

South African Green Finance Taxonomy

Version Zero Stakeholder Workshop

16 October 2020



Meeting Protocols



Please submit any questions you may have using the Chat function



Please raise your hand to speak in group discussions/ Q&A sessions



Please mute unless you are speaking



Please note that this session is being recorded



If you have any technical issues, please reach out to either (Contacts also posted in chat)

- Reitumetse Molotsoane (reitumetsem@nbi.org.za) / (0742046433)

Introduction to the workshop

Sustainable Finance context and Introduction to Green finance taxonomy

Financing a Sustainable Economy



- Treasury and SARB **financial stability mandate** is to protect SA economy and citizens from shocks to the financial system, building resilience through solvency and effective risk management
- Climate risk is a financial risk
- **Sustainable finance** encompasses financial models, products, markets and ethical practices to deliver resilience and long-term value in each of the economic, environmental and social aspects and thereby contributing to the delivery of the **sustainable development goals** and **climate resilience**.
- Draft Technical Paper developed with financial sector industry associations and regulators: Financial Sector Conduct Authority (FSCA) and the Prudential Authority (PA)
- Released in May; comments received & paper being updated; Working groups formed to take forward recommendations
- Focused on the **financial services industry**: Banks, Retirement funds, Capital Markets, CIS, Insurance, Private Equity and Venture Capital
- An evolving area and emergent global practice and trend. Starting with **climate risk**
- Recognises opportunities for attracting climate finance to build a more sustainable, low carbon, green economy

Recommendations and Approach



- The paper encourages a voluntary sustainable finance initiatives
- The FSCA and PA are engaging with the sector and undertaking further analysis on the feasibility of regulatory instruments
- Working groups consist of industry specialists looking at technical aspects; develop common assessment and common purpose
- Incorporating broader stakeholder consultations as drafts are developed

Key recommendations include the following:

- 1 Develop a Green Finance Taxonomy and governance framework
- 2 Co-develop technical guidance, standards and norms for all financial institutions including: E&S risk management, the use of science-based methodologies /target setting, etc. and disclosures as per Task force on Climate-related Financial Disclosure (TCFD)
- 3 Develop a benchmark climate risk scenario for use in stress tests by the sector
- 4 Build sector capacity and competency for good climate risk governance, management and disclosure across the sector and the implementing arms of government

A green finance taxonomy is a tool that sets out the rules and results for what is green (included as taxonomy-aligned) mutually for all actors



A taxonomy is one complementary tool amongst and relating to others for sustainable finance, in an evolving practice landscape



Taxonomies differentiate on foundations, catalogue granularity, and standards; most have some relationship to four main taxonomies

Comprehensive principles-derived activity catalogue and standards



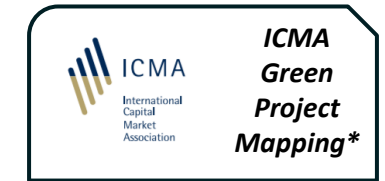
Comprehensive project/asset catalogue and standards



Activity/project/asset type catalogue**



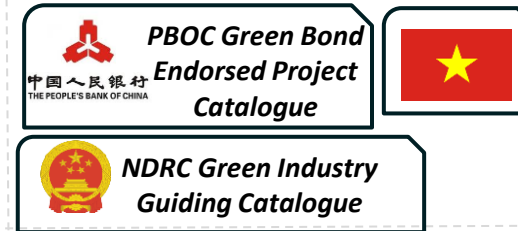
Thematic catalogue



Replicates/points to the existing Taxonomy



Styled on the existing Taxonomy



Suggested that it may take lessons from the existing Taxonomy but strongly localise (early stage progress)



- Key**
- Taxonomy available
 - Taxonomy in development, states/demonstrates relationship to available taxonomy
 - Taxonomy in development, indicatively drawing on available taxonomy
 - * ICMA states that it does not promote a particular taxonomy; mapping is only to provide indication of theme.
 - ** Only climate change mitigation and adaptation
 - † Indicated interest to develop / appropriateness for 'transition' taxonomy – very early-stage

Typically the available taxonomies relate elements of the following structure; again the EU's has the most extensive depth and breadth

Vision for the end state and journey that the taxonomy supports



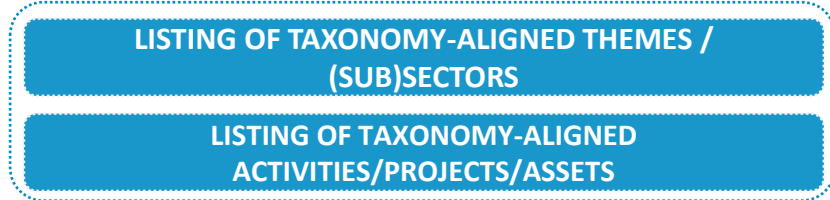
Defines the principles/rules for inclusion



Confirms the taxonomy focus areas, either one or many



Results from application of first 3 levels, with differing granularity



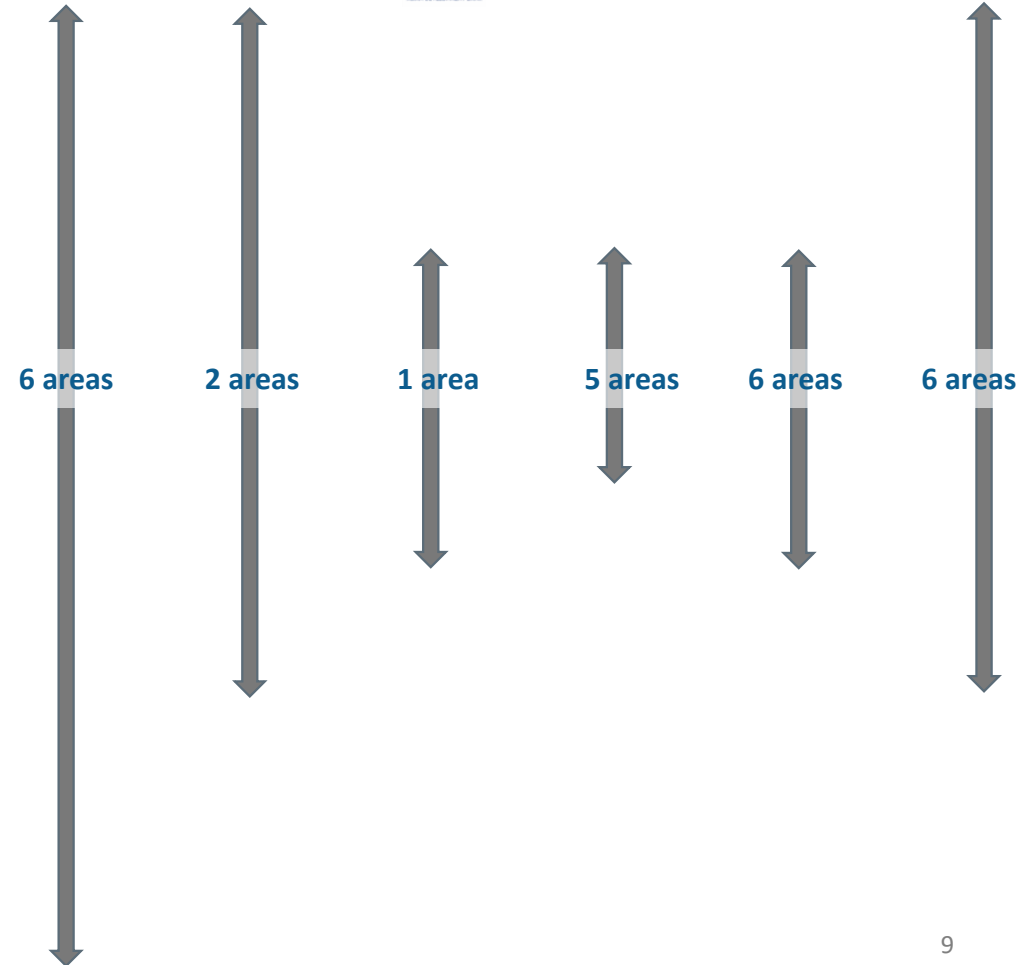
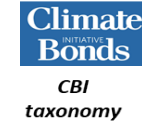
Contains detailed performance criteria and thresholds



Specific taxonomy user requirement guidance aspects



Relationship to other regulations, standards or guidance



We intend to build a taxonomy governance function and the first classification system with users and future objectives in mind

Functional project outputs

1

Adoption of an agreed governance mechanism to maintain the national taxonomy

This governance mechanism will~

- Identify the Agency designated with oversight
- Define the protocol for how the taxonomy can be refined and expanded over time
- Be the guidance for how to use the taxonomy, considering different users

and

2

The first national green finance taxonomy, with further areas for development

The final development output is the first 'Draft National Green Taxonomy for further consultation'; a first comprehensive draft for the country to take forward and evolve

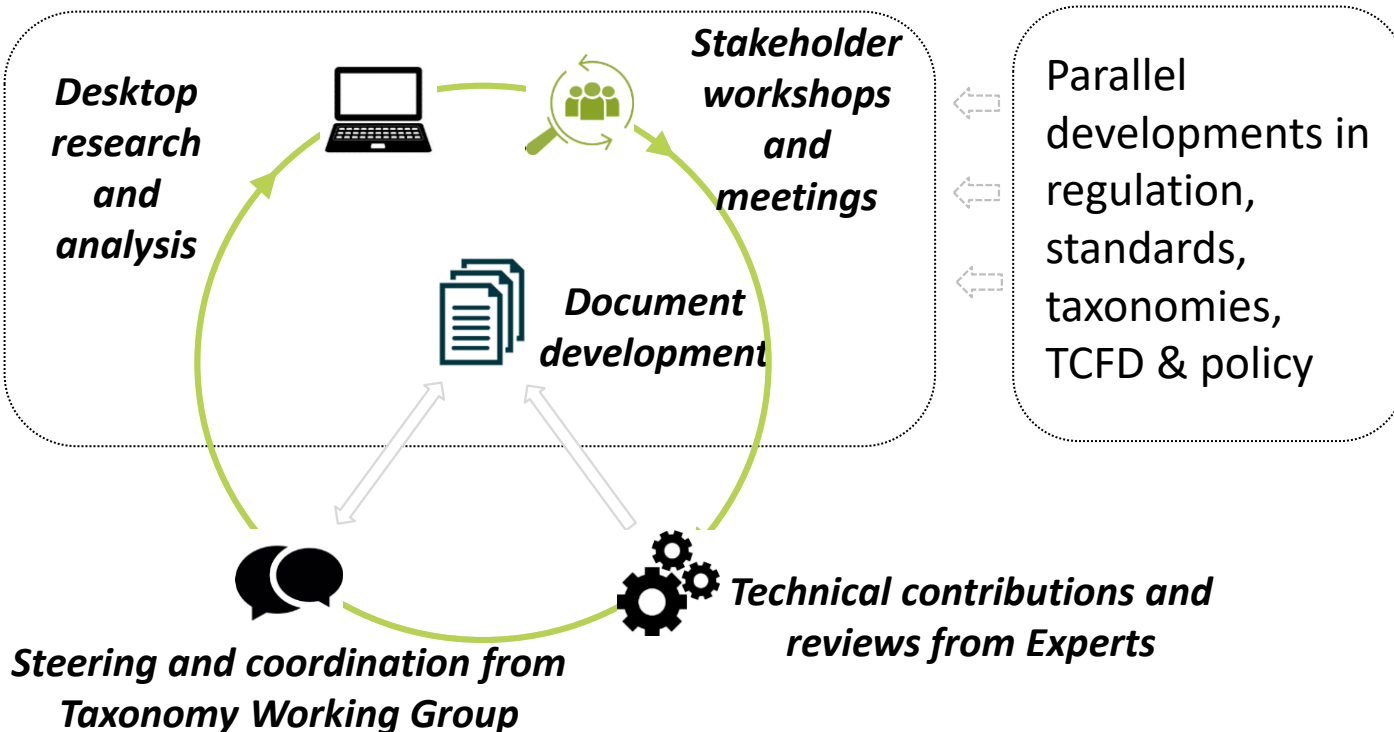
The development process is iterative, consultative, integrated and cooperative

The project development process is iterative, for a series of progressively developed taxonomy components and taxonomy drafts...

...as well as market awareness raising on the Taxonomy...

