		
		Production of electricity, heating and cooling from Hydropower		
		Production of electricity, heating and cooling from Geothermal		
		Production of electricity, heating and cooling from Bioenergy		
		Transmission and distribution of Electricity		
		Storage of Electricity		
		Storage of Thermal Energy		

		Storage of Hydrogen		
		Transmission and distribution networks for renewable and low-carbon gases		
		District Heating/Cooling Distribution		
		Installation and operation of Electric Heat Pumps		
		Production of Heating/Cooling using Waste Heat		
	Water and Waste	Water collection, storage, distribution treatment and supply		
		Centralized wastewater treatment		
		Anaerobic digestion of sewage sludge		
		Separate collection and transport of non-hazardous waste in source segregated fractions		
		Anaerobic digestion of bio-waste		
		Composting of bio-waste		
		Material recovery from non-hazardous waste		
		Landfill gas capture and utilization		
		Transport of CO_2		
		Permanent Sequestration of Captured CO_2		
	Transportation	Commuter road, passenger rail and freight rail transport		
		Infrastructure for low carbon transport		
		Passenger cars, road commercial vehicles and road freight transport		
		Inland passenger and freight water transport		
	Construction	Construction of new buildings		
		Building renovation		
		Individual measures and professional services		
		Acquisition and ownership		
	ICT	Data processing, hosting and related activities		
		Data-driven solutions for GHG emission reductions		
Climate adaptation objective only	**Enabling activities, system resilience & innovation**	Non-life insurance		

Annexure B: Simplified representation of additional specifications of minimum social safeguard (MSS) requirements under the SA GFT, over and above EU Sustainable Finance Taxonomy stipulation

Figure 6: SA GFT MSS additional user specification



Annexure C: References

- BCG and NBI, 2020, Just Transition Pathways Project Launch webinar, July 2020
- Climate Bonds Initiative, 2019, Comparing China's Green Bond Endorsed Project Catalogue and the Green Industry Guiding Catalogue with the EU Sustainable Finance Taxonomy (Part 1), [Online], available at: https://www.climatebonds.net/files/reports/comparing_chinas_green_definitions_with_the_eu_sustainable_finance_taxonomy_part_1_en_final.pdf
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Annexure D: Related reading

- SA GFT materials including taxonomy, user guide, governance structure and further information is available at the sustainable finance initiative website (link)
- ICMA (2021) Overview and Recommendation for Sustainable Finance Taxonomies, available online at link
- OECD (2021) Developing Sustainable Finance Definitions and Taxonomies, available online at link
- World Bank Group (2020) Developing a National Green Taxonomy: A World Bank Guide, available online at link
- National Business Initiative and Carbon Trust (2020) Developing a National Green Finance Taxonomy project briefing report, available online at link
- South African National Treasury (2020) Financing a Sustainable Economy, draft Technical Paper, available online at link

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