

FINANCING FAIRLY 2022

Are Public Finance Institutions in Southern Africa Financing the Climate Crisis?

A Policy Assessment

FairFinance
Southern Africa

ABOUT THIS REPORT

About Fair Finance Coalition Southern Africa:

The Fair Finance Coalition Southern Africa is a civil society coalition working towards ensuring that Public Finance Institutions invest in a socially and environmentally responsible manner in South Africa and Africa. The Coalition focuses on issues of climate change and transparency & accountability as they relate to financial institutions operating within the region.

The Coalition currently consists of the following seven organisations: 350Africa.org¹, Centre for Environmental Rights², African Climate Reality Project³, Centre for Applied Legal Studies⁴, Oxfam South Africa⁵, Justica Ambiental⁶, and Earth-life Africa⁷.

About this report: This report is based on the findings of a report published by Profundo, Sustainability policies of PFIs in Southern Africa: Assessment based on the Fair Finance Guide Methodology, in October 2022. The Fair Finance Coalition Southern Africa commissioned Profundo to conduct research and develop a report based on the findings of a policy assessment of six Public Finance Institutions (PFIs) in Southern Africa using the Fair Finance Guide Methodology.

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[1.] <https://350africa.org/>.

[2.] <https://cer.org.za/>.

[3.] <https://climateresilience.africa/>.

[4.] <https://www.wits.ac.za/cals/>.

[5.] <https://www.oxfam.org.za/>.

[6.] <https://ja4change.org/>.

[7.] <https://earthlife.org.za/>.

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Abbreviations

AfDB	African Development Bank Group
DBSA	Development Bank of Southern Africa
DFI	Development Finance Institution
ECIC	Export Credit Insurance Corporation
ESF	Environment and Social Framework
ESIA	Environmental and Social Impact Assessment
ESSS	Environmental and Social Safeguards Standards
FFG	Fair Finance Guide
FFCSA	Fair Finance Coalition Southern Africa
FPIC	Free, Prior, and Informed Consent
HCV	High Conservation Value areas
IDC	Industrial Development Corporation
IRP	Integrated Resource Plan
IUCN	International Union for Conservation of Nature
NDB	New Development Bank
PFI	Public Finance Institution
PIC	Public Investment Corporation
RMCs	Regional Member Countries
SDGs	Sustainable Development Goals
WEPs	Women's Empowerment Principles



1. INTRODUCTION

The science is clear - the climate crisis is here. Described as a "code red" for humanity,⁸ the findings from the Intergovernmental Panel on Climate Change (IPCC) Sixth Assessment report, released in August 2021, are dire. The report confirmed, with more scientific evidence and certainty than ever before, that extreme weather events are increasing in severity and number in every region.⁹ However, climate impacts are not equally felt, with regions like the African continent disproportionately affected. The continent is warming faster than other regions, with Southern Africa's maximum temperatures expected to be close to 4° C above normal if warming exceeds the 2° C limit.¹⁰

With the climate crisis being the biggest catastrophe of our time and presenting the greatest threat to our survival, the latest science confirms that fossil fuels - and in particular, the coal industry - are one of the main contributors to greenhouse gas emissions, with immense impacts on our health and the environment. Despite the alarm bells and the continent's vulnerability to climate impacts, financing and investment in fossil fuel projects continue unabated in Southern Africa and across much of the continent.¹¹ A 2022 BankTrack report identifies that between 2016 and the end of June 2021, 782 fossil fuel projects are either in operation or under construction across East, West, Central, and Southern Africa. Of those projects, 418 are situated in South-

ern Africa¹² alone, illustrating the region's trajectory to becoming locked into fossil fuel dependency. South Africa, in particular, has relied on coal for power generation, with coal-fired power plants making up 83.5 per cent of the country's energy mix in 2020¹³. The country is home to 212 of the 418 fossil fuel projects in Southern Africa. This has resulted in a legacy of environmental degradation through coal mining and pollution from coal-fired power stations, causing devastating health impacts in the country.¹⁴

Public finance institutions (PFIs), the main financiers behind development in our countries, keep Southern Africa's fossil fuels industry alive and dominant. With the Southern African region warming faster than the global average,¹⁵ public finance for sustainable development, capable of securing energy security and prosperity for the region while preserving the environment for future generations, can no longer involve fossil fuels.

