Banking for

a Sustainable Economy

By effectively managing environmental and social (E&S) risks and identifying opportunities alongside these risks, banks are beginning to create long-term value for their business. Some banks are driven toward a sustainability path through their need to manage E&S risks, while others enter the path through their desire to offer innovative green products and differentiate themselves from their competitors. While the entry points will vary from bank to bank, it is our view that the optimal long-term value creation is only possible through a careful management of both risks and opportunities.
(Sustainable Banking Network & International Finance Corporation, n.d.)

18th April 2019

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Executive Summary

The Task-Force on Climate-related Financial Disclosure (TCFD) and the Principles for Sustainable Banking are two international initiatives driving a stronger focus on, and disclosure of, the relationship between the banking sector and sustainable development. In South Africa, National Treasury and the banking sector are examining the roles and responsibilities of banks with regard to issues such environmental sustainability, social development and economic growth. It is likely in the near future that the current voluntary agreements such as the Principles for Managing Environmental and Social Risk are supplemented with more stringent requirements for disclosure by the banks on sustainability issues. In April 2019 a legal opinion on pension funds in South Africa suggested that the boards of these funds have a legal obligation to account for the financial effects of their investments on climate change and the effects of climate change on their investments. Failure to do so would likely amount to a breach of duty by the directors. Although this opinion is located within slightly different legislation to that governing the banking sector, the increasing focus on the finance sector is and will have direct implications for the banking sector. It is with these implications in mind that the BankSETA has commissioned this study into the occupational and skills implication for the banking sector of a greater focus environmental and social risks and opportunities.

Social issues are not separate from environmental issues and where they intersect, they can have significant impacts on the financial performance of banks through suspended projects, reputational damage, negative business impacts on borrowers and thus reduced loan repayments. These issues point to a convergence of two issues that for some may have seemed poles apart, namely sustainability in terms of a more socially inclusive and environmentally sustainable planet on the one hand, and on the other, a stable or sustainable banking system. It is this convergence that gives rise to the interest in 'sustainable banking'.

Banks are an integral part of both the business and community well-being in a country. By linking savers and borrowers and providing a range of financial services, the banks loan significant amounts of capital to individuals, businesses and government for various investments. Should the environment, societies and businesses within which these investments are made fail, then the banks will lose significant value. At the same time the investment by banks provides them with significant leverage to influence their clients and thus make a positive contribution to environmental quality, social development and business success. Viewed in this way a convergence of sustainable development and the banking sector becomes an opportunity for sustainable value creation rather than a trade-off between profit, planet and people.

Evident within the discussions on 'sustainable banking' are two broad approaches. The one approach emphasises the need to build a business case for banks to engage with sustainability issues. This approach suggests that understanding and integrating sustainability issues in banking strategy, planning, business models, operations and services will lead to a sustainable, stable and profitable banking sector. Another approach suggests that such a shift is not possible within a capitalist system that prioritises profit, individual ownership and growth. At the heart of this discussion is whether a business case for sustainable banking is strong enough motivation for banks to engage meaningfully with the social and environmental issues that we face. If the business case is not strong enough to motivate a significant transition, then is there strong enough justification, a sustainability case, for moving beyond voluntary agreements and introducing regulations requiring transformative practices and related disclosure by the banking sector?

Drawing on international literature on business models for shared and sustainable value creation, a number of implications for the approach that banks could take to develop a business case for sustainable banking are explored. Key value drivers include: cost and risk reduction; reputation management; new product development; and new business opportunities that respond directly to the pressing social and environmental issues that we face. It is suggested that by working both internally and externally and across these value drivers banks can enhance their resilience and competitiveness. However, in doing so they will need to recognise value creation beyond narrow profit maximisation for shareholders and include social and environmental value creation for a broad range of stakeholders.

South Africa reflects a robust engagement with these debates revealing areas of convergence between the two approaches as well as differences of opinion. One of the early campaigns for transformation in the financial sector was the Financial Sector Campaign Coalition (FSCC) that was launched in 2001. Such campaigns shaped discussions within the National Economic Development and Labour Council (NEDLAC) and contributed to the development of the Financial Sector Charter (2004), the Code of Conduct for Managing Environmental and Social Risk (2011) and the subsequent Principles for Managing Environmental and Social Risk (2014/ 2018). The Banking Association South Africa (BASA) was instrumental in the development of these agreements and the principles explicitly recognise “the role that banks can play in in the protection, promotion and fulfilment of social, economic and environmental rights in South Africa”.

Building on a detailed literature review of the field of sustainable banking, both internationally and locally, a number of emerging themes were identified and explored in greater depth through a series of interviews. These interviews were conducted with key stakeholders in the banking sector in South Africa and included experts working with National Treasury; the Banking Association South Africa; heads of ‘sustainability units’ in the large banks; research institutes; and a business institute that is working to support sustainable business in South Africa. From a consideration of the literature and the interviews, a number of insights have emerged that have implications for the development of skills in the banking sector.

A key insight was that despite an increasing global and local focus on sustainable banking there was a concern that the ‘sustainability’ capacity in the banking sector was static or diminishing. Despite the inclusion of globally recognised experts in ‘sustainability units’ in the large banks, there was evidence that these units were poorly resourced and capacitated to address the scale and complexity of sustainability issues related to banking. The significance of this insight is exacerbated by the tension between voluntary agreements and binding legislation for performance and disclosure by banks with regard to social and environmental impacts. In the context of limited commitment, capacity and impact in terms of sustainable banking across the sector (despite some outstanding examples) the pressure to introduce stronger requirements related to disclosure by banks is being considered by National Treasury. This regulation however will require that greater attention will need to be given to the factors enabling or constraining sustainable banking in South Africa. Key insights include the need to create the policy and support structures for the development of bankable projects including business opportunities and investments in, for example, sustainable housing. There is however some scepticism about whether this will go far enough to address some of the more pressing transformations required. These transformations may require changes in regulations and the capacity to develop, support and enforce these regulations. One of the insights with regard to more fundamental transitions and the need to ensure that these transitions are just in terms of who benefits and who loses was the absence of a strong labour engagement with these issues. More specifically, it proved extremely challenging to get contributions from the labour sector into the risks and opportunities associated with sustainable banking and the transitions that this may entail.

A final insight related to the challenges associated with working across environmental, social and economic dimensions of sustainability and integrating these dimensions into the working of a large and complex sector such as banking. While it was recognised that each of these dimensions have established occupations and skill sets associated with them, sustainable banking required the ability to 'join the dots' across sustainability issues. This in turn suggested the need to work in transdisciplinary teams and to develop the skills needed to do this.

The insights can be summarised in the following diagram that depicts some key areas for consideration with regard to sustainable banking and the skills required to respond to the emerging environmental, social and economic challenges and opportunities driving this transition. The first important consideration is that banks are directly linked to the environment, society and to the business context within which they operate. Issues such as climate change, water scarcity, inequality, unemployment and poverty require that banks change the way they operate and the products and services that they offer. Through these processes of change, a key consideration will be the impact that the transitions have on workers and communities and ensuring that these groups are heard and not further marginalised by the change. This engagement with stakeholders and the subsequent distribution of positive and negative impacts of change is captured in the notion of just transitions. These broad considerations are increasingly being strengthened through disclosure requirements as articulated in the TFCD, the Principles of Sustainable Banking and potentially through new requirements being developed by National Treasury. This in turn will place greater requirements on governance committees and may lead to higher levels of liability if directors and senior executives fail to address the physical and transition risks and opportunities. However, banks operate within an economic system that does require a return on the investments they make and this will require that there are bankable projects in which to invest. This supply of investment opportunities that are sustainable and just will require a range of stakeholders to work together to ensure policy alignment, broader conceptions of value creation (beyond narrow profit maximisation) and appropriate skills development.

Where opportunities for risk reduction and sustainable value creation exist or can be created, banks have a role to play in realising these opportunities. This will require that governance committees develop appropriate strategies. Investment analysists and others who make decisions within banks will need to be incentivised and capacitated to identify and support emerging sustainable investments and businesses. Here, the sustainability units have an important role to play in supporting the governance committees, senior executives and professional staff to develop the tools and reporting frameworks to assess and profile possibilities for change.

Within this multidimensional model for change certain occupations, and within these, particular skills were highlighted as being key to supporting a transition to sustainable banking. These are listed below along with recommendations on how these skills could be developed.

- Bank worker (OFO: 2017-4211)
    - Short course on general awareness of sustainable banking approach and actions within banks to align with TCFD, UNEP FI Principles and National Treasury

  BankSETA to work with BASA to update introductory course for use in banks.

- Trade Union Representative (OFO 2017-111402)
    - Course on financialisation and the implications for financing a Just Transition

  BankSETA to work with relevant research organisation (e.g. Institute for Economic Justice) to develop short course on Financialisation, Sustainability and Just Transitions

- Sustainability Manager (OFO 2017-121909); Bank Manager (OFO 2017-134601); Policy/Market Risk Analyst (OFO 2017- 242202); Investment Manager/ Advisor (OFO 2017-241202/ 301); Valuer (OFO 2017-331501); Data Management Manager (OFO 2017-133103)

  - Course supported learning network focused on systems thinking, unlocking sustainable value, identifying and using tools for assessing risk and opportunity related to sustainable banking, STRONG FOCUS ON RELATIONAL COMPETENCIES

  BankSETA to work with South African universities to develop short course or Massive Open Online Course (MOOC) that encourages working across occupations on sustainable banking practices.

- Director (OFO 2017-112101); Bank Manager (2017-134601); Sustainability Manager (OFO 2017-121909)
  - Masters in Sustainable Leadership developed for leaders in all fields of the economy – needs to open both supply and demand for bankable sustainable investments.

  Short Continuing Professional Development courses developed at director/ executive management level related to building climate and SDC competent leadership particularly at Board level.

- Legislator/ Senior Government Official (TBD); Environmental Practices Inspector (2017-335906)
  - Specific training to support the implementation of National Treasury 'Financing a sustainable economy' initiative.

Contents

Introduction

Banks play an important role in society as they facilitate the flow of funds between savers and borrowers and provide a range of other financial services. In doing so, they loan vast amounts of capital to individuals, businesses and government for various investments. Through these processes of lending and financial intermediation, they have the ability to influence these clients. Subsequent to the 2008 financial crash, greater attention has been focused on the activities of banks. Questions are being asked both within the banking sector and by external stakeholders about the contribution that banks could and should make to economic, social and environmental sustainability. These questions are becoming more urgent in the context of the Paris Agreement on climate change and the global commitment to the Sustainable Development Goals. In South Africa, these challenges are particularly acute as we are regularly rated the most unequal county as measured by the Gini Index; we have a persistent unemployment rate of over 25%; and resource depletion, including water, is being exacerbated by inefficiencies and climate change. It is in this context that banks have significant potential to have positive and negative impacts on the development trajectory our country. The challenge, and the opportunity, is to recognise these impacts and to build the capacity to shift these impacts in a positive direction. It is with this potential in mind that this study explores the relationships between the banking sector and sustainability and its implications for skills development in South Africa.

To date, most of the requirements in terms of responsible banking in South Africa have focused on risk reduction and have been voluntary agreements. It is, however, extremely likely that work currently being undertaken by National Treasury will start to place greater emphasis on mandatory and credible disclosure with regard to financing a sustainable economy in South Africa. With these changes in mind, the BankSETA have commissioned this review to consider the possible implications of a transition towards sustainability within the banking sector for occupations and skills in South Africa.

