

South African Green Finance Taxonomy


Draft user guidance summary

June 2021



IN PARTNERSHIP WITH



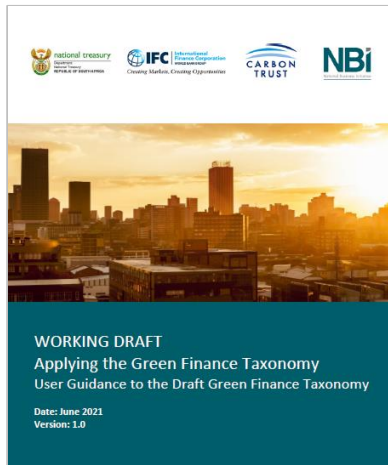
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Resources

The following materials are provided to support the test case use of the draft taxonomy



1. The Draft Green Finance Taxonomy User Guidance
Provides detailed guidance on how to use the Taxonomy



2. The Draft Green Finance Taxonomy
Provides the economic activities and standards against which alignment is tested

What is the Draft Green Finance Taxonomy?



The Draft Green Finance Taxonomy is the latest version of the draft South African taxonomy. It includes updates to the criteria based on feedback received from initial consultations on the ‘Zero-draft’ version, as well as further stakeholder input and international developments.

A listing of outstanding aspects of this taxonomy draft is maintained for reference.

Stakeholder feedback on all materials are encouraged.

What are the benefits of a Taxonomy?



Help the financial sector with clarity and certainty in selecting green investments in line with international best practice and South Africa's national policies and priorities



Reduce financial sector risks through enhanced management of environmental and social performance



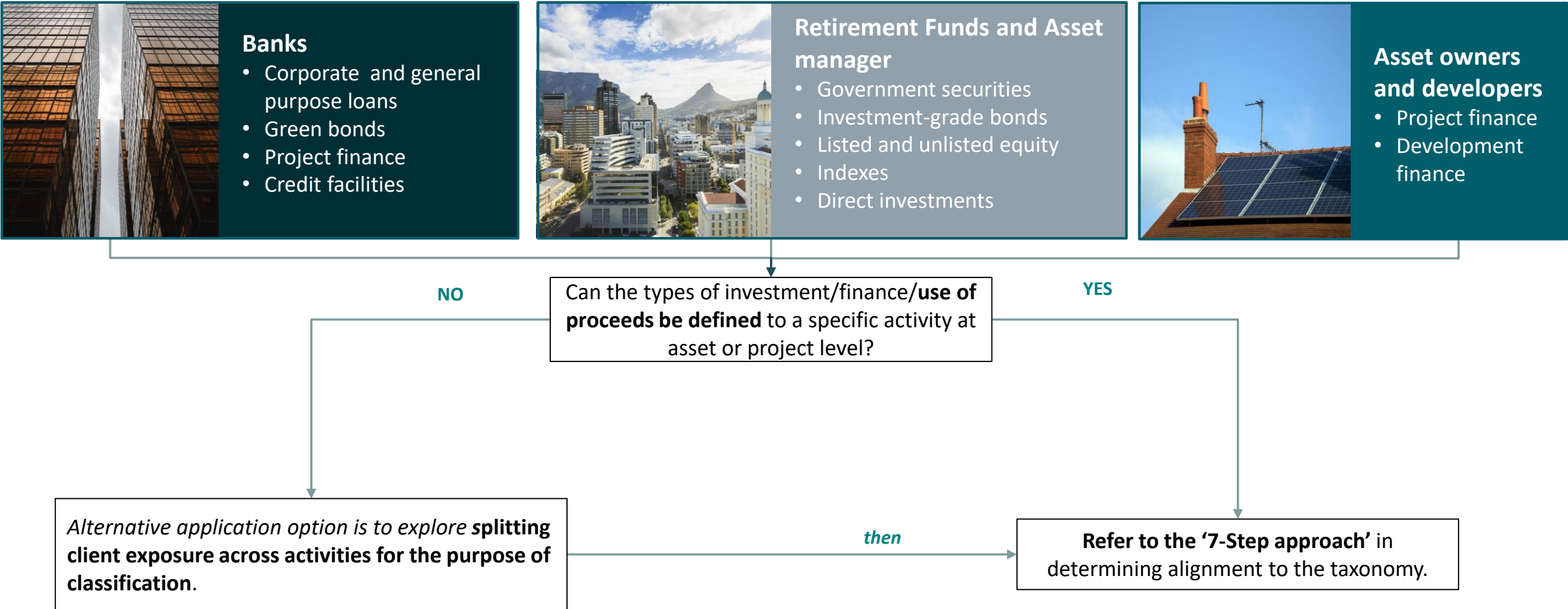
Reduce the costs associated with labelling and issuing green financial instruments






Unlock significant investment opportunities, such as the estimated \$588 billion in climate-friendly investment potential for South Africa toward 2030, identified by IFC research

Applying the Green Finance Taxonomy

Decision tree for practical application of the taxonomy – defining use of proceeds