PUBLIC FINANCE

Public finance institutions ("PFIs") comprise development banks, trust companies, insurance companies and asset managers owned and controlled by the state or government. PFIs play a vital role in the global economy providing finance for major infrastructure and development projects. These institutions have specific developmental mandates in the countries within which they operate.

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- [8.] United Nations (2021), "Secretary General calls latest IPCC Climate Report 'Code Red for Humanity', Stressing Irrefutable Evidence of Human Influence", online: <https://www.un.org/press/en/2021/sgsm20847.doc.htm#:~:text=Today's%20IPCC%20Working%20Group%201,of%20people%20at%20immediate%20risk>, viewed in October 2022.
- [9.] IPCC (2021), "Summary for Policymakers". In: *Climate Change 2021: The Physical Science Basis. Contribution of Working Group I to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change* [Masson-Delmotte, V., P. Zhai, A. Pirani, S.L. Connors, C. Péan, S. Berger, N. Caud, Y. Chen, L. Goldfarb, M.I. Gomis, M. Huang, K. Leitzell, E. Lonnoy, J.B.R. Matthews, T.K. Maycock, T. Waterfield, O. Yelekçi, R. Yu, and B. Zhou (eds.)]. Cambridge University Press, Cambridge, United Kingdom and New York, NY, USA, pp. 3–32, doi:10.1017/9781009157896.001.
- [10.] Climate and Development Knowledge Network and African Climate & Development Initiative (2022), "The IPCC's Sixth Assessment Report: Impacts, adaptation options, and investment areas for a climate resilient southern Africa", online: https://cdkn.org/sites/default/files/2022-03/IPCC%20Regional%20Factsheet_Southern%20Africa_Web.pdf, viewed in October 2022.
- [11.] Geuskens, I & H. Butijn (2022), "Locked out of a Just Transition: Fossil Fuel Financing in Africa", online: https://www.banktrack.org/download/locked_out_of_a_just_transition_fossil_fuel_financing_in_africa/07_md_banktrack_fossil_fuels_africa_rpt_hr_1.pdf, viewed in October 2022.
- [12.] Ibid
- [13.] Enerdata (2021), "Renewables accounted for 16.1% of South Africa's mix in 2020", online: <https://www.enerdata.net/publications/daily-energy-news/renewables-accounted-161-south-africas-power-mix-2020.html>, viewed in October 2022.
- [14.] News24 (2021), "The cost of coal in SA: dirty skies, sick kids, and 5,000 deaths a year, according to a leaked report", online: <https://www.news24.com/fin24/economy/south-africa/the-cost-of-coal-in-sa-dirty-skies-sick-kids-and-5-000-deaths-a-year-according-to-leaked-report-20211104>, viewed in October 2022.
- [15.] Climate and Development Knowledge Network and African Climate & Development Initiative (2022), "The IPCC's Sixth Assessment Report: Impacts, adaptation options, and investment areas for a climate resilient southern Africa", online: https://cdkn.org/sites/default/files/2022-03/IPCC%20Regional%20Factsheet_Southern%20Africa_Web.pdf, viewed in October 2022.

This means that PFIs have an important role and obligation to finance a just and equitable society where the intrinsic link between people and nature is "valued and protected"¹⁶.

However, despite the potential for PFIs to advance positive transformational change, they continue to

play a significant role in supporting the fossil fuel industry. In Southern Africa, a region endowed with natural resources, including coal and gas, there is a massive risk of exploiting such resources and financing new coal and gas projects, even though we face a catastrophic climate emergency.

