



THE JUST TRANSITION TOWARDS A LOW CARBON ECONOMY

PRESENTATION OUTLINE



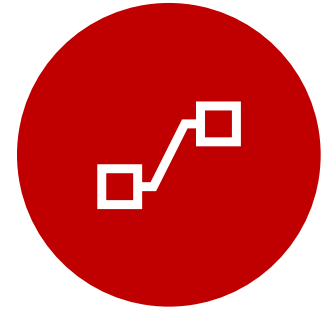
**DEFINITION OF A
JUST TRANSITION**



**BACKGROUND
AND CONTEXT**



DBSA RESPONSE



CONCLUSION

The “just transition” is a system-wide challenge: definition of the concept

- ❖ The just transition means managing both the positive and negative social and employment implications of climate action across the whole economy. It means thinking ahead and managing fast-paced and often disruptive change. It involves developed and developing countries and tracking social impacts along global value chains. It places climate action in the broader context of the future of work. It joins the dots between a number of the Sustainable Development Goals. **It focuses attention on the decentralisation of energy systems, the importance of place and the need to prioritise marginalized communities. And it needs to be delivered at a time of growing concern about unequal economic and financial systems.**
 - ❖ **A just transition is essential if the global economy is to make the shift to a low-carbon and resilient economy at the scale and pace required to avoid catastrophic climate damage in a fair way.** Governments, international institutions, businesses, trade unions, civil society, communities and, increasingly, investors are placing growing emphasis on the workplace and wider social dimension of the transition. In December 2018, a broad range of institutions with over US\$4.4 trillion in assets under management expressed their commitment to take action by signing an international investor statement. *(Climate change and the just transition: A guide for investor action. December 2018)*
- “The issue is not only about the protection of existing jobs but also the realisation of the potential job opportunities in a new industry “***

The “just transition” is a system-wide challenge: definition of the concept

Just Transition is a framework that has been developed by among others the trade union movement to encompass a range of social interventions needed to secure workers' jobs and livelihoods when economies are shifting to sustainable production, including avoiding climate change, protecting biodiversity, and ending war, among other challenges. It has been broadened beyond a focus on protecting workers only, but also encompasses wider society, especially the resilience of the most vulnerable, viz poor and working class communities.

The OECD also identifies that at its core, a just transition requires an approach which is all embracing to the needs of affected stakeholders including:

- **For cities**, investment in low and zero emissions transport, clean energy and circular economy are the way forward.
- **For industry**, switching to renewable energy must be supplemented with clean industrial processes.
- **For workers**, collective bargaining ensures that essential support is there for reskilling and redeployment.
- And, **for governments** and their leaders, just transition offers the opportunity to solve three key challenges at once: Climate change, growing inequality and social inclusion.

Sources:

OECD report <https://www.oecd.org/environment/cc/g20-climate/collapsecontents/Just-Transition-Centre-report-just-transition.pdf>

CLIMATE CHANGE AND THE JUST TRANSITION

A 'just transition' for workers and communities as the world's economy responds to climate change was included as part of the 2015 Paris Agreement on climate change.

Various studies including guidance from the Grantham Institute sets out how investors which include DFIs can potentially address the social dimension of climate change and pursue the goal of a just transition as part of their core operating practices. These studies draw on an international review of well-tested investor approaches that already exist, and on dialogues with investors, to provide a framework that can be applied by institutions such as the DBSA. Some of the recommended considerations from such frameworks which we believe are important for the DBSA to effectively contribute to a Just Transition include:

- The transition to a low-carbon economy will boost prosperity but there will be transitional challenges, for workers, communities and countries.
- To address the challenges, investor strategies to tackle climate change need to incorporate the full range of environmental, social and governance (ESG) dimensions of responsible investment.
- The case for investor action rests on five strategic motivations: understanding systemic risks from climate change, reinvigorating fiduciary duty, recognising material value drivers, uncovering investment opportunities, and contributing to societal goals.
- There are five areas for action based on the above motivations: investment strategy, corporate engagement, capital allocation, policy advocacy and partnerships, and learning and review.

