

Embedding the Green Finance Taxonomy into Public Sector Procurement Processes: A Municipal Case Study

Findings and recommendations based on piloting activities with market actors to embed the taxonomy

September 2022

Case Study

During 2022, a series of pilot implementation projects with volunteer organisations, trialled embedding the South African Green Finance Taxonomy 1st edition (SA GFT) for their processes. This is one of four case studies showcasing the **complexities and potential value for local government**, and the wider financial ecosystem. **The SA GFT can be a valuable tool in public sector procurement, to encourage the growth of sustainable activities in the public sector supply chain and to enable local investment.**

Work was carried out by the National Business Initiative (NBI) and Carbon Trust. Oversight for this project was provided by the Taxonomy Working Group, chaired by the South African National Treasury, the members of whom we warmly thank for their engagement and contributions. Embedding the South African Green Finance Taxonomy is supported by the UK PACT (Partnering for Accelerated Climate Transitions), which is a flagship programme under the UK's International Climate Finance (ICF) portfolio. The programme is jointly governed and funded by the Foreign, Commonwealth and Development Office (FCDO) and the Department for Business, Energy and Industrial Strategy (BEIS). The UK is committed to tackling climate change and is investing £11.6bn via ICF over the five years to March 2026.

Special thanks go to the participants of the pilots, whose efforts and engagement were vital to the process and outcomes, and whose learnings and insights are represented in this case study series:

- > Development Bank of South Africa (DBSA) led by Saphira Patel, Head: Environmental and Social Sustainability Unit
- > Metier Private Equity led by Galelekile Makhathini, Investment Executive ESG Officer
- > Old Mutual Africa Infrastructure Investment Managers (AIIM) led by Tania Swanepoel, ESG Advisor
- > Sanlam Corporate Investments led by Tshegofatso Sekgwele, Investment Specialist
- > Standard Bank Group led by Anneke Lund, Executive: Sustainable Finance
- > The City of Tshwane led by Dolly Mafa, Director Sustainability Finance Mechanisms and Mphakiseng Zuma, GFS: Office of the CFO

This case study is applicable to:

Local municipalities; public sector entities; government departments

Ways of working

When assessing GFT application in a municipal context, the planned infrastructure projects were reviewed. The local government processes that showed most direct compatibility and opportunity for integration of the SA GFT, concerned public procurement and project identification (before tender is awarded), and designation for green finance.

Integration of the SA GFT across the cycle of project budgeting, procurement, and finance would reinforce the process to green municipal activities. As a consideration in parallel, it is important that the integration process aligns with other budget tagging systems in place.

Introduction of SA GFT aligned requirements and processes may need to be phased and enhanced in time, to accommodate supplier development and internal process integration.