The first part of this paper reviews the literature on global and local initiatives that focus on sustainable banking and the potential to create value through sustainable banking. The second part of the paper is based on a series of interviews. Interviews were conducted with: professionals working with National Treasury to develop a 'sustainable finance' policy; Banking Association South Africa; First Rand Bank; Standard Bank; Development Bank of Southern Africa; Investec; Institute of Economic Justice and the National Business Initiative. Unfortunately, despite considerable follow-up with multiple individuals, it was not possible to secure an interview with a labour representative.

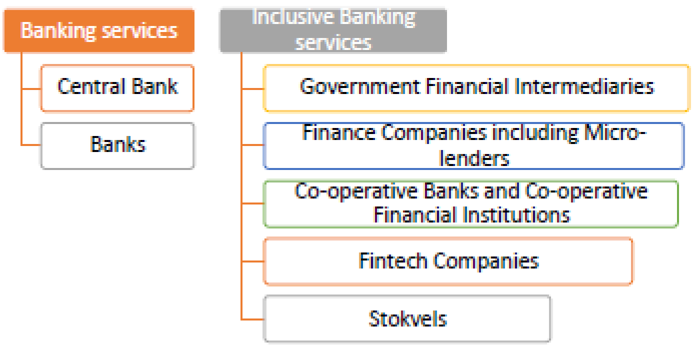
The insights are presented as a number of themes which have emerged through both the literature review and the interview process. Each of these themes have implications for occupations and skills in the banking sector and the report concludes with a consideration of these implications and makes some recommendations related to skills development in this sector.

Background

Scope of study

The scope of this study is the banking sector in South Africa. The Bank Sector Education Training Authority (BankSETA) for whom this study was commissioned divides the banking sector into the Banking sector and the Inclusive Banking sector (note the use of capitals). According to BankSETA (2018), the Banking Sector comprises all banks that are registered with the South African Reserve Bank while the Inclusive Banking sector focuses primarily on lending and savings institutions that are both formal and informal but on a microlevel. The following diagram depicts these sub-sectors within the broader banking sector.

Figure 1: Sub-sectors in banking. Source BankSETA, 2018



Within these sub-sectors are a number of key role-players that fulfil one or more roles within the sector. These roles can be grouped into the following:

- Regulatory (South African Reserve Bank; Financial Services Board; National Credit Regulator; Co-operative Banks Development Agency)
- Employers (Large Banks; Bankserv Africa; South Africa's National Payment System)
- Associations (Banking Association of South Africa; South African Banking Risk Information Centre; Micro-Finance South Africa; NACFISA; DMASA/ AMFISA; National Stokvel Association of South Africa)
- Professional Bodies (Institute of Banking)
- Trade Unions (South African Society of Bank Officials)

(BankSETA, 2018, pp. 17-19)

Although the large corporate banks provide employment to almost 70% of the sector (BankSETA, 2018, p. 4), it is recognised that the other institutions within the banking sector play important roles including access to finance and are therefore important areas for ongoing capacity development including skills development. This study therefore takes a systemic view of the banking sector and having identified important dimensions of 'sustainable banking', identify within this system key leverage points and associated role-players. This will in turn help to identify specific occupations and skills that could support a transition to 'sustainable banking'.

While much of the global and national research has a broader focus on the financial services sector which includes banking and credit services; insurance; and investment and related services, this study focuses on the banking sector. It is acknowledged that there are many linkages between the various aspects of the financial services sector and between the financial services sector and the broader economy. In order to contain the scope of this study within the available time, mandate of the client and resources available, this study limits the more specific content and suggestions to the banking sector as defined in the BankSETA Sector Skills Plan and outlined above.

Focus of study

Although this paper will return to a more detailed discussion on what 'sustainable banking' may entail, a brief introduction at this point should help to avoid some misunderstanding. Firstly, we have used 'sustainable banking' in preference to 'green banking' or 'greening banking' as the latter terms are often perceived to refer exclusively to an environmental perspective. While resource depletion, water pollution and scarcity, air pollution, soil infertility and erosion, climate change and biodiversity loss are all important in their own rights as environmental issues, they are also social issues. Social conflicts are increasingly focused around access to productive land, service delivery including the provision of safe and sufficient water, waste management and energy, rural livelihoods including access to natural resources, healthy living conditions and sustainable benefit sharing of natural resources. Social issues are thus not separate from environmental issues and where they intersect, they can have significant impacts on the financial performance of banks through suspended projects, reputational damage, negative business impacts on borrowers and thus reduced loan repayments. There are however also very specific social impacts that include exclusion of marginalised groups from access to financial services, discrimination within the banking sector or by their clients, violations of human rights and labour standards by a bank's clients, all of which may represent significant risks for banks. These issues point to a convergence of two issues that for some may have seemed poles apart, namely sustainability in terms of a more socially inclusive and environmentally sustainable planet on the one hand, and on the other, a stable or sustainable banking system. It is this convergence that gives rise to the interest in 'sustainable banking'.

There is however nothing prescriptive or predetermined about how the banking sector will position itself relative to the notion of 'sustainable banking' except that it will have to take a position. While the internal business operations of banks may have a relatively small impact on social and environmental systems, the finance they provide has the potential to have very significant social and environmental impacts. And the way they manage the money at their disposal will have significant economic implications both for the bank itself and for broader society. The ongoing exclusion and exploitation of people (evident in inequality and poverty) and environmental destruction are resulting in tighter social and environmental legislation, social unrest and resource scarcity. This in turn will have an impact on a bank's (potential) clients and the ability of these clients to invest money and repay debt. On the flip side, a bank investing in socially, environmentally and economically beneficial initiatives, both within its own business operations and its lending policies has the potential to contribute directly to the achievement of global Sustainable Development Goals and sustainability aspirations articulated in our National Development Plan.

The burning question, however, is what would motivate the banking sector to engage with and contribute to sustainability? Much of the current discourse focuses on building a business case for 'sustainable banking'. This approach suggests that understanding and integrating sustainability issues in banking strategy, planning, business models, operations and services will lead to a sustainable, stable and profitable banking sector. This is an important line of thought and will be explored further in the following section. However, there are other points of view that the banking sector needs to be cognisant of. A number of stakeholders, commenting on broader business practices, argue that what is required is a more fundamental shift away from a mindset of maximising short-term financial profits towards building long-term sustainable value across a number of dimensions including the social, human and environmental dimensions. Others argue that such a shift is not possible within a capitalist system that prioritises profit, individual ownership and growth. These are important arguments that will form part of a serious discussion on transitions towards 'sustainable banking'. At the heart of this discussion is whether a business case for sustainable banking is strong enough motivation for banks to engage meaningfully with the social and environmental issues that we face. If it is, then what skills need to be incorporated in existing occupations and what new occupations may be required to support such a transition? If the business case is not strong enough to motivate a significant transition, then is there strong enough justification, a sustainability case, for moving beyond voluntary agreements and introducing regulatory requirements to move towards 'sustainable banking'? And if so, then what occupations and skills may be required both within and externally to the banking sector to ensure that we are able to manage such a transition so as to be socially, environmentally and economically beneficial? This kind of transition is sometimes referred to as a 'just transition' and will be considered as an important principle informing this study (Ward & Naude, 2018).

This brief background recognises that 'sustainable banking' requires the integration of environmental, social and economic considerations within banking operations and within the broader impact of banking's role as financial intermediaries. The impact of a bank's clients on society and the environment where banks provide finance and other banking services, mean that banks cannot remain 'positionless' on sustainability issues and the transitions required to achieve sustainability. How the banking sector and individual banks go about supporting transitions to sustainability is up for considerable debate. For the banking sector, the preference is strongly for building a business case for sustainability transitions and supporting this process through voluntary agreements. Should this process move too slowly or in a direction that undermines social, environmental and economic sustainability it is likely that banks will face increased costs and risks including reputational risk, they will miss opportunities for long-term value creation and will increasingly face the possibility of social protest and regulatory intervention in their operations.

Banking and Sustainable Value Creation

At present the vast majority of the banking sector is run as a business with all of the large banks registered on various stock exchanges. There is a strong focus within this sector on generating profits for shareholders and this strongly influences corporate governance structures, strategy, key performance areas and day to day operations. However, the King IV Report on Corporate Governance (King IV) notes that business "can no longer be seen as existing in its own narrow universe … of stakeholders and the resources needed to create value – it also operates in and forms part of general society" (IoDSA, 2016). This shift is based on a growing body of literature that is arguing for a positive relationship between the role of business in society and the sustainability challenges that we face on planet Earth (see, for example, D'heur, 2015; Harvard Business Review on Green Business Strategy, 2007; Hawken, Lovins, & Lovins, 2000; Haynes, Murray, & Dillard, 2013; Henderson, 2015; King & Lessidrenska, 2009; Laszlo, 2008; Sempels & Hoffmann, 2013; Senge, 2008; Vertigans, Idowu, & Schmidpeter, 2015).

The King IV Report on Corporate Governance (IoDSA, 2016) identifies three major shifts in business thinking that are evident in business operations and are reflected in this body of literature. They are a shift from financial capitalism with its narrow focus on generating profits for the business and its shareholders to inclusive capitalism that seeks to create sustainable value. Here the creation of value is defined as the "the positive consequences of the organisation's business activities and outputs on the triple context [environment, society and economy] in which the organisation operates, and across the capitals [financial, infrastructure, intellectual, social, human and natural] it uses and affects" (IoDSA, 2016, p. 11). The second shift King IV highlights is the shift from short-term capital markets to long-term capital markets. It notes that this shift arises from the need to create value in a sustainable manner and thus to "encourage investors and finance providers to extend their investment horizons" (ibid., p. 5). The third shift is a shift from siloed reporting to integrated reporting that is consistent with the concept of an inclusive, sustainable capital market system. It is exactly these shifts that are generating interest in and supporting the emergence of 'sustainable banking' both globally and in South Africa.

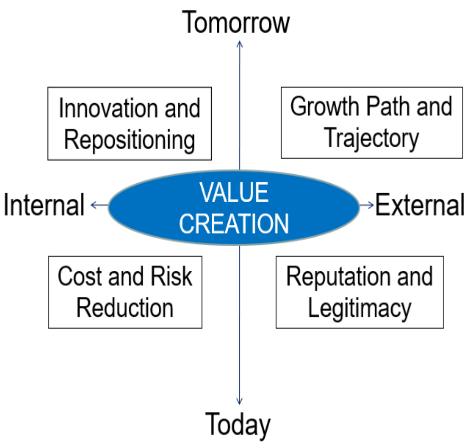


Figure 2: Value creation
(Source: Hart and Milstein, 2003)

Making the shift from a narrow and short-term focus on shareholder profits to a more inclusive and sustainable value creation for businesses, including banks, and the societies in which they operate, will not just happen. It will require new tools and approaches that allow businesses to identify, plan for, operationalise and report on an integrated set of value drivers across a number of different dimensions.

Hart and Milstein (2003) provide a useful heuristic that suggests that value creation within a business can be represented as the interaction between two dimensions. These two dimensions correspond closely with the two shifts in business thinking that King IV identify. The one dimension relates to inclusivity and varies along a continuum from a narrow internal focus on value created for staff, shareholders and direct customers to a more inclusive focus that encompasses the value created for a broad range of external stakeholders. Who is included will vary according to context and business focus but could include local communities, regulatory bodies, activist or special interest groups, round-tables or multi-stakeholder forums and media. The second dimension relates to the time horizon and can vary along a continuum from short-term value creation to long-term/ sustainable value creation. Juxtaposing these two dimensions reveals four important value drivers.

In terms of cost and risk reduction, with regard to the sustainability of a bank's internal business, one can adopt two perspectives. The first is that due to the nature of operations, banks use relatively little natural resources and have a relatively small impact on the natural environment. By the same token, banks provide decent jobs and often invest in the training of staff and other social benefits. Despite this relatively low impact internally, banks have invested significantly in green buildings for offices and have linked advertising to energy and water efficiency. This probably has more to do with external pressure on banks and thus issues of reputation and legitimacy.