❖ *Challenges and opportunities in energy sector*

- (i) The energy transition towards an increasingly renewable energy dominated supply will increase the number of jobs in the energy sector significantly.
- (ii) The just transition programme must be based on a high-profile dialogue between key stakeholders. This dialogue should then lead to a series of negotiations on a social compact.
- (iii) Eskom needs to become a supportive and enabling player of a just transition programme by changing its business model, by participating in negotiating a framework with trade unions, by developing social plans for the just transition and by investing in renewable energy.
- (iv) Mpumalanga is clearly of critical importance to any just transition approach because of its immense existing coal-reliance and should become a priority region for large scale investments in renewable energy and economic diversification programmes.

RESPONSIBLE INVESTMENT, A JUST TRANSITION AND SUSTAINABLE DEVELOPMENT

Rationale for investor action on the just transition

1. Systemic risks from climate change needs to factor issues such as social exclusion and increasing inequality.
2. Fiduciary standards need to better capture the interrelated environmental and social drivers of long-term performance, by taking better account of beneficiary interests in sectors and regions affected by the transition.
3. Business performance needs to increasingly become conditioned by the just transition.
4. Investment opportunities arising from a “just transition” that combine climate and social goals, such as inclusive growth need be identified.
5. How the “just transition” contributes to societal goals including existing responsibilities to respect international human rights and labour standards as well as new ways of realising the Sustainable Development Goals is crucial.

Strategic reasons for urgent actioned





DBSA RESPONSE TO THE JUST TRANSITION

- *DBSA systemwide consideration to effectively address the Just transition (JT):*
 - Assessment of Investment portfolio impact with regard to the JT: developing appropriate tools and skills sets within the bank to effect that
 - Strengthening current climate policy framework to fully incorporate JT principles
 - Developing Climate Finance strategy with JT as the center piece
 - Incorporate climate risk framework into bank appraisal processes to address JT consideration

Context of DBSA Just Energy Transition Framework - DBSA Board directive to address considerations for DBSA energy sector decision-making in respect of:

- **Assessing investment risks associated with the energy transition** to DBSA's energy investment portfolio e.g., premature write-down (stranding) of assets
- **Strategic positioning of the DBSA as a responsible energy sector investor** on the African continent
- **Adoption of appropriate measures to enable the bank to identify, quantify and mitigate transition risk**
- **Help inform the role the Bank plays** in contributing and adding impetus to efforts **to support a just energy transition to a low carbon economy**
- **Implementation of an actionable investment framework** to support all the above

In response to the above, a **study was done** in 2019 to enable the DBSA to articulate its strategic positioning in the energy sector by:

- **Assessing the resilience of the energy investment portfolio** as it exists today in a changing energy landscape
- Providing a **methodology** by which the bank can continually **assess and mitigate the impacts of energy transition risk against** different transition scenarios
- **Providing a framework for the continual assessment of interventions to manage** social and economic **effects of transitioning from a fossil fuel driven energy system to one primarily based on renewable energy**
- Shaping a **role for the bank in unlocking opportunities arising from the low carbon energy transition.**
- Identifying **opportunities for effective partnerships** with industry and other financiers to achieve a just energy transition

DBSA RESPONSE TO THE JUST TRANSITION

INVESTMENT PRINCIPLES UNDERPINNING THE INTEGRATED JUST TRANSITION INVESTMENT FRAMEWORK

PRIORITISE LEAST COST

- Support Africa's energy plans
- Invest in disruptive technology and
- Flexible dispatchable energy solutions
- Support transmission infrastructure

LEAVE NO ONE BEHIND

- Promote localisation and industrialisation
- Green Industries & biodiversity
- Prioritise broad based black economic empowerment
- Enhance gender mainstreaming

SUPPORT LOW CARBON TRANSITION

- Reduce transition and stranded asset risk
- Upscale concessional, climate & green financing
- Increase transparency in investment allocation and reporting
- Implement responsible environmental, social and governance practices

DBSA RESPONSE TO THE JUST TRANSITION

- **Pillars of the Integrated Just Transition Investment Framework**
- Recognising that the scale and pace of the transition in Africa will impact on the nature of DBSA service offerings, **a scenario-based assessment has been utilised to consider the optimal proactive positioning of the Bank in supporting a just transition in Africa.** Scenarios include the **Africa Union Agenda 2063 vision** to achieve a sustainable future for next 50 years and Sustainable development scenario: **pathway to maintain global temperature risk rise to below 2°C by 2050** and the changes to the global energy system required to achieve this goal.