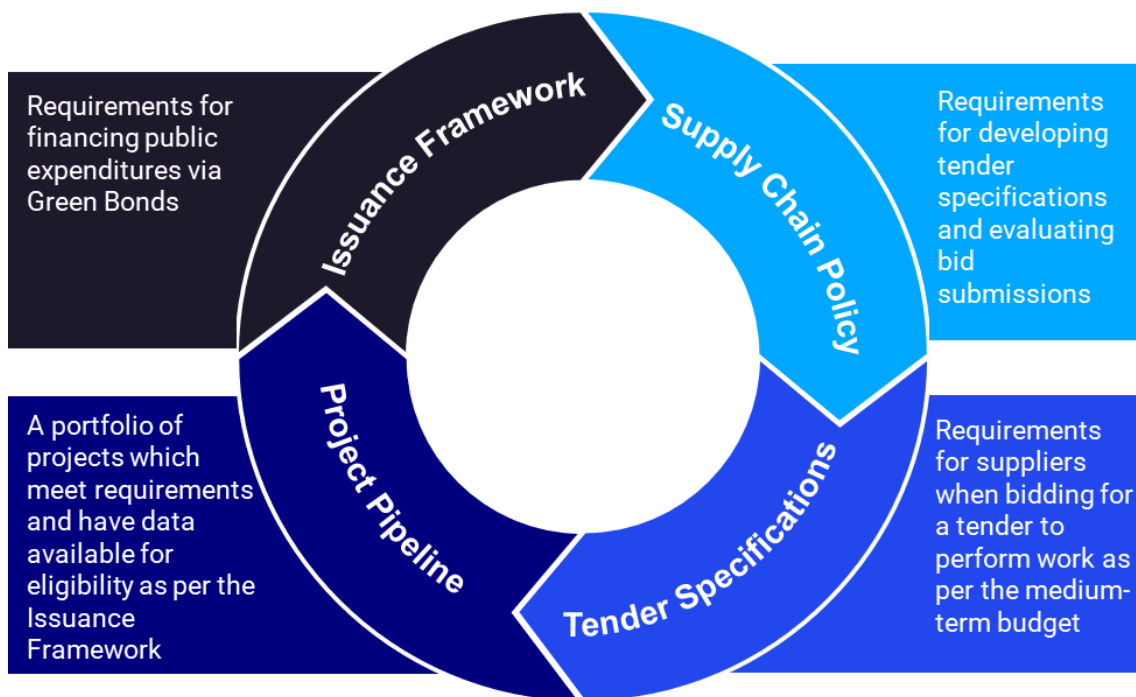


Figure 1: How the SA GFT was integrated in a reinforcing way, into municipal procurement processes at various intersections in this pilot project

The pilot team worked closely with public officials to undertake the following SA GFT integration tasks, the results and insights of which are presented in this case study:

- > Assessed high-level screening of potentially taxonomically eligible projects of the pipeline of municipal budgeted projects, on the basis that economic activities appear in the taxonomy. And introduced a **process for early-stage project assessment and design enhancement**
- > Selected specific eligible projects for assessment of taxonomic alignment, identifying aspects of **project diligence to be enhanced to enable inclusion in green projects' portfolio**
- > Suggested taxonomy implementation and supplier engagement routes, to **systematically grow the pipeline of aligned projects and the range of "greened" operational activities**
- > Analysed existing bond issuance frameworks for alignment with taxonomy principles, and **incorporated the SA GFT into eligibility criteria for a municipal green bond issuance framework**

Insights and Opportunities

Through understanding the dynamics of the public procurement process and testing integration of the taxonomy across the cycle, we obtained several key insights applicable across South Africa's public sector.

Capacity building and buy-in: Multiple actors across various departments are involved in development, implementation and oversight of public procurement policies and processes. These actors include:

- > Initiating departments (sector specific)
- > Sustainability team
- > Supply chain team
- > Various committees e.g., specifications, evaluation and adjudication of tenders
- > City Manager

Successful taxonomy integration **requires understanding and support from all these actors**. Capacity building and inter-departmental /cross-functional coordination will ensure that the taxonomy is applied in a streamlined and impactful way.

Data availability: A challenge of applying the taxonomy for the public sector is a lack of data. For any project or procurement decision, **evidence is required to be collected as part of due diligence** to prove that the taxonomy's technical criteria are met. This information is required on an economic activity- and project-level. The public sector can play an important role in stimulating the development of this data, if being proactive in requesting it as part of public procurement processes.

Phasing requirements for taxonomy alignment:

An effective way to implement the taxonomy in procurement would be to **integrate it into priority sectors' tender specifications**.

For supplier engagement, a readiness assessment for project developers in priority sectors would be a positive first step to signal

the direction of travel for public procurement and to stimulate the development of green procurement options.

We suggest to prioritise:

- > *Top emitting sectors in the municipality's GHG Emissions Inventory*
- > *Contracts based on spend and project lifetime/length*
- > *Renewables, despite being a low emitter (because such projects are likely closest to achieving taxonomy alignment)*

Over time, the list of priority sectors can be expanded, as taxonomy evaluation processes become more mainstreamed.

Given that the taxonomy is a relatively new tool; the state of data availability; that project developers, suppliers, and internal awareness and technical capabilities will need to be built; and taxonomy-aligned goods and services may not be widely available yet, **we suggest a staggered approach to alignment requirements**. This is to minimise supplier alienation, cost implications and barriers to project implementation, requirements in the tender specifications.

Initial minimum starting point for taxonomic requirements is recommended to include:

- > Project to contribute to at least one of the six environmental objectives in the SA GFT
- > Project to have been subject of environmental due diligence assessment
- > Consideration of the project's climate change resilience, based on latest Climate Risk and Vulnerability Assessment
- > Validation of project compliance with Minimum Social Safeguards

After the initial stages of capacity building and pipeline development, these requirements can be enhanced based on an understanding of supplier capacity.

Reporting: This element speaks to both the reporting requirements of the public sector entity and respective the project developer /supplier.