The impact that banks have through their investment decisions means that a wide range of external stakeholders take an interest in how banks behave and the kinds of principles they espouse. This has led to significant investment by banks in corporate social investment and, in many instances, a strong environmental focus in this work. These external stakeholders are however seldom looking only at the direct internal business operations but also at the impact of the investment decisions that banks make. This means that the behaviour of a bank's clients, particularly where banks have invested to make particular businesses possible, will have a direct bearing on a bank's reputation and legitimacy. This is discussed further below.

The third areas that banks create value in is through the development of innovative products and service offerings. This is an area of intense competition and digital transaction portals, new forms of financing, etc. are important internal decisions that may take time to pay off but are central to the survival of banks. Some of these new services include green bonds, green credit cards, etc.

The fourth area of value creation is both outward-looking and long-term. This area focuses on identifying the long-term and pressing social, environmental and economic needs of existing or potential clients and shaping the business in a way that responds to these needs with new business offerings. This could include making banking more accessible to people traditionally excluded through new forms of loans e.g. Grameen bank (www.grameen.com) and the Manzi bank accounts that were developed in South Africa.

All of the above forms of value creation tend to focus on the internal business operations and the banks therefore have a high degree of control over the decisions and practices creating this value.

The internal business operations of a bank however account for a very small proportion of the social, environmental and economic impact of a bank. It is where the bank invests the money that it holds for depositors (and the debt that the banks create) that has the largest impact. It is also here that the banks face the greatest challenges and opportunities in terms of the four areas of value creation. With regard to cost and risk reduction, banks have, at least since the 1990s, recognised the potential costs and risks associated with investing in businesses that depend on natural resources for their operations. In a country that has low levels of energy security, or faces water stress either in terms of flooding or drought, or where soil fertility has been destroyed, banks are increasingly aware of the need to assess such risks. Similarly, where companies have poor labour practices or are predatory with regard to unsecured loans or the repossession of homes, there are very significant risks both in terms of costs (legal challenges to the banks clients and thus the inability to operate and pay back the loans) or risks (load shedding or blackouts may make a business unviable or floods/ droughts may destroy a business entirely).

In some instances, the risk is translated into reputational risk and questions around legitimacy. For example, if banks invest in coal mines or coal-powered electricity generation in the context of climate change and the health impacts on downwind communities, there is a very significant reputational risk even though the bank is not directly running the mine or power station. Similarly, if the bank simply divests from the fossil fuel sector without some thought for the workers and communities affected by the resultant closure of mines, there is also a significant reputational risk. There are simultaneously significant opportunities for a bank to increase its reputation through profiling the kinds of clients it is investing with, where these clients are making a substantial positive impact through the businesses they operate.

Banks also have the opportunity to support specific kinds of new business generation through innovative products such as green bonds that may have a longer payback period or that accept some level of risk associated with new technologies. Here banks could work with government to ensure against such risk or even get new regulatory regimes in place that support and de-risk such investments for their clients.

Finally, banks could also be more proactive in encouraging clients to invest in businesses that respond to the pressing social and environmental issues that we face. By asking questions and supporting clients to consider more innovative and sustainable options, banks may develop new kinds of business models and opportunities for long-term value creation, both for their clients and for themselves.

It is evident from the above that there are multiple value drivers that businesses and banks could enhance through a focus on environmental and social sustainability. For banks, the impact of their lending activities is particularly relevant. Oyegunle and Weber (2015) stressed that the adoption of sustainability practices in banks “should be connected with the strategic roles financial institutions play in the economy of a nation and their capacity to foster sustainable development through their lending activities, instead of being focused on niche products and internal environmental activities reducing direct impacts.” There is however a strong argument to be made for the need for consistency between a commitment to sustainability in internal business operations, on the one hand, and the engagement with clients and external investment decisions, on the other. Positioning a bank as sustainable through, for example, housing its operations in a green building but then investing heavily in the fossil fuel sector carries significant cost and reputational risks while squandering the potential to build new business opportunities such as investment in green buildings based on the learnings from the internal decisions. In much the same way as Hart and Milstein (2003) note that value creation will need to happen across all four quadrants of the model presented above, it is likely that banks will need to focus on both internal and external sustainability-related strategies, decisions and actions. A number of reports (Whiteman, Walker & Perengo, 2013; Lüdeke-Freund, Massa, Bocken, Brent, & Musango, 2016) suggest that businesses adopting a sustainable value creation approach enhance their resilience and competitiveness in the longer term by acknowledging the interdependencies between their own operations and the contexts in which they are embedded.

It is in this broader context of sustainable value creation within business that the potential for ‘sustainable banking’ is emerging as an important contributor to sustainability, both globally and locally. The following two case studies provide a useful insight into how 2 major South African Banks are engaging with sustainable value creation both internally and in terms of the products and services that they provide to external clients and sectors of the economy.

Case Study 1: Nedbank's Approach to Sustainability

According to Nedbank they have a multi-faceted, dynamic and expanded view of sustainability that is directly informed by the United Nations Sustainable Development Goals. Working with and from these universal goals they have developed the Nedbank Sustainable Development Framework (Nedbank, 2017). This framework incorporates all 17 of the Sustainable Development Goals.

Nedbank states that:

> "We understand that our success is contingent on the degree to which we deliver value to society. As such, it is important to understand our role in society and how society can be different because Nedbank is a part of it. *Banks play a crucial role in facilitating economic activity and enabling sustainable growth and development by moving capital from where it is to where it is required [emphasis added].*" (Nedbank, 2017, p.2).

Based on their annual sustainability review, which is a supplementary report to the Nedbank Group Integrated Report, their approach to sustainability goes well beyond moving their own operations in a more sustainable direction. Their initiatives to transition to more sustainable operations (especially from an environmental sustainability stand point) will be briefly highlighted here. What is noteworthy are the various projects (underway or completed) where the financial products and services they take to market have a strong or core focus on sustainability. Building on and expanding these types of initiatives will be crucial to the just transition of the banking sector.

Sustainability of internal operations

Nedbank has succeeded in reducing their paper consumption by 23.2% year on year. By the end of the 2017 financial year a reduction of 35% by 2025, based on the 2013 baseline, was aimed for (Nedbank, 2017, p.18). Despite new buildings being added to their portfolio and an increase in staff their water consumption has remained stable. In terms of waste being sent to landfill concerted and focused efforts have resulted in a reduction of 25.1% from 2016 to 2017. The waste sent to landfill per full time employee was 10.42 kg in 2017. Recycling has increased by 11.09% from 2016 to 2017 and amounts to 32.65 kg per full time employee (Nedbank, 2017, p.18).

Overall Nedbank has managed to recycle approximately 76% of its waste in 2017 (Nedbank, 2017, p.19). This was achieved through ongoing staff awareness, education campaigns and the establishment of on-site recycling banks. Nedbank has committed itself to a zero-to-landfill policy.

Sustainability in terms of financial services and CSI

Affordable and clean energy

Nedbank has taken various steps in order to realise the goal of affordable and clean energy. In 2012 they launched the Nedbank Green Savings Bond to give retail clients the opportunity to make green investments. The funds invested by clients are earmarked for investment in renewable energy projects. Since its inception more than R 25.2 billion has been invested by retail clients (Nedbank, 2017, p.9). In 2017 Nedbank financed transactions to the value of R 24 million in relation to photovoltaics and a total of R 18.4 billion was disbursed in 2017 for renewable energy deals (Nedbank, 2017, pp8-9).

Another initiative that addressed the challenge and opportunity of affordable and green energy but that also illustrates how digitalisation can drive or enable sustainability initiatives is the development of smart geyser telemetry (Nedbank, 2017, p.9). Nedbank Insurance has developed and is piloting a mobile phone application that allows home owners to remotely control their geyser electricity usage. The device that is installed on geysers has sensors that automatically shut off water and electricity supply once a leak or burst is detected (Nedbank, 2017, p.9).

Water stewardship

Nedbank is working on the supply and demand side with private and public stakeholders to develop funding solutions to alleviate water shortages (Nedbank, 2017, p.7). A project that clearly illustrates the intersection of social justice and environmental sustainability considerations is the funding of 630 low-income housing units for the City of Cape Town in Belhar Gardens. All of these units have energy and water saving features and the City of Cape Town has identified the development as a new benchmark in social housing (Nedbank, 2017, p.7).

R12 million has been invested in the WWF-SA Water Balance programme since its inception in 2011. By removing alien-invasive species more than 915 500 kilo litre of water has been released into South Africa’s water catchment annually (Nedbank, 2017, p.7). In 2017 the focus was on the active restoration of the land already cleared with 20 000 indigenous plants being planted and 6 000 days of work for local community members being created in the process (Nedbank, 2017, p.7).

The WWF Nedbank Green Trust funds a farming support project to improve livestock grazing methods in five communal grazing areas in the Matatiele district of KwaZulu-Natal. This project is helping farmers to manage their cattle and lands more sustainably by educating them on the benefits of rotational grazing. This initiative not only benefits the farmers who participate but also ensures the sustainable management catchments that are critical to the delivery of potable water to the major metropolitan areas downstream.

Green building finance

Nedbank remains the leader in terms of the financing of green buildings. R 1.3 billion in funding was provided in 2017 for the construction of buildings that conform to green building standards (Nedbank, 2017, p.10). This brings the total investment of the Nedbank Group in green buildings to R8.7 billion and over 400 000 m^2 (Nedbank, 2017, p.10).

Nedbank. (2017). Sustainable Development Review for the Year ended 31 December 2017. Retrieved from https://nedbank.co.za/content/dam/nedbank/site-assets/AboutUs/Information%20Hub/Integrated%20Report/2017/2017%20Sustainability%20Review.pdf

Case Study 2: Standard Bank's Approach to Sustainability

According to Standard Bank their approach to sustainability is informed by the United Nations Sustainable Development goals, the African Union's Agenda 2063 and the South African government's National Development Plan. (Standard Bank, 2017).

Sim Tshabalala, the CEO of Standard Bank, states that:

> "Our sustainability and success are inextricably linked to the prosperity and wellbeing of the societies in which we operate. We are clear that our core business activities must support and contribute to this prosperity and wellbeing." (Standard Bank, 2017, p.4).

Based on their annual report to society, which is a supplementary report to the Standard Bank Group Integrated Report, their approach to sustainability goes well beyond moving their own operations in a more sustainable direction. Their initiatives to transition to more sustainable operations (especially from an environmental sustainability stand point) will be briefly highlighted here. What is truly noteworthy are the various projects (underway or completed) where the financial products and services they take to market have a strong or core focus on sustainability.

Sustainability of internal operations

Standard bank is committed to the greening their offices and branches in South Africa as well as across the rest of the continent. All their new buildings are aligned with the Green Building Council of South Africa's sustainability rules and their energy management systems align with ISO 50001 (Standard Bank, 2017, p.66). In 2017 energy consumption was reduced by 21.7 %, working from a 2014 baseline, surpassing the target that was set for 2020 (Standard Bank, 2017, p.66).

The Standard Bank offices in Johannesburg, located at no.1 Simmonds Street, has a renewable energy parking facility that produces more carbon free electricity than the offices are able to consume (Standard Bank, 2017, p.66). R4.9 million was invested in energy efficiency improvements in 2017 contributing to the production of 1978 KW from renewable energy. During the water crisis in Cape Town two offices managed to reduce their water consumption by 50% (Standard Bank, 2017, p.67).

Sustainability in terms of financial services and CSI:

Affordable and clean energy

Standard Bank has committed to reduce its investments in fossil fuel energy and to increase its investments in renewable energy projects.