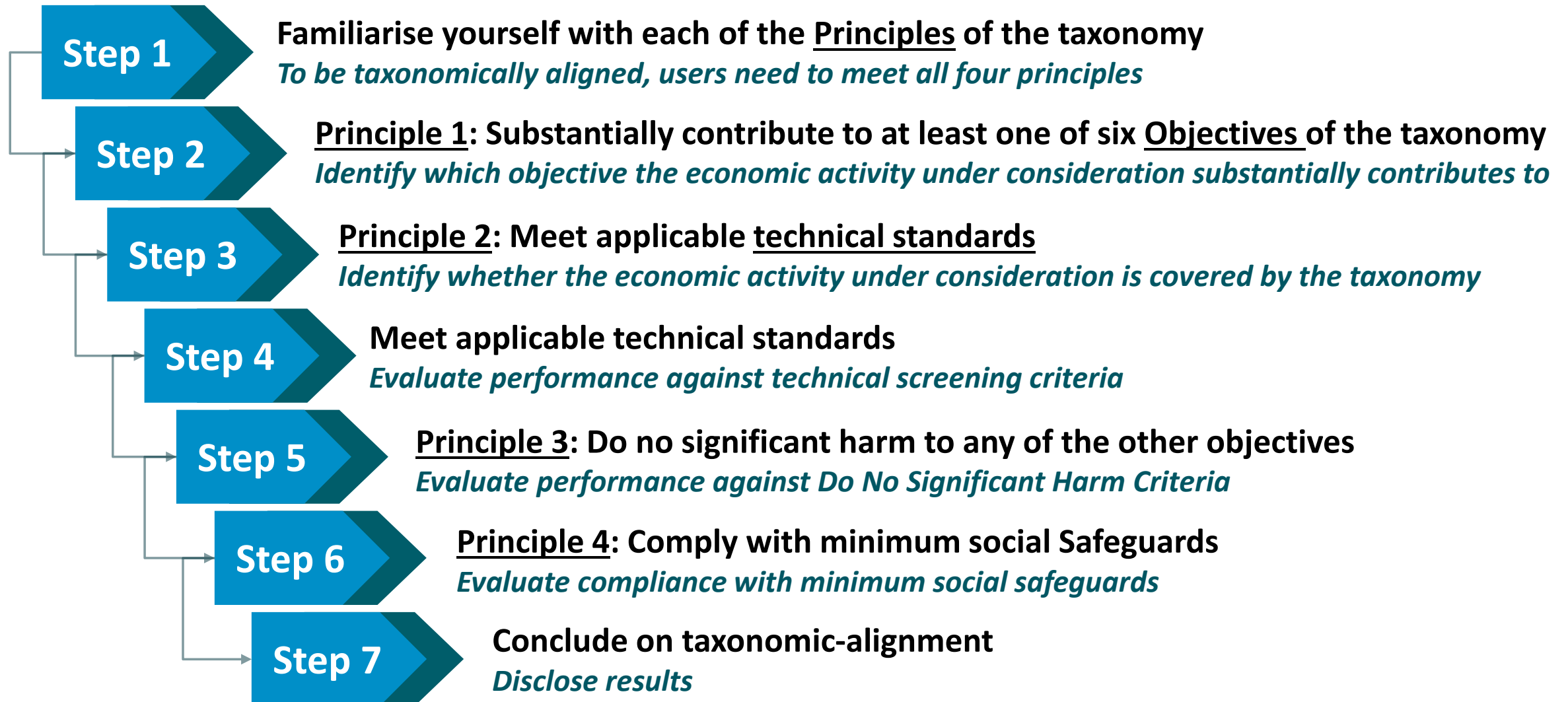


Different users have different uses – it is helpful to state your objective for the use case

User group	Example	User perspectives	Anticipated Applications
 <p>POLICY MAKERS & GOVERNMENT AGENCIES</p>	<p>These include law makers and government departments e.g. DEFF, SARS, National Treasury</p>	<p>These users may develop policy and delegated acts/regulations aligned through technically robust processes that inform future taxonomy updates, and align to or reference elements of the taxonomy, such as in the context of setting public measures and standards of labels for green financial products or green (corporate) bonds and use for economic and SDG monitoring purposes</p>	<ul style="list-style-type: none"> • Develop policy and delegated acts/regulations • Measure and account for aligned financial flows at different economic levels and improve and align tracking systems • Identify areas of underinvestment relative to objectives • Facilitate aligned pipeline development • Align to or reference elements of the taxonomy, such as in the context of setting public measures and standards of labels for green financial products or green bonds and in reporting on economic, NDC and SDG monitoring purposes
 <p>FINANCIAL MARKET PARTICIPANTS</p>	<p>Includes market participants offering financial products e.g. financial institutions, banks, investors, bond issuers, pension providers, <i>and</i> investors in products and instruments</p>	<p>These participants would use the taxonomy to evaluate own portfolio and products alignment, to shift investment strategy and develop products, to make discrete investment decisions, and to compile disclosures in terms of contribution and/or exposure</p>	<ul style="list-style-type: none"> • Identify opportunities that align to taxonomy and criteria • Support investee engagement • Evaluate investment portfolios for taxonomic alignment and exposure • Evaluate new investments' taxonomic alignment • Evaluate existing products alignment, and originate and structure aligned new products • Design and shift investment and product policies and strategies • Understand and compile disclosures concerning exposure, in terms of or in addition to regulatory requirements
 <p>ASSET OWNERS* & PROJECT DEVELOPERS</p>	<p>Include non-financial companies and developers with non-financial reporting directives. e.g. mining houses and manufacturers</p>	<p>These participants could compile disclosures against the taxonomy regarding capex and opex, covering activities that substantially contribute to the taxonomy objectives, and look to attract financing (for their activities and/or projects/assets) on the basis of being taxonomically aligned</p>	<ul style="list-style-type: none"> • Compile disclosures against the taxonomy regarding capital expenditure, operational expenditure and turnover • Support investor and capital markets engagement, to attract financing on the basis of being taxonomically and thematically aligned

* In this sense there may be an overlap between 'financial market participants' and 'asset owners'. The emphasis is however on the linkage to conducting real economic activity, the specifics of which are to be evaluated against the taxonomy's technical standards for alignment, whereafter financial metrics may be assessed.