...with a first draft taxonomy to be launched at the end of this first development effort

Taxonomy project team led work



The first national green investment taxonomy, with further areas for development

The taxonomy covers 'green' first, with areas within and beyond to be developed later; this informs the definition developed

Not presently in scope – potential future focus

Brown taxonomy
A non-exhaustive negative list of environmentally harmful or risk-exacerbating activities

Presently scope will necessarily focus on a subset within 'green'

Green Taxonomy
A non-exhaustive positive list focused on environmental activities (many likely to have social co-benefit)

Not presently in scope, but very necessary – potential future focus

Social Taxonomy
A non-exhaustive positive list focused on social activities (some may have environmental co-benefit)

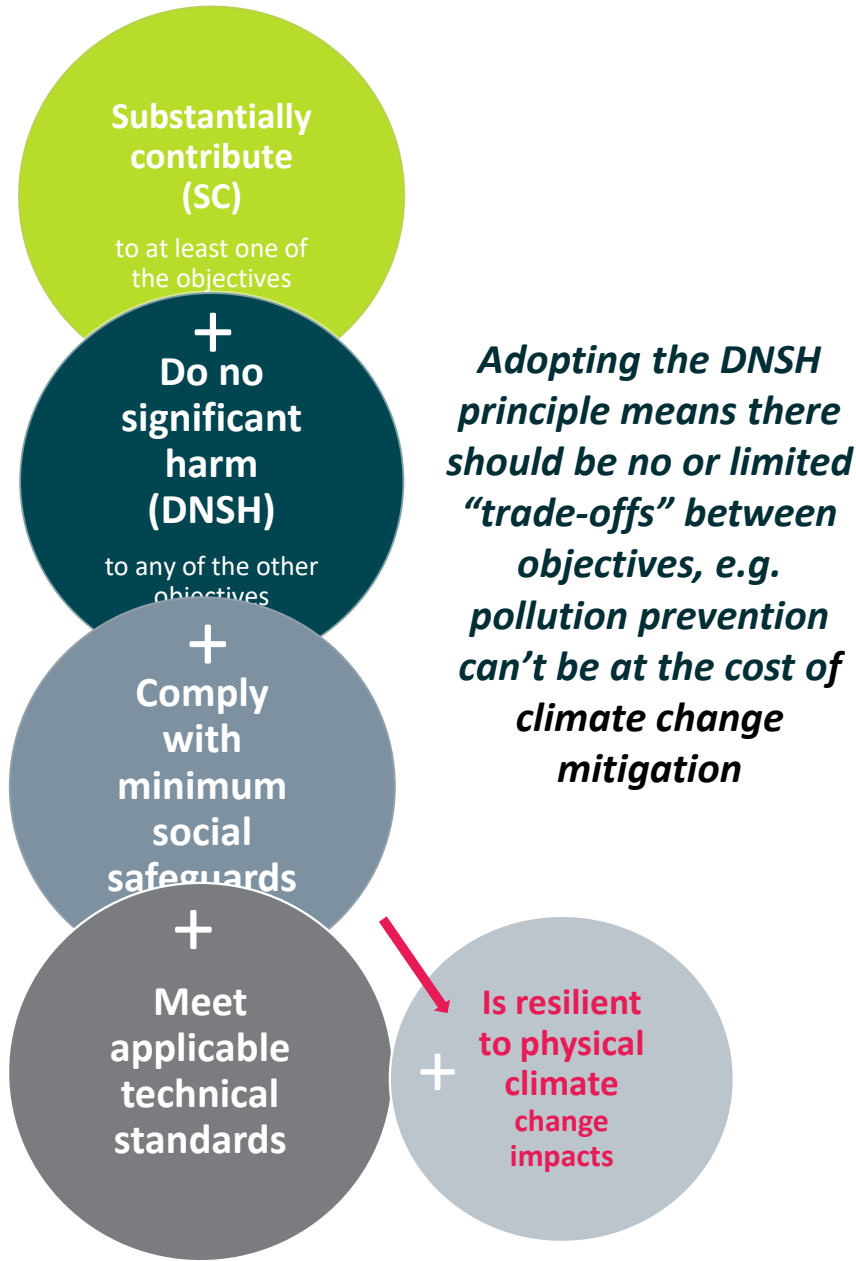
Likely some overlap

We will consider both 'fully green' and recognition for transitional objectives to achieve 'green'

Green transitional activities
Activities that falls short of the ultimate 'green' ambition but are progressive towards the ultimate objective, facilitate a journey from current state to ultimate vision of the green economy

Fully green activities
Activities that are universally accepted as 'green' and conform to ultimate vision of the green economy

The objectives are focus areas defining the attributes of 'green economy' and must be considered in the context of the principles



Adopting the DNSH principle means there should be no or limited "trade-offs" between objectives, e.g. pollution prevention can't be at the cost of climate change mitigation

Green Taxonomy

considering both

Green transitional activities *and*

Fully green activities

This project will cover the cataloguing of activities that significantly contribute to climate change mitigation, climate change adaptation and sustainable water resource use

Other objectives identified should be covered through further development



Social contribution is crucial to the vision for a sustainable future

The taxonomy will focus on 'green', social safeguards will be required for eligibility and disclosures of social contributions encouraged

Taxonomy focuses purely on green projects and impact metrics, applying good labour and social practice and recognising rights

Investors may recognise social contribution and progressive green projects and assets

Taxonomy encourages differentiation through transparency



E.g. RE project coupled with a skills development programme for the project can disclose its co-benefit, and investors may prefer this projects over others that don't

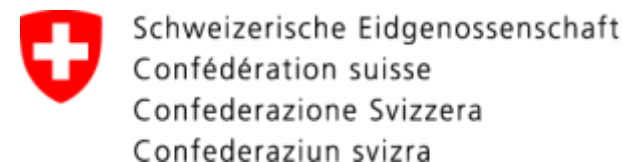
Global Developments

IFC – promoting green bond trend across emerging markets

www.ifc.org/greenbonds



- IFC (member of the World Bank Group) is the largest global development institution focused on the private sector in developing countries.
- Leader in developing and applying environmental, social, and governance (ESG) standards to project finance in emerging markets.
- **One of the earliest and leading global green bond issuers and an investor in green bonds in emerging markets.** As of June 30th, 2020, IFC has issued \$10.387 billion across 172 bonds in 20 currencies (including ZAR).
- Founding member of the Green Bond Principles Executive Committee, hosted by the International Capital Market Association (ICMA)
- Partnered with Amundi in 2018 to launch the Amundi Planet Emerging Green One (EGO) Fund, the world's largest green-bond fund dedicated to emerging markets (**\$2 billion over 7 years**)
- IFC's **Green Bond Market Development Program** is helping to catalyze green bond markets in partnership with SECO (Swiss State Secretariat for Economic Affairs) and Sida (Swedish International Development Cooperation Agency).



IFC-facilitated SBN—
supporting national
sustainable finance
innovation in emerging
markets

www.ifc.org/sbn
www.ifc.org/sbngreenbond

- In 2012, IFC and 10 emerging markets established the **Sustainable Banking Network (SBN)** to facilitate knowledge exchange among financial sector regulators and banking associations on sustainable finance.
- As of October 2020, **SBN represents 40 countries and US\$43 trillion** (86 percent) of the total banking assets in emerging markets.
- South Africa joined SBN IN 2016 through Banking Association South Africa (BASA) – with NT, FSCA, and JSE actively contributing to knowledge sharing in recent years.
- South Africa was one of 9 case studies* in the 2018 report **“Creating Green Bond Markets”**, featuring JSE green bond segment – recently expanded to include social and sustainability dimensions.
- Led by China (2015) and Mongolia (2019), SBN countries are starting to introduce **comprehensive taxonomies to accelerate green finance**.

* Brazil, China, Indonesia, Malaysia, Mexico, Morocco, Nigeria, South Africa, and the ASEAN (Association of Southeast Asian Nations) region



2019 SBN Global Progress Report – 3 Pillars & 19 Indicators Assessment Results

22 SBN members have developed national sustainable finance frameworks*



16 SBN members are still at an early stage or formulating national sustainable finance frameworks



Pillar I: Strategic Alignment

1. Alignment with global E&S standards and best market practices



2. Alignment to NDCs and with national/regional climate change targets



3. Multi-stakeholder collaboration



Pillar II: Climate and Green Finance

4. Defining sustainable assets and financial products



5. Green finance product guidelines



6. Tracking and disclosure of climate & green finance



7. Calculation of environmental benefits



8. Climate risk exposure assessment



9. Financial and non-financial incentives



Pillar III: ESG Integration

10. Role of governing bodies on E&S



11. Organization



12. E&S policy



13. Risk assessment



14. E&S covenants



15. Project supervision & portfolio review



16. Training



17. External communication mechanism



18. E&S reporting



19. Enforcement

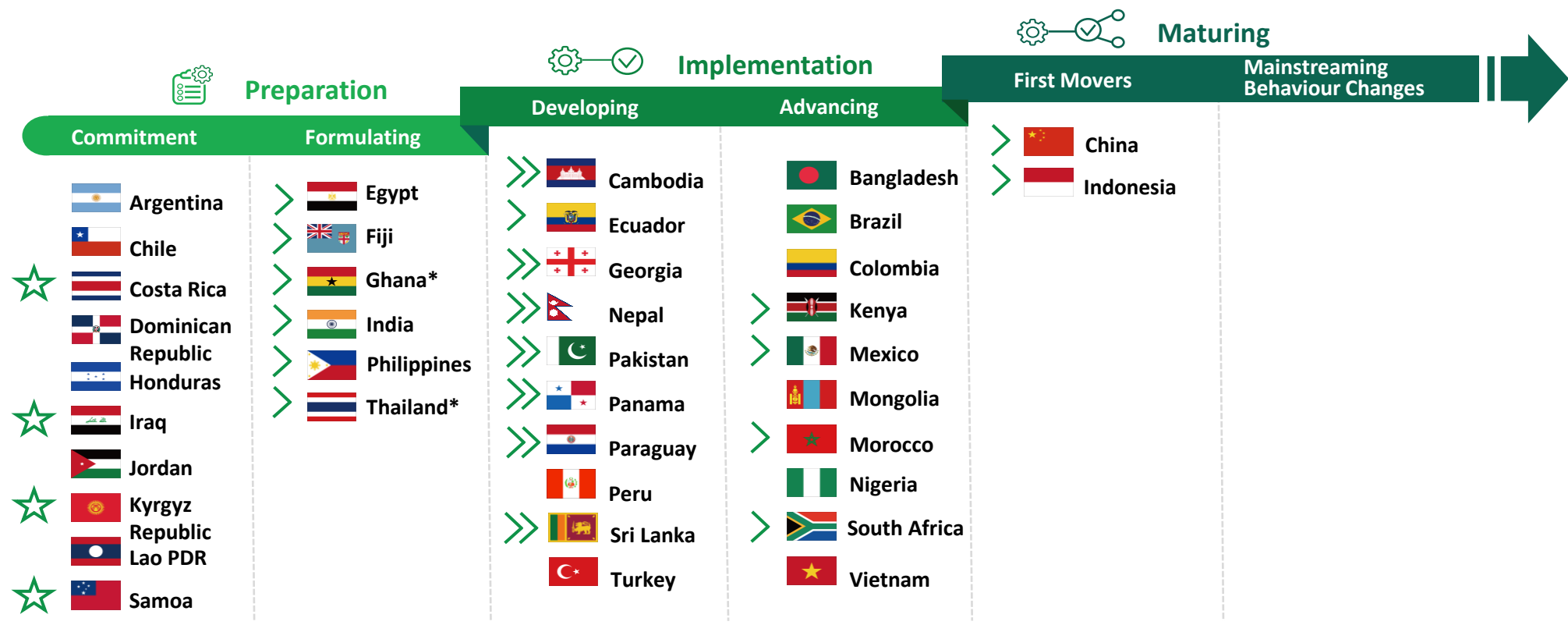


Dark shading indicates this element is included in the country's sustainable finance framework

Light shading indicates this element is not included in the country's sustainable finance framework

* Ghana and Thailand launched their policies and principles after the cut-off date of June 2019 for this Report, and therefore are not included here.

2019 SBN Global Progress Report – Progression Matrix Assessment Results



Progress since the 2018 Report

- ★ 4 new SBN member countries made progress in the Commitment Stage
- 14 countries made progress within the same stage
- > 13 countries moved up one stage
- >> 7 countries moved up two stages

* Ghana and Thailand launched their policies and principles in August 2019, after the cut-off date of June 2019 for this Report.

The 2019 Global Progress Report reviewed **38** SBN members' experiences and progress, supplemented by **30** country progress reports, and **42** case studies.

Over the past two years, **24** of the **38** SBN member countries progressed to the next stage in the SBN Progression Matrix.

Participant presentations



Discussion



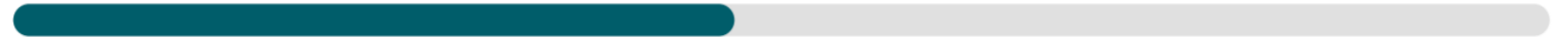
Guidance from the
Taxonomy Working Group
on early key points

The TWG early discussions have considered four key decision points

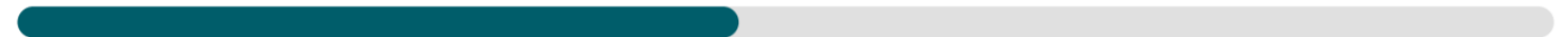
Benchmark against local policy or international best practice



Apply at an asset level or a value chain level



Focus on just green or include transition assets (even social investment)



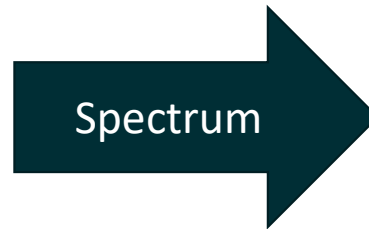
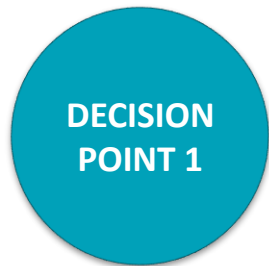
Localise international work or develop from the bottom up



Align to current SA policy or adopt international or independent agency practices

An option that could apply consistently

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



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



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

Pros: Remains current and congruent with policy, simplifies taxonomy technical development

Cons: challenging if gaps in regulatory environment, challenging for international capital flows if not aligned to international practice, subject to greater revision

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

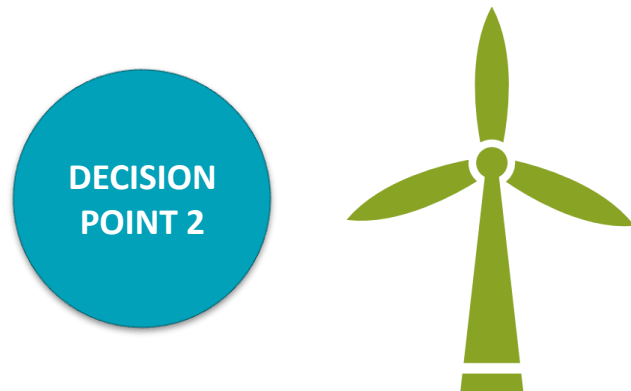
Pros: innovative, somewhat experimental, takes a leading approach, potential to align to international capital provider expectations

Cons: policy misalignment challenges

Develop an green asset-focused taxonomy, or a taxonomy that encompasses the green value chain

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

Pros: easily identifiable; most actors are used to this approach; suits many user applications

Cons: does not capture the enabling value adding activities necessary to raise the assets or projects