Standard bank states that:

> "While minimising our direct environmental impacts is important, we must also consider the indirect impacts from businesses and projects we fund." (Standard Bank, 2017, p.68)

From 2012 to 2017, 83 % of their power project financing has been directed towards renewable energy while lending to fossil fuel power projects has represented only 17% of their investments in energy production in Africa (Standard Bank, 2017, p.68).

Standard Bank has also engaged with the Centre for Environmental Rights (CER) and other environmental groups regarding their potential funding of coal-fired projects. For each project that Standard Bank undertakes it conducts detailed due diligence that includes an assessment of climate change risks and alignment with the Equator Principles (Standard Bank, 2017, p. 69). From 2016 to 2017 green energy finance amounted to $ 1.9 billion (Standard Bank, 2017, p.68).

Funding to the value of $ 623 million has been co-arranged for Kenya's Lake Turkana wind farm which is the largest in Africa and produces 310 MW. The wind farm provides power for up to a million homes and accounts for 15% of the country's power capacity. (Standard Bank, 2017, p. 59).

Green solutions in asset finance

Standard Bank's "green your fleet" solution provides accurate data monitoring for companies to calculate the emissions of their vehicles and manage their environmental impacts better (Standard Bank, 2017, p.71). In 2016 a finance solution was developed to assist South African business with the instillation of solar panels (Standard Bank, 2017, p.71).

Supporting climate adaptation

Across Africa changes in weather patterns and price shocks (driven by climate change) require a diversification of crops to mitigate against these risks. In Zambia changes rain patterns has resulted in agriculture shifting to northwards. Agriculture customers are being encouraged to diversify their business in order to remain sustainable. In 2017 the Standard Bank Group invested $200 million in Zambia's agriculture sector (Standard Bank, 2017, p.72).

In 2016 the loans of 38 agricultural clients in South Africa were restructured in order to prevent them from defaulting due to the severe drought experienced at the time. The good rains of 2017 enabled the farmers to produce R 176 million in field crops, horticulture and livestock.

Water infrastructure provision

Desalination plants have been financed by Standard Bank at Monwabisi and Strandfontein in the Western Cape. Each will produce 7 million litres of potable water a day. The water purification plants are set up in containers and can therefore be moved to new locations as the need arises. These projects address the short term need for portable water in drought afflicted regions but also address the long term need for water infrastructure development (Standard Bank, 2017, p.61).

Standard Bank. (2017). Standard Bank's Report to Society 2017. Retrieved from http://annualreport2017.standardbank.com/downloads/Standard_bank_RTS2017_report_to_society.pdf

‘Sustainable Banking’

The relationship between banking and sustainability has been described in a variety of ways with different dimensions receiving attention. Most definitions reflect a blend of risk management (that emphasises screening and managing environmental and social risks as part of banks’ decision-making processes) and sustainable finance provision (that focuses on supporting businesses and institutions with a positive impact on the environment and society). Two seminal works on sustainable banking are considered here before examining more specifically, the international principles that have been developed on sustainable banking.

Weber (2012), in a review of sustainable banking, has identified a number of key dimensions of literature developed at that time. It is interesting to note how these dimensions correspond to the value creation drivers identified by Hart and Milstein and discussed above. We have included value creation drivers in brackets after the dimensions identified by Weber. The dimensions of sustainable banking identified by Weber are: internal environmental management (cost and risk reduction); environmental credit risk management (cost and risk reduction); socially responsible investment (reputation and legitimacy but potentially a new growth path); carbon finance (innovation); and impact investment (new growth paths but could be focused on reputation and legitimacy). What is evident from the dimensions identified by Weber is that while some aspects can be clearly placed in one of the value creation dimensions, others will fall into different segments depending on the principles and implementation. If corporate social investment is done as an instrumental activity that is ultimately aimed at greenwashing and achieving some kind of marketing advantage, then it would fall into the reputation and legitimacy quadrant. There is however a very real risk of this backfiring and destroying value. Alternatively, if the socially responsible investment is done with a transformative agenda that seeks to create genuine social value that may also open new opportunities for business, then it would move into the new growth models.

Bouma et al. (2017) highlighted the dynamic nature of a concept such as sustainable banking and emphasised the importance of external stakeholders in the emergent nature of the relationship between banking and sustainability. The authors highlighted a number of themes and spaces for engagement between banks and their stakeholders including: (1) the policies of banks, (2) communication and transparency, (3) environmental investments and environmental risks, and (4) the role of governments, non-governmental organisations (NGOs) and multilateral banks.

This focus on external stakeholders raises an important issue about the regulation of banks. While a number of industry-driven initiatives, such as the Equator Principles and the UN Responsible Finance Initiative, have developed voluntary codes of conduct, there is a move towards external legislation. Oyegunle and Weber (2015), in a review of sustainable banking regulation, suggested that regulation of the financial sector, with regard to including environmental and social considerations in finance regulations, is more evident in developing economies than developed economies. They suggest that one catalyst for this may be that “environmental problems are more significant in developing countries than in developed countries, and therefore lead to more internal and external pressures to become active.” However, a closer look at developing nations suggests that even within this category, each country has adopted a unique route in response to local context and priorities. In Bangladesh, Brazil, China, Indonesia, Morocco, Nigeria, Peru and Vietnam, financial or banking regulators have taken the lead through policy-based initiatives. In Colombia, Ecuador, Kenya, Mexico, Mongolia, South Africa and Turkey, banking associations have coordinated voluntary, industry-led initiatives (Sustainable Banking Network & International Finance Corporation, n.d.). A summary table contained in appendix 1 reveals significant differences in the approaches taken within developing nations in terms of sustainable banking.

Whether developed or developing nations, many of the initiatives are informed by global initiatives. One of the oldest and broadest initiatives working on sustainable finance is the United Nations Environment Programme Finance Initiative (UNEP FI). In the run-up to the Rio Earth Summit in 1992 the UNEP *Statement by Banks on the Environment and Sustainable Development* was launched. This marked the beginning of the UNEP FI that has, as its mission, a commitment to promoting sustainable finance. According to the UNEP FI website: “More than 200 financial institutions, including banks, insurers, and investors, work with UN Environment to understand today’s environmental, social and governance challenges, why they matter to finance, and how to actively participate in addressing them” (About United Nations Environment Programme – Finance Initiative, n.d.).

In 2003 the Equator Principles were adopted by financial institutions. These principles are a risk management framework for determining, assessing and managing environmental and social risk in project finance. It is the intention of these principles to provide a minimum standard for due diligence to support responsible risk decision-making. The principles are adopted voluntarily by financial institutions and are typically applied to projects where total capital costs exceed US$10 million. Today, 94 banks in 37 countries adhere to the Equator Principles, covering more than 80 percent of project finance transactions in emerging markets (devex, 2018).

The Principles for Responsible Investing (PRI) was launched in 2006 and currently has nearly 1 500 signatories from over 50 countries.

In 2011 the UNEP FI *Guide to Banking and Sustainability* set out guidance on how banking institutions might apply sustainable development principles in their operations. In the same year, in response to the financial crisis of 2008, an internationally agreed set of measures were developed by the Basel Committee on Banking Supervision. This international regulatory framework for banks is known as BASEL III and is aimed at strengthening the regulation, supervision and risk management of banks.

In 2012 the Sustainable Banking Network was launched as a community of financial sector regulatory agencies and banking associations from 35 emerging market countries committed to advancing sustainable banking. This network is located within the International Finance Corporation and is thus linked to the World Bank.

In 2014 UNEP FI produced a report on the role that financial and particularly banking regulations can play in the transition to a green economy. The report entitled *Stability and Sustainability in Banking Reform* had a particular focus on Basel III and questioned whether the environmental and social sectors had not been under-represented in the risk assessments required by Basel III.

By 2015 the emphasis on risk was starting to be complemented by a more proactive and visionary recognition that opportunities for positive change were also important to consider. In this year, a group of banks and investors released the *Positive Impact Manifesto* that called for a new financing paradigm that focused on sustainable development and the attainment of the Sustainable Development Goals. Evidence of the broadening of focus to support sustainable development is seen in a number of publications in 2015 including the Corporate Bonds Water Credit Risk Tool, the support for the Paris Climate Agreement and the publication of a legal analysis entitled Banks and Human Rights.

In 2016 the second edition of the *Guide to Banking and Sustainability* was produced and focused on raising awareness amongst banking practitioners and is a tool to support the integration of sustainability considerations into banking.

A current global initiative seeks to enhance the alignment of the banking industry with society's goals as expressed in the Sustainable Development Goals and the Paris Climate Agreement. A draft will be launched on 26 November 2018 for public consultation with a final version envisaged by September 2019 (Principles for Responsible Banking – UNEP-FI, n.d.)

In keeping with Bouma et al. (2017), the brief review of international processes and principles associated with these sustainable banking initiatives reveals a dynamic and broadening focus. Three key trends are evident in the sustainable banking initiatives. The first was a focus on raising awareness and understanding about the implications of social and environmental factors on banking through engagement around key events such as the Rio Earth Summit. The second trend revealed a commitment to supporting the integration of environmental and social factors in risk management. This was part of broader movement that received added impetus through the 2008 financial crisis and thus included a broad focus on risk management and particularly, risk associated with governance. The third trend saw a more proactive response that began to articulate the potential value proposition for banks to engage with sustainability issues, as well as the need to stimulate investment into sectors and companies that help to address or solve the root causes of environmental or social risks.

It is increasingly being recognised that for banks it is necessary to not only understand and manage the risks and negative impacts of banking activities but that there are opportunities to create value for both the bank and broader society through proactive sustainable banking. Despite evidence of these shifts in the principles that have been developed, recent reports such as *Ready or Not* (KPMG & WWF, 2015) focusing on the European banking sector and a follow-up report (KPMG, 2016) focusing on the Nordic banks, reveal both strengths and weakness in current approaches. In particular, both reports suggest that that while the identification and control of environmental and social risks in the core banking operations is becoming more common, the integration of sustainability criteria in lending and investment decisions, still requires significant improvement if banks aim to protect the value of their assets in the short and longer term.

Sustainable Banking in South Africa

Given the institutionalised inequality in South Africa's history, there has long been pressure on the banking system in this country to support greater inclusivity, equity and a growing economy that is able to provide employment and address poverty. Early initiatives during the post-apartheid transition focused on addressing issues of financial inclusion and a transformation of the demographic profile of bank ownership and management. These initiatives have been extremely important in highlighting and addressing some key aspects of social transitions with regard to 'sustainable banking'. As such, these initiatives serve as examples that have global significance. Almost entirely absent from these initiatives, however, is any consideration of the environmental impact of banking and finance decisions and the impact that this has on all South Africans. Any search on 'transitions in the South Africa banking systems' that does not specifically include search terms such as 'environment' or 'climate change' is unlikely to turn up any process other than social transformation. As environmental issues increasingly impact on both the economy more broadly and as these impacts are often felt most acutely by poorer and marginalised communities that are more vulnerable to the impacts of failing environmental quality and economic inclusivity, it will be vital for South Africa to broaden its notion of sustainable banking.