You should undertake a '7 Step approach' in determining alignment to the taxonomy

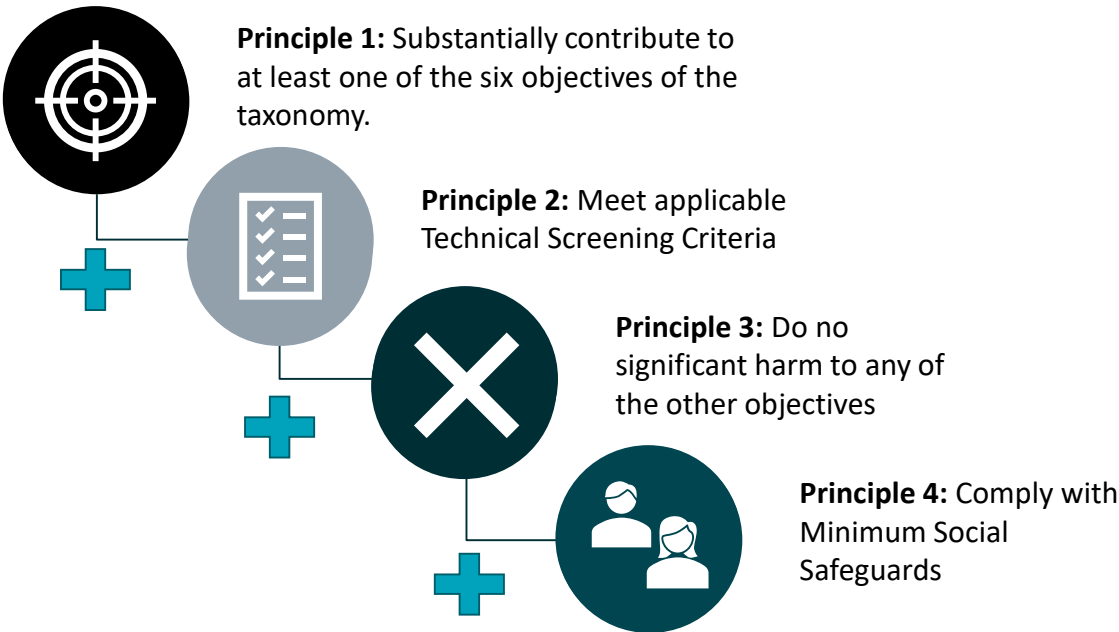


We guide you through each step in the following slides.

7 Step approach in determining alignment to the taxonomy

Step 1 Familiarise yourself with all the principles of the taxonomy

To be taxonomically aligned, users need to meet all four Principles



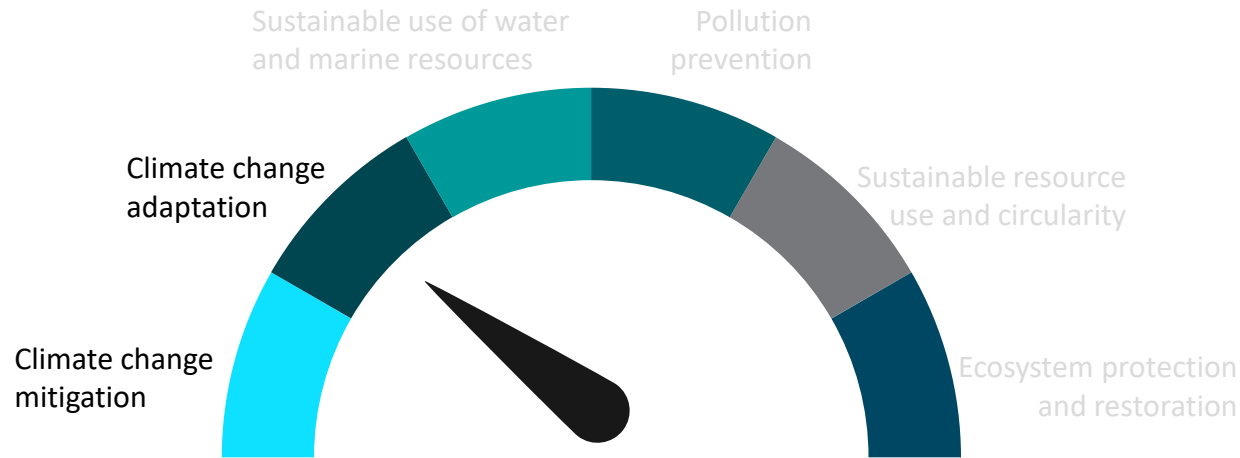
Guidance note

It is important to recognise that in order to be taxonomically aligned, users need to conform to all Principles of the Taxonomy.

7 Step approach in determining alignment to the taxonomy

Step 2 *Principle 1: Substantially contribute to at least one of the six objectives of the taxonomy (MSC)*

Identify which objective(s) the economic activity under consideration substantially contributes to



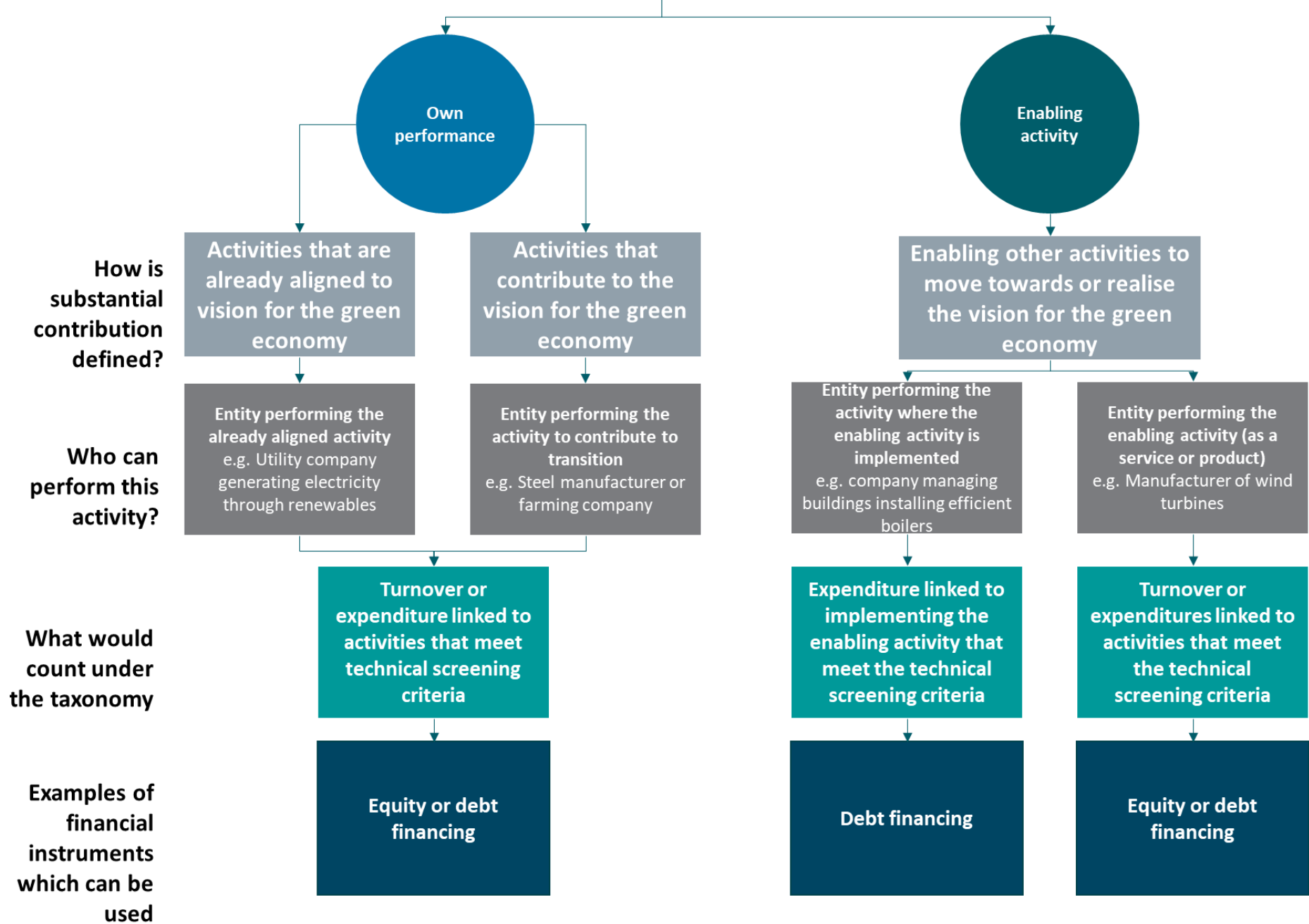
The Taxonomy recognises **two distinct types** of substantial contribution that can be considered Taxonomy-aligned:

1. Activities that make a substantial contribution based on their **own performance**: For example, an economic activity being performed in a way that is environmentally sustainable.
2. **Enabling activities**: Activities that, by provision of their products or services, enable a substantial contribution to be made in other activities. For example, an economic activity that manufactures a component that improves the environmental performance of another activity.

Guidance note

For more guidance on identifying whether an economic activity under consideration Makes Substantial Contribution based on its own performance or is an enabling activity, users can refer to the Taxonomy User Guidance document which further describes these concepts.

Economic activity is considered to make a substantial contribution to climate change mitigation by:



7 Step approach in determining alignment to the taxonomy

Step 3 *Principle 2: Meet applicable Technical Screening Criteria*

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

1

Match the economic activity under consideration within the taxonomy matrix

Locate the macro-sector that the economic activity under consideration would best relate to, and then find the taxonomy entry that best matches that specific economic activity.



2

Refer to the Technical Screening Criteria for the particular economic activity

After a match has been made, **use the referenced section number** provided in the matrix to direct you to where the technical screening criteria related to that specific economic activity under consideration can be found.

If there is **no economic activity** that relates to the economic activity under consideration, this likely means that the **economic activity does not yet exist** in the current version of taxonomy. In that case, it is recommended that **application is made to the designated taxonomy maintenance organisation** for consideration and further development of the green finance taxonomy (the taxonomy maintenance arrangements are presently under consideration).

Guidance note
The current taxonomy provides Technical Screening Criteria specific to economic activities which Make Substantial Contribution to climate change mitigation and climate change adaptation. Technical Screening Criteria related to the other taxonomy objectives have not yet been developed, therefore substantial contribution to these objectives cannot be assessed using the current version of the taxonomy. This is a gap that may be closed in time.

Example: Hydropower

Taxonomy Matrix

Macro sectors	Energy 	Water and Waste 	Transportation 	ICT
Economic activities	Production of electricity, heating and cooling from Solar PV, Concentrated Solar Power, Wind Power and Ocean Energy Section 3.3.1 Sic code 3510	Permanent Sequestration of Captured CO2 Section 3.7.12 Sic code 39	Commuter road, passenger rail and freight rail transport Section 3.9.1 Sic code 49110, 49120, 49210	Data processing, hosting and related activities Section 3.11.1 Sic code 6311
	Production of electricity, heating and cooling from Hydropower Section 3.3.2 Sic code 3510	Water monitoring Activities to be dev	Infrastructure for low carbon Section 3.9.2 Sic code 42100, 42900	Data-driven solutions for GHG Section 3.11.2 Sic code 63110

Technical screening criteria

3.3.2 Production of electricity, heating and cooling from Hydropower

Sector classification and activity	
Macro-Sector	Electricity, gas, steam and air conditioning supply
SIC Code	3510
Description	Construction and operation of electricity generation facilities that produce electricity, heating and cooling from Hydropower
Make Significant Contribution criteria	
Climate Change Mitigation	
Principle	<ul style="list-style-type: none"> Support a transition to a low carbon net-zero emissions economy Avoidance of lock-in to technologies which do not support the transition to a low carbon economy net-zero emissions economy Ensure that economic activities meet best practice standards Ensure equal comparability within an economic activity with regards to achieving low carbon net-zero emissions economy target Where necessary, incorporating technology-specific considerations into secondary metrics and thresholds
Metric and Threshold	<p>The activity complies with either of the following criteria:</p> <ul style="list-style-type: none"> a) the life-cycle GHG emissions from the generation of electricity from hydropower, including mixed pumped hydropower storage connected to a free-flowing water source are lower than 100gCO2e/kWh. <p>The life-cycle GHG emissions are calculated using ISO 14067:2018 or ISO 14064-1:2018. Quantified life-cycle GHG emissions are verified by an independent third party.</p> <ul style="list-style-type: none"> b) the power density of the electricity generation facility is above 5 W/m2.

7 Step approach in determining alignment to the taxonomy

Step 4 Principle 2: Meet applicable Technical Screening Criteria

Evaluate performance against the relevant Technical Screening Criteria

Refer to make significant contribution criteria section

1 Refer to the relevant **Make Significant Contribution criteria** section of the table in alignment to the objective the economic activity intends to substantially contribute to.

