SUMMARY POLICY BRIEF

Banking for a Sustainable Economy

March 2020

This is a summary of a Working Paper by Mike Ward and Ruan Naude, 'Banking for a Sustainable Economy', November 2018. The summary focuses primarily on sections of the working paper relevant to occupations and skills development in the banking sector.

The working paper is a product of the Research Programme on Occupations and Skills at the University of Witwatersrand's Centre for Researching Education and Labour. The research programme forms part of a larger initiative, the Collaborative Research Forum, initiated by the Department of Higher Education and Training (DHET) and the Sector Education and Training Authorities (SETAs).

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1. Introduction

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 in South Africa, such as the *Principles for Managing Environmental and Social Risk,* are supplemented with more stringent requirements for disclosure by the banks on sustainability issues. 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, likely that greater emphasis will be placed on mandatory and credible disclosure with regard to financing a sustainable economy. With these changes in mind, the BANKSETA commissioned research to consider the possible implications for occupations and skills development of a transition towards sustainability within the banking sector.

The research was based on a review of relevant literature, and interviews with stakeholders in the banking sector. These included professionals working with National Treasury, the 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.

What is 'sustainable banking'?

We have used 'sustainable banking' in preference to 'green banking' or 'greening banking' as the latter terms are often perceived to refer exclusively to issues around environmental sustainability (such as supporting biodiversity, greening the economy, ensuring clean water and air quality, and so on). We also include the social dimensions of environmental 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.

Further, we use the term sustainable banking to incorporate practices that do not necessarily incorporate any environmental issues, but speak to ethical practice more broadly – especially in relation to more vulnerable members of society. Unethical practice might include the exclusion of marginalised groups from access to financial services, discrimination within the banking sector or by their clients, and violations of human rights and labour standards by a bank's clients. These kinds of practices may also represent significant risks for bank, and demand conscious responses from the sector, which holds considerable power through lending and investment.

2. Sustainable value creation in banking: international trends

In 1992 the United Nations Environment Programme Finance Initiative (UNEP FI) launched the *Statement by Banks on the Environment and Sustainable Development.* Since then numerous international principles, guides, and reports have been developed to support a focus on sustainability in banking and in the financial sector more broadly. Recently, there have been initiatives to ensure greater alignment of sustainability commitments in banking to the Sustainable Development Goals.

Overtime, these various international initiatives have shifted from awareness raising, through a focus on environmental and social risk management, to more proactive responses that articulate the potential value proposition for banks to engage with sustainability issues. This has also included a focus on stimulating investment into sectors and companies that help to address or solve the root causes of environmental or social risks.

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 trying to support sustainability in banking. In particular, both reports suggest 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.

There is much debate on how to motivate the banking sector to engage more with and contribute to meaningful social and environmental sustainability. There remain disincentives to shifting from long-practiced business models, which may include a narrow focus on profit. One approach to this question emphasizes 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 (or within the current capitalist system) that prioritises profit, individual ownership, and growth. Others suggest that this is possible, but only if pushed by introducing regulations that require transformation.

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, 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. This approach needs to be actively supported in the South African context, especially given the extreme inequality in the country.

3. Sustainable banking in South Africa

The South Africa banking sector reflects a robust engagement with the debates around sustainability mentioned above, and the large banks are signatories to a number of international agreements on sustainability.

Early initiatives in banking during the post-apartheid transition focused on addressing issues of financial inclusion and a transformation of the demographic profile of bank ownership and management. One of the early campaigns in the financial sector was the Financial Sector Campaign Coalition (FSCC) launched in 2001, which included a focus on financial inclusion. Such campaigns shaped discussions within the National Economic Development and Labour Council (NEDLAC) and contributed to the development of the *Financial Sector Charter* (2004), with the later *Financial Sector Code* gazetted in 2012. The Charter was linked to the promulgation of legislation supporting broad-based black economic empowerment. The strong legislative requirements associated with the voluntary Charter and the application of quantitative reporting targets have implications for business opportunities, and are direct drivers of social inclusion and broader social sustainability. While the voluntary *Principles for Managing Environmental and Social Risk* were introduced by the Banking Association of South Africa in 2014, there are no comparable examples of legislation that affect banks directly with regard to *environmental* sustainability.

South Africa's approach to sustainable banking has thus been based on a voluntary framework guided by principles and limited legislation, and currently contains gaps. The respondents in this study 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 one cannot force banks to invest in certain areas. Rather, what is required is the creation of an enabling environment for investment in certain sectors and bankable projects. On the other hand, 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' in order to drive a greater commitment to sustainability.

