

# Newsletter

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## OVERVIEW OF THE AMF-UMOA TAXONOMY



The fight against global warming and the need to achieve sustainable development objectives requires in particular the prioritisation of projects with a strong environmental and social impact. This aim of the monetary and financial authorities is reflected, among other things, in the implementation of tools to identify projects eligible for green, sustainable and/or social financing on the basis of clear, transparent and universally accepted criteria.

In recent years, investors and donors have expressed their interest in giving priority to the sustainability of the projects they finance, as well as fighting against the effects of global warming.

In this context, the *Autorité des Marchés Financiers de l'Union Monétaire Ouest Africain* (the “*AMF-UMOA*”) has established, through its circular no. 001/AMF-UMOA/2024 dated 28 February 2024, a taxonomy of projects for which green, social and sustainable bonds may be issued on the regional financial market.



### What is taxonomy?

*AMF-UMOA* defines taxonomy as “a catalogue of activities enabling to identify those that are in line with the objectives of the fight against global warming and the preservation of the natural space, in order to protect populations against the effects of climate change. In other words, it is a system for classifying economic activities from an environmental perspective according to criteria established to achieve the objectives of sustainable development”<sup>1</sup>.

The *AMF-UMOA* states in its definition that the taxonomy sets out, on the one hand, the activities “of their own sustainable performance” from an environmental point of view and, on the other hand, the “facilitating activities” that enable sustainable activities to be carried out. However, the taxonomy excludes certain activities with a high carbon impact, in particular sea and air transport, fishing and fossil fuels.

<sup>1</sup> Taxonomy of green, social and sustainable projects in the WAEMU, p.5.

**Purposes of the taxonomy**

The introduction of a taxonomy allows, through a methodology accepted by all stakeholders, to identify and classify economic activities with a significant impact on the effects of climate change, the preservation of the environment and natural resources, the protection of biodiversity as well as the improvement of the living conditions of the population through the financing of certain activities.

In other words, the green, social and sustainable taxonomy of the *AMF-UMOA* aims to:

- (i) protect investors against the risk of misallocation of resources (greenwashing and socialwashing);
- (ii) introduce transparency by requiring issuers to provide detailed extra-financial reporting on green, sustainable and social performance indicators;
- (iii) develop a classification framework and standardised definitions for green, social and sustainable financial products in order to achieve priority sustainable development objectives;
- (iv) identify potential areas for sustainable investment; and
- (v) promote the attractiveness of the regional financial market.

**Taxonomy categories**

GREEN CATEGORIES (8)	SOCIAL CATEGORIES (7)	BLUE CATEGORIES (5)
Renewable energies and energy efficiency	Affordable basic infrastructure	Ocean pollution - chemical and plastic waste
Clean passenger and freight transport	Essential services	Protection against coastal erosion
Sustainable water management, green buildings with low energy consumption	Affordable housing	Fisheries, aquaculture and the seafood value chain
Ecologically sustainable management of natural and living resources and land use (sustainable agriculture)	Job creation	Restoration of the marine ecosystem and biodiversity
Conservation and restoration of terrestrial biodiversity	Food safety	Sustainable tourism
Pollution prevention and monitoring	Reduction of income inequalities	
Circular economy	Equitable participation and integration into the market and society	
Waste management		

### **Principles of the *AMF-UMOA* taxonomy**

The *AMF-UMOA* highlights five principles that the taxonomy must meet:



### **Beneficiaries of the taxonomy**

In addition to private or public issuers, the taxonomy is intended for the following users:

- (i) financial intermediaries active in the WAEMU area, in particular banks, management companies, investment companies, brokerage firms, insurance companies and financial institutions;
- (ii) financial market regulators and monetary authorities;
- (iii) national, regional and international investors;
- (iv) the governments of the Member States; and
- (v) international institutions and cooperative bodies.

It is important to welcome this action of the *AMF-UMOA*, which will oblige investors to prior identify, in a more relevant way and on the basis of precise criteria, projects that can be considered as green, sustainable or social. The taxonomy, scheduled to be reviewed every three (03) years<sup>2</sup>, will therefore be an important leverage for redirecting capital investment towards environmental and social projects.

Issuers who decide to use green, sustainable and social bonds will undoubtedly have to place particular emphasis on these characteristics in their base prospectus, but they will also have to report on the effectiveness of the allocation of funds in their periodic reports. In this way, the introduction of the taxonomy will strengthen investors' extra-financial requirements and reduce the risks of greenwashing and socialwashing.

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<sup>2</sup> Taxonomy of green, social and sustainable projects in the WAEMU, p.30.




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