Assess alignment to metrics and thresholds

2 **Assess alignment to metrics and thresholds** to determine whether the economic activity under consideration makes substantial contribution to the intended objective.

Report alignment to metrics and thresholds

3 If the economic activity under consideration meets the metrics and thresholds, this alignment should be **recorded and transparently reported**. If the economic activity under consideration does not meet the metrics and thresholds, the economic activity is not aligned to the taxonomy.

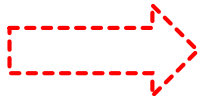
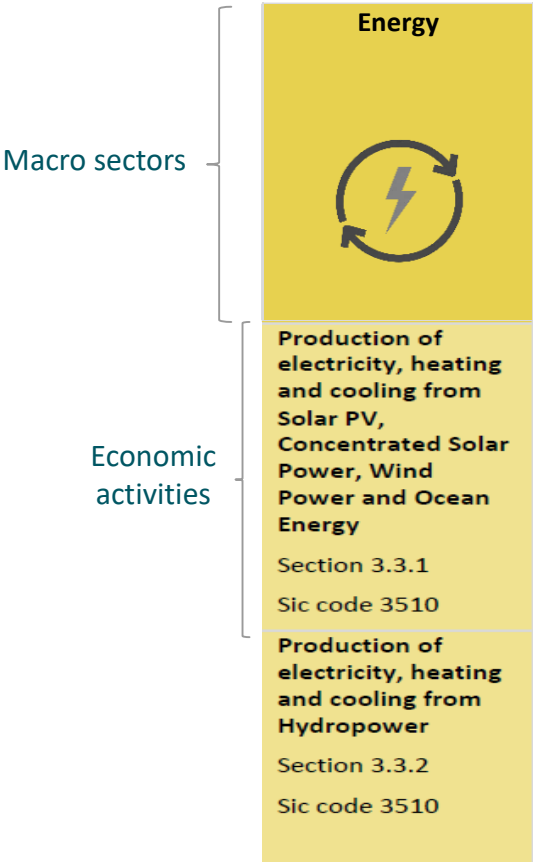
Guidance note

Testing alignment to the technical screening criteria requires quality and granular data. A combination of third party data providers together with in-house research can ease the process.

Examples include MSCI, ISS, Sustainalytics, FactSet, Trucost S&P, Carbon Delta, GS Sustain Taxonomy mapping tool and RepRisk.

Example: Hydropower

Taxonomy Matrix



Technical screening criteria

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Metric and Threshold	<p>The activity complies with either of the following criteria:</p> <ol style="list-style-type: none"> the life-cycle GHG emissions from the generation of electricity from hydropower, including mixed pumped hydropower storage connected to a free-flowing water source are lower than 100gCO₂e/kWh. <p>The life-cycle GHG emissions are calculated using ISO 14067:2018 or ISO 14064-1:2018. Quantified life-cycle GHG emissions are verified by an independent third party.</p> <ol style="list-style-type: none"> the power density of the electricity generation facility is above 5 W/m².

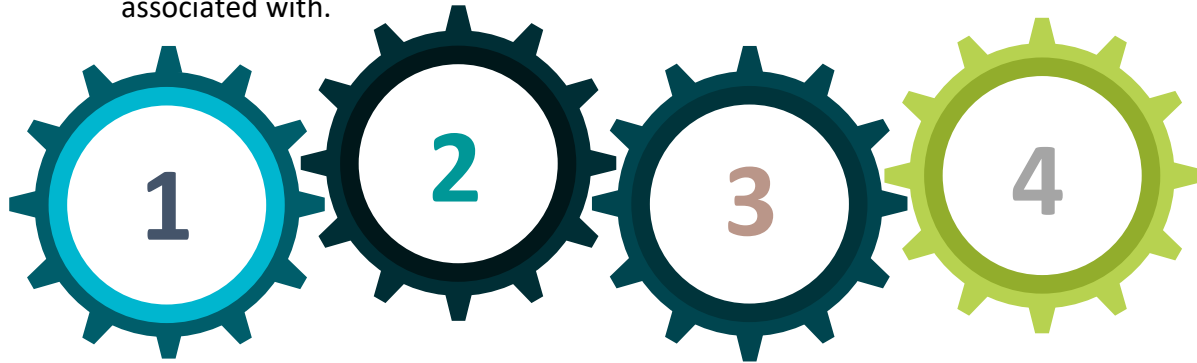
7 Step approach in determining alignment to the taxonomy

Step 5 *Principle 3: Do no significant harm to any of the other objectives (DNSH)*

Evaluate performance against Do No Significant Harm criteria of each of the other taxonomy objectives

1. Refer to the Do No Significant Harm assessment section for guidance related to potential significant harm that the economic activity under consideration is associated with.

3. If the economic activity under consideration fails the Do No Significant Harm Criteria, the economic activity is not aligned to the taxonomy.



2. Assess performance against each of the 5 objectives Do No Significant Harm Criteria to ensure alignment with the criteria. Ensure climate resilience of economic activity under consideration is evaluated. Refer to the climate change vulnerability assessment process for evaluation guidance.

4. If the economic activity under consideration meets the Do No Significant Harm Criteria, the alignment should be recorded and transparently reported.

