Publication: Engineering News & Mining Weekly
Page: 8
Title: Decision Tool
Publish Date: 22 April 2022
AVE: 25864.34
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GREEN FINANCE

Decision Tool

Green finance taxonomy to help investors make green project decisions – law firm

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South Africa's first green finance taxonomy will help investors and financial institutions make more informed decisions on 'green' projects, say Webber Wentzel's **Patrick Heron** and **Joon Chong**.

Heron and Chong describe the taxonomy, launched by the National Treasury earlier this month, as an official classification of what is eligible to be defined as 'green', while also listing the standards that define economic activities as 'green'. The environmental friendliness that the taxonomy embodies is seen as being critical for attracting future international investments and capital flows.

In addition, it is poised to provide access to a deeper pool of liquidity at competitive prices, Heron and Chong state in a release to *Engineering News & Mining Weekly.*

It will, they say, also be critical for promoting transparency and thus serve as a robust bulwark against 'greenwashing' – deceptively holding up something as being environmentally friendly when it is not.

In 2021, the Treasury's paper titled 'Financing a Sustainable Economy' called for a taxonomy for green, social and sustainable finance initiatives, to build credibility, foster investment, and enable effective monitoring and disclosure of performance.

The paper focused on addressing climate risk and the opportunities for the financial sector to support a just transition to a low-carbon, socially inclusive and resilient economy.

The main points listed by Heron and Chong include:

- recognition of climate change as the world's greatest current threat;
- the shift of global finance and capital flows towards projects that embody environmental, social and governance principles;
- the JSE seeing sustainable finance as one of the fastest-growing forms of finance on the international stage;
- the significant increase in the issuance of green bonds, especially on the African continent; and
- the rise of investment in sustainable equity.

Living Document

The Treasury states in a media release that the taxonomy is intended to be a living document, to be updated and expanded over time through a governance process.

PATRICK HERON
The taxonomy is poised to provide access to a deeper pool of liquidity at competitive prices

The Intergovernmental Sustainable Finance Working Group, which will provide oversight and governance, will consider emerging international best practices and approaches, including work led by the International Sustainability Standards Board to deliver a global baseline for sustainability disclosure standards. These will provide investors and other capital market participants with information about companies' sustainability-related risks and help them make informed decisions.

South Africa's taxonomy takes account of the model adopted by the European Union, and is described as providing:

- clarity and certainty in selecting green investments in line with international best practices and national priorities and standards;
- help to unlock large-scale capital for climate-friendly and green investment in South Africa by increasing the credibility and transparency of green activities;
- lower financial risk through enhanced management of environmental and social performance;
- reduced costs associated with the labelling and issuing of green financial instruments; and
- the regulatory and supervision oversight of the financial sector.

JOON CHONG
Climate change is the world's greatest current threat

The Taxonomy's Development

The taxonomy's development has been overseen by a working group under South Africa's Climate Risk Forum, a multirepresentative group drawing from the national government, financial sector regulators and the financial services sector. It is chaired by the Treasury and hosted by the Banking Association South Africa. Support for the taxonomy's development has also been provided by the International Finance Corporation (IFC), through the IFC's Green Bond Market Development programme, in partnership with the Swiss State Secretariat for Economic Affairs and the Swedish International Development Cooperation Agency. Technical support was provided by the National Business Initiative and the Carbon Trust. A draft was released in June for public comment and tested in six financial institutions.

The Association of Savings and Investment South Africa (ASISA), the members of which have assets under their control exceeding R7-trillion, was one of several stakeholders who participated in the Treasury's taxonomy working group.

This is the response to questions put to **Sunette Mulder**, senior policy adviser at ASISA:

Engineering News & Mining Weekly: What is the background to the Treasury's new Green Finance Taxonomy?

Mulder: South Africa's Green Finance Taxonomy (GFT) was developed by the National Treasury's Taxonomy Working Group over several years. ASISA has been a member of the working group and supports the GFT launched on Friday, April 1,2022.

The GFT is a classification system that could be used by the Prudential Authority and the

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Financial Sector Conduct Authority to develop reporting guidance/requirements. It will also guide ASISA members in terms of what is considered 'green' in terms of finance and investment initiatives. Important to note is that the South African GFT is aligned with the European Union GFT, which has been used as a guideline for many years by ASISA members who conduct business in the European Union.

While the South African GFT provides welcome clarity on what is considered 'green' in the South African context, environmental, social and governance (ESG) principles are not new, having been introduced as part of Regulation 28 in 2011. Also in 2011, the Code for Responsible Investing in South Africa (CRISA) was launched.

Are ASISA members funding sun, wind and storage energy projects?

ASISA members invest in viable infrastructure projects including renewable energy (solar, wind and hydro). One of the most meaningful infrastructure projects that has been developed over the past ten years, for example, has been the independent power producers, which are supported by ASISA members.

What are the criteria that must be met to attract ASISA investment?

ASISA represents the companies that invest in 'green' infrastructure, but does not make investments. The criteria are determined by individual asset managers in line with guidelines provided by Regulation 28, the CRISA and now the GFT.

The ASISA Enterprise and Supplier Development, or ESD, initiative, funded and supported by ASISA members, supports black-owned and managed SMEs that contribute in a meaningful way to green outcomes (clean energy) and socio-economic impact (job creation) as part of its Impact Theme.

Others involved in the taxonomy discussions included representatives of South Africa's Department of Forestry, Fisheries and the Environment; Department of Monitoring and Evaluation; Financial Sector Conduct Authority; Prudential Authority; Johannesburg Stock Exchange; Banking Association South Africa; Batseta (Council of Retirement Funds for South Africa); and representatives from banks and retirement funds.