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The continent is building sophisticated sustainable finance frameworks. However, they are not sufficiently designed to serve small businesses, the backbone of African economies.

African countries are moving fast on green finance taxonomies. South Africa published its Green Finance Taxonomy in 2022. Rwanda's Cabinet approved its own in April 2025. Zambia launched one in December 2025. Kenya became the first African country to set a mandatory adoption timeline. The African Development Bank validated a continental framework designed, in its own words, "by Africans, for Africa."

On paper, this is remarkable progress. In practice, there is a structural problem that no African taxonomy has yet solved; the gap it leaves behind falls most heavily on the enterprises that form the backbone of African economies.

The Design Gap of Current Taxonomies

Micro, small and medium enterprises (MSMEs) account for over 90% of businesses in most African countries and employ the majority of the workforce. Yet the Alliance for Financial Inclusion found that 79% of member regulators have still not categorised the sustainable economic activities that MSMEs can participate in. Rwanda's taxonomy sets emissions thresholds for cement manufacturing aligned with 1.5°C decarbonisation pathways. Zambia's covers eight priority sectors with detailed ISIC codes. They are both serious and technically rigorous instruments. Nonetheless, they omit MSMEs from their screening criteria.

This design choice has real consequences. The taxonomies, as built, cannot recognise or reward small businesses with functional green activities. South Africa's experience should be a warning. A 2024 study based on 44 expert interviews found that one year after publication, the GFT had hardly been adopted in practice. No institution reported implementing taxonomy assessments in its working procedures. Voluntary adoption without regulatory embedding and without clear incentives for smaller market participants produces non-use. The sophistication and the restrictive eligibility of the document make it irrelevant if no one applies it.

Learnings from Europe and Asia

The EU Taxonomy is the global benchmark. It is also, by design, built for large financial institutions and listed companies. European SMEs, which contribute over 63% of enterprise CO₂ emissions, were excluded from its reporting requirements for years. The EU Platform on Sustainable Finance only proposed a streamlined SME standard in March 2025, three years after the taxonomy came into force. That corrective measure took the world's most resourced regulatory apparatus years to produce.

Expecting African regulators to independently develop the same fix, faster, for economies where 80% of MSMEs operate informally, is unrealistic. Nonetheless, Taxonomy alignment with EU standards is a reasonable strategic choice that lowers their transaction costs and provides the credibility signal that makes cross-border issuance viable. South Africa's 2025 taxonomy review explicitly confirmed interoperability with international standards as an objective, precisely because it affects the cost of attracting green financing.

ASEAN offers something more transferable. The ASEAN Taxonomy for Sustainable Finance uses a qualitative, principle-based decision tree that classifies activities as Green, Amber, or Red against four environmental objectives. It is deliberately sector-agnostic and designed for progressive adoption across countries at very different development stages. It does not require complex emissions intensity calculations or third-party verification. Its simplicity is a feature. For African policymakers thinking about how to extend taxonomy coverage to MSMEs, the ASEAN Foundation Framework is the most directly applicable international reference.

The key insight here is that ASEAN Taxonomy architecture was shaped by a different set of constraints with heterogeneous economies, weaker data environments, and large informal sectors that are structurally closer to Africa's starting conditions than the single market context that shaped the EU Taxonomy.

But it is China's model that holds the deepest lessons and that receives the least attention in African sustainable finance discussions.

China's Pilot Zone Approach: A Legitimate Transferable Model

China's green finance architecture operates not just through a national taxonomy — the Green Bond Endorsed Project Catalogue, unified in 2021 and further consolidated in July 2025 — but through a decentralised network of green finance pilot zones. Launched in 2017 by the People's Bank of China across eight cities in more than five provinces, these zones were selected to reflect different economic structures, development stages, and natural resource endowments. They were, in essence, specifically designed as a geographically bounded experiment to develop *localised green finance products for smaller enterprises and rural economies*, backed by central bank incentives, with real-time digital monitoring of green lending flows.

The results are instructive. By 2020, green loans in the pilot zones accounted for 15.1% of total lending, more than double the 6.9% national average. Critically, the zones developed products tailored to smaller enterprises and rural economies: low-interest loans for rural solar installations, energy efficiency financing for households, insurance products ensuring MSME access to green credit, and index insurance protecting smallholder agriculture against extreme weather. Huzhou, the most advanced zone, built a green finance information management system covering all 35 local commercial banks, providing real-time monitoring of green financial flows and reducing greenwashing through digital infrastructure.

This ecosystem approach, by linking taxonomy standards to central bank incentives, localised financial products, and digital tools would be a reasonable solution to address the gap cited earlier, which

African policymakers can consider. Especially, the adoption of their methodology: use geographically bounded pilots to develop context-specific green finance products, gather evidence, then scale nationally.

The conditions for this approach exist across Africa. Rwanda's Kigali International Financial Centre has positioned itself as a sustainable finance hub and could serve as a natural anchor for a regional pilot zone. Kenya's existing mobile money infrastructure creates a ready channel for MSME-level green credit products that would make the taxonomy tangible beyond the boardrooms of Nairobi's financial district.

What Africa-China Cooperation Can Deliver Here

The Africa-China relationship in green finance tends to be discussed in terms of Chinese investment flows, Belt and Road infrastructure, or development bank lending. They do matter, however, the more underexplored dimension is knowledge transfer: specifically, whether China's practical experience in making green finance work for smaller, more informal economies can be systematically shared with African regulators.

There are concrete entry points. The People's Bank of China and African central banks already interact through multilateral platforms, including the Network for Greening the Financial System (NGFS), of which several African central banks are members. Deepening this exchange specifically around pilot zone design, green finance product development for MSMEs, and digital monitoring infrastructure, could genuinely add value to the African green finance structure.

Conclusion

The deeper challenge is that a taxonomy, however well designed, is not self-implementing. South Africa demonstrated this clearly. What is needed around the taxonomy document is an ecosystem: regulatory mandates that create real incentives for adoption, digital tools that make self-assessment possible without navigating hundred-page screening documents, adaptation-focused criteria that reflect where African MSMEs actually intersect with climate action and political commitment to use climate policy revenues to support MSME green transition.

Building that ecosystem requires drawing on the widest possible range of relevant experience. Some of that experience is European. Some of it is not. Africa's taxonomy architects have been appropriately focused on global capital market access. The next step is to be equally deliberate about what makes a taxonomy functional within the economies it is meant to transform and to look for that evidence wherever it actually exists.

This op-ed draws on research published in African Prosperity. The full analysis, including an assessment of national taxonomy landscapes across South Africa, Rwanda, Zambia, and Kenya, is available at africanprosperity.substack.com.

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