One of the early campaigns for transformation in the financial sector was the Financial Sector Campaign Coalition (FSCC) that was launched in 2001. This coalition included over 50 organisations including the ANC, the SACP, COSATU and a number of the unions from the financial sector and built on a South African Communist Party campaign launched in October 2000 under the phrase "Make the banks serve the people". These campaigns were focused on the transformation of the financial sector so that it served the needs of all South Africans. These campaigns fed into the National Economic Development and Labour Council (NEDLAC) Financial Sector Summit of 2002 and culminated in a number of financial sector transformation agreements of which the Financial Sector Charter was perhaps the most important. At the time, this was a voluntary agreement that sought to enable a "transformed, vibrant, and globally competitive financial sector that reflects the demographics of South Africa, and contributes to the establishment of an equitable society by effectively providing accessible financial services to black people and targeted sectors of the economy". The Financial Sector Charter has been important in driving both private sector changes and public policy and legislation. Linked to the promulgation of the Broad-based Black Economic Empowerment (BBBEE) Act (53 of 2003), the FSC came into effect in January 2004 as a transformation policy for the sector. In 2007 the Department of Trade and Industry gave the codes of good practice superior legal status to the charters and as a result, the constituents of the FSC engaged in protracted (2007 to 2011) negotiation around the process of gazetting the FSC in a form that would have the same legal status as the Codes. At the end of 2012, the Financial Sector Code was gazetted. This code contains quantitative targets and obligations aimed at supporting economic growth and most importantly sector transformation. Key areas that are reported on include: human resource development; access to financial services; empowerment financing; procurement and enterprise development; corporate social investment; and management control. The charter and subsequent codes have had mixed impacts. The introduction of the low-cost Mzansi accounts were initially seen as a major success in terms of more inclusive banking ("Financial Sector Campaign Coalition Welcomes Mzansi Launch," n.d.). There have also been significant investments in BEE deals, however as this first round of 'black ownership' sold their shares, the banking sector has engaged in a protracted struggle around the notion of 'once empowered, always empowered' with deeply entrenched positions on both sides of the argument.

In a recent National Treasury presentation to the parliamentary Standing Committee on Finance (Momoniat, Havemann, & Masoga, 2017), the presenters welcomed the opportunity to "deal with the real issues and ask: why have current transformation initiatives not been as successful as required after 20 years of freedom?" They go on to suggest that:

> "Meaningful 'transformation' of the financial sector is not merely a question of ownership of financial firms, but to <u>how the sector supports real economic activity</u>?
>
> – What services are provided to consumers? (access/inclusion, lower charges, more appropriate products)
> – Who owns the firms that manage the assets? How sensitive are they to our country's needs and challenges?
> – How are the assets in the system put to use? (procurement, empowerment financing, socio-economic development)
> – Who decides how those assets are invested / put to use? (management control, employment equity and skills development)"

This broader approach to transformation opens space to consider the "country's needs and challenges" from a more holistic and integrated economic, social and environmental perspective. It also introduces a more nuanced discussion on "who decides how these assets are put to use?" And it is here that a range of initiatives beyond the current focus of the Financial Sector Charter provide opportunities for broader notions of transition.

It is beyond the scope of this paper to go into a detailed consideration of South Africa's environmental issues. It is however important to note that our reliance on cheap coal for energy has resulted in South Africa being one of the most carbon-intensive economies in the world. This makes us vulnerable as commitments to address climate change place increasing pressure on the fossil fuel industry and the many industries that have developed in this country based on access to cheap energy. At the same time, other natural resources, and particularly water, are under pressure with recent research and planning documents suggesting that we face a 17% deficit of supply relative to demand by 2030. Other environmental issues include waste management, air pollution, pressures on biodiversity, marine resource management and soil erosion and infertility. Many of these issues are likely be exacerbated by climate change and will have a significant impact on social well-being and economic development.

From a broad financial sector perspective, the management of financial risk related to environmental and social issues in South Africa has been influenced by the Equator Principles, Basel III and the UN supported Principles for Responsible Investment. These global initiatives informed the development of the Code for Responsible Investing in South Africa (CRISA). Although a voluntary code, it has been supported by Regulation 28 of the Pension Funds Act (2012) that deals with environmental, social and governance risk management related to pension fund investments.

From a banking perspective, the voluntary Principles for Managing Environmental and Social Risk were introduced by the Banking Association of South Africa in 2014 and substituted the previous Code of Conduct for Managing Environmental and Social Risk from 2011. The Banking Association of South Africa (BASA) is the mandated representative of the banking sector in South Africa and was the first African banking association to join the UNEP FI. The principles explicitly recognise "the role that banks can play in in the protection, promotion and fulfilment of social, economic and environmental rights in South Africa". They therefore set out to "promote sustainable banking practices" and "increase transparency and consistency in the application of environmental and social risk management practices in members own operations, lending practices, investment practices, products and services provided" (Banking Association of South Africa, 2015). The key commitment within the principles focus on: own operations and procurement; lending practices; investment practices (largely governance); and products and services. As mentioned, this is a voluntary initiative and neither the Reserve Bank nor the Financial Services Board oversee or require reporting on the principles.

Another set of voluntary principles that has bearing on the banking sector is the King IV Report on Corporate Governance. Most of the large banks in South Africa are listed on the Johannesburg Stock Exchange and are thus required to comply with King IV. Although King IV has no legal status in its own right, it does set out the principles and practices that are likely to be taken up as an appropriate standard of care as required by the Companies Act and associated Regulations. In addition to the more general application of King IV to banks as businesses, principle 3 (requiring governing bodies to ensure that the business is a responsible corporate citizen), principle 4 (that links sustainable development to value creation) and principle 17 (that specifically requires that institutional investors promote good governance and sustainable value creation in the companies in which they invest) have particular relevance in terms of sustainable banking. Failure to meet these established corporate governance practices, albeit they are not legislated, may invoke liability.

All of the above initiatives take place within the broader legislative environment of South Africa. The BBBEE related legislation and regulations have obviously had a significant impact on the Financial Services Charter and subsequent Code. The strong legislative requirements associated with the voluntary Charter and the application of quantitative targets that have to be reported on and have implications for business opportunities are direct drivers of social inclusion and broader social sustainability. There are no comparable examples of environmental legislation that affect banks directly with regard to environmental sustainability. The closest equivalent may be the notion of 'lender liability' which would allow for the transfer of the costs of pollution incidents back to the financiers. This would of course encourage banks to assess this risk and internalise the cost into the credit risk assessment. However, the National Environment Management Act is not clear as to whom the 'duty of care' applies. BASA have on a number of occasions either sought clarity on this issue, or applied for exemption from similar clauses in, for example, the Waste Act. The basis of these applications is that if a lender adheres to the best practices, they would have what is called 'Safe Harbour' or some form of limited liability. Other actors have suggested that lender liability is an important tool to encourage the inclusion of environmental risks and costs into banks' lending considerations (National Environmental Management Laws Amendment Bill, n.d.) To date however, the application of the principle of lender liability in South Africa remains untested with insufficient local case law. The interpretation of the principle is thus unclear and ineffective in providing a regulatory basis for the inclusion of environmental considerations into bank decision-making.

In addition to the local principles, a country progress report by the Sustainable Banking Network suggests that individual banks and the Banking Association South Africa are engaged with many of the international initiatives. The report notes that South Africa's four largest banks were among the earliest emerging market signatories of the Equator Principles. The Banking Association South Africa was an early member of the UNEP Finance Initiative. The banks in South Africa comply with Basel III and other parts of the financial sector are participating in the initiatives such as the Principles for Responsible Investing. This international engagement often informs and carries through into local voluntary initiatives and principles.

From the above, it is evident that South Africa's approach to sustainable banking has been based on a voluntary framework guided by principles and limited legislation. Proponents of this approach argue that it makes allowance for innovative responses to an emerging field of social and environmental risks and opportunities. There is also a sense in South Africa that the state has insufficient resources to implement stringent legislation in a field as complex as the financial and banking sector, particularly where that legislation extends to the investment decisions in and behaviour of clients of the bank e.g. lender liability. There is also concern that complex legislation that extends legal liability for banks will increase transaction costs and reduce investment. It is for these reasons that BASA have consistently promoted the industry-led initiatives such as the Principles for Managing Environmental and Social Risk. There is however growing concern that progress has been slow in principle guided areas such as environmental sustainability. In a review of sustainable banking in South Africa, a diversity of views was expressed through interview data. The following section captures some of the diverse input:

> As one sustainability manager put it, ESG polices and codes "are trying to pull the market into a conversation it does not really want to have about sustainability and [the pace of change will be slow because] we are talking about a fundamental reshaping and restructuring of the market." A regulator remarked "that at some point, a continuum of tools based on private and public rules [will be] needed to build a sustainable financial system." (UNEP & Global Green Growth Institute, 2016)

These comments mirror the Minister of Finance's comments at the launch of Code of Responsible Investment in South Africa (CRISA) in 2011, when he noted that if the voluntary, market-driven, principle-based approach is unsuccessful they might take a tougher stance on trying to enforce, implement and encourage responsible investment (UNEP & Global Green Growth Institute, 2016). This tougher stance was subsequently introduced with the promulgation of Regulation 28 of the Pension Funds Act (2012).

Similarly, the Financial Sector Charter that started as a voluntary sector agreement to address some of the social issues of exclusion and inequality through changes in the banking sector was strengthened in a number of areas through the BBBEE regulations. Lessons from this process could be used to reposition the discussion of ‘sustainable banking’ and particularly the inclusion and tracking or environmental issues within lending decisions and financial intermediation of banks. More specifically, lessons learnt in the Financial Sector Charter process suggest that the implementation of the Principles for Managing Social and Environmental Risk would benefit from requirements for greater disclosure on performance. Greater coherence between these principles and the principles (particularly principles 4 and 17) of King IV would go some way to supporting this disclosure.

These and similar suggestions have been recognised by National Treasury who in 2017 convened a working group of financial sector regulatory agencies and industry associations to develop a framework document on sustainable finance. This initiative seeks to align the whole financial sector (including institutional investors, asset managers, bankers, insurers, and stock exchanges) with national sustainability goals by creating an overall vision and policy environment that encourages sustainable finance adoption. This working group has been tasked with developing a document that:

- Defines sustainable finance for a South African context;
- Incorporates perspectives from all parts of the financial sector, including banking, pension funds, insurance, asset management and capital markets;
- Describes the global and national drivers for sustainable finance, as well as existing industry initiatives;
- Maps supply and demand for, as well as barriers to, sustainable finance; and
- Provides recommendations on a national strategic approach and the role of regulatory agencies and industry stakeholders.

It is likely that this process will provide a stronger basis from which to take forward sustainable banking in South Africa. The question that arises is whether South Africa is “Ready or Not” to take forward the challenge in terms of creating sustainable value for and through the banking sector. One part of answering this question is to assess what the implications for such a move towards ‘sustainable banking’ in South Africa would be for the occupations and skills profile within the sector.

Emerging Insights

Informed by the above literature review a number of potential stakeholder groups were identified from whom more in-depth insights could be solicited through an interview process. These included:

- National Treasury and specifically the working group focusing on sustainable banking
- The Banking Association South Africa
- The heads of ‘sustainability units’ within the large banks
- A labour union representative particularly in relation to Labour’s position on sustainable banking
- The Institute for Economic Justice
- The National Business Initiative

In addition a number of key areas were identified that required clarification within the interview processes. These included:

- Clarity in relation to defining and measuring sustainable banking in South Africa
- Key collaboration forums/ initiatives for the development of a sustainable banking framework in South Africa
- The process of embedding sustainable banking in banks' core business
- Current work on identifying and developing business value drivers for sustainable banking
- Promoting information flow to enable sustainable banking, including reporting and regulation
- Building capacity among regulators and banks for implementing and monitoring sustainable banking (Key occupations and skills required).

As the interview process unfolded additional areas were identified and explored. The following section captures key insights that emerged through a consideration of the literature review and the interviews. These insights highlight: diminishing capacity in the field of sustainable banking; the emphasis on voluntary agreements; changing contexts; the role of labour; the demand for new skills; and the supply of skills for sustainable banking.