Table 1: PFIs and their Development mandate

PFI	MANDATE	MISSION & VISION
DEVELOPMENT BANK OF SOUTHERN AFRICA (DBSA)	DBSA plays a key role in the infrastructure development value chain's preparation, funding and building phases. The Bank also provides infrastructure development in critical sectors such as energy, water, transport and information and communications technology. Each sector is guided by South Africa's National Development Plan (NDP).	OUR VISION: A prosperous and integrated resource efficient region, progressively free of poverty and dependency. OUR MISSION: To advance the development impact on the African continent by expanding access to development finance and effectively integrating and implementing sustainable development solutions to: • Improve the quality of life of people through the development of social infrastructure. • Support economic growth through investment in economic infrastructure. • Support regional integration. • Promote sustainable use of scarce resources.
INDUSTRIAL DEVELOPMENT CORPORATION (IDC)	In its Integrated Report 2022, IDC provides the following definition of its mandate "maximise industrial capacity development through job-rich industrialisation, while contributing to an inclusive economy by funding black-owned and -empowered companies, black industrialists, women- and youth owned and -empowered enterprises and worker ownership schemes." ¹⁷	OUR PURPOSE: • Grow sustainable industries • Support entrepreneurs • Improve lives OUR VISION: Create globally competitive industries realising Africa's potential.
PUBLIC INVESTMENT CORPORATION (PIC)	IPIC has the dual mandate of ensuring good financial returns for its clients and investing for development outcomes. The Corporation seeks to generate social returns by investing in projects that ensure inclusive growth and considers environmental, social and governance issues in all its investments. ¹⁸	OUR VISION: To be a global leader in impactful investing. OUR MISSION: To be a key player, not only in the region, but also on the rest of the African continent, who consistently delivers on client mandates through direct investing for economic transformation, robust risk management, strategic partnerships and resource mobilisation.

[16.] Centre for Environmental Rights, (2020), "Financing Fairly: Assessing the Sustainability of Investment Policies for Development Finance Institutions in South Africa", (online): <https://cer.org.za/wp-content/uploads/2020/05/Financing-Fairly-Report-and-Assessment-2020.pdf>, viewed in 2022

[17.] IDC (2022), Integrated Report 2022, p. 85.

[18.] PIC (n.d.), "About Us", online: <https://www.pic.gov.za/who-we-are/about-us>, viewed in September 2022.

PFI	MANDATE	MISSION & VISION
EXPORT CREDIT INSURANCE CORPORATION (ECIC)	ECIC's mandate is to facilitate export trade and cross-border investments between South Africa and the rest of the world. ECIC provides commercial and political risk insurance to exporters, investors, and financial institutions. ¹⁹ Africa and other emerging markets are the strategic focus area for ECIC.	OUR VISION: To be a world-class export credit agency in facilitating South African export trade and investment globally. OUR MISSION: Our mission is to provide export credit and investment insurance solutions in support of South African goods and services by applying best practice risk management principles.
AFRICAN DEVELOPMENT BANK (AfDB)	The Bank has a mandate "to contribute to the sustainable economic development and social progress of its regional members individually and jointly". ²⁰	OUR VISION: Poverty reduction and development is a central goal. OUR MISSION AND STRATEGY: The overarching objective of the African Development Bank (AfDB) Group is to spur sustainable economic development and social progress in its regional member countries (RMCs), thus contributing to poverty reduction. The Bank Group achieves this objective by: • mobilizing and allocating resources for investment in RMCs; and • providing policy advice and technical assistance to support development efforts.
NEW DEVELOPMENT BANK (NDB)	The founding countries set up the NDB to strengthen the cooperation among the BRICS countries and to supplement the efforts of multilateral and regional financial institutions for global development, thus contributing to collective commitments for achieving the goal of strong, sustainable, and balanced growth.	OUR MISSION: The New Development Bank was formed to support infrastructure and sustainable development efforts in BRICS and other underserved, emerging economies for faster development through innovation and cutting-edge technology. The bank partners with nations through capital and knowledge, achieving development goals with transparency and empathy and creating an equal opportunity for the development of all countries.

