



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



WEBINAR 2 of 3:

MOBILISING INSTITUTIONAL INVESTOR FLOWS TO FINANCE JUST TRANSITION ACTIVITIES

7 OCTOBER 2021 – 09h15-10h30

REPORT

The TIPS webinar was held on Zoom. It was open to anyone to register. Only registered participants could join the webinar on the day.

Attendees

There were a total of 71 attendees and 7 panelists. The attendees were mostly South African from a combination of private and public sector companies such as the National Treasury, South African Reserve Bank, Nedbank Limited, Presidential Climate Commission, Embassy of Sweden Pretoria, City of Tshwane, City of Cape Town, Land and Agricultural Bank of South Africa, ABSA Group Limited, STANLIB, Old Mutual Investment Group, FirstRand Bank Limited, Department of Public Enterprises.. There were a number of international attendees from various embassies and international companies, including, the Danish Embassy, EU delegation, European Investment Bank, Embassy of Finland, Embassy of Denmark and GIZ.

Presentations

The webinar started off with Dipak Patel from the Presidential Climate Change Commission providing an overview of the key issues on Just Transition, including conceptual clarification of Just Transition and climate finance. Dipak highlighted that the transition places emphasis on the poor and vulnerable as well as decentralised ownership of renewable energy. Climate finance in the case of South Africa includes ameliorating negative impact on workers, communities and local economies as well as finding growth pathways. To achieve this, there is a need for the type of funding that may not necessarily be the forte of financial markets. Furthermore, Dipak highlighted the enablers and constraints, which include prudential and regulatory environment, fiscal and economic environment, public policy, technology development, investment mandates, and ESG. Dipak argued that much of climate finance in South Africa has gone to mitigation projects and this is mainly because of the Renewable Independent Power Producer Programme (REIPPP), which had a lot of incentives. Therefore, there is a need to increase climate finance to adapt as well as Just Transition measures.

Nazmeera Moola from Ninety One presented components that need to be funded in South Africa in terms of Just Transition and highlighted how global asset managers are thinking about just transition in the emerging market context. On what needs to be funded, Nazmeera pointed out that there are four compounds that need funding: new infrastructure, expansion of the electricity grid; just transition, and compensation for retiring coal-powered power stations earlier than initially planned. Nazmeera indicated that the private sector is ready to fund the first two components; however much more work needs to be done in the last two components. Nazmeera highlighted that there is a linear approach to net-zero from global asset managers because they place emphasis on reducing portfolio emissions. An easy approach to reducing portfolio emission is to sell off high emitting companies. However, Nazmeera argued that this approach does not help emerging markets in terms of the transition and does not reduce emissions. Instead, there is a need to align portfolio targets with achieving fair transition in the real world as well as accelerating the transition in the emerging markets. Nazmeera concluded by highlighting that Ninety One supports inclusive and fair just transition through advocacy and measuring the transition as well as focusing on transition plans of heavy emitters and developing transition centric investment strategies.

Sean Kidney from Climate Bond Initiative presented on key principles of growing a green and sustainable bond market. The first principle is that green and sustainable bonds have to meet investors requirements of risk and yields. Investors, particularly institutional investors, have clear risk and yield requirements that must first be met before they can come on board. Sean pointed out that public policy requirement is an add-on. Firstly, there is a need to meet the risk requirements of institutional investors thereafter, climate change requirements can be addressed. The second principle is to follow the science in terms of climate change. This makes it easy to know what to do. The third principle is to package the opportunities to meet the risk requirement of institutional investors. In this regard, there has to be a slice of public support, mainly through sovereign guarantees. Sean pointed out that there is an unusual opportunity in South Africa whereby foreign governments are coming in to support the transition. Additionally, Sean pointed out that there is a need to understand Just Transition in the emerging markets. High emitters such as Sasol with ambitious emission targets need to be engaged and not ignored. Sean indicated that these ambitions, however, need to be in line with government objectives.

Johan Florén from Swedish Investment Fund – AP7 presented on the role of AP7 and highlighted some of the challenges in the sustainability market. Johan pointed out that AP7 has USD\$ 90 billion in funds and has been incorporating ESG in some way for the past 20 years. The overall philosophy of AP7 is that of a universal owner with a thin slice of the global economy. AP7 owns the companies forever, therefore actively solves the problem of each company they own. In order to solve their companies' sustainability problems, AP7 has developed an active ownership tool that includes voting, engagement, blacklisting,

and securities litigation. With regards to challenges in the sustainability market, Johan made three points. Firstly, Johan highlighted that there are not enough sustainable investment opportunities. Secondly, there is a mismatch between returns and risk in sustainable investments. That is, investors do not get returns for the risk that they are taking. Johan pointed out that private investors are willing to take lower returns if someone else takes the risk. Lastly, Johan argued that achieving net-zero targets could end up just being portfolio adjustments without any substantial change in the economy.

Sari Tasa from the Finland Ministry of Economic Affairs and Employment presented on Finland's Sustainable Finance Ecosystem. Sari highlighted that the project is funded by the European Union and aims to help the public sector with mobile funds and expertise for SDG aligned solutions in Finland. The project is in the form of a National Finance Roadmap, with four pilots to catalyse SDG finance. The pilots include; carbon-neutral society, equal learning opportunities and sustainable education, sustainable water solutions, and sustainable and healthy food systems. Sari pointed out the project will also create a useful toolbox on international regulations and requirements for sustainable funding.

Key points from the discussion

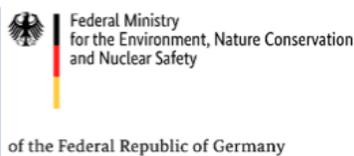
- To solve a poor project pipeline, multinational development banks need to assist in terms of project preparation. This will also help with regulatory environment standardisation.
- There is a need for a framework to measure the transition.
- Packaging opportunities in a way that meets investors' risk requirements and yields will meet the high demand for sustainable investment.

To view the recording, click below:

https://us06web.zoom.us/rec/share/M57j5dyKcbjtZtOMQDMaQvTMJQucqYYyBJTEVAduiBcq_O2a2Rn-YajVueITyQO5.0fmaR9jXFt27uMaK

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