Increasing focus on sustainable banking but static or diminishing 'sustainability' capacity in the banking sector

Global initiatives such as the Task Force on Climate-related Financial Disclosures (TCFD) (TCFD n.d.) and the UNEP FI Principles for Responsible Banking (UNEP FI n.d.) were described by most of the people interviewed as significant initiatives. South African banks were well represented in the expertise developing or piloting these initiatives and many of the people interviewed are participating in these global processes. At the local level, there was a great deal of interest in identifying and contributing to the Sustainable Development Goals through the work of the banks. Both the Banking Association South Africa and all the banks that participated in the interviews noted that seven priority SDGs and related targets had been identified by the large banks and work was now focused on developing actions and reporting frameworks related to these goals. There was also substantial interest in the work that National Treasury (in collaboration with the International Finance Corporation) was doing to develop policy/ reporting requirements on financing the sustainable economy in South Africa. None of the people interviewed doubted the impact that climate change, water scarcity and soil fertility as well as poverty, inequality and marginalisation of communities was going to have on South Africa's people, ecosystems and the economy. It was, however, very evident that the level of engagement with these issues varied substantially across the sector. Beyond FirstRand Bank, Nedbank, Standard Bank, ABSA and Investec there appeared to be little engagement by banks with environmental drivers of social and economic change.

A non-profit company working closely with the business and banking sector noted that capacity within the sustainability departments in the banks seemed to have diminished over the past six years. It was noted that "banks have by and large got rid of, or at best merely maintained, their sustainability capacity over the last six years". An expert in the field who previously headed up one of the large bank's sustainability work stated that "professional capacity in sustainability has diminished dreadfully in the past few years". This echoes a report written on South Africa business's engagement with sustainability entitled 'Hitting a Plateau' (PWC 2013). The report quotes both international and national studies at the time that suggested that "many business leaders believe their businesses have reached a plateau beyond which they cannot progress without radical changes being made to market structures and systems, driven by a common understanding of global priorities" (ibid. p.3). Thus, while a small number of individuals were recognised as outstanding in the field of sustainable banking, an excellence reflected by the role that they are playing in regional and international sustainable finance initiatives, the general sense was that the capacity of the sustainability teams was not aligned to the magnitude of the issues requiring attention. These comments were made both about the banks and many of the institutions that should be supporting this work including National Treasury who were singled out by three of the interviewees as lacking capacity in the field of sustainability. Interestingly, this echoes a study some years ago on sustainable public procurement (Ward, Jenkin, Rosenberg, & Ramsarup 2016) that recommended that this capacity be brought in house or seconded from the Department of Environment Affairs. If National Treasury do produce a strong directive on sustainable finance in South Africa, it is likely that capacity will need to be enhanced across a number of institutions including national government, the banks and associated institution including labour.

The disconnect between the sustainability risks and opportunities faced by society and the capacity to address these issues is summed up by the following quote from one of the interviewees: "If you really quantified the magnitude of the risk most companies and banks would put together a well capacitated and connected core team. But we have three people sitting in a corner trying to do it all…"

Voluntary agreements vs legislated requirements

South Africa has a long history of engagement with sustainability by the banking sector. As noted above and mentioned by many of the interviewees, the big banks in South Africa have been members of the United Nations Environment Programme Finance Initiative (UNEP FI) since at least 2007 and the Banking Association South Africa set up a sustainable finance committee and developed the Principles for Managing Social and Environmental Risk. These international and national initiatives are however voluntary agreements that guide the finance and banking sectors. There was strong disagreement across the interviews as to whether these voluntary agreements were sufficient to drive a focus on sustainability within the sector or whether legislation and compulsory reporting were required. Three individuals from the banks who were interviewed made a clear distinction between their personal position (legislation is required) and the banks' position (no new legislation is required).

Those that argued for voluntary agreements noted that the banking sector is heavily regulated and that National Treasury and other regulators do not have the capacity to develop, implement, monitor and enforce new legislation on sustainable banking. Those arguing for this position also noted that you cannot force banks to invest in certain areas. Rather, what was required was the creation of an enabling environment for investment in certain sectors and bankable projects. The position expressed was that "it is absolutely right that there is a monitoring and evaluation mechanism but our hope is that we have a voluntary commitment with an M&E component with a view that if it is not going to happen fast and deep enough then there may be a need for regulations … but what will the regulators do … they can't compel banks to lend to certain sectors…" Interestingly, this was exactly the position taken by the Minister of Finance at the launch of the Code for Responsible Investing in South Africa (CRISA) in 2011 when he noted that if the voluntary, market-driven, principle-based approach is unsuccessful, government might take a tougher stance on trying to enforce responsible investment (UNEP & Global Green Growth Institute 2016). As noted above this tougher stance was subsequently introduced with the promulgation of Regulation 28 of the Pension Funds Act (2012). In 2018 the Financial Services Board, and more specifically the Registrar of Pension Funds, issued a draft directive on sustainability reporting and disclosure requirements aimed at enabling the Registrar to monitor compliance with Regulation 28(2)(c)(ix). IN April 2019 a new legal opinion by a leading South African pension lawyer suggests that: "Failure to consider material financial risks arising from climate change constitutes a breach of fiduciary duty by pension fund boards, and therefore holds the potential for legal challenge. These risks include risks related to the transition to a low-carbon economy, and the risks related to the physical impacts of climate change." (Just Share, 2019) These developments suggest that there is a growing frustration with the slow progress made by some actors within the finance sector. As one interviewee put it, "Who knows what anybody is doing with these voluntary agreements – all voluntary and no disclosure requirements – when they do report, it is cherry-picked which has zero value."

Those interviewees that supported more direct regulatory intervention were very clear that "the voluntary agreements do not suffice. There is no way of getting around the fact that there needs to be legislative intervention." For some, this requires minimum standards on allocation of funding to support a transition from a high-carbon to a low-carbon economy. There was concern here that the banks could not set these standards amongst themselves as it would be deemed collusionary. For other interviewees, the legislation needed to address the 'highly concentrated oligopolistic' nature of the sector and drive a restructuring of the finance sector. For most, however, and particularly those people interviewed in the big banks, there was a need to 'level the playing field' and ensure that the other banks in the country took environmental, social and governance dimension of sustainable development seriously and were monitored in terms of compliance and reporting. The recommendations of the international Task Force on Climate-related Financial Disclosure (TCFD), although voluntary, were mentioned as a potential basis of a regulatory framework. So too were the UNEP FI Principles for Sustainable Banking.

One of the big unknowns, evident throughout the interview process undertaken in January and February 2019, was the extent to which the National Treasury and IFC supported sustainable banking initiatives will be regulatory. The documentation being developed within this initiative is due to be released in 2019 and will have significant implications for this study. It is likely that this documentation will require that the banks and regulators work together with the banks/ finance institutions to adopt international frameworks (e.g. TCFD and UNEP FI Principles), adapt them to local priorities and where necessary, co-develop significant and robust tools for disclosure on sustainability actions. This will require significant capacity development at the level of National Treasury, the other regulators, the persons doing supervisory visits, within the banks themselves and in corporate boards that govern strategy and investment in businesses using finance from the banks.

Enabling and constraining contexts

Those interviewees who were sceptical about the potential impact of regulation tended to focus on the creation of an enabling environment for sustainable banking. They noted that "the banks are already very heavily regulated in South Africa. We have consistently argued that if government create conducive frameworks for investing, the private sector will invest." The Renewable Energy Independent Power Producers Procurement Programme (REIPPP) was regularly held up as an example in this argument. The banks in South Africa provided a significant amount of capital for investment in the REIPPP. "Unless investment opportunities fit the risk profile of the banks, they will not invest and actually you don't want them investing in it because it raises instability and risk in banks." There was a strong call for government to develop this enabling environment by providing appropriate incentives, by de-risking municipal investment by strengthening local government, and by avoiding policy uncertainty. The 'flip-flopping' on renewable energy and the delay in allowing grid connections had put significant bank and private sector investments at risk. A similar thing, it was suggested, had happened with solar water heaters in South Africa. There was thus an express need “to create a pipeline of projects that are fundable for a bank and large enough for a bank.” This would require addressing specific barriers in the value chain including policy, risk, pricing decisions and incentives. (see Nicholls, Vermaak, & Moolla 2015 for an example of this kind of work). This is not something that banks can do on their own and will require a commitment and capacity in a number of sectors and particularly in government policy, planning and procurement departments.

One of the interviewees took a far broader approach and suggested that you “can’t have this conversation outside the political economy within which the banking sector in South Africa is located”. Drawing on the concept of ‘financialisation’ and a number of international and local studies (see www.fessud.eu), the potential for sustainability within the current economic frameworks was questioned. Financialisation is “a process whereby financial markets, financial institutions and financial elites gain greater influence over economic policy and economic outcomes” (Palley 2007). This has a number of implications including the removal of constraints within the financial sectors and a tendency for investment in financial instruments rather than into the ‘real’ economy. This in turn, it is argued, increases the power of wealth and reduces society and the environment to the realm of finance. Within this context, there is a very real risk that ‘creating an enabling environment’ for the banks to invest in sustainability would further financialise society and the environment, increase inequality, and ultimately undermine sustainability. This suggests the need to: restore policy control over financial markets including the banks; make banks, financial institutions and corporations responsive to stakeholder interests beyond narrow shareholder profit maximisation; and reform political processes to diminish the influence of corporations and wealthy elites (Palley 2007). These are complex arguments within complex systems and require research and action from labour, academic and civil society groups. The challenge for the BankSETA is whether it will support this form of capacity development in the interests of society, labour, sustainable economies and the environment on which we depend. As this interviewee concluded, “I honestly don’t think that a meaningful change towards the financial sector assisting in a sustainable economy can take place without a wholesale analysis and regulation of the financial sector itself. That does not mean that we cannot do smaller things at the same time.”

Where is Labour?

In 2001 a coalition of over 50 organisations including the ANC, SACP, COSATU and a number of the labour unions mobilised around a campaign focused on ‘Making the banks serve the people’. This campaign sought to address the kinds of issues caused by capitalism and financialisation that marginalised and exploited people and planet. These campaigns fed into the National Economic Development and Labour Council (NEDLAC) Financial Sector Summit of 2002 and culminated in a number of financial sector transformation agreements including the Financial Sector Charter. Also linked to these campaigns was the introduction of the low-cost Mzansi accounts that were initially seen as a major success in terms of more inclusive banking (“Financial Sector Campaign Coalition Welcomes Mzansi Launch” n.d.). Similar initiatives were put forward that lobbied for lending to the low income sector for the purchase of homes. Although not focused on broader sustainability issues, the engagement of the banking sector by labour revealed a deeper underlying struggle against the marginalisation and exploitation of people within a capitalist system.

When COSATU developed its policy on a just transition to a low-carbon economy (COSATU 2012) it was also clear that

> Climate change … is caused by the global private profit system of capitalism. Tackling greenhouse gas emissions is not just a technical or technological problem. It requires a

> fundamental economic and social transformation to substantially change current patterns of production and consumption. (COSATU, NACTU and FEDUSA cited in COSATU 2012, p.53)

One would therefore assume that labour would be actively engaged with the banking sector on transitions to a more sustainable society. This was not reflected through the interview process conducted for this study. Within the banking sector, the unions were dismissed as largely peripheral to the conversation other than to highlight the very conservative position they had taken to renewable energy in general and the REIPPP in particular. Even non-profit groups seeking to support labour to engage on economic issues noted:

> COSATU, it's bleak, there is no real capacity on these issues. Some of the places you will find more engaged researchers is in some of the affiliates: SACTU, NEHAWU, NUM. NUMSA has a larger research group than most but they have taken a very reactionary position on climate change and renewable energy …

Over 30 emails to seven separate email addresses linked to the labour movements in South Africa solicited three responses, none of whom made themselves available for an interview. This leaves Labour's position under-represented in terms of the kinds of skills that need to be developed in this sector to engage with how we finance a sustainable economy in South Africa. Even more concerning is the fact that the position of NUMSA seems to be being mis-interpreted or mis-represented in a way that positions Labour as anti-renewables and therefore a threat to the investments of banks as they seek to finance renewable energy. NUMSA's position, however, reveals a far more radical position regarding renewables and sustainable change in South Africa. According to a statement by NUMSA:

> As far back as 2011 NUMSA called for a socially owned renewable sector that achieved service provision, met universal needs, decommodified energy and provided equitable dividends to communities and workers directly involved in the production and consumption of energy … we were and remain committed to a socialist vision of RE, not a capitalist vision. (Cloete 2018)

This is an important perspective to be brought into the conversation and investment decisions if we are to build sustainable banking in this country. There appears to be a need to develop the capacity to articulate and communicate this message into the current debates on sustainable and just transitions and the role of banks and finance in these transitions.

