Sustainable energy: A fascinating dynamic for the resources sector

By Shirley Webber

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Issues such as climate change are no longer "soft" elements that can be tucked away in a sustainability report somewhere. Shareholders and other stakeholders are demanding that the banking sector adopts a responsible approach to funding of new projects in the mining and energy sector and this is driving a change in behaviour for all sector participants.

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These are the key trends that finance and due diligence teams will be monitoring in 2021:

1. Sustainable energy sources for Africa

The players in the developed world are pushing strongly for the adoption of renewable and clean energy sources but the reality for the African continent is that it is still very dependent on the likes of coal.

The energy transition could decrease Africa's economic outlook, especially in areas where oil and coal have played such a substantial role in powering local economies. However, the energy transition also presents an opportunity for Africa because of the global acceleration towards alternative energy sources and as a continent we are rich in natural gas and energy minerals. Apart from natural gas, our continent is also rich in energy metals and minerals such as copper, lithium, cobalt and graphite used in battery storage technology.

Funds that focus on environmental, social and corporate governance (ESG) mandates are putting a lot of pressure on organisations that fund and operate fossil fuel projects to exit these investments. The challenge is that many of these assets continue to generate attractive cash flows and remain a key part of the energy mix in the emerging world.

Power supply issues are topical in all countries in Africa and it is encouraging to note that there are a significant number of sizeable diverse renewable power projects being rolled out across the continent. While there has been a major focus in the fields of renewable and more-green energy solutions like gas-to-power, coal will continue to play an important role in our African energy mix in the near-term.

2. The Paris Agreement

We expect climate change to fundamentally reshape the resources industry.

The Paris Agreement's central aim is to strengthen the global response to the threat of climate change by keeping a global temperature rise this century well below two degrees Celsius above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5 degrees Celsius. Additionally, the agreement aims to increase the ability of countries to deal with the impacts of climate change, and at making finance flows consistent with a low GHG emissions and climate-resilient pathway. To reach these ambitious goals, appropriate mobilisation and provision of financial resources, a new technology framework and enhanced capacity-building is to be put in place, thus supporting action by developing countries and the most vulnerable countries, in line with their own national objectives.

The EU formally adopted into law a series of measures that included a binding target for 32% of electricity production to come from renewables by 2030. Achieving this would require at least a 50% reduction in global greenhouse gas (GHG) emissions by 2050, noting that GDP and population is ever increasing.

3. The African continent is becoming more responsible

While developed markets have made big strides in terms of their commitment to sustainability goals, the African continent was often viewed as a frontier market where profit overshadowed purpose.

Financiers, operators and even governments are becoming more focused on meeting sustainability goals and one of the trends we highlighted from the 2020 Mining Indaba was that there are much tighter and healthier relationships between governments and investors.

Capital providers can guide customers and stakeholders in their requirements for funding by applying the Equator Principles which include applicable IFC performance standards on environmental and social sustainability and the World Bank Group Environmental, Health and Safety Guidelines for various sectors and for funding natural resources extraction transactions.

Where investors can see a stable political and regulatory environment, capital tends to follow.

4. What are banks doing for sustainability in the resources sector?

The commitment of 130 banks from 49 countries to the United Nations Principles for Responsible Banking, which were adopted in September 2019, marks an important milestone for the banking industry and so for the natural resources & energy industry as well.

The Principles for Responsible Banking aim to align business strategy to society's goals within an acceptable risk framework for society, the environment, and corporates. Effective governance, transparency and accountability will be of the utmost importance.

Ultimately, all participants in the resources sector will need to recognise that the sector can no longer be open to exploitation. As a leading financier of resource projects, we realise that natural resources in all its forms are diminishing and it's imperative that we all work in a sustainable and responsible manner to extract only what is needed.

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