Beyond minimum

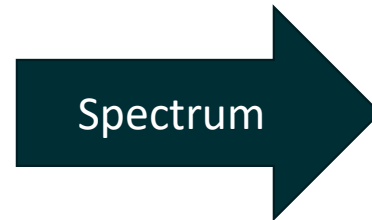
A broad approach to including value chains that exhibit green traits and enable green industry / technologies, in addition to assets or projects



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

Pros: aligns to green supply chain development objectives, supports local enabling environment, more comprehensive for taxonomy user application

Cons: more complex and numerous to develop normative standards



Inclusion of 'green' and 'transitional' activities that go towards realising green

Minimum

Taxonomy recognises only agreed 'green' assets and projects, requiring step-change in line with sustainable development end goals

Beyond minimum

Encouraging and accommodating a transition, including transition assets and projects with intermediate lesser ambition than end goal, time limited recognition to drive progress



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

Is especially relevant to carbon mitigation challenges in hard to abate and current high-emitting sectors

Pros: potential to align to international capital provider expectations, broad agreement on activities in this class

Pros: Facilitates the transition, some performance gains and positive environmental impact achieved

Cons: does not facilitate recognition of transitional finance

Cons: Ultimately insufficient if end goals not reached, complexity in monitoring whether commitments to continue transition are being met

Social contribution is crucial to the vision for a sustainable future

The taxonomy will focus on 'green', social safeguards will be required for eligibility and disclosures of social contributions encouraged

Taxonomy focuses purely on green projects and impact metrics, applying good labour and social practice and recognising rights

Investors may recognise social contribution and progressive green projects and assets

Taxonomy encourages differentiation through transparency



E.g. RE project coupled with a skills development programme for the project can disclose its co-benefit, and investors may prefer this projects over others that don't

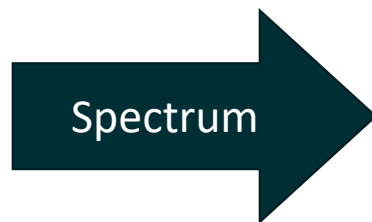
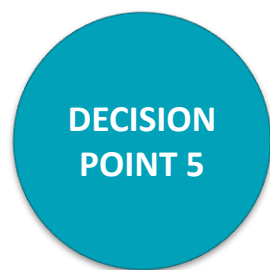
DECISION POINT 4

Pros: Narrows the focus for the first development and thereby simplifies development, can reference policy and international practice; recognises need for these projects to support green economy development and gives recognition for voluntary action, encouraging better practice

How deep does the SA taxonomy go, and do we lead development or take advantage of international development progress

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

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



Pros: Greatest developmental effort is externalised, relatively simple to adopt or adapt, examples already underway so minimal wait, greater likelihood for alignment

Cons: Lesser opportunity to influence result, development timeframe necessitates we follow behind

Pros: Allows innovation and greater influence of end result, leadership contribution to taxonomic issues

Cons: Significant developmental effort, potential departure from our example, fragmentation likely as others pursue this same aspiration at present

The main points of guidance from the TWG were

- **6 environmental objectives**; focus on **climate change mitigation and adaptation categories** for now
- **Adopt-and-adapt** approach; with **some alignment to EU Taxonomy**
- **For this version, attempt as broad a coverage as feasible**
- **Do no harm principle must apply for social dimensions** of any activities – **minimum social safeguards to be integrated**
- ‘Green’ taxonomy **activities should be included on the basis of environmental impact**, provided they conform to social safeguard requirements and ‘do no harm’ principle
- For “adapting” the adopted standards, it is agreed that **the draft in development will highlight where these divergences happen, and consult on each instance** to gain consensus on an approach
- **Principles and requirements around transitional activities’** included
- **Green default monitoring should be considered in some form**, though the details need to be developed
- **Green value chains need to be included or recognised** – potentially far up- and downstream in the value chain, but can be done in phases

We would really appreciate your completing a survey on these key decision points. The survey will provide an opportunity to express your preferences on these important questions and will help inform our next development stages especially concerning

- Green focus areas – **themes, sectors, technologies, applications**
- Priorities for development
- Aspects of the development approach
- Capacity considerations

To complete the Taxonomy Survey, please go to the following link –
it should take approximately 20 minutes:

https://www.surveymonkey.com/r/South_African_Green_Finance_Taxonomy_User_Needs_and_Perspectives_Survey

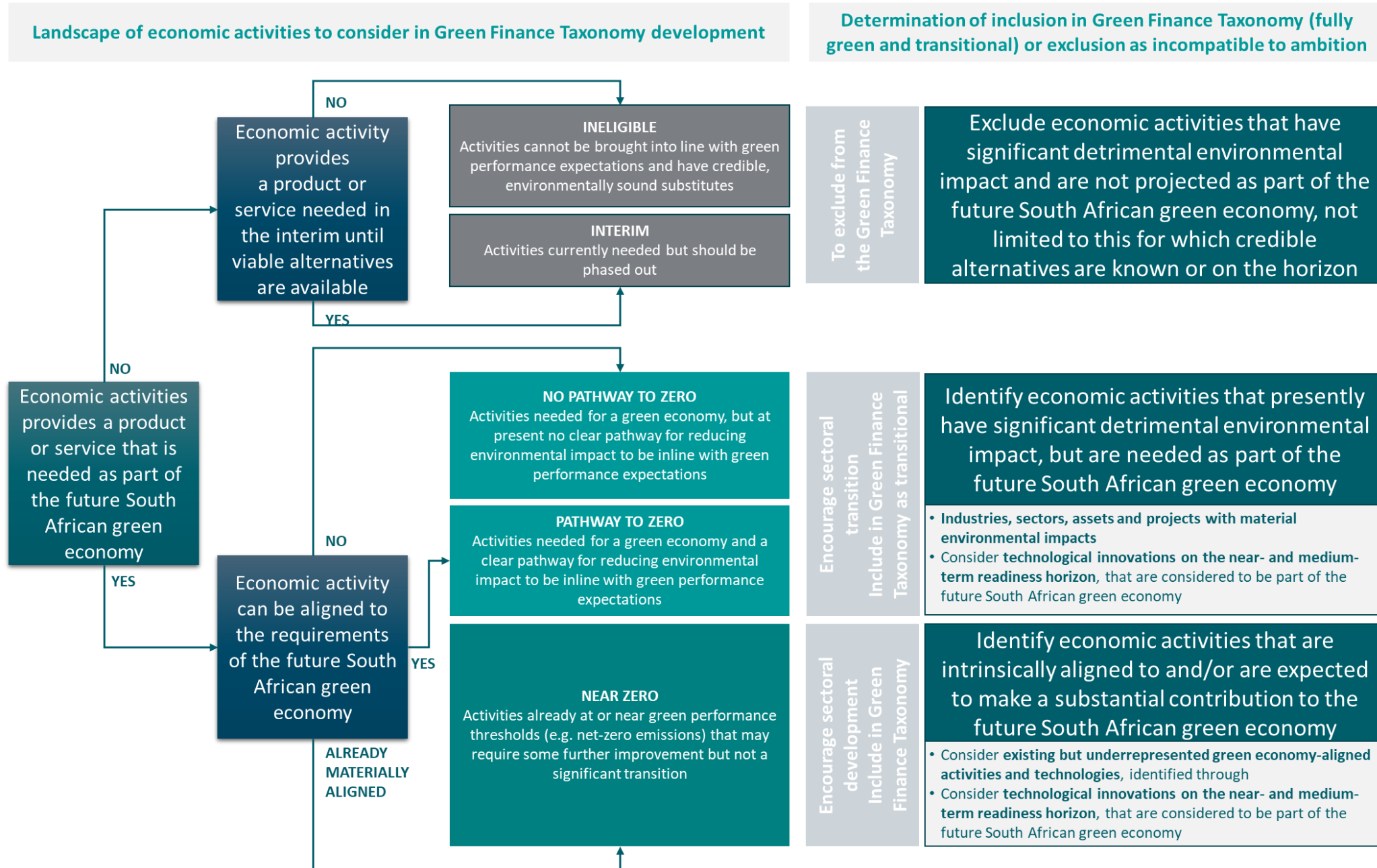
Please submit your response by 30 October 2020

Break



Sectors and projects

We've proposed a framework to guide what sectors and activities are included



We've progressed the process of adopt-and-adapt international example

Starting point to identify activities

Build matrix and catalogue of economic activities identified in the EU Taxonomy, as being *as a minimum* consistent with 'Make Significant Contribution' and 'Do No Significant Harm' principles (as developed for Climate Change Mitigation and Climate Change Adaptation environmental objectives)

Early validation of starting point

Validate the relevance of the economic activities introduced from the EU Taxonomy by considering **significance of South African sectoral emissions contribution*** and **South African adaptation needs**** and remove or streamline entries if relevant

Introduce South African activities

Build on starting point, by adapting or adding activity entries not yet covered, by considering activities identified for action in South African policy and innovation landscape

...identify (NO) PATHWAY TO ZERO economic activities relevant to South Africa, reviewed

...identify NEAR ZERO economic activities relevant to South Africa, reviewed

Leverage international materials

- Reapply the frameworks developed by the EU Taxonomy for specifying activity attributes and relevance
 - Reapply EU Taxonomy standards as foundation
- Include and tailor applicable financial disclosure guidance

Adapt foundations to South African context

- Consolidated EU Taxonomy standards into fewer, more consolidated standards for respective economic activities
- Where EU-specific policy instruments were identified, these are struck out and
 - replaced with relevant South African policy instruments where these exist
 - replaced with non-jurisdictional references, where relevant South African policy instruments do not yet exist
- Where EU-specific performance thresholds were identified, these are
 - struck out and replaced with relevant South African thresholds where these have been defined and are consistent with international performance benchmarks
 - retained as 'fully green' performance standards, whilst being supplemented with 'transitional' performance benchmarks being from the thresholds published in South African regulations (being substantially poorer environmental performance)

Engage with stakeholders, experts and users to

- Identify economic activities that are not yet included but are considered part of the vision for South Africa's green economy
- Study case-by-case differences between international practice and South African context for developing localised standards
- Validate expectations for 'transitional' versus 'fully green' performance thresholds
- Validate expectations for social contribution and just transition

**How you might start to identify
green projects
using the taxonomy?**

The user navigation with the Taxonomy Draft Zero begins with a matrix

Agriculture, forestry, fisheries and land-use	Industry	Industry	Energy	Energy	Water and Waste	Water and Waste	Transportation	ICT	Construction	Enabling activities, system resilience & innovation	Social Resilience
Forestry and land Rehabilitation [Section-3.1.1]	Manufacture of low-carbon and resource efficiency technologies [Section-3.3.1]	Manufacture of low-carbon resources [section-no.]	Production of electricity, heating and cooling from Solar-PV, Concentrated Solar Power, Wind Power and Ocean Energy [section-no.]	Storage of Thermal Energy [section-no.]	Water collection, storage, distribution, treatment and supply [section-no.]	Permanent Sequestration of Captured CO2 [section-no.]	Passenger rail transport (interurban) [section-no.]	Data processing, hosting and related activities [section-no.]	Construction of new buildings [section-no.]	Insurance [section-no.]	Education [section-no.]
Crop Production [section-3.1.2]	Manufacture of Cement [Section-xxx]	Pollution prevention and control [section-no.]	Production of electricity, heating and cooling from Hydropower [section-no.]	Storage of Hydrogen [section-no.]	Centralised wastewater treatment [section-no.]	Water monitoring [section-no.]	Freight rail transport [section-no.]	Data driven solutions for GHG emission reductions [section-no.]	Building renovation [section-no.]	R&D and innovation [section-no.]	Skill development [section-no.]
Livestock Production [Section-Exxx]	Manufacture of Aluminium [Section-Exxx]	Reuse, redistribution, refurbishment and recycling facilities [section-no.]	Production of electricity, heating and cooling from Geothermal [section-no.]	Retrofit of Gas Transmission and Distribution Networks [section-no.]	Anaerobic digestion of sewage sludge [section-no.]	Flood defence [section-no.]	Commuter transport [section-no.]		Individual measures and professional services [section-no.]	Early warning systems [section-no.]	Knowledge management [section-no.]
Ecosystem Conservation [Section-3.2]	Manufacture of Iron, Steel and ferroalloys [Section-Exxx]	Environmental services [section-no.]	Production of electricity, heating and cooling from Gas [section-no.]	District Heating/Cooling Distribution [section-no.]	Separate collection and transport of non-hazardous waste in source segregated fractions [section-no.]	Nature based solutions [section-no.]	Infrastructure for low-carbon transport (land transport) [section-no.]		Acquisition and ownership [section-no.]	Disaster risk prevention [section-no.]	'Working for' programmes [section-no.]
Fisheries and Aquaculture [Section-3.2]	Manufacture of Hydrogen [Section-3.3.5]	Remanufacturing of electromechanical products [section-no.]	Production of electricity, heating and cooling from Bioenergy [section-no.]	Installation and operation of Electric Heat Pumps [section-no.]	Anaerobic digestion of bio-waste [section-no.]	Reuse, redistribution, refurbishment, recycling storage and handling infrastructure	Passenger cars and commercial vehicles [section-no.]		Sustainable cities/resilient infrastructure [section-no.]	Sustainability certifications [section-no.]	

This points the user to the specific technical standards subsection to consult

(Our icons help us track our development progress and initial coverage)

The taxonomy can be used to identify projects which are green – on the basis that these types of projects are in the taxonomy, and the specific projects meet the technical criteria



EXAMPLE

A team has a series of projects and initiatives it wants to evaluate –

- **An inter-urban passenger rail project**
- **An EV mini-bus financing scheme**
- **A degraded land rehabilitation project**

The team would like to understand whether these projects are ‘green’.

The taxonomy matrix would be a starting point, to find what’s included in the taxonomy.