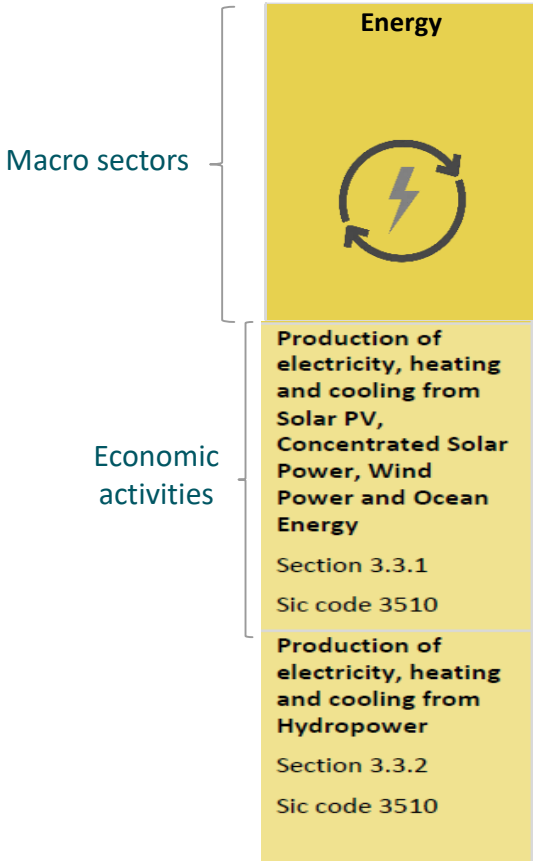
The overall assessment requires multiple qualitative assessments. It would be advisable to involve sustainability expertise.

Guidance note

The availability and quality of data and information for evaluation of DNSH criteria will be challenging, particularly regarding the granularity required to test alignment. In some cases, reliance can be placed on certification schemes and labels for assessment.

Example: Hydropower

Taxonomy Matrix



Technical screening criteria

3.3.2 Production of electricity, heating and cooling from Hydropower

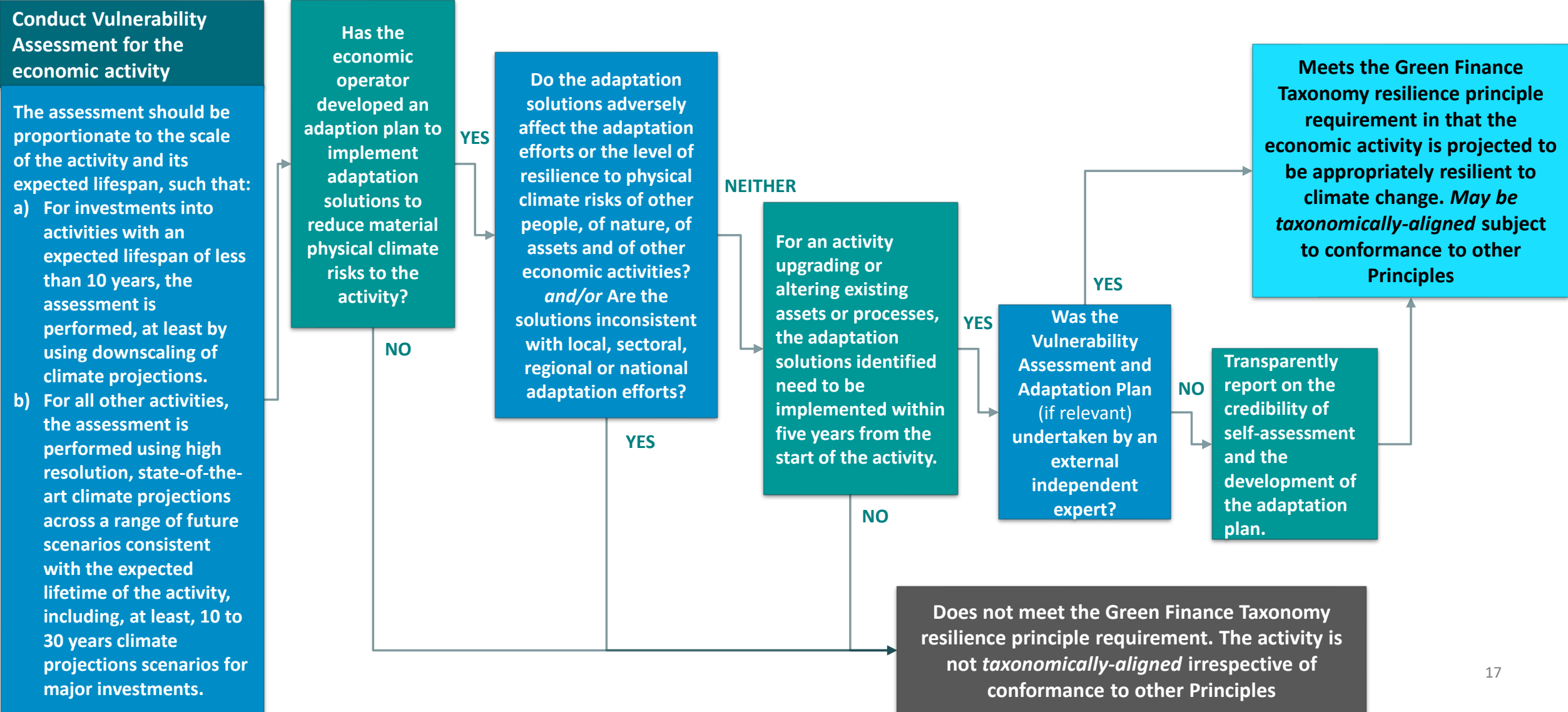
Sector classification and activity	
Macro-Sector	Electricity, gas, steam and air conditioning supply
SIC Code	3510
Description	Construction and operation of electricity generation facilities that produce electricity, heating and cooling from Hydropower
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Metric and Threshold	<p>The activity complies with either of the following criteria:</p> <p>a) the life-cycle GHG emissions from the generation of electricity from hydropower, including mixed pumped hydropower storage connected to a free-flowing water source are lower than 100gCO₂e/kWh.</p> <p>The life-cycle GHG emissions are calculated using ISO 14067:2018 or ISO 14064-1:2018. Quantified life-cycle GHG emissions are verified by an independent third party.</p> <p>b) the power density of the electricity generation facility is above 5 W/m².</p>

