

Climate compatible financial system development – Status quo

Country Brief South Africa



This country brief summarises the state of climate compatible financial system development in South Africa and provides recommendations for further action.

South Africa has a well-developed, well-capitalised and highly active financial sector. The sector is considered to be at par with global banking norms in relation to capital adequacy, regulation, and skilled labour. The foreign exchange market is particularly active, with the Johannesburg Stock Exchange (JSE) ranking among the world's largest exchanges in terms of market capitalisation. The South African Bond market is well-developed, and the equity market is sizeable with active trading via the JSE. The banking sector is concentrated around five large banks which control about 90% of total assets. Sufficient buffers have allowed the financial system to recover from COVID-19 related economic shocks although banks are found to be at risk of notable capital erosion under a severe stress scenario. Financial inclusion remains a challenge and has slowed in recent years, as account utilisation remains limited and micro, small, and medium-sized enterprises (MSME) experience difficulties in obtaining access to finance.

South Africa is highly vulnerable to the adverse effects of climate change, with exposure to droughts, flooding, extreme storms as well as fires, heat waves, dry spells, and varying rainfall intensity. The country further faces high transition risks with about 80% of the country's electricity currently being generated from fossil fuels.

There is high-level awareness and political commitment for proactively managing climate-related risks and opportunities in the South African financial sector. Enabling a just transition of workers and the economy is a key focus of policies and instruments deployed towards this end. The following actions could further accelerate and scale up existing initiatives geared towards making the financial system climate compatible:

ECONOMIC DATA

Population: 58.6 million
Income Group: Upper middle income
Annual GDP Growth 2016–20: 0.6%

CLIMATE CHANGE

NDC: Updated in 2021
CO₂ per capita: 7.5 ton
Climate Risk Index: Rank 78

FINANCIAL SECTOR

Credit Rating: Baa1 (negative)
Lending interest rate: 10.1%
Market capitalisation of listed domestic companies: 313% of GDP
IMF Financial Development Index: 0.65

- Further developing regulation on ESG risk management and disclosure by defining mandatory elements that must be followed by all actors.
- Continuing engagement in international forums to support harmonisation of ESG risk and disclosure standards and to support the evolution of domestic legislation while reducing reporting burdens of local companies.
- Explore options for adapting existing regulatory instruments so that they better integrate climate-related risks.
- Explore options for extending and complementing existing partnerships to actors that traditionally have less access to international support, such as at the municipal level or private actors.
- Facilitate peer-to-peer learning among sectoral actors on effective risk management and disclosure in line with international good practice by connecting local companies with the existing small group of early movers and front-runners.
- Actively share success stories, lessons, and challenges encountered during the implementation of the Just Energy Transition Partnership as they can provide useful insights for other countries.
- Include the green taxonomy into mandatory regulatory requirements once actors have built experience in reporting their alignment with it.

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Results from applying the GIZ Sustainable Finance Policy Navigator

Setting the political agenda and raising awareness



There is high-level political commitment and attention on climate compatible financial system development. The National Treasury coordinates initiatives together with the Banking Association of South Africa through the Climate Risk Forum. It convenes regulatory agencies and industry associations and supervises the implementation of recommendations captured in the technical paper "Financing a Sustainable Economy". Sub-working groups exist on the green taxonomy, baseline climate risk scenarios, capacity building and technical guidance for financial institutions.

Data, standardisation and disclosure



The National Treasury published the South Africa Green Finance Taxonomy in April 2022 as a classification system for defining which assets, and projects substantially contribute to climate change adaptation and mitigation. The taxonomy has found widespread acceptance among stakeholders, which can largely be attributed to the extensive consultation process conducted for its development. Listed companies are obliged to disclose ESG data. Currently only major banks and few companies report according to TCFD, but there are plans to make it mandatory for more businesses and financial institutions.

Prudential requirements and risk management



Government agencies are taking key steps to systematically analyse and address climate change related risks. The Prudential Authority established a **Prudential Authority Climate Think Tank** to promote, develop and coordinate the Authority's regulatory and supervisory response to physical and transitions risks. In 2022, the Southern African Reserve Bank published a climate change modelling framework for financial stress testing in Southern Africa.

Market support instruments



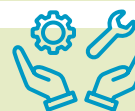
The government is deploying several public finance mechanisms to support climate compatible development. The Development Bank of Southern Africa (DBSA) together with the Green Climate Fund (GCF) launched a private sector climate finance facility targeted at infrastructure projects which help mitigate or adapt to climate change. Through a partnership with the Climate Investment Funds (CIF), the government has developed an investment plan to accelerate the transition away from coal while ensuring a holistic, integrated, socially inclusive and gender-equal approach.

Leading by example



Public institutions, such as the National Treasury, proactively address climate compatible financial system development. South Africa is the first and, so far only African country that developed a green finance taxonomy. Further, the Johannesburg Stock Exchange (JSE) was the first emerging market stock exchange that introduced a socially responsible investment index. JSE added dedicated segments for green bonds in 2020, and Johannesburg and Cape Town have been issuing municipal green bonds with Cape Town having issued the only verified and accredited municipal green bond in Africa to date.

Capacity development



Public and private financial sector actors alike actively support their members and signatories in building capacity and know-how. Under the Climate Risk Forum, a Capacity Building Working Group provides trainings on new instruments such as the green taxonomy. Dedicated sectoral case studies provide guidance on the taxonomy's application. Commercial banks are building their capacity and know-how on ESG and climate risk management through training programmes. At the same time, a lack of know-how and technical skills is, however, considered a major challenge to further advance ESG disclosure.

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