Project developer reporting could effectively be stimulated using tender specifications, where a municipality can insert required and desired data for consideration.

- > Required data means that without it the application will not be considered. This data should cover the “initial minimum starting point” recommended above.
- > Desired data specified provides opportunities for project developers / suppliers to stand out when bidding for a tender. These data requirements may also signal to the market the intended direction of requirements over time.

As a municipality collects taxonomic compliance data over a period, this can be reported in annual or sustainability disclosures via existing institutional reporting channels, and national and provincial reporting channels where applicable.

SA GFT alignment targets can be set in line with other climate goals, allowing taxonomic reporting **to inform long term strategy**.

Policy coherence: Internal guidelines and policies broadly determine tender specifications requirements. **Taxonomic alignment metrics should be integrated into the relevant procurement policies**, encouraging uptake across the organisation.

Integration with other Tools

An important element to ensure success, is the alignment of tools and development of knowledge at a macro scale. Most pertinent of

these tools is Climate Budget Tagging (CBT)¹, which aims to achieve a similar objective to that of the taxonomy. Complementarity exists for these tools:

- > CBT has piloted tagging methodologies in public sector departments which helpfully creates a structure for the success of the SA GFT.
- > CBT pilots defined green at a high level, and the SA GFT provides more detail for performance evaluation.
- > The SA GFT is primarily for the financial sector, and its integration to public sector processes enhances cooperation potential. Alignment of the public sector with the tools used in the private sector may stimulate increased private sector financial flows to the public sector, with green bonds being of particular interest.

A positive start has been made in the public sector taking up green tagging tools, but additional knowledge products and practices are essential for making a more meaningful shift to supporting green economy development. Throughout the piloting process, the general lack of evaluation for climate resilience has been noted. Especially pertinent to the public sector, it is recommended that a climate adaptation ‘do no significant harm’ requirement is integrated across economic activities (in the form of a climate risk and vulnerability assessment (CRVA)). This will initially be a difficult undertaking for suppliers, and simplified approaches and tools can assist, e.g., a regional or sector wide CRVA would be a beneficial development in allowing suppliers to map their impacts based on a legitimate and applicable broad-based study, rather than needing to output a study per project.

¹ CBT is a tool piloted by National Treasury for monitoring and reporting public climate-related

expenditure and several parallel projects are in process to integrate it to public sector processes

| Specific to GFT | Convergence between GFT and CBT | Specific to CBT |
|--|---|--|
| <ul style="list-style-type: none"> • Includes do no significant harm and minimum social safeguard criteria to minimise negative externalities • More rigorous technical criteria for assessment of making contributions to environmental objectives • Although criteria not fleshed out yet, includes 4 additional environmental objectives • Can be used widely across different types of institutions • Can be used for various types of finance beyond expenditure | <ul style="list-style-type: none"> • Basis in defining 'green' finance • Aims to flow finance toward green activities • Identifies expenditure contributing to climate change mitigation and adaptation in reporting • Instruments to monitor use of finance and attract investment • Segmented by economic activity • Report alignment with % share of total finance • Aim to mainstream the climate perspective in financial decision making | <ul style="list-style-type: none"> • Includes just transition as an environmental objective alongside climate change mitigation and adaptation • Focus on public sector institutions and is modelled to accommodate broad acceptance • Provides a qualitative approach based on objective and benefits based methodology for tagging funding in planning, budgeting and expenditure |

Figure 2: A comparison of complementarity and convergence between the CBT and SA GFT

Due to the reach and volume of projects that the public sector enables, successful implementation of the taxonomy into public sector procurement processes can have widespread impact on the local economy. If thoughtfully integrated, the SA GFT has the potential to stimulate climate change action and increase green finance in the public sector. The applications presented in this case study provides a solid starting point for municipalities continuing their journey towards green economy development.

***Disclaimer:** this case study is based on experiences of individual organisations through limited applications, and recommendations are based on general insights. The piloting process and this case study are part of the broader South Africa-UK PACT project overseen by National Treasury; however, this case study is not endorsed by National Treasury, nor does it express the views of National Treasury.*



Embedding the South African Green Finance Taxonomy is supported by the South Africa-UK PACT (Partnering for Accelerated Climate Transitions) programme, jointly governed and funded by the UK Government's Foreign, Commonwealth and Development Office (FCDO) and the Department for Business, Energy and Industrial Strategy (BEIS) through the UK's International Climate Finance.