The taxonomy can be used to identify projects which are green



Agriculture, forestry, fisheries and land-use	Industry	Industry	Energy	Energy	Water and Waste	Water and Waste	Transportation	ICT	Construction	Enabling activities, system-resilience & innovation	Social Resilience
Forestry and land Rehabilitation [Section-3.1.1]	Manufacture of low-carbon and resource-efficiency technologies [Section-3.3.1]	Manufacture of low-carbon resources [section-no.]	Production of electricity, heating and cooling from Solar-PV, Concentrated Solar Power, Wind Power and Ocean Energy [section-no.]	Storage of Thermal Energy [section-no.]	Water collection, storage, distribution, treatment and supply [section-no.]	Permanent Sequestration of Captured CO2 [section-no.]	Passenger rail transport (interurban) [section-no.]	Data processing, hosting and related activities [section-no.]	Construction of new buildings [section-no.]	Insurance [section-no.]	Education [section-no.]
Crop Production [section-3.1.2]	Manufacture of Cement [Section-xxx]	Pollution prevention and control [section-no.]	Production of electricity, heating and cooling from Hydropower [section-no.]	Storage of Hydrogen [section-no.]	Centralised wastewater treatment [section-no.]	Water monitoring [section-no.]	Freight rail transport [section-no.]	Data-driven solutions for GHG emission reductions [section-no.]	Building renovation [section-no.]	R&D and innovation [section-no.]	Skill development [section-no.]
Livestock Production [Section-Exxx]	Manufacture of Aluminium [Section-Exxx]	Reuse, redistribution, refurbishment and recycling facilities [section-no.]	Production of electricity, heating and cooling from Geothermal [section-no.]	Retrofit of Gas Transmission and Distribution Networks [section-no.]	Anaerobic digestion of sewage sludge [section-no.]	Flood defence [section-no.]	Commuter transport [section-no.]		Individual measures and professional services [section-no.]	Early warning systems [section-no.]	Knowledge management [section-no.]
Ecosystem Conservation [Section-3.2]	Manufacture of Iron, Steel and ferroalloys [Section-Exxx]	Environmental services [section-no.]	Production of electricity, heating and cooling from Gas [section-no.]	District Heating/Cooling Distribution [section-no.]	Separate collection and transport of non-hazardous waste in source-segregated fractions [section-no.]	Nature-based solutions [section-no.]	Infrastructure for low-carbon transport (land transport) [section-no.]		Acquisition and ownership [section-no.]	Disaster risk prevention [section-no.]	'Working for' programmes [section-no.]
Fisheries and Aquaculture [Section-3.2]	Manufacture of Hydrogen [Section-3.3.5]	Remanufacturing of electromechanical products [section-no.]	Production of electricity, heating and cooling from Bioenergy [section-no.]	Installation and operation of Electric Heat Pumps [section-no.]	Anaerobic digestion of bio-waste [section-no.]	Reuse, redistribution, refurbishment, recycling storage and handling infrastructure	Passenger cars and commercial vehicles [section-no.]		Sustainable cities/resilient infrastructure [section-no.]	Sustainability certifications [section-no.]	



The taxonomy can be used to identify projects which are green



An inter-urban passenger rail project

Also – now that the team thinks about it – the enabling infrastructure they want to support might be included!

From this initial scan, it's not clear if this ? project might be included....

An EV mini-bus financing scheme



The taxonomy can be used to identify projects which are green

The team consults the list of standards to find those they need to consider further

The team consults the technical details of the project against the technical standard to understand whether it complies

3.9	Transportation	102
3.9.1	Passenger rail transport (interurban)	102
3.9.2	Freight rail transport.....	103
3.9.3	Commuter transport.....	104
3.9.4	Infrastructure for low carbon transport (land transport)	107
3.9.5	Passenger cars and commercial vehicles	109
3.9.6	Freight transport services by road	110
3.9.7	Inland passenger water transport.....	112
3.9.8	Inland freight water transport	114
3.9.9	Infrastructure for low carbon transport (water transport).....	115
3.10	Transportation activities to be developed in future	117

3.9.1 Passenger rail transport (interurban)

Sector classification and activity	
Macro-Sector	Transportation and storage
SIC Code	49110
Description	Passenger Rail Transport (Interurban)
Make Significant Contribution criteria	
Climate Change Mitigation	
Principle	Demonstrate substantial GHG emission reduction by: <ul style="list-style-type: none"> Increasing the number of low- and zero emission fleets, and improving fleet efficiency; and Improving efficiency of the overall transport/mobility system
Metric and Threshold	<ul style="list-style-type: none"> Zero direct emissions trains are eligible, provided energy sources are eligible under this taxonomy. Other trains are eligible if direct emissions and indirect (TTW) are below 50g CO₂e emissions per passenger kilometre (gCO₂e/pkm) until 2025 (non-eligible thereafter) <p>Brief rationale: Zero direct emissions rail (e.g. low carbon electricity, hydrogen) is eligible because:</p> <ul style="list-style-type: none"> With the present energy mix, the overall emissions associated with zero direct emissions rail transport (i.e. electric or hydrogen) are among the lowest compared with other transport modes. The generation of the energy carriers used by zero direct emissions transport is assumed to become low or zero carbon in the near future <p>The threshold of 50 gCO₂e/pkm until 2025 ensures that the carbon intensity remains similar to criteria for eligible road vehicles with low occupation factor (50 gCO₂/vkm) and significantly</p>
Climate Change Adaptation	
Depending on the primary objective of the activity, refer to: <ul style="list-style-type: none"> Screening criteria for activities making a substantial contribution to climate change adaptation Screening criteria for adapted activities Screening criteria for an activity enabling adaptation Users of the Taxonomy should identify and explain which criteria they are responding to.	
Do No Significant Harm assessment	

Let's argue the project doesn't meet the 50g CO₂e/pkm threshold – could the team make the business case for the project to be enhanced through power sourcing that allows this? Or increase utilisation to reduce per passenger-kilometre emissions?

The taxonomy could also be used to define targets for improved environmental performance on planned projects!



The taxonomy can be used to identify projects which are green

The team consults the list of standards to find those they need to consider further

3.9	Transportation	102
3.9.1	Passenger rail transport (interurban)	102
3.9.2	Freight rail transport.....	103
3.9.3	Commuter transport.....	104
3.9.4	Infrastructure for low carbon transport (land transport)	107
3.9.5	Passenger cars and commercial vehicles	109
3.9.6	Freight transport services by road	110
3.9.7	Inland passenger water transport.....	112
3.9.8	Inland freight water transport	114
3.9.9	Infrastructure for low carbon transport (water transport).....	115
3.10	Transportation activities to be developed in future	117

The team consults the technical standard and believes the “commuter transport category applies, based on the description. The EV minibuses would satisfy the technical specification

3.9.3 Commuter transport

Sector classification and activity	
Macro-Sector	Transportation and storage
SIC Code	49210
Description	Urban and suburban passenger land transport (public transport)
Make Significant Contribution criteria	
Climate Change Mitigation	
Principle	Demonstrate substantial GHG emission reduction by: <ul style="list-style-type: none"> Increasing the number of low- and zero emission fleets, and improving fleet efficiency Increasing substitution of fossil fuels with sustainable alternative and net-zero carbon fuels Improving efficiency of the overall transport/mobility system
Metric and Threshold	CO ₂ e emissions per passenger- kilometre (gCO ₂ e/pkm). <ul style="list-style-type: none"> Zero direct emissions land transport activities (e.g. light rail transit, metro, tram, trolleybus, bus and rail) are eligible. Dedicated vehicles solely using advanced biofuels or renewable liquid and gaseous transport fuels of non-biological origin as defined in Art. 2 (34) and Art. 2 (36) in line with Directive (EU) 2018/2001, guaranteed either by technological design or ongoing monitoring and third-party verification. In addition, for an investment in new vehicles, only vehicles with efficiency corresponding to direct emissions below 95g CO₂ e /pkm (including biogenic CO₂) are eligible. Eligibility should be reviewed latest by 2025, or when Directive (EU) 2018/2001 is reviewed. Other fleets are eligible if direct emissions are below 50 gCO₂e/pkm until 2025 (non-eligible thereafter) <p>Brief rationale: Zero direct emissions public transport (e.g. electric, hydrogen) is eligible because:</p> <ul style="list-style-type: none"> With the present energy mix, the overall emissions associated with zero direct emissions public transport (i.e. electric or hydrogen) are among the lowest compared with other transport modes. The generation of the energy carriers used by zero direct emissions transport is assumed to become low or zero carbon in the near future. <p>The threshold of 50 gCO₂e/pkm until 2025 ensures that the carbon intensity remains similar to criteria for eligible road vehicles with low occupation factor (50 gCO₂/vkm) and significantly lower than emissions for an average car.</p>



The taxonomy can be used to identify projects which are green

A degraded land rehabilitation project



The team identifies this listing in the matrix and goes to look at the standard

Agriculture, forestry, fisheries and land use
Forestry and land Rehabilitation [Section 3.1.1]
■
Crop Production [section 3.1.2]
■
Livestock Production [Section 3.1.3]
■
Ecosystem Conservation [Section 3.2]
■ ●

3.1.1 Forestry and Land Rehabilitation

Sector classification and activity	
Macro-Sector	Agriculture, forestry and fishing
SIC Code	02
Description	<p>Afforestation, Reforestation, Existing Forest Management, Conservation Forestry, Rehabilitation and Restoration Forestry and Land Rehabilitation</p> <p>Forestry and Land Rehabilitation includes:</p> <p>Afforestation Afforestation is defined as the establishment of forest through planting and/or deliberate seeding on land that, until then, was under a different land use, implies a transformation of land use from non-forest to forest¹</p> <p>Reforestation Reforestation is defined as the re-establishment of forest through planting and/or deliberate seeding on land classified as forest. It implies no change of land use, includes planting/seeding of temporarily un-stocked forest areas as well as planting/seeding of areas with forest cover. It includes coppice from trees that were</p>

This is a long one... the team has to read to the end of the section to see – yes, our project fits this description!

Rehabilitation, Restoration

The Taxonomy defines rehabilitation/restoration as any intentional activity that initiates or accelerates the recovery of an ecosystem from a degraded state⁵



The taxonomy can be used to identify projects which are green

The team *now* has to consider whether the project meets the technical criteria to count as taxonomically-aligned

The team checks the mitigation and adaptation requirements.

The team doesn't have enough data to tell whether the mitigation requirements are met – they will need to do some more homework

But the project can meet the adaptation requirements. The project makes “significant contribution to at least one environmental objective” – and therefore is taxonomically-aligned

Under climate change mitigation

<p>Metric and Threshold</p> <p>?</p> <p>?</p> <p>?</p>	<ul style="list-style-type: none"> Continued Application of the Climate Bonds Initiative's Forestry and Land Conservation & Restoration Criteria compliance with the Sustainable Forest Management (SFM) requirements is demonstrated and disclosed at 10-year intervals through a forest management plan (or equivalent) that shall be reviewed by an independent third-party certifier and/or competent authorities (as described in Criteria 3). Verified GHG balance baseline is calculated for above-ground carbon pools, based on growth-yield curves for species per m3/year/ha, carbon convertible. Calculating the GHG balance baseline requires knowledge of the area, the species and number of trees (in case of afforestation and reforestation). Using the growth-yield curves, information will be given on the annual increment in m3/year/ha, which can be used for the basis of the GHG balance. The methodology is consistent with the approach in the Revised 1996 IPCC Guidelines for National Greenhouse Gas Inventories (IPCC Guidelines), it recommends recalculation of the amount of carbon sequestered; 1 ton of biomass representing approximately 0,5 ton of carbon. Further one ton of carbon equals 44/12 = 3.67 tons of carbon dioxide. Above ground Carbon stocks shall increase above carbon baseline over a period of 20 years. Changes in carbon stocks should be disclosed based on growth yield curves in 10 year intervals through a forest management plan (or equivalent instrument⁷) that shall be reviewed by an independent third-party certifier and/or competent authorities (as described in Criteria 3)⁸.
--	--

Under climate change adaptation

<p>Depending on the primary objective of the activity, refer to:</p> <ul style="list-style-type: none"> • Screening criteria for activities making a substantial contribution to climate change adaptation • Screening criteria for adapted activities • Screening criteria for an activity enabling adaptation <p>Users of the Taxonomy should identify and explain which criteria they are responding to.</p> <p><u>Non-exhaustive list of examples of measures that can contribute to Adaptation of Forestry activities:</u></p> <p>The activity itself can be made climate-resilient through different measures, such as:</p> <ul style="list-style-type: none"> • Use of early warning systems or wildfire control measures (to reduce damages due to wildfires enhanced by heat waves); • Use of regeneration material (species and ecotypes) less sensitive to strong wind or timely management of seedling stand and timely thinning (to reduce damage to forest stands from increased wind); • Use of species and ecotypes less susceptible to drought or diversification of species and ecotypes (to minimise tree losses due to lack of water availability).

