

FINANCING A SUSTAINABLE ECONOMY

Draft Technical Paper
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national treasury

Department:
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REPUBLIC OF SOUTH AFRICA



INTRODUCTION

- Treasury's 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 change poses significant risks for the financial sector: physical, liability and transition risks
- For financial institutions- this requires identifying, managing and disclosing environmental and social risks in their portfolio through strengthening the regulatory framework and uptake of best practices
- Sustainable finance includes social finance, and green finance which in turn includes climate finance, which is where the initial focus will be

Link to draft technical paper:

<http://www.treasury.gov.za/publications/other/Sustainability%20technical%20paper%202020.pdf>

CONTEXT

- Towards an Economic Strategy for South Africa
- Environmentally related taxes; tax incentives and subsidies
- Fiscal allocations and sector policy
- Mainstreaming climate responsiveness in cities; provinces and disaster management response
- Climate budget tagging and infrastructure appraisal
- Long terms fiscal and economic modelling
- International finance
- Debt markets and entity oversight
- Covid-19 Response and Recovery
- Just Transition to a Low-Carbon, Sustainable Future
- Climate Change Bill and Presidential CCCC
- Nationally determined contributions, low emissions development
- Disaster management and risk reduction
- Renewable energy programme, clean energy, energy efficiency
- Green Transport Strategy
- Circular economy, ecological infrastructure

DEFINITION & STAKEHOLDER APPROACH

“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”

- An evolving area and emergent global practice and trend
- The first formal steps to develop a more comprehensive approach
- Sustainable finance as an enabling framework for investors, to align private and public finance
- Developed by a Sustainable Finance Working Group led by the Treasury
- The technical paper has recommendations for Banks, Retirement funds, Capital Markets, CIS, Insurance, Private Equity and Venture Capital
- The recommendations will be taken forward through working groups
- Build on a sustainable finance narrative in SA and networks of cooperation and coordination

INITIAL FOCUS AREAS

- Taxonomy: developing a green taxonomy and governance framework for future iterations
 - Taxonomy is a classification system identifying activities, assets, and/or project categories that deliver on key green objectives with reference to identified thresholds and/or targets.
 - It should incentivise capital to flow towards green activities
- Financing instruments: such a green and social bonds
 - Map the universe of sustainable instruments and understand applicability and appetite to SA.
 - Recommend enabling environment for sustainable finance to grow
- Disclosure as per the TCFD- Task force on Climate Financial Disclosures
 - Establish a baseline, develop minimum disclosure requirements; engage regulators; identify relevant guidance for SA context; Monitor adoption and application.
- Develop a benchmark climate risk scenario for use in stress tests by the sector.
 - Starting with insurance and banks
- Building sector capacity
 - Partner/collaborate/ facilitate development of training. Raise awareness and provide training on materials developed by the various working groups.
- Develop an Action Plan

GREEN TAXONOMY DEVELOPMENT

- Establish a 'Version 1' green taxonomy: Definition and principles; thematic areas; screening criteria; dimensions of economic activity; local context.
- Governance Structure: Custodian of the taxonomy; process for adaptation, iteration and refinement
- Govern what is recognised as green in a credible, consistent and dynamic way for South Africa.
- A coordination tool, matching activities on the demand side, and the flow of necessary finance for investment in green activities on the supply side.
- Aim to draw from international taxonomies and consider local context: SA policy, transition pathways
- 12 month project, starting June 2020