There was a strong call for government to develop an enabling environment for sustainability in banking by providing appropriate incentives, by de-risking municipal investment by strengthening local government, and by avoiding policy uncertainty – for example around renewable energy. There is a very real risk, however, that 'creating an enabling environment' for the banks to invest in sustainability would further 'financalise' 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 shareholder profit maximisation; and reform political processes to diminish the influence of corporations and wealthy elites.[1] The challenge for the BANKSETA is whether and how it will support this move.

Whatever approach is taken, it is clear that sustainability will become an increasing focus in the sector, especially given serious concerns about climate change – requiring changes to business models, and to skills and occupations in the sector.

4. Implications for occupations and skills in the sector

A key theme emerging from interviews was the question of whether the banking sector had sufficient capacity to support a more meaningful transition to sustainable banking. This concern took two forms. The first was that despite an increasing global and local focus on sustainable banking, 'sustainability' capacity in the banking sector was static or diminishing. Even with 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 (National Treasury possibly also requires expanded capacity in this regard). The second, and related, issue was the need to support re-skilling and other skills development in the sector.

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 online 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.

[1] Palley, T. 2007. 'Financialization: What It Is and Why It Matters', Working Papers WP153, Political Economy Research Institute, University of Massachusetts at Amherst.

Interviewees suggested that the TCFD, the UNEP FI *Principles for Sustainable Banking* and possible future 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 would require 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 Council for Scientific and Industrial Research 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. 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.

There was a strong call amongst some respondents for developing 'systems thinking' skills at the level of senior management to support a greater understanding of the interlinkages between complex social and environment issues on the one hand, and business models and investment decisions on the other.

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 support ways of working collaboratively – working in teams with stakeholders both internal and external to the banks.

Ultimately 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 some respondents, 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. Some respondents suggested 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.

Last, within the banking sector, unions were seen as not actively contributing to discussions on sustainability in banking. Labour need to enhance their capacity to articulate their position in the transition to sustainability and to engage proactively in shaping these transitions.

5. Recommendations

In the table below we outline recommendations which emerged from this study for BANKSETA and other partners. These potential partners include other SETAs; government departments, such as National Treasury; social partners such as labour unions; research institutes and universities; and relevant international bodies.

Research	Many of the international initiatives on sustainability (e.g. TCFD) and national ones have a focus on the finance sector rather than banking specifically. BANKSETA should engage SETAs in the financial and accounting, and insurance sectors to extend this study into the broader finance sector. With the move to requirements for greater disclosure from the finance sector (including banks) on sustainability issues, BANKSETA should undertake research on the skills development implications related to 'Financing a sustainable economy'.
Supporting informed debate and learning networks	A 'Just Transition' will require a more nuanced understanding of the role of the banking sector in sustainable development. BANKSETA should develop a concept note that links the notion of a 'Just Transition' to that of 'Sustainable Banking'. This note should inform stakeholder engagement and course content. In addition, BANKSETA could organise a learning event with all SETAs that considers the implications of integrating the concepts of a Just Transition and Sustainable Development. 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 the need for developing a learning network (possibly supported by course content) amongst relevant professionals. This could also be supported by institutions such as the UNEP FI and local universities and institutions such as the CSIR. In addition to the work within the banks, there is a need to unlock sustainable value chains. The National Business Initiative has piloted methodologies for doing this kind of work involving a range of government, civil society, business, and banking institutions. This kind of work could be supported and expanded.
Education, training, and other learning interventions	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 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 is recommended that these courses are updated to include recent developments such as the TCFD, the UNEP FI *Principles for Sustainable Banking* and any changing domestic requirements issued by government.

	Building and investing in a sustainable economy will require the ability to work across sectors and across occupations within the banking sector. A short online course should be developed in partnership with South African universities to support strategic systems thinking and transdisciplinary collaboration to build capacity for sustainable banking. 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. 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. 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. National Treasury, regulators, and compliance officers will need to build capacity to support the reorientation of 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 help unlock bankable opportunities, BANKSETA could fund courses that focus on removing barriers and supporting preferential procurement for sustainable production of goods and services. Improved capacity to support and monitor disclosure requirements regarding a sustainable banking sector will be needed in government. Labour is an important stakeholder that could be supported through short courses that highlight the importance of sustainability issues and the potential for a more Just Transition. 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.
Crossing cutting	As sustainability issues become more mainstreamed, and reporting requirements increase, there will be a significant need for all of the above initiatives to spread to smaller banking institutions rather than only the big banks – where most sustainability initiatives are currently taking place.

A focus on specific occupations and skills in the sector

In the paragraphs below we focus on a specific set of occupations that require upskilling or other skills development initiatives in the sector – providing relevant codes on the Organising Framework for Occupations (OFO).

- **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, with a 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 government requirements regarding sustainability.