We're looking to test multiple aspects of the Taxonomy Zero Draft

In particular, we're looking to test

- user experience in navigating the taxonomy
- completeness of the taxonomy's listing of the themes, sectors and activities
- the early-stage approach to key development and localisation challenges
- the details – as they are – of the technical standards

A more detailed catalogue breaks the matrix down further



Key

🕒 Own performance ➡ Transitional activity ⊕ Enabling activity ✓ Criteria developed ☐ Criteria to be developed in future Blue Text Re-titled EU adoption Purple SA addition, to be developed in future

Classification			Environmental Contributions												
Taxonomy sector	SIC-Macro-Sector	SIC-Activity	Make-substantial-contribution						Do-No-Significant-Harm						
			Climate-change-mitigation	Climate-change-adaptation	Sustainable-use-of-water-and-marine-resources	Sustainable-resource-use-and-circularity	Pollution-prevention	Ecosystem-protection-and-restoration	Climate-change-mitigation	Climate-change-adaptation	Sustainable-use-of-water-and-marine-resources	Sustainable-resource-use-and-circularity	Pollution-prevention	Ecosystem-protection-and-restoration	
Agriculture, forestry and fisheries	Agriculture, forestry and fishing	Forestry and land-Rehabilitation	🕒	🕒	☐	☐	☐	☐	☐	✓ ☐	✓ ☐	✓ ☐	☐	✓ ☐	✓ ☐
Agriculture, forestry and fisheries	Agriculture, forestry and fishing	Crop-Production													
Agriculture, forestry and fisheries	Agriculture, forestry and fishing	Livestock-Production													
Agriculture, forestry and fisheries	Agriculture, forestry and fishing	Ecosystem-Conservation													
Agriculture, forestry and fisheries	Agriculture, forestry and fishing	Fisheries and Aquaculture													
Agriculture, forestry and fisheries	Agriculture, forestry and fishing	Wildlife-Management													
Agriculture, forestry and fisheries	Agriculture, forestry and fishing	Eco-Tourism													
Industry	Manufacturing	Manufacture of low-carbon and resource-efficiency technologies													
Industry	Manufacturing	Manufacture of Cement													
Industry	Manufacturing	Manufacture of Aluminium													
Industry	Manufacturing	Manufacture of Iron and Steel and ferroalloys													
Industry	Manufacturing	Manufacture of Hydrogen													
Industry	Manufacturing	Manufacture of other inorganic basic chemicals	🕒	➡	🕒	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐

Open up this document:
 ✓ Matrix & catalogue

Open up the link in the chat box
 Login
 We'll walk you through the objectives

This provides the user with additional information on the basis of inclusion into the taxonomy

(Our colour coding is a tracking mechanism for the development phase – showing the localisation being undertaken)

The exercise deals with the activities and themes and activities listed in the matrix, catalogue and standards – do these reflect your needs & expectations?

- 1 Please list any of the projects / assets / activities that you would wish us to prioritise for standards development soonest. Or what is most important to you? (5 mins)
- 2 Please identify any further projects / assets / activities that you think should be in the taxonomy – but you don't see these. Or "Why is it not here – I think it fits the framework for inclusion!" (3 mins)
- 3 Please identify any projects / assets / activities that you think should not be in the listing as we have it now. Or "Why are these here – I don't think they should be!" (3 mins)

Green Finance Taxonomy Workshop 1 - Matrix of Sectors & Activities

	Manufacturing (Textiles, Leather, Lumber, Paper, Printing, Chemicals, Plastics, Metals, and Other)	Industry	Energy	Water and Waste	Transport	Construction	Information and Communication Technology	Infrastructure (Transport, Energy, and Buildings)	Social residence	Other sector suggestions

<https://ideafliip.com/contrib/s28tbuu7s6sf/z0YIMzdg2ZA9>

User guidance

User guidance in practically using the taxonomy is provided in 4 parts

Determine taxonomic-alignment

- This is the **core function of the taxonomy**
- A 5-step process that calls on the user to
 - **Follow the assessment steps** in context of the asset, project or activity under consideration
 - **Record the steps and the progressive results** of the assessment
 - **Come to a conclusion** – IN or NOT (taxonomically-aligned or not)*

Determine the financial metrics

- This is **supplemental guidance** aligned to international practice
- This might **only be applicable to some** users and uses
- **Financial metrics depend** on the user & financing approach
 - **Turnover, capex & opex**
 - **Asset-level, company-level, portfolio-level**
 - **Debt & equity funds**
 - **Bonds**

Identify & specify impact indicators

- The taxonomy is purely a **classification tool**
- However, it can
 - Be **linked to** platforms providing **suggested impact indicators**
 - **Make specific recommendations**

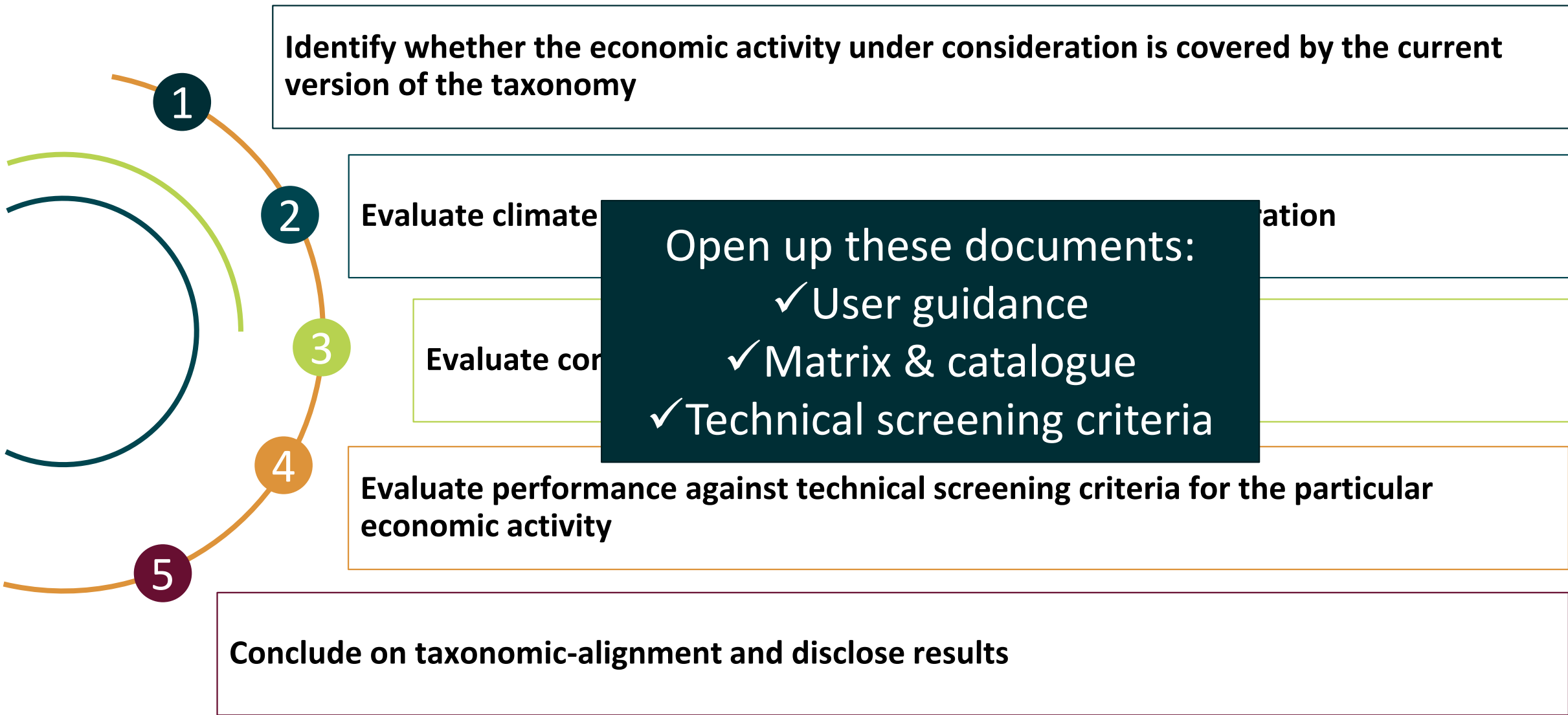
Provide transparency & disclose

- The taxonomy is purely a **classification tool**
- However, it can provide
 - Indication of **expected disclosure**
 - Provide basic templates to **encourage standardisation**

5-steps for determining taxonomic-alignment



The 5-steps for determining taxonomic-alignment



Step 1 – check the taxonomy coverage

1

Identify whether the economic activity under consideration is covered by the current version of the taxonomy

- Consult the [public repository] to **obtain the most current available taxonomy document** version
- **Refer to the taxonomy [matrix], [catalogue] and [technical screening criteria], to identify whether the economic activity is pre-qualified against MSC and DNSH principles**
- Determine whether **the relevant technical screening criteria is developed and available**
- If the economic activity is not listed in the taxonomy, or there is not a screening criteria yet developed and available,
 - the economic activity cannot be declared as taxonomically-aligned irrespective of the outcomes of the steps 2 – 4.
 - There may be a perspective that the economic activity is able to make a substantial contribution to an environmental objective, but technical screening criteria and performance thresholds for “substantial contribution” have not been developed yet.
 - In this case, it is recommended that application is made to the designated agency for consideration and further development of the green finance taxonomy.

Step 1 – check the taxonomy coverage



Identify whether the economic activity under consideration is covered by the current version of the taxonomy

1

- Obtain the most current available taxonomy document
- Refer to the taxonomy [matrix], [catalogue] and [technical screening criteria]
- Look at the relevant technical screening criteria (if available)

A cement company wants to renovate and adapt two of its biggest plants that contribute 50% of its turnover. The renovation of cement facilities includes retrofitting to reach high energy-efficiency levels, increasing the use of blended materials to reduce the clinker-to-cement ratio and the use of alternative clinkers and binders. A taxonomy user wants to determine whether the activity is covered by the current version of the taxonomy

Economic activity is listed in the taxonomy under the **Manufacture of Cement** activity of the **Manufacturing** macro-sector – *so move onto Step 2!*



Step 1 – check the taxonomy coverage

1

Identify whether the economic activity under consideration is covered by the current version of the taxonomy

- Obtain the most current available taxonomy document
- Refer to the taxonomy [matrix], [catalogue] and [technical screening criteria]
- Look at the relevant technical screening criteria (if available)

A taxonomy user wants to determine whether an aquaculture project under evaluation is taxonomically-aligned

IT'S THERE, BUT WE DON'T HAVE A STANDARD YET – WHAT NOW!?



Step 1 – check the taxonomy coverage

1

Identify whether the economic activity under consideration is covered by the current version of the taxonomy

- If the economic activity is not listed in the taxonomy, or there is not a technical standard yet developed and available

Please note down your thoughts – we will ask you to make your comments into a brief survey:
https://www.surveymonkey.com/r/Developing_a_National_Green_Finance_Taxonomy_Stakeholder_Workshop_Survey

aligned
 make a
 technical
 contribution”

have not been developed yet

- In this case, it is recommended that application is made to the designated agency for consideration and further development of the green finance taxonomy