New occupations or upskilling and working in teams

Changes in occupations and skills required for sustainable banking can be understood along a continuum. Low change requirements are evident where existing occupations require a small degree of skills change. An example here may be bank staff in a range of occupations learning about recycling, energy efficiency and social inclusivity within their existing jobs. This is usually accomplished through short courses and on-line continuing professional development courses. Medium change occurs where existing occupations undergo significant change. An example here may be a professional working in Corporate Social Investment needing to incorporate new concepts such as 'shared value' and 'core strategy' that significantly change the nature of that occupation. High change suggests the emergence of completely new occupations that are usually associated with disruptive technologies (e.g. a drone pilot) or a fundamental shift such as the focusing on sustainability leading to the emergence of new occupations such as Chief Sustainability Officers.

Through the interview process, it became apparent that environmental, social and governance issues have been part of the banking sector for the past ten years at least and there was a sense that the increased focus on these issues required upskilling within existing occupations rather than the development of new occupations. There was also a very well supported argument that the skills exist in a range of occupations but that there was a need to develop the ability of diverse professionals from different occupations/ sectors to work together.

At the lower level of change, frontline/ customer facing staff need a basic understanding of issues associated with the Principles for Managing Social and Environmental Risk. These skills are often related to operational issues, e.g. recycling campaigns or energy efficiency within the banks but also extend to providing access to banking services by women and underserved segments of the population. Transactors working within the banks were also required to consider social and environmental risks; however, due to the relatively low priority given to these issues, interviewees suggested that it has not been necessary to have more than a basic understanding of compliance issues. A number of the interviewees noted that in a business context where a range of issues such as ethics training, compliance training, credit risk training etc. competed for attention, sustainability training "falls off the agenda".

Interviewees suggested that the TCFD, the UNEP FI Principles for Sustainable Banking and the possible disclosure obligations from National Treasury would result in medium level change for consultants and transactors assessing credit applications and negotiating investment relationships between the banks and clients. This included the ability to use more sophisticated modelling tools that are being developed globally (e.g. Integrating Natural Capital in Risk Assessments) and integrating local data sets such as those developed by the CSIR on climate change, water scarcity and soil fertility. At present, these skills, where they exist, are focused on stress testing assets and assessing risk. There is a need over the medium and long term for these skills to be used to do scenario planning, to identify opportunities for investment, assess credit application, and to contribute to sustainable value creation.

A key skill that was mentioned repeatedly is the ability to put together bankable deals that create value for both shareholders and broader stakeholders. There was anecdotal evidence of Development Finance Institutions from Europe wanting to invest in flagship projects that would open up and de-risk investment in things like waste water treatment, renewable energy and sustainable agricultural value chains. However, it appears that the public sector were unable to provide the policy certainty and financial modelling to make these deals viable. As one person noted: "We need to create bankable deals so that the private sector can invest. Departments don't seem to have the necessary skills to translate deals from social good to socio-economic good which is where the finance sector can get involved." This suggests that in addition to capacity development within the banking sector, there is a need to work with regulators and industry sectors to develop and enable investment opportunities that have a sustainability focus.

In addition to specific skill sets, interviewees expressed incredulity and frustration at the inability of senior managers "to join the dots". This was most often illustrated by reference to key risks identified by the World Economic Forum (WEF 2019) being interpreted as environmental risks and as such, being dismissed as less important than social and economic issues. The inability to see how climate change was, in fact, also a major social and economic challenge or water scarcity would destroy jobs, impact on communities and ultimately limit our economic growth were recurrent themes. However, as one interviewee noted, "this presupposes understanding the interlinkages within complex systems". It was this systems thinking that was seen to be lacking at senior management and even board level and there was a strong call for developing system thinking skills at this level and across all units within and associated with the banking and finance sector.

Closely linked to this complex systems thinking was the “ability to model and if necessary quantify risk and new business models”. The lack of tools for this kind of modelling was mentioned by a number of interviewees and there was a strong sense that where these tools for monitoring, disclosure and risk assessment did not exist; government, academic institutions, research bodies and banks needed to work together to develop these tools in ways that avoided them becoming locked up as intellectual property that limited access. At the same time many of the interviewees mentioned tools that are being developed globally (the work of the Natural Capital Coalition and the Social Capital Coalition were specifically mentioned as was the Integrating Natural Capital in Risk Assessments tool). The skills needed to use these tools was available as were the local data sets but they may not sit within the banking sector. There was an expressed need to mobilise the capacity to use these tools and data for both risk assessment and for anticipatory planning, credit appraisals and investment decisions.

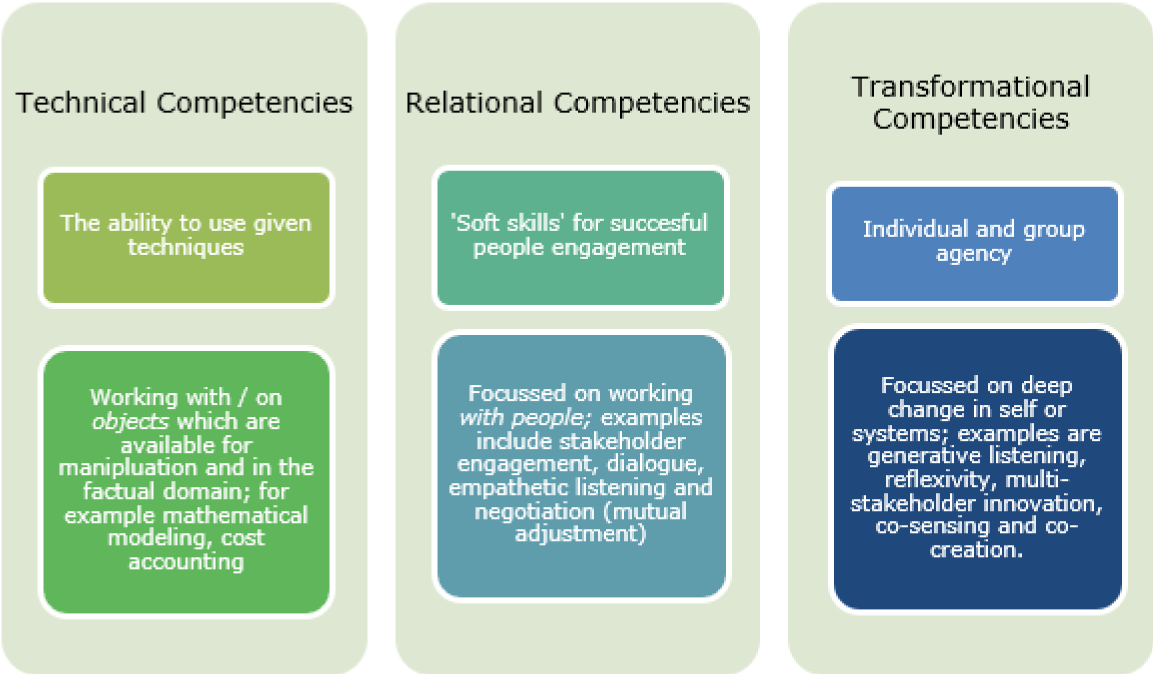
A number of the experienced sustainability professionals within the banks highlighted the need to mobilise a range of capacities through the enhanced ability to work collaboratively:

> I have never met a person who has all these skills. You need a financial understanding, the ability to assess risk, the ability to identify opportunities and model them, the ability to understand environment and understand society, and you need to understand business. Most people are good in one area but not are not good in all. Therefore you need to have teams with some generalists and some specialists. You need to have system thinking skills and relationship skills … It requires partnership building. The ability to articulate what you are doing and the ability to write and communicate. You need to be able to talk to shareholders and stakeholders.

Given the very small size of the sustainability units within the banks, it is well recognised that the sustainability professionals need to build relationships with a range of professionals within and outside of the bank. Examples were given of working with facilities managers to track, for example, the energy efficiency of bank premises and ATMs. As banks are pressured to disclose the impact of their operations and investment decisions, so sustainability modelling and scenario planning are coming to the fore. Banks have skilled economists and modellers who, when approached, respond that they can do the sustainability modelling, ‘it just wasn’t on their radar’. The challenge thus appears to be to get a diverse set of skilled professionals from very different backgrounds to apply their minds more directly to sustainability issues. In those instances where the skills don’t exist within the banks, there is a need to build teams from both within and beyond banks to work together to apply their collective expertise to the issue of sustainable banking.

Ultimately however it will require leadership to support sustainable banking and to create the motivation and the enabling environment for systemic integration of issues and the formation of teams with diverse skills to work across silos both within banks and beyond them. According to three of the people interviewed, this is the role of boards or governing committees particularly within the banks. There was a strong sense that boards are not sufficiently aware of the sustainability challenges that we face and that sustainability issues are being relegated to Social and Ethics Committees rather than Investment Committees and central Board strategic decisions. The potential impact of Climate Change and water scarcity requires a far greater level of responsibility at the governance level. Two interviewees stressed that this may require changes in who is a fit and proper director and what diversity on a board may entail. One suggestion was that National Treasury include a practice note on Board composition along with the requirements that it is about to release on financing a sustainable economy. This, in turn, may require a stronger focus on sustainability in leadership training and the ongoing professional development of senior managers and directors.

The interviews strongly suggested that a transition to sustainable banking would require a focus on upskilling within existing occupations and the ability to bring diverse professionals together to work systemically on the social, environmental and economic dimension of sustainable value creation. This finding is supported by the Green Economy Learning Assessment for South Africa (Rosenberg et al 2017). Drawing on Scharmer (2009) and Wiek et al. (2011), Rosenberg (PAGE 2016) developed a competency[1] framework that highlighted technical competencies, relational competencies and transformational competencies. This work talks to the need to develop a range of technical skills (e.g. modelling complex systems), relational skills (the ability to work in teams both internal and external to the banks), and transformational skills in terms of identifying and leading new approaches to banking operations and services.



Source PAGE 2016

Skills requirements and where people are getting them

From the interviews, seven main areas for skills development emerged:

1) All staff require a basic understanding of sustainability topics so that they can align with sustainable banking commitments of their institution and contribute to sustainability actions within the bank. In 2011 BankSETA created an introductory course for frontline/ customer facing staff to raise their awareness of environmental and social risk in line with the

[1] Rosenberg et al. in PAGE (2016) use the term *competence* to encompass knowledge, values and skills. They acknowledge however that in certain contexts 'skills' can be understood broadly, as a full range of attributes relevant to a particular work setting. In this review the notion of skills has been used with a similar meaning to competencies as defined by Rosenberg et al.

development of the Principles for Managing Environmental and Social risk. These were short courses that were adopted and adapted by some banks and taken in-house. It appears that these courses are still available and would receive more focus if sustainability became a serious concern within banks and certainly beyond the four or five larger banks. It is recommended that these courses be updated to included recent developments such as the TCFD, the UNEP FI Principles for Sustainable Banking and the requirements that come out of National Treasury.