To meet net-zero global objectives, the challenge will be to transform our carbon-intensive economy and simultaneously meet our development needs while addressing energy access issues in Africa. This is only possible through a just transition where no worker or community is left behind.²¹

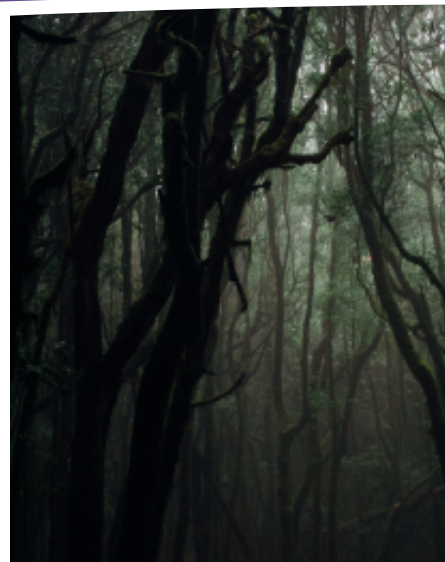
Furthermore, climate change can no longer be seen as a non-financial and purely environmental matter it now presents foreseeable financial risks, including physical, economic transition, and liability risks.

These risks are particularly acute in high-risk sectors such as fossil fuel extraction. In his statement on the IPCC report, the UN Secretary-General, calling on corporate leaders to support a minimum international carbon price and align their portfolios with the Paris Agreement, noted, "The climate crisis poses enormous financial risk to investment managers, asset owners and businesses. These risks should be measured, disclosed and mitigated."²² The financial risks of climate change demand appropriate and adequate strategies and responsible financing.

[19.] ECIC (2021, March), Overview of the ECIC, p. 3.

[20.] AfDB (n.d.), "Bank Group Mandate", online: <https://www.afdb.org/en/topics-and-sectors/sectors/water-supply-sanitation/bank-group-mandate>, viewed in October 2022.

[21.] Engelbrecht, F & P. Monteiro (2021), "South Africa and the latest IPCC Assessment", online: <https://www.wits.ac.za/news/latest-news/opinion/2021/2021-08/climate-change-south-africa-and-the-latest-ipcc-assessment.html>, viewed in October 2022



FINANCING FAIRLY FOR A CLIMATE-RESILIENT AND SUSTAINABLE SOUTHERN AFRICA

Many financial institutions have joined the movement to divest from fossil fuels and now have policies on ownership of fossil fuel-related assets or have made some divestment pledges.²³ A 2022 policy assessment has revealed that PFIs in Southern Africa have much room for improvement.

The Fair Finance Coalition Southern Africa (FFCSA) is a civil society coalition established in 2022 to assess, oversee, and advocate for better policies and practices from PFIs in Southern Africa. FFCSA aims to ensure that PFIs finance and invest in a socially and environmentally responsible manner in Southern Africa and the region.

In May 2022, the Fair Finance Coalition South Africa (FFCSA)²⁴ embarked on a research project aimed at assessing the publically available policies²⁵ of six PFIs in Southern Africa across eight different themes using the Fair Finance Guide Methodology ("the 2022 Policy Assessment"). The 2022 Policy Assessment was the second of its kind to assess financial institu-

tions in South Africa. The first Policy Assessment having been undertaken in 2020.²⁶ The 2022 Policy Assessment and its findings are detailed extensively in a report²⁷ published by Profundo²⁸ in October 2022. It is important to note that this is an assessment of policies only, i.e. it does not assess PFI's implementation of those policies or general practice of them. Any gaps between the policies evaluated in this assessment and the PFI's implementation (or lack thereof) of those policies fall outside the scope of this specific research and are dealt with in other FFCSA projects.

This report presents a summary of the 2022 Policy Assessment and its key findings, with a particular focus on how the PFIs performed on climate change, power generation and transparency and accountability, given the urgency of these issues globally and in the Southern African context. The report makes important recommendations for the PFIs to adopt to align their policies with international sustainability standards and the 1.5° Paris Agreement target, which will ultimately improve the PFIs performance on future policy assessments and advance best practices.

[22.] United Nations (2021), "Secretary General calls latest IPCC Climate Report 'Code Red for Humanity', Stressing Irrefutable Evidence of Human Influence", online: <https://www.un.org/press/en/2021/sgsm20847.doc.htm#:~:text=Today's%20IPCC%20Working%20Group%201,of%20people%20at%20immediate%20risk>, viewed in October 2022.

[23.] Coalpolicytool (n.d.), "Best practices: Our selection of best practices for