Step 1 – check the taxonomy coverage

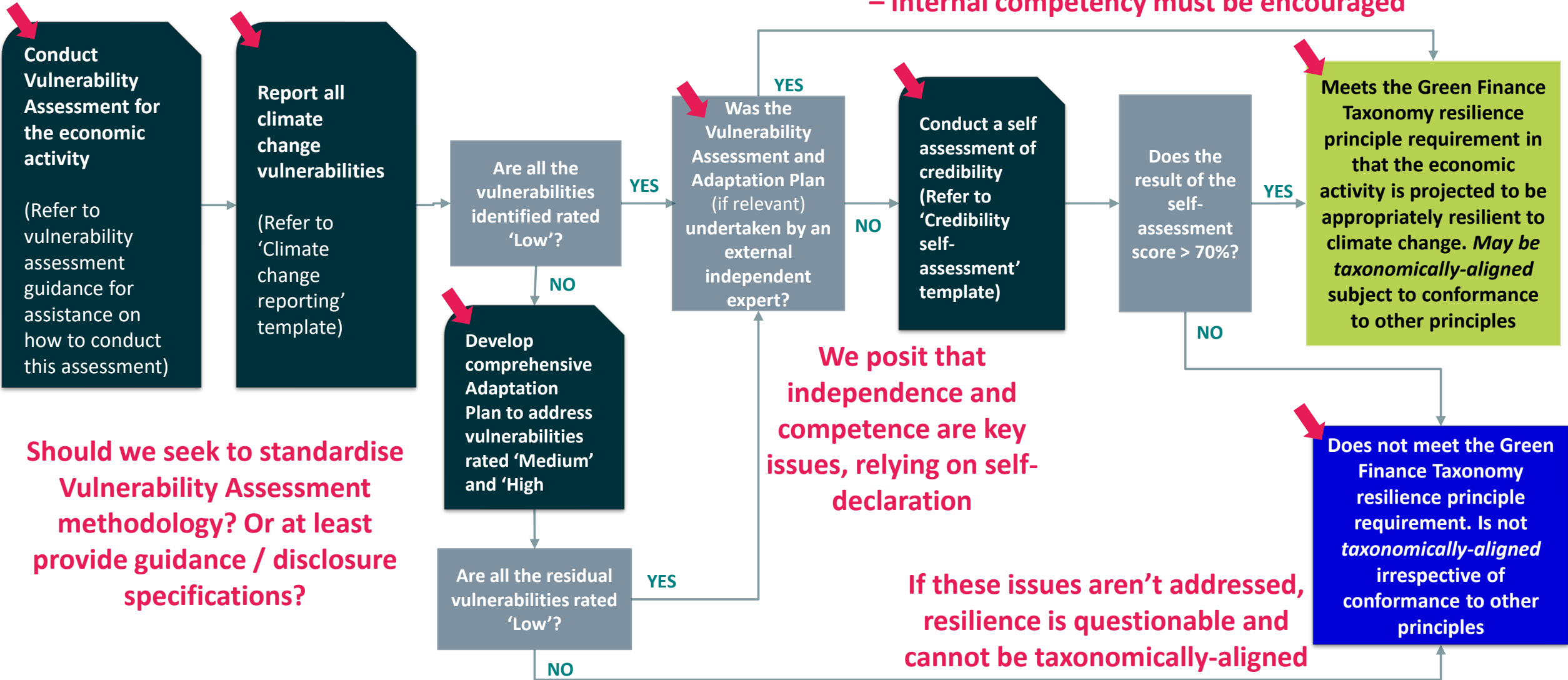


1 Identify whether the economic activity under consideration is covered by the current version of the taxonomy

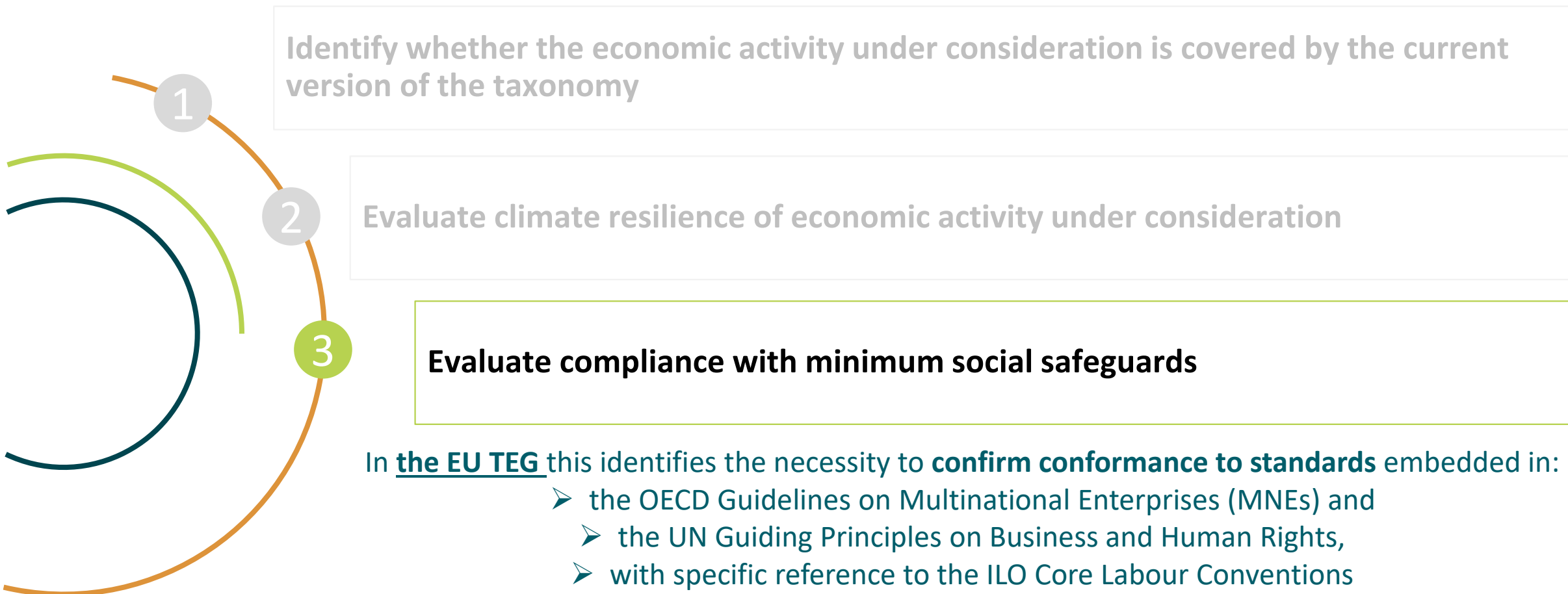
2 Evaluate climate resilience of economic activity under consideration

Step 1 – check the taxonomy coverage

This is not to make a market for service providers – internal competency must be encouraged



The 5-steps for determining taxonomic-alignment



The **EU taxonomy provides limited guidance on how taxonomy users assess this in practice** – directing the user or investor to self-assessment and due diligence using such as OECD Guidelines and Due Diligence Guidance for Responsible Business Conduct (RBC)

The 5-steps for determining taxonomic-alignment



1 Identify whether the economic activity under consideration is covered by the current version of the taxonomy

2 Evaluate climate resilience of economic activity under consideration

3 Evaluate compliance with minimum social safeguards

This is a minimum requirement and certainly non-negotiable!

South Africa has obligations under UN International Human Rights Laws and human rights are enshrined in our Constitution and implicitly and explicitly through national legislation

What is the form in which the South African taxonomy should set out compliance assessment guidance? Should the same type of referral be made?



The 5-steps for determining taxonomic-alignment



1 Identify whether the economic activity under consideration is covered by the current version of the taxonomy

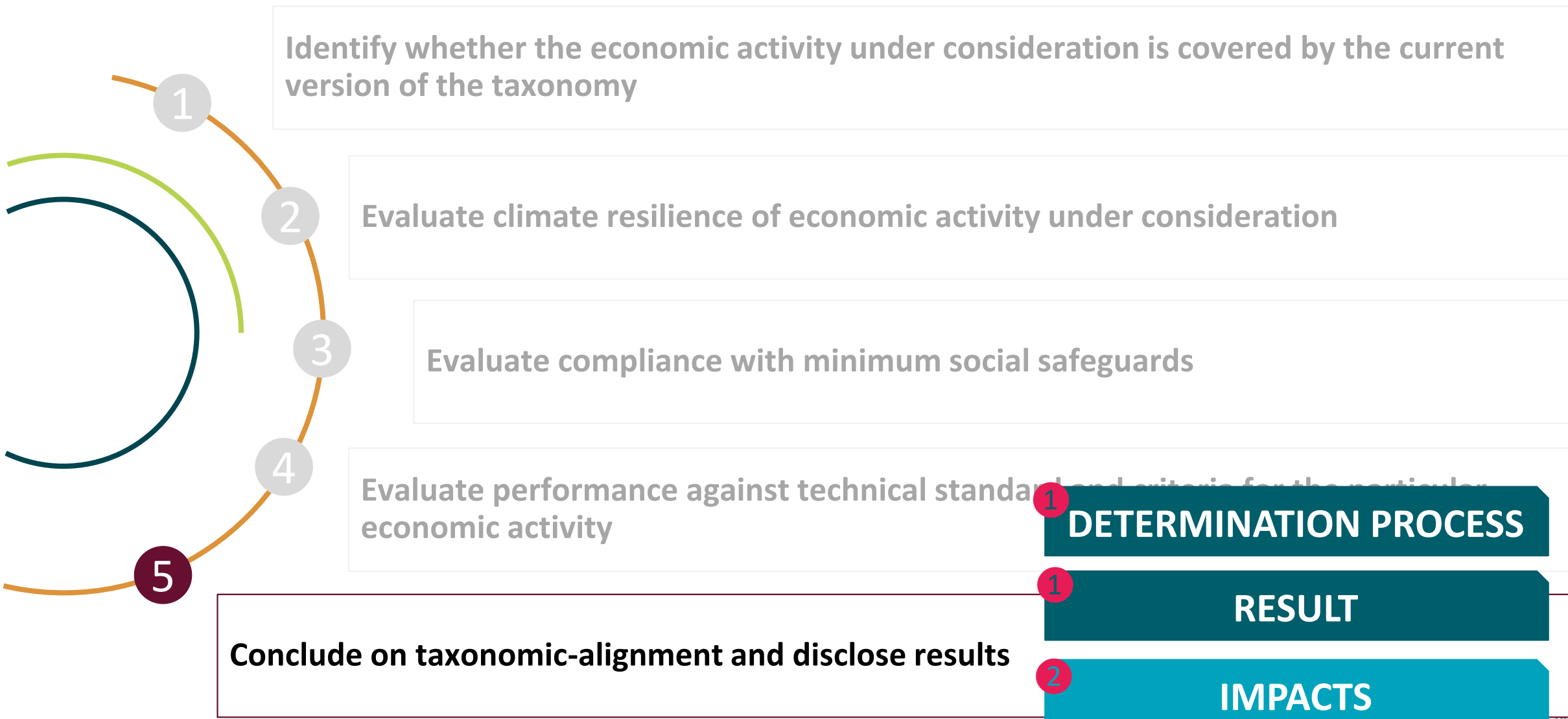
A cement company wants to renovate and adapt two of its biggest plants that contribute 50% of its turnover. The renovation of cement facilities includes retrofitting to reach high energy-efficiency levels, increasing the use of blended materials to reduce the clinker-to-cement ratio and the use of alternative clinkers and binders. A taxonomy user wants to determine whether the renovated facility will be taxonomically-aligned for substantial contribution to climate change mitigation. The renovated facility will achieve 0.45 tCO₂e/t cement produced.

4 Evaluate performance against technical standard and criteria for the particular economic activity

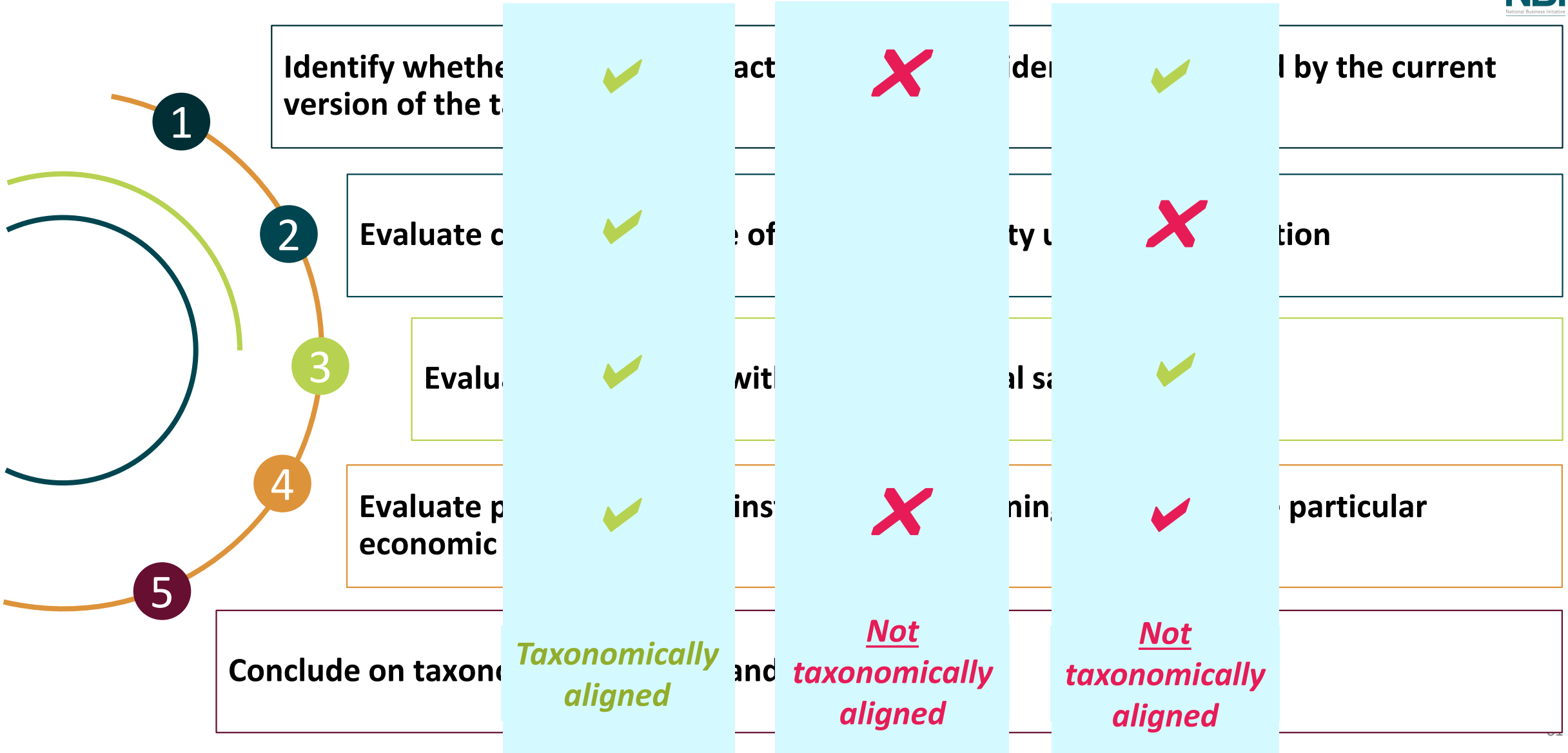
This renovated facility would meet this requirement because performance will come in under the MSC threshold for climate change (0.498 tCO₂e/t cement) – move onto Step 5!



The 5-steps for determining taxonomic-alignment



The 5-steps for determining taxonomic-alignment



The process for determining taxonomically-aligned finance

The taxonomy presents guidance on how to calculate taxonomy-aligned financial metrics for activities – derived from the EU TEG with only minor supplements

Financial Metric	Calculation approach of environmental objectives	
	All environmental objectives excluding climate change adaptation	Climate change adaptation
Turnover	<p>Can be counted where economic activity is taxonomy-aligned, making substantial contribution to the relevant MSC criteria of the environmental objective (not relevant to climate change adaptation) and relevant DNSH criteria.</p> <p>Turnover from a taxonomy-aligned economic activity can be counted on the basis that it can reach a level of environmental performance that is aligned with envisioned end state of the relevant environmental objective</p>	<p>Turnover can be recognised only for activities enabling adaptation</p> <p>Turnover cannot be recognised for adapted activities at this stage. The rationale is that adapting to climate change is an ongoing process that may not be final at any stage. Further guidance on this may be available in future</p>
Capital Expenditure and Operational Expenditure	<p>Can be counted where costs incurred (capex and, if relevant, opex) are part of a plan to meet taxonomy technical screening criteria for relevant MSC criteria of the environmental objective (not relevant to climate change adaptation) and relevant DNSH criteria</p>	<p>Can be counted where costs incurred (capex and, if relevant, opex) are part of a plan to meet Taxonomy technical screening criteria for substantial contribution to climate change adaptation and relevant DNSH criteria</p>

The taxonomy presents guidance on how to calculate taxonomy-aligned portfolios and instruments – derived from the EU TEG with only minor supplements

- 1 **Process to evaluate company-level turnover taxonomy-alignment**
- 2 **Proportion of funds with underlying Taxonomy-aligned constituents – equity investments**
- 3 **Proportion of funds with underlying Taxonomy-aligned constituents – fixed income (debt) investments**
- 4 **Process to evaluate green bond and green loan taxonomy-alignment**

We're going to use examples to explore these
Please open up these documents:
✓ User guidance