2) Risk assessors and transaction managers who are involved in assessing the viability of investment opportunities need to develop skills related to the identification and use of a range of tools that are being developed to support sustainable banking. There is also a need to bring together the various experts developing both the tools and data sets to identify which metrices/ data is most useful and linking these into the tools. This suggests a course supported learning network supported by institutions such as UNEP FI in partnership with local universities and institutions such as the CSIR.
3) At senior management level, there is a need to develop systems thinking and relational skills. These two issues are closely related and could be developed through in-house programmes focused on identifying and unlocking sustainable investments and identifying the risks and opportunities associated with loan and investment decisions.
4) In addition to the work within the banks, there is a need to unlock sustainable value chains. The National Business Initiative have piloted methodologies for doing this kind of work involving a range of government, civil society, business and banking institutions. This work could be supported around a number of sectors, some of which have already been examined.
5) Labour will be an important stakeholder that could be supported through short courses that highlight the importance of sustainability issues and the potential for just transitions. There is a need to equip Labour to better articulate its position and to engage proactively with finance institutions as loan and investment decisions are being made.
6) Strong, ethical and innovative leadership will be required to transform the banking sector. This will require working with boards through business schools and the Institute of Directors to support better engagement with, and incorporation of, sustainability into core strategic decisions and investment policies of the banks. At a minimum, this would include work with Nominations Committees to ensure that Boards have the knowledge, experience, skills, diversity and independence to address climate change, water issues and more broadly, the Sustainable Development Goals in their work.
7) National Treasury, regulators and compliance officers will need to build capacity to support reorientation finance towards supporting a sustainable economy in South Africa. Courses could be developed in collaboration with the School of Government that focus on unlocking and monitoring a sustainable economy in South Africa. In order to unlock bankable opportunities BankSETA could fund courses that focus on removing barriers and supporting preferential procurement for sustainable production of goods and services. At a bare minimum, National Treasury is going to need basic capacity to support and monitor the disclosure requirements that it includes in its upcoming “financing a sustainable economy” initiative.

When asked where the Banks were currently accessing skills development opportunities, four main sources were mentioned:

1) The short course focussing on general sustainability awareness and its implications for the banking sector that was developed by BASA and BankSETA in 2011 is still being used in various formats or had stimulated inhouse courses in the larger banks. Most interviewees felt, however, that there was a need to update this course and make it accessible to the smaller and emerging banks in South Africa.
2) Investment analysts, risk assessors and others within the banking sector seeking knowledge principles, approaches and tools to support sustainable banking had access to a range of online courses of which the UNEP FI courses were the most popular. These tend to be 2-3 weeks in duration and were fairly expensive.
3) Cambridge University came up repeatedly as a key provider of courses for senior sustainability professionals and executives with an interest in sustainability. In particular, the Masters in Sustainability Leadership was singled out as cutting edge in terms of content and course design. There was also an interest in approaching Cambridge University to develop and run courses in South Africa on the skills needs related to the TCFD recommendations.
4) The work of the Institute of Directors Southern Africa and the King IV Report on Corporate Governance were mentioned by a number of interviewees. The clarification of director liability in the context of climate change (and water stress) and the development of climate change or SDG competent boards were highlighted both as current initiatives and areas requiring attention.

Conclusions

Extreme weather events, failure of climate change mitigation and adaptation, natural disasters, water crises, biodiversity loss and ecosystem collapse and man-made environmental disasters are amongst the top global risks in terms of both likelihood and impact. At the local level, these risks exacerbate poverty, inequality and unemployment and will increase social and economic vulnerability in the future. As one interview noted: “Banks are a proxy for the economy. If they invest in things that go bust they will go bust.” Similarly, if the banks invest in a sustainable economy that creates value for a broad range of stakeholders then there is a good change that banks will thrive. This will, however, require that a number of interconnected dimensions both within and beyond the banking sector take the physical and transition risks seriously. Through this study, a number of areas within this system have emerged as particularly significant. These are outlined and illustrated below.

Regardless of whether South Africa continues to rely on voluntary agreements or moves to regulatory instruments, there is a need for enabling and creating bankable projects that are sustainable and at a scale that is appropriate for banks to invest in. This is essentially the supply of bankable initiatives that mitigate risk and maximise opportunities for a sustainable economy that generates social, environmental and economic value. Although not directly the work of BankSETA, there is a need to support work that identifies and addresses obstacles or opportunities in a wide range of value chains including: waste water recycling; energy efficiency; transport/ mobility; circular economy initiatives, etc. Neither the banks nor the banking sector can unlock these value chains on their own and partnerships between business, academic institutions, government regulators and banks will be needed to identify and enable bankable initiatives.

However, supply without demand will also lead to unrealised value creation and a failure to finance a sustainable economy. Building the demand for a sustainable economy that addresses physical and transition risks and opportunities will require a number of components directly linked to the banking sector to receive attention. There are leadership at the board and senior management levels, direct support from enhanced sustainability units and informed demand within the banks through investment decisions. Each of these components is detailed below.

Sustainability units, despite some very competent people in a few of the large banks, have remained relatively small and marginal to core strategic and investment decisions within most banks. Part of this marginalisation has been the result of social and environmental dimensions of sustainability being viewed as 'social responsibility' concerns and reporting requirements rather than key systemic factors that directly impact on economic opportunities. The global focus on climate change as a key consideration for the banking sector as articulated in the TCFD is likely to add weight and recognition to the work of the sustainability units and increase their role as a support function to business units within the banks and as an advisory to the boards and executive management. This, in turn, will require an enhanced ability to work across diverse units within the banks and the ability to make systemic links in ways that make governance and operational functions engage with these issues.

To realise the demand for investment in a sustainable economy, will require that business units and support services within the banking sector have the mandate and tools required to make informed investments in sustainable initiatives. This will involve using a range of tools to assess the risks and opportunities for sustainable value creation and divesting from unsustainable initiatives and investing in sustainable initiatives. These tools will require an ability to work across short, medium and long term investment horizons, to take a broad view of value creation beyond profit maximisation, to understand global and local physical and transition risks and opportunities and to align investments with a strategic commitment to sustainability.

The transition from investing in mining, energy intensive businesses, relatively inefficient housing and commercial property, commercial agriculture and a range of other activities that have poor social and environmental impacts will require clear and committed leadership within banks. Even with a well-functioning supply of bankable sustainable initiatives it will take a conscious decision by banks to understand and invest in such initiatives. In many instances these are new technologies or require financing of relatively unknown and hence 'risky' clients such as small scale/ emerging farmers, smaller municipalities and small business owners. This will require strategic leadership from the board to both understand and commit the business to addressing climate change or more broadly, the Sustainable Development Goals as part of their core strategy and resultant business models.

There is a strong sense that the commitment to investing in a sustainable economy by the banks and finance sector more broadly as well as the robustness of disclosure on such investment requires some attention both globally and nationally. The TCFD and UNEP FI are two key international initiatives that link to global and national commitments to the Sustainable Development Goals and the Paris Agreement. At the local level, the current National Treasury initiative on sustainable finance is likely to enhance oversight and possibly introduce new regulatory requirements. This will, however, also require enhanced capacity by National Treasury to support, interpret and monitor the actions and disclosure by banks.

At an overarching level, there is a need to enhance labour's capacity to engage with the broader impacts of capitalism and financialisation and their implications for banking in South Africa. A just transition will require both procedural justice, the meaningful involvement of stakeholders in sustainable transitions, and distributive justice, who gets the goods and bads through the transition processes. As Adler (2015 cited in Ward 2018) noted, if we hinge our hopes on market competition (supply and demand of financially viable initiatives) driving banks towards sustainability, we will be inadvertently accelerating, not decelerating, the unfolding crisis. Labour therefore need to enhance their capacity to articulate their position in the transition to sustainability and to engage proactively in shaping these transitions. Failure to do this could result in labour retreating to a defensive position of protecting jobs, no matter how destructive and exploitative those jobs may be. The current perception of labour protecting coal at the expense of an emerging renewable energy sector is an example of labour being perceived as a risk to a sustainability and ultimately just transition.

Conclusions and recommendations related to skills development

The following section provides a brief overview of key occupations, upskilling requirements and possible mechanisms for this upskilling.

- Bank worker (OFO: 2017-4211)
    - Short course on general awareness of sustainable banking approach and actions within banks to align with TCFD, UNEP FI Principles and National Treasury

  BankSETA to work with BASA to update introductory course for use in banks.

- Trade Union Representative (OFO 2017-111402)
    - Course on financialisation and the implications for financing a Just Transition

  BankSETA to work with relevant research organisation (eg Institute for Economic Justice) to develop short course on financialisation, sustainability and Just Transitions

- Sustainability Manager (OFO 2017-121909); Bank Manager (OFO 2017-134601); Policy/Market Risk Analyst (OFO 2017- 242202); Investment Manager/ Advisor (OFO 2017-241202/ 301); Valuer (OFO 2017-331501); Data Management Manager (OFO 2017-133103)
    - Course supported learning network focused on systems thinking, unlocking sustainable value, identifying and using tools for assessing risk and opportunity related to sustainable banking, STRONG FOCUS ON RELATIONAL COMPETENCIES

  BankSETA to work with South African Universities to develop short course or MOOC that encourages working across occupations on sustainable banking practices.

- Director (OFO 2017-112101); Bank Manager (2017-134601); Sustainability Manager (OFO 2017-121909)
    - Masters in Sustainable Leadership developed for leaders in all fields of the economy – needs to open both supply and demand for bankable sustainable investments.

  Short Continuing Professional Development courses developed at director/ executive management level related to building climate and SDC competent leadership particularly at Board level

- Legislator/ Senior Government Official (TBD); Environmental Practices Inspector (2017-335906)
    - Specific training to support the implementation of National Treasury "Financing a sustainable economy" initiative. [It is likely that this document would have been released by the time we write the final report for this project and more specific suggestions will be developed.]

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Appendix 1: Comparison of Country Initiatives

VIII. Annex I - Comparison of country initiatives

	Bangladesh	Brazil	China	Colombia	Ecuador	Indonesia	Kenya	Mexico	Mongolia	Morocco	Nigeria	Peru	South Africa	Turkey	Vietnam
Environmental	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Social	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Risk management	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Loan origination	X	X	X	X	X	X	X	X	X	X	X		X	X	X
Policy-led (Regulatory guidelines)	X		X			X				X		X			X
Industry-led (Voluntary principles)				X	X		X	X	X			X	X	X	
Blended (Policy and industry-led)		X									X				
Scope															
Banking	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Expanding to wider financial sector		X	X			X				X			X		X
Awareness raising / consultation	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
National sustainable development roadmap	X	X	X	X		X	X	x	X	X	X	X	X	X	X
Sector-specific guidelines or checklists	X	x	X	X		X		X	X		X				X
Inter-agency collaboration	X	X	X	X		X		X	X	X	X	X	X		X
Capacity building of regulator	X	X	X			X		X	X	X	X	X			X
Capacity building of FIs	X	X	X	X	X	X	X	X	X	X	X	X		X	X
Disclosure requirements for FIs	X	X	X	X	X	X	X	X	X	X	X	X		X	X
Supervision by regulator	X	X	X			X				X	X	X			X
Monitoring & evaluation	X	X	X	X		X			X	X	X			X	X
Market incentives on green lending	X		X			X			X	X	X				
Awards						X			X		X				

Note: The comparison is a simplistic representation of the elements of sustainable banking in each country's banking system. It does not reflect the depth or Sophistication of sustainable banking development in different countries.