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REPUBLIC OF SOUTH AFRICA

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MEDIA STATEMENT

SOUTH AFRICA'S GREEN FINANCE TAXONOMY COMPARISON TO THE EU TAXONOMY, TO PROMOTE INTERNATIONAL GREEN FINANCE FLOWS

For South Africa (SA) to meet its net zero environmental objectives, there will need to be significant private investment to facilitate this transition. This investment will require both domestic and external resources including from jurisdictions like the European Union (EU). Mechanisms to encourage, simplify and facilitate necessary cross border capital flows for South Africa to facilitate it's just transition will be critical if the country is to meet its objectives. Such mechanisms will need to be sufficiently comparable and interoperable to reduce the cost of cross border flows necessary for the just green transition.

A comparison study between the EU Green Taxonomy and SA Green Finance Taxonomy has found that SA and EU taxonomies both pursue the climate ambition of a net-zero economy to 2050 as a core environmental objective and have a very high degree of similarity between the criteria specified at the level of individual economic activities. The study was undertaken by independent international experts who were part of the EU Platform on Sustainable Finance. The study is intended to assist policymakers, companies, and financial market participants in understanding the commonalities and divergences between the EU and the SA taxonomies, to ultimately help foster seamless green financial flows between the EU and SA. This is crucial in the context of both the EU and SA achieving the net zero goals by 2050.

Overall, for the criteria of significant contribution to climate change mitigation and adaptation, the SA taxonomy has very similar and more ambitious and/or more detailed criteria as compared to the EU Taxonomy for 85% of all matched economic activities (71% for significant contribution to climate change mitigation and 99% for climate change adaptation).

The areas of divergence are primarily where adaptations were made for the SA context, which allows 5 or 10 years for the activity to meet the thresholds within an investment plan. This approach contrasts with the EU approach which does not incorporate investment plans and only focuses on economic activities which are currently green. For Green buildings, the SA Green Finance Taxonomy sets out three levels of eligibility (top-level equivalent to net-zero level, middle-level, and entry-level) while the EU Taxonomy has one tier only.

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The EU taxonomy requires mandatory disclosures through the EU Taxonomy Regulation whereas the SA taxonomy is currently voluntary, although work on incorporating the Green Finance Taxonomy into formal regulatory instruments is being undertaken. The EU have recently taken steps to include, under specific criteria and time frames, nuclear and gas in their taxonomy, whilst these transitional elements are currently excluded from the SA taxonomy, but may be incorporated in future interactions.

Next Steps

Since the release of the SA taxonomy, the focus has been on embedding its use through raising market awareness and case studies which are being finalised and will be released together with open access knowledge products. The South African regulatory authorities, the Prudential Authority and Financial Sector Conduct Authority, will provide guidance and undertake assessments to inform the development of future regulatory instruments.

Presentations, webinars, and additional briefing reports are available via the following link: https://sustainablefinanceinitiative.org.za/taxonomy/.

Background

South Africa's Green Finance Taxonomy was released in April 2022 as a catalogue or classification system that defines a minimum set of assets, projects, and sectors that are eligible to be defined as "green" or environmentally friendly. It supports emerging national policy and voluntary private sector initiatives toward sustainable finance by reducing costs and uncertainty in classifying a core set of green activities. It takes account of the model adopted by the EU, given its comprehensive technical foundation and to ensure interoperability in global reporting. In particular, the taxonomy focuses on the performance level of activities that make a substantial contribution to a set of six environmental objectives while doing no significant harm to any of those objectives and meeting minimum social safeguards.

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