EXERCISE
3



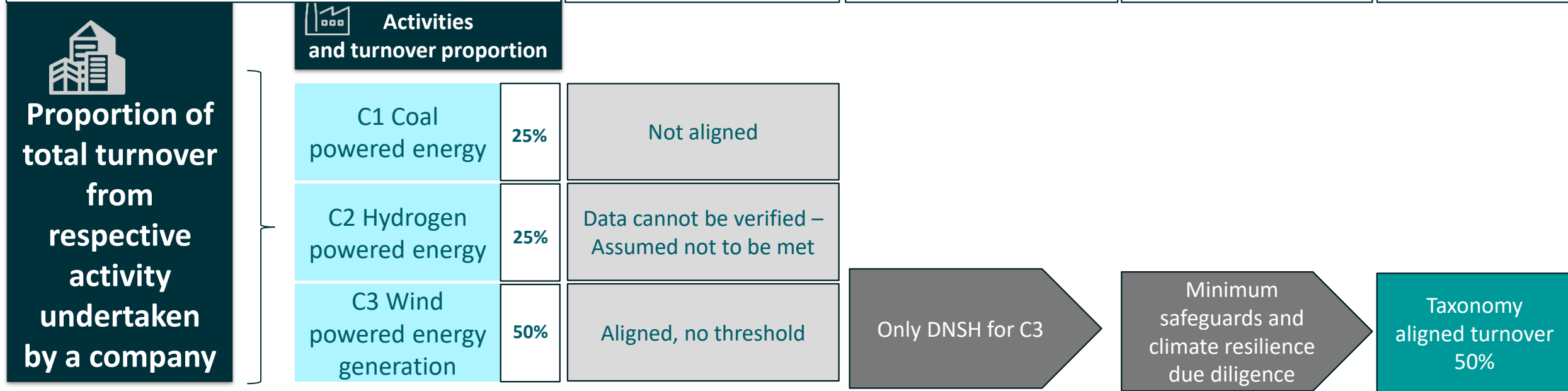
Walk through asset performance – project – to company financial metrics





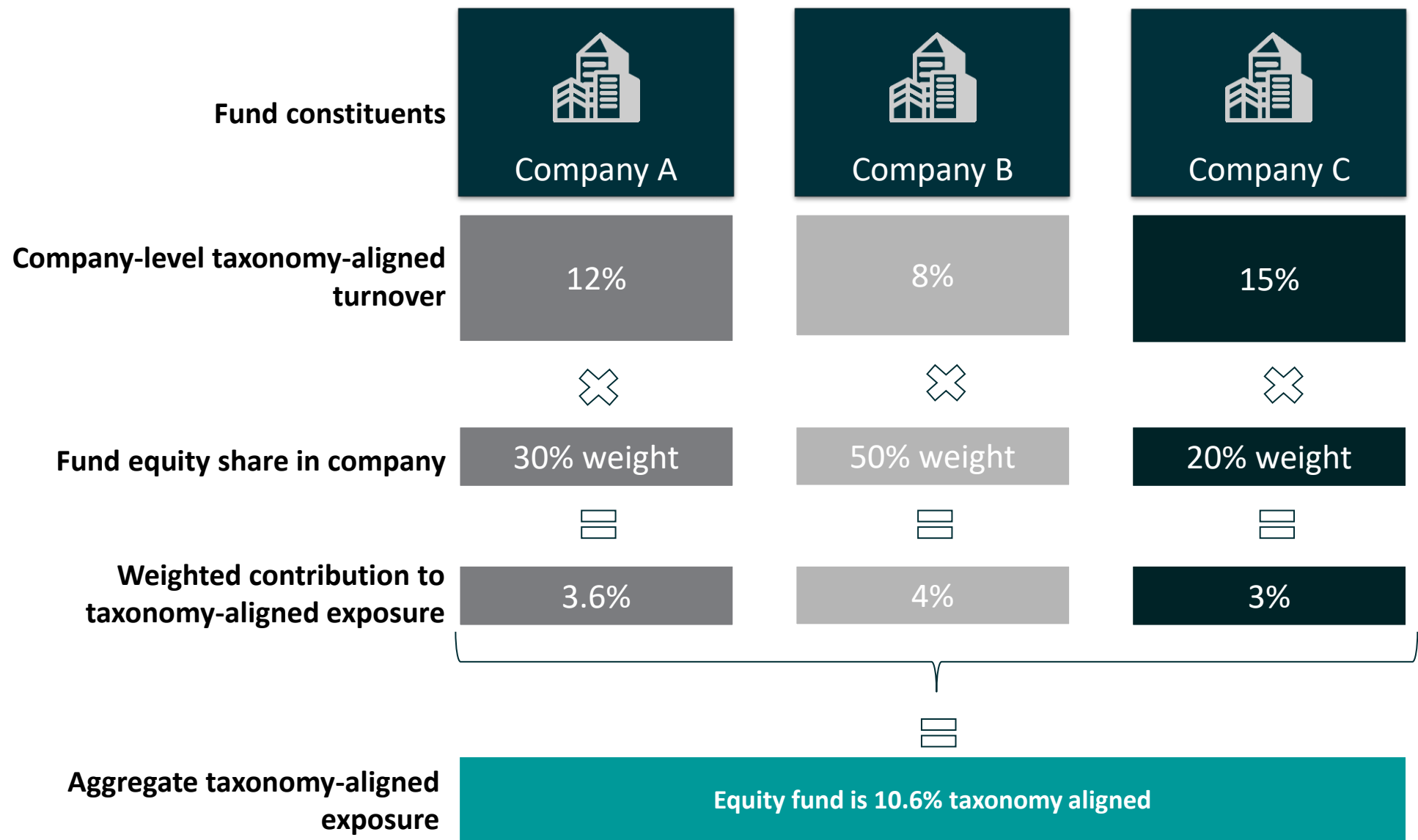
Walk through aggregating activities – to company financial metrics

Step 1	Step 2	Step 3	Step 4	Step 5
<p>Identify activities and turnover</p> <p>Identify the activities conducted by the company or issuer or those covered by the financial product that could be taxonomically-aligned, and for which environmental objective</p>	<p>Evaluate Substantial Contribution</p> <p>For each potentially aligned activity, determine whether the activity performance meets the relevant 'Make Significant Contribution' screening criteria as detailed in the taxonomy technical standard</p>	<p>Evaluate Do No Significant Harm</p> <p>For each potentially aligned activity and for the company under evaluation, perform necessary due diligence to verify that all 'Do No Significant Harm' criteria are being met as detailed in the taxonomy technical standard</p>	<p>Evaluate Minimum Safeguards and Climate Resilience</p> <p>For the company under evaluation, perform necessary due diligence to ensure minimum social safeguards are met For each potentially aligned activity, determine climate resilience in terms of the taxonomy guidance</p>	<p>Calculate turnover alignment</p> <p>Calculate taxonomy-alignment of investments at investment product level</p>










Walk through company – to portfolio financial metrics (equity fund example)





Walk through company – to portfolio financial metrics (debt fund example)

	 Corporate bond issuer A	 Corporate bond issuer B	 Corporate green bond issuer C	 Public sector bond issuer	 Public sector green bond issuer
Fund constituents	Corporate bond issuer A	Corporate bond issuer B	Corporate green bond issuer C	Public sector bond issuer	Public sector green bond issuer
Context	Bond Use of Proceeds includes capex/opex that is taxonomy-aligned	Corporate Bond with part of Issuer economic activities being taxonomy-aligned	Corporate verified Green Bond with Use of Proceeds fully taxonomy-aligned	No agreed methodology to disclose concerning public sector bonds that are not expressly for taxonomy-aligned capex or opex To be assumed zero	Public sector verified Green Bond with Use of Proceeds fully taxonomy-aligned
Percentage of Bonds taxonomy-aligned	15% of Use of Proceeds	8% of company turnover	100% of Use of Proceeds	To be assumed zero	100% of Use of Proceeds
	✗	✗	✗	✗	✗
Fund share in respective Bonds	30% weight	25% weight	20% weight	5% weight	20% weight
	=	=	=	=	=
Weighted contribution to taxonomy-aligned exposure	4.5%	2%	20%	0% weight	20%
	=				
Aggregate taxonomy-aligned exposure	Debt fund is 46.5% taxonomy aligned				

Indicators and disclosure

User guidance in practically using the taxonomy is provided in 4 parts

Determine taxonomic-alignment

- This is the **core function of the taxonomy**
- A 5-step process that calls on the user to
 - **Follow the assessment steps** in context of the asset, project or activity under consideration
 - **Record the steps and the progressive results** of the assessment
 - **Come to a conclusion** – IN or NOT (taxonomically-aligned or not)*

Determine the financial metrics

- This is **supplemental guidance** aligned to international practice
- This might **only be applicable to some** users and uses
- **Financial metrics depend** on the user & financing approach
 - **Turnover, capex & opex**
 - **Asset-level, company-level, portfolio-level**
 - **Debt & equity funds**
 - **Bonds**

Identify & specify impact indicators

- The taxonomy is purely a **classification tool**
- However, it can
 - Be **linked** to platforms providing **suggested impact indicators**
 - **Make specific recommendations**

Provide transparency & disclose

- The taxonomy is purely a **classification tool**
- However, it can provide
 - Indication of **expected disclosure**
 - Provide basic templates to **encourage standardisation**

We have not undertaken an exercise to identify exhaustive indicators lists, but can refer to international developments on this front

We have noted:

- ***ICMA Harmonized Framework for Impact Reporting***
- ***ICMA Social Bonds Working Towards a Harmonized Framework for Impact Reporting***
- ***ICMA Green, Social and Sustainability Bonds: A High -Level Mapping to the Sustainable Development Goals***
- ***WEF Measuring Stakeholder Capitalism Towards Common Metrics and Consistent Reporting of Sustainable Value Creation, White Paper***
- ***GRI Standards***
- ***SASB Materiality Map***
- ***UN SDGs Global indicator framework***

We suggest the taxonomy user refers to resources to determine impact and material indicators

*Concerning **social and socio-economic impacts**, we have not specified indicators, but **suggest including this distinctly in disclosure templates to encourage***

Comments?

Specific to social impact, the concept we have proposed allows and encourages social impact performance disclosure

Our questions to the workshop participants are as follows:

- Should taxonomy disclosure templates be created to allow space for self-determined social and socio-economic impact identification with associated indicators?
- Should we point to other disclosure templates and indicator listings and encourage the use of these?
- Should specific indicators be indicated by the taxonomy for disclosure?

Comments? Do you have a preference, or alternative suggestions?

We believe it will be useful to provide a *simple* disclosure template for taxonomy users to report, that covers the basic elements of evaluation, result and impact

We intend to develop a basic generic template with:

DETERMINATION PROCESS

RESULT

▪ **Taxonomic alignment assessment process**

A step-by-step process following the 4 prior steps taken to determine taxonomic-alignment, providing space to record:

- *Characteristics of the activity*
- *Details of the reporter*
- *Each distinct assessment process step's details and results*
- *The final determination result*

This will include transparency on:

- *Performance against specifics of the particular technical criteria*
- *Fully green versus transitional*
- *Resilience test results*

IMPACTS

▪ **Financial metrics**

The disclosure according to taxonomy guidance of taxonomically-aligned finance

▪ **Impact description and impact indicators**

Provides qualitative and quantitative impact description

Requests identification of impact indicators and quantitative specification of impact

Requests (distinctly) social and socio-economic impact

Comments?

What are the disclosure expectations from prospective investees?

E&S and impact reporting

- 1 Transparency
- 2 Credibility
- 3 Standards
- 4 Indicators
- 5 Format / platform

Transition approach

As a reminder, the green finance taxonomy is planned to be a component within a more encompassing sustainable finance taxonomy, *and has two constituents – ‘fully green’ and ‘transitionally green’*



The concept is that

- 1. Including transition activities is important to encourage financing our economic transition towards fully green*
- 2. There needs to be a way to identify transition activities distinctly*
- 3. The hurdles to recognising transition finance needs to be necessarily high, to discourage this ‘state’ from being the end point or the preferred destination*

Our current concept for including transition takes its lead from recent corporate bond issuance and investor concerns, and applies pragmatism and generalism



Differentiate the activity as ‘transitional’ – as distinct from ‘fully green’

Clear identification in disclosure that the taxonomically-aligned economic activity and the related finance is for ‘transition’



Provide further transparency, rationale and phase-out commitment



Disclose credible, substantiated quantitative information, and where not possible provide detailed explanation

We propose that 'transitional' status is determined from the standard, and request made in the disclosure templates



Differentiate the activity as 'transitional' – as distinct from 'fully green'

Clear identification in disclosure that the taxonomically-aligned economic activity and the related finance is for 'transition'

Step 1: Catalogue identifies activities that have transition specifications

Key			
🕒 Own performance		➡ Transitional activity	⊕ Enable
Classification			Climate-change-mitigation
Taxonomy-sector	SIC-Macro-Sector	SIC-Activity	
Agriculture, forestry and fisheries	Agriculture, forestry and fishing	Forestry and land Rehabilitation	🕒
Agriculture, forestry and fisheries	Agriculture, forestry and fishing	Crop Production	🕒
Agriculture, forestry and fisheries	Agriculture, forestry and fishing	Livestock Production	🕒
Agriculture, forestry and fisheries	Agriculture, forestry and fishing	Ecosystem Conservation	🕒
Agriculture, forestry and fisheries	Agriculture, forestry and fishing	Fisheries and Aquaculture	🕒
Agriculture, forestry and fisheries	Agriculture, forestry and fishing	Wildlife Management	🕒
Agriculture, forestry and fisheries	Agriculture, forestry and fishing	Eco-Tourism	🕒
Industry	Manufacturing	Manufacture of low-carbon and resource-efficiency technologies	🕒
Industry	Manufacturing	Manufacture of Cement	🕒
Industry	Manufacturing	Manufacture of Aluminium	🕒
Industry	Manufacturing	Manufacture of Iron and Steel and ferroalloys	🕒
Industry	Manufacturing	Manufacture of Hydrogen	🕒
Industry	Manufacturing	Manufacture of other inorganic basic chemicals	🕒

Step 2: Within the technical standards, suggested criteria and performance thresholds have been defined (that may tighten over time, and should be timebound to shorten inclusion horizon)

3.3.4 Manufacture of Iron, Steel and Ferroalloys

Metric and Threshold	MEET THE CRITERIA DEFINED BELOW
	Thresholds for manufacturing of iron and steel are separated into a transitional threshold and a green threshold.
	Transitional threshold considers the direct greenhouse gas emissions intensity benchmarks (IPCC 2006 guidelines methodology, GHG Protocol or ISO 14067:2018 guidelines where relevant methodology used for EU-ETS benchmarks) prescribed for the purposes of section 11 of The Carbon Tax Act, 2019 draft regulations ²⁹ and will be subject to periodical update.