DBSA RESPONSE TO THE JUST TRANSITION

INVESTMENT PILLARS INFORMING THE INTEGRATED JUST TRANSITION INVESTMENT FRAMEWORK



Country Resource Quality & Enabling Market Environment

- Build the banks portfolio, allocate & deploy organizational & financial resources to support a just energy transition that balances:
 - Return on investment & least cost,,
 - Competitiveness,
 - Stranded asset potential,
 - Efforts to support decarbonisation, and
 - Enhancing inclusiveness - "leaving no one behind."
- Consider regional markets for DBSA to support the above goals against:
 - Resource Attractiveness;
 - Market Demand & Adoption;
 - Policy & Regulation;
 - Maturity & Affordability; and,
 - Regulation, Environment & Job Creation.

- Identify targeted opportunities to support Just Transition Investment Framework
- Evaluate extent to which each opportunity positively contributes to a just transition across impacted energy sector value chain(s) and regions.
- Evaluate organizational resource impact including job tenure extension, re-skilling & re-deployment and Infrastructure & Assets economic life extension, re-purpose and new-additions

Just Transition Enablement

Energy Technology Maturity & Deployment Levers

- Undertake continuous assessment of energy technologies readiness, affordability, & outlook to meet Just Transition goals
- Identify possible timeframes to finance infrastructure projects through access to capital markets.
- Deploy financing strategies for each technology against DBSA just transition pillars:
 - **Mature (Bankable) Generation Technologies:**
 - Renewable: Solar PV, Onshore Wind, Geothermal, Hydropower & Biomass; - support green industrialisation
 - Fossil Fuel: Natural Gas, Coal Fired –support decarbonisation efforts
 - **Enabling Technologies:** Microgrids, Battery Storage & Energy Efficiency
 - **Emerging & Established Technologies:** Green Hydrogen – support uptake,

- Strategic portfolio management to support a just transition, identify opportunities to strengthen role, extend positioning in South Africa and the continent.

- Focus on increasing capacity to support renewables, support emerging technologies & promote active carbon interventions
- Explore opportunities to pilot & scale up investment in transformative & innovative technologies that have potential to disrupt the energy market.
- Energy sector limits to reflect portfolio shifts.

Strategic Positioning & Portfolio Focus

DBSA Integrated Just Transition Investment Framework

DBSA RESPONSE TO THE JUST TRANSITION

IMPLEMENTATION PRIORITIES

Measures to achieve an Integrated Just Transition Energy Investment Framework



- 1 *Pursue development partnerships*
- 2 *Undertake policy and research to support development and financing outcomes*
- 3 *Access and manage funds to support a just energy transition and the building of a green economy*
- 4 *Deliver effective advisory services to unlock and catalyse energy sector investment to support industrialization*
- 5 *Allocate project preparation funding to bring projects to bankability*
- 6 *Support economic transformation and participation in the energy sector*
- 7 *Implement effective ESG & risk practices to support sustainable infrastructure financing*

Policy advocacy and partnerships: Making the just transition part of policy dialogue

- (i) Continuous engagement with Civil Society Organisations (CSOs) to ensure visibility and transparency of the banks' climate actions and activities. Work in this regard has commenced with the first successful engagement with CSOs taking place on the 22nd of October 2019.
- (ii) Sharing emerging lessons and results so that the efficiency and effectiveness of the banks' actions on the just transition continue to improve.
- (iii) Incorporate the just transition into climate change policy framework within the context of the broader responsible investment

Regional Integration: Using the just transition to foster regional integration

Due to lack of appropriately capacitated entities, our region is lacking behind in its ability to access the much needed climate financing resources such as the GCF. This hampers progress in their ability to action their Nationally Determined Contribution (NDCs) and SDGs, resulting in a potential for an unjust transition.

- ❖ The DBSA is continuing to work alongside local and regional DFIs with regard to enhancing their capacity to access (accreditation) the GCF resources.

The just transition programme must be based on a high-profile dialogue between key stakeholders. This dialogue should then lead to a series of negotiations on a social compact.

“ The just transition is a necessary agenda for investors to work on, one that is fully consistent with the fiduciary commitment to responsible investment and the integration of environmental, social and governance (ESG) dimensions in all decision-making”



THANK YOU