Do No Significant Harm criteria

Do No Significant Harm assessment	
<p>The main environmental impacts associated with hydropower installations are:</p> <ul style="list-style-type: none"> Emissions to water and generation of waste during construction; Impacts on biodiversity associated with fragmentation of ecosystems and changes to habitat, to hydrological and hydrogeological regimes, water chemistry, and interference with species migration pathways as a result of the establishment of the installation and its operation 	
Climate change mitigation	<p>For adaptation projects</p> <p>The direct GHG emissions of the activity are lower than 270gCO₂e/kWh.</p>
Climate change adaptation	<p>For mitigation projects</p> <p>The activity complies with the criteria set out in Appendix A: Generic Criteria for DNSH to Climate Change Adaptation to this Annex.</p>
Sustainable use of water and marine resources	<p>For new projects:</p> <p>Fulfil the requirements of South African water legislation such as the National Water Act (No.36 of 1998), Mountain Catchment Areas Act (No. 63 of 1970) and the Water Services Act (No.108 of 1997) where applicable and ensure that an appropriate cumulative impact assessment or equivalent study has been undertaken that identifies and addresses any significant regional or basin-level environmental and social impacts, in compliance with the National Water Act (No.36 of 1998) preferably at the strategic planning stage. Such a study must consider all of the planned infrastructure developments in the basin, for example as part of a hydropower cascade at the scale of the river catchment, involving all relevant stakeholders.</p> <p>Ensure that the conditions National Water Act (No.36 of 1998) are met based on ground evidence. Those include:</p> <ul style="list-style-type: none"> All practical steps are taken to mitigate the impacts; The project has been recognized of overriding public interest and/or it is proven that the benefits of the project outweigh its impacts; There are no significantly environmentally better option. The project does not show significant adverse impact on upstream or downstream water bodies. This applies to newly built hydropower and extension of existing hydropower. <p>Construction of new hydropower should not lead to increase fragmentation of rivers, consequently refurbishment of existing hydropower plant and rehabilitation of existing barriers should be prioritised. Construction of small hydropower (<10MW) should be avoided.</p> <p>During operation:</p> <ul style="list-style-type: none"> All necessary mitigation measures should be implemented to reach good ecological status or potential, in particular regarding ecological continuity and ecological flow. Priority should be given to nature-based solutions. IFC's and World Bank Group's environmental and social standards. General impacts: Operation of the hydro power plant must adhere to the principles of the UNECE Convention on the Protection and Use of Transboundary, Watercourses and International Lakes
Ecosystem protection and restoration	<p>Ensure an Environmental Impact Assessment (EIA) has been completed in accordance with the National Environmental Management Act (No.107 of 1998) as amended (or other equivalent national provisions or international standards (e.g. IFC Performance Standard 1: Assessment and Management of Environmental and Social Risks) – whichever is stricter and any required mitigation measures for protecting</p>

All economic activities need to test their climate resilience as part of the DNSH assessment

Climate change vulnerability assessment process outline



7 Step approach in determining alignment to the taxonomy

Step 6

Principle 4: Comply with Minimum Social Safeguards

Evaluate compliance with minimum social safeguards

1

Companies and other issuers disclosing against the taxonomy need to assess their compliance with MSS by ensuring implementation of policies, procedures and governance mechanisms that put into effect alignment with South African labour law and the standards in:

- a) International Labour Organisation (ILO) core labour conventions;
- b) OECD Guidelines on Multinational Enterprises (MNEs); and
- c) UN Guiding Principles on Business and Human Rights



2

Refer to the OECD guidelines and due diligence guidance for Responsible Business Conduct (RBC). If the assessment is positive and compliance with minimum social safeguards is met, this assessment should be recorded and transparently reported.

Guidance note

In the case where the company does not provide information related to South African labour law or any of the guideline standards, the investor will need to conduct due diligence related to social safeguards.

Minimum Social Safeguards

Area of influence



Workforce

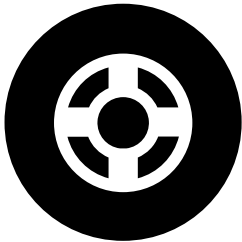
Community and
wider society

Ensure implementation of policies, procedures and governance mechanisms that put into effect:

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

1. International Labour Organisation (ILO) core labour conventions;
2. The OECD Guidelines on Multinational Enterprises; and
3. The UN Guiding Principles on Business and Human Rights.

Safeguarding due diligence (suggestion)



Safeguarding

- Policy
- Training
- Safeguarding register
- Investigation process
- Disciplinary process
- Downstream providers



Whistle blowing

- Policy
- Training
- Complaints process
- Zero reprisals



HR

- Policy
- Job description and risks
- Section and interview
- Reference and vetting



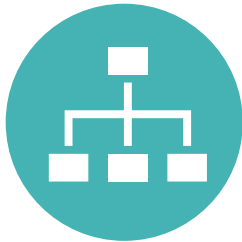
Risk Management

- Policy
- Downstream partners
- Categories
- Risk registers
- Risk owner
- Senior oversight



Code of Conduct

- Code of conduct
- Prioritise people
- Sign and evidence
- Training
- Ethics and behaviour
- Corruption



Governance

- Designated Safeguarding officer
- Reporting to board
- Annual report

(Source: DFID, 2018)

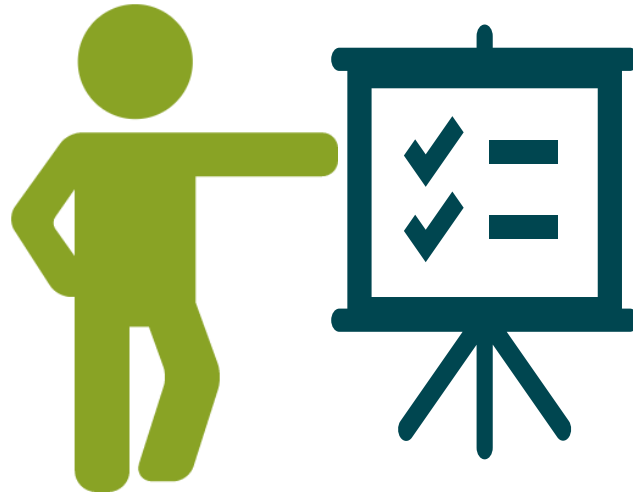
7 Step approach in determining alignment to the taxonomy

Step 7 *Conclude on taxonomic-alignment*

Disclose results

If the economic activity under consideration fully conforms to steps 2 – 6, taxonomic-alignment can be declared.

Declaration should include the final collective result with all supporting assessment results as well as relevant supporting details and impact indicators.



Guidance note

For the purposes of the Beta-test process, a Case Study Template is provided for disclosure of results. This template provides a structure to disclose against each of the principles of the taxonomy, as well as to make recommendations on the Taxonomy's use.

Segmenting in terms of turnover, capital expenditure (capex) and operational expenditure (opex)

Alignment of an economic activity with the Taxonomy should be expressed in financial metrics

Financial metric	Climate change mitigation	Climate change adaptation
Turnover	Can be counted where economic activity meets Taxonomy Technical Screening Criteria for substantial contribution to climate change mitigation and relevant DNSH criteria.	Turnover can be recognised for activities enabling adaptation.
Capex and Opex	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 mitigation and relevant DNSH criteria.	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.

Disclosures by companies and developers - Turnover

Principle 1: Substantially contribute to at least one of the six objectives of the taxonomy.

Principle 2: Meet applicable Technical Screening Criteria

Principle 3: Do no significant harm to any of the other objectives

Principle 4: Comply with Minimum Social Safeguards

Proportion of total turnover from respective activity undertaken by a company

Activities and turnover proportion		
C1 Coal powered energy	25%	Not aligned
C2 Hydro powered energy	25%	Data cannot be verified – Assumed not to be met
C3 Wind powered energy generation	50%	Aligned, no threshold

Only DNSH for C3

Minimum social safeguards due diligence

Taxonomy aligned turnover 50%

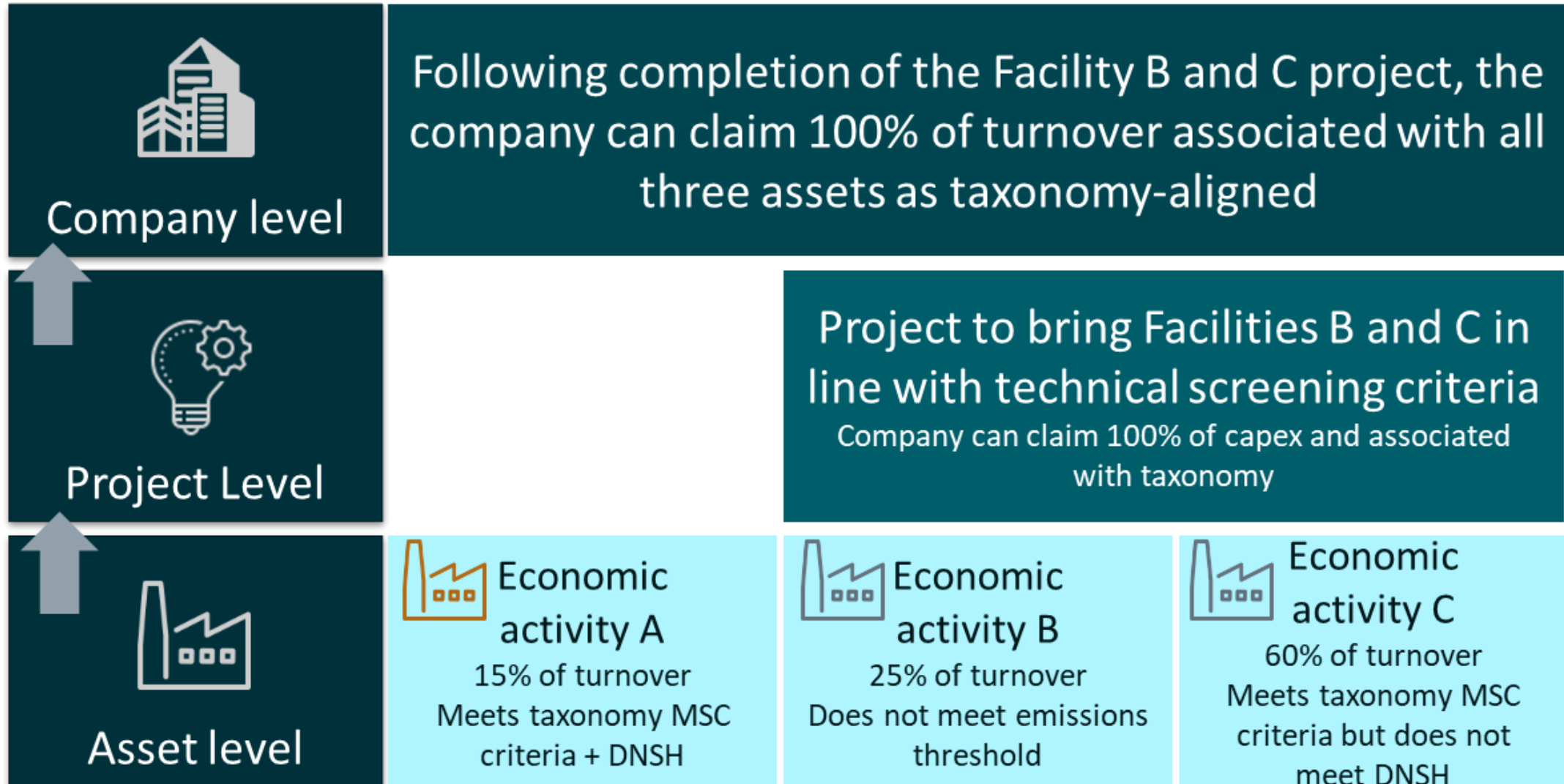
Company has three revenues streams with respective turnover contributions.

- Coal powered energy is not eligible, therefore excluded.
- For energy from hydro power the company has not produced information and therefore substantial contribution cannot be determined.
- Energy from wind power is eligible.

For energy generation from wind, the investor needs to check for DNSH criteria. For this example, the company does not provide that information. Therefore the investor has to conduct due diligence.

If the information is not reported, the investor has to conduct due diligence for minimum social safeguards

Disclosures by companies and developers – Turnover and Capex



Disclosures by companies - Turnover