Transition benchmark values for iron and steel manufacturing are:

- Iron and steel = 4.92 tCO₂e/t crude steel
- Ferrochrome = 6.48 tCO₂e/t ferrochrome
- Siliconmanganese = 7.43 tCO₂e/t ferrochrome Siliconmanganese

Manufacturing of iron and steel is eligible if the GHG emissions (calculated according to IPCC 2006 guidelines methodology used for EU-ETS benchmarks) associated to the production processes are lower than the values of the related EU-ETS benchmarks. As of February 2020, the EU-ETS Green benchmarks values for iron and steel manufacturing are:

- Hot metal = 1.328 tCO₂e/t product
- Sintered ore = 0.171 tCO₂e/t product
- Iron casting = 0.325 tCO₂e/t product
- Electric Arc Furnace (EAF) high alloy steel = 0.352 tCO₂e/t product
- Electric Arc Furnace (EAF) carbon steel = 0.283 tCO₂e/t product
- Coke (excluding lignite coke) = 0.286 tCO₂e/t product

All green new steel production, or combination of new and recycled steel production, is eligible if the emissions fall below the green thresholds above.

Additionally, all production of steel in EAF where at least 90% of the iron content in the final products is sourced from scrap steel is considered eligible. In this case, no other thresholds are applicable.

- Step 3:** Include a disclosure template that:
- Requires the reporter to identify the economic activity as 'transitional'
 - Documents a suite of information concerned with the assessment, context and commitments

Comments?

In this example, we must still see the time horizon for such not a... Let's get back to this!! constituents)

To note –

Some food for thought...

It is argued that **both the following are of significance to investors**:

- Emissions performance and timebound nature, i.e. **the activity / project / asset meets the criteria established and will be phased out**
- The context and intention of the economic operator, i.e. **Why is the transitional activity being undertaken and is it genuinely needed and appropriate?**

Comments?



Provide further transparency, rationale and phase-out commitment both at...

...activity level –

To demonstrate transition alignment, disclose further qualitative and quantitative disclosure concerning the economic activity, including:

- Rationale for the transitional activity – providing express explanation and quantitative specifications for the economic activity and comparison in terms of the following dimensions against comparable/relevant ‘fully green’ alternatives:
 - Significance of commercial and economic transformation
 - Contribution to environmental objectives
 - Particular demonstrable or attributable social and socio-economic contribution
 - Strategic relevance in terms of a transition plan
- Timeframe of the transitional activity (with specified sunset date)
- Detailed phase out planning for the activity

(Refer [disclosure template]).

...and entity level –

To substantiate transition alignment, An environmental impact reduction strategy must be available and:

- **Be aligned to the green economy ambition** identified for the environmental objectives expressed in this document, be that climate change and any of other objectives as relevant to the economic activity and entity
- **Be as – or more – ambitious than the prevailing national policy context** concerning the relevant environmental objectives
- **Include robust quantitative entity level transition pathway projections** and the related impact performance against the particular environmental objectives, from the time of disclosure to the point of meeting the ‘fully green’ criteria of the applicable standard
- **Specify the process followed to define the transition pathway projections** and related impact performance in detail
- **Demonstrate how the entity will follow the transition pathway**
- **Define the disclosure frequency and detail** that the entity will employ to demonstrate that transition is continuing at the necessary scale and pace
- **Identify the specific economic activity**, asset or project which is the subject of taxonomic-alignment assessment, and position it definitively in the context of the transition strategy overall.

We propose that ‘transitional’ status is determined from the standard, and request made in the disclosure templates

Comments?

We propose that 'transitional' status is determined from the standard, and request made in the disclosure templates



Disclose credible, substantiated quantitative information, and where not possible provide detailed explanation

This relies on a disclosure approach that encourages

- **demonstration of effort *and***
- **demonstration for (granular) detail**

which allows for interrogation

Question to participants: *Should we set out a disclosure template for these points?*

Comments?

Getting back to this!!

Some food for thought...

At present we do not have:

- Nationally determined sub-sectoral **decarbonisation trajectories** to instruct the decarbonisation rates that we could enforce as a blanket across all activities / projects / assets in that sub-sector (or sector), or
- A **means of identifying ‘head room’** in a national or sectoral budget suited to the task of **determining whether an individual activity / project / asset at a particular point in time satisfies a ‘transitionally green’ threshold and what the time horizon necessarily must be**

We might use international science-based decarbonisation trajectories such as IEA (2017) information as a starting point – or another alternative – to provide an indication of:

- Decarbonisation rates per major sector – applied to all within South African carbon intensive sectors without differentiation
- Provide differentiation between ambition levels

This does not align to current South African regulatory and legislative environment

Getting back to this!!

Option 1 for the taxonomy

Some food for thought...

Option 1

- We **set the performance threshold** on a basis like the carbon tax act regulations **where available**
- We set **no deadline for closure of the activity** to be recognised by the taxonomy
- **We leave it to the investor to make a decision** on investment appropriateness

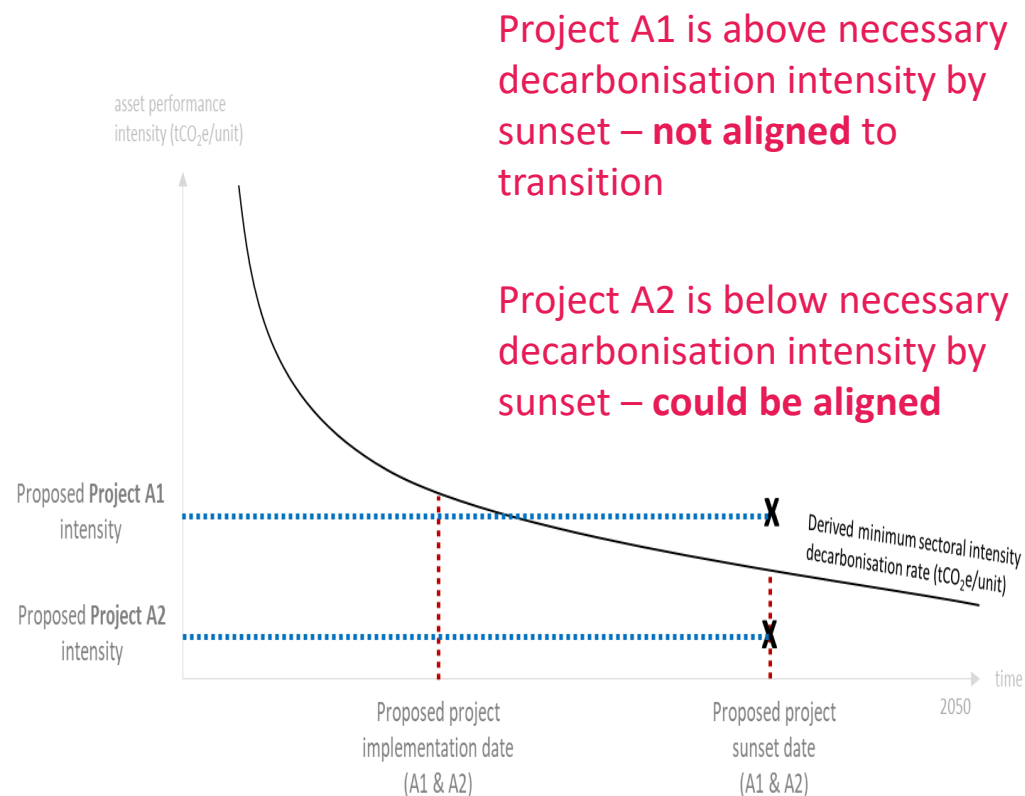
In the absence of decarbonisation trajectories and finite (allocated) carbon budgets at activity level (no way of determining “head space” and “efficiency”) it is difficult to make a rationale recommendation otherwise

Comments? Do you have a preference, or alternative suggestions?

Option 2

- We use an internationally determined sectoral decarbonisation trajectory (e.g. IEA) to provide an indication of intensity performance for a sector – and compare the proposed project

This remains complicated by the lack of more granular trajectories, datasets on national productivity per sector and a total budget to allocate from



Green default is a concern for any investment, but transitionally-green is of especial concern

Green default is a concern for any investment, but transitionally-green is of especial concern

- 1 To whom would responsibility (and agency) for monitoring green defaults fall?
- 2 Where and how would green defaults be reported?
- 3 How might such a process work?
- 4 Is this a matter between financiers/investors and companies (or the respective entity responsible for the declared project / asset / activity)?

Comments? Do you have a preference, or alternative suggestions?

Hindrances or conducive aspects for green investments to South Africa that the GFT might support or address

- 1 Sectors and projects
- 2 Alignment
- 3 Transparency
- 4 Impact performance and metrics
- 5 Financial metrics

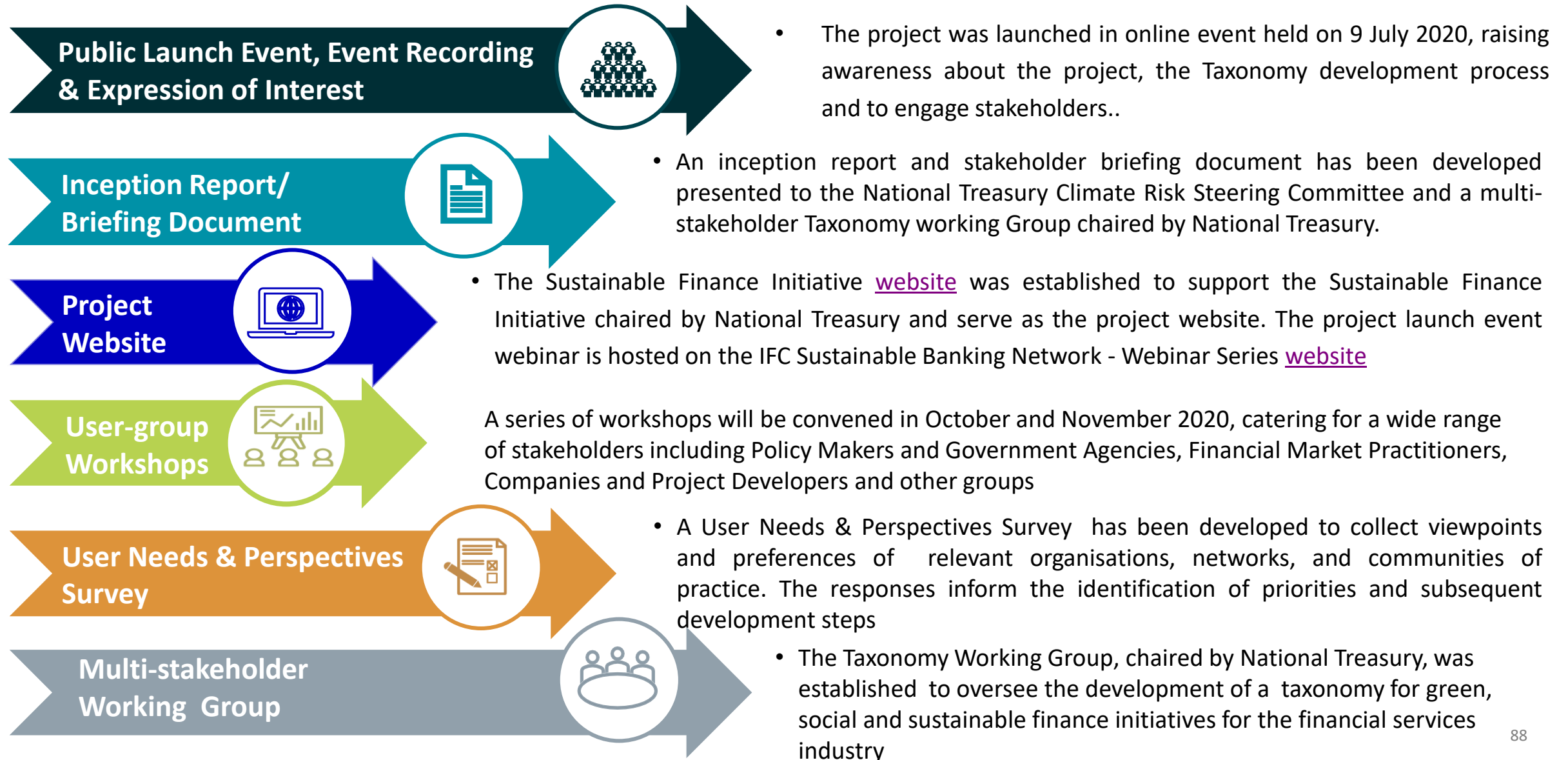
Coordination opportunities with parallel initiatives

- 1 Touchpoints
- 2 Cooperation
- 3 Integration and alignment
- 4 Timing

Wrap-up and closing thoughts



There are multiple stakeholder engagement and communication channels for the development of a National Green Finance Taxonomy



Beyond this workshop, your views and feedback are warmly invited

Your feedback should be sent to:

National Business Initiative (NBI)

Reitumetse Molotsoane

ReitumetseM@nbi.org.za

+27 (11) 544 6000

61 Katherine Street, Dennehof, Sandton, 2196

Please also keep an eye on the
Sustainable Finance Initiative portal for updates and materials

<http://sustainablefinanceinitiative.org.za/>

**Please complete the Taxonomy Survey,
it should take approximately 20 minutes:**

https://www.surveymonkey.com/r/South_African_Green_Finance_Taxonomy_User_Needs_and_Perspectives_Survey

Thank you for your kind attention
and valuable inputs