



## SA-EU JUST TRANSITION FINANCING ROADMAP: TECHNICAL PEER-TO-PEER COUNTERPART KNOWLEDGE SHARING

A series of three webinars



### WEBINAR 3

## THE CHALLENGES FACING COMMERCIAL AND INVESTMENT BANKS IN FUNDING A JUST TRANSITION

14 OCTOBER 2021 – 09h15-10h45

### Introduction

The EU and Germany BMU has supported TIPS in undertaking research which will contribute to a first iteration of a South African Just Transition Finance Roadmap. The research aims to move the ‘financing a just transition’ discourse forward by proposing a framework which considers a spectrum of just transition ambitions and project funding characteristics. Using place based, action research, a project sample of 26 self-identified just transition projects in Mpumalanga’s coal dependent regions are analysed based on their: procedural, distributive and restorative impacts; their ticket size and their funding requirements. It is hypothesised that such characteristics will be found across sectors and geographic locations making the findings useful at a broad policy level.

The initial findings of the research suggest that projects with low just transition ambitions (market based business as usual and some managerial reform) can in principle be funded within the existing financial eco system albeit with some innovations related to instruments, mechanisms and transactional process that de-risk; and some shifts in an enabling environment which is conducive to such deployment of capital.

Projects with higher just transition ambitions (which would support systemic or transformative societal change) are, however, less likely to be funded by the existing financial eco system. This implies that for a high just transition ambition agenda in South Africa a system level change in the financial eco system will be required.

As both high and low ambition projects will characterise South Africa's transition to net zero; an extensive agenda of research, policy, regulatory and enabling legislation will need to be covered. The webinars serve a dual purpose. In the first instance they seek to provide financial sector stakeholders in South Africa access to the lessons already learned by their European counterparts in relation to financing a just transition (especially a just energy transition). Second the webinars aim to provide European investors and funders insight into the array of opportunities arising from South Africa's short term energy transition and a broader, more sectorally diverse medium to long term range of opportunities.

### **About Webinar 3**

The Banking Association of South Africa (BASA) and its members have developed a banking framework for ESG risk management. The principles focus on: own operations and procurement (by which each bank must manage their own impacts and promote responsible practices along their chains); ensuring that credit and risk management give due recognition to ESG; investment practices (whereby members maintain ESG due diligence guidelines for investee companies) and products and services (which includes developing sustainable technologies through the provision of lending facilities and financial products in support of the national agenda). None of these principles speak directly to the just transition and the need for banks to play a role in the mobilisation and deployment of funds for such projects and programmes.

The South African banking system is designed to readily fund large investments based on known technologies with stable and predictable cash flows and returns. The banking system is not particularly well aligned to providing funding for small ticket projects, projects based on novel technology with a limited track record or projects based on new business models and utilising multiple sources of funding simultaneously. The EU funded TIPS research suggests that a large majority of just transition projects will share these characteristics and hence provide a challenging environment for commercial and investment banks to meaningfully participate in just transition project funding mobilisation and deployment.

The challenges facing the banking sector in South Africa in meeting the needs of a just transition include:

- Mobilising funding for the sustainable finance and just transition agenda while conforming to Basel III
- No benchmark for ESG or JT performance in terms of assessment or management practice
- No broadly accepted definition of what constitutes a just transaction
- Transaction cost impediments, most notably the small size of many of South Africa's just transition projects which have ticket sizes which are lower than the cost of the necessary due diligence
- Poor project pipelines or pipeline which require technical assistance
- A lack of large scale just transition programmes and investment vehicles
- A lack of aggregated funding opportunities such as a fund of funds
- Dealing with parties to a just transition transaction who do not have commercial track records
- Dealing with multi-layered project suites which include commercial, impacts, grant and concessional funding simultaneously
- Dealing with new business and ownership models
- In house technology risk assessment and pricing capabilities
- In house systems and structures which create barriers for just transition funding projects (especially credit committee approaches)

These issues will be unpacked by South African presenters and discussants, followed by examples from the EU of how the private banking sector contributed to resolving such challenges and playing a meaningful role in the mobilisation of finance towards a just, decarbonised pathway to net zero.

### **Programme**

**09h15-09h20** **Welcome** by Facilitator, Saul Levin, Executive Director, TIPS

**09h20-10h15** **Sharing of mutual experiences by South African and European peers:**

Dipak Patel, Head of Sustainable and Just Transition Finance, Presidential Climate Commission Secretariat

Gert Kruger, Chief Risk Officer, FirstRand

Tarun Brahma, Head Investments, NL Climate Fund

George Harris, PACTA

Karel Nierop, Triodos Bank

Tuomas Virtala, CEO OP Asset Management

**10h15-10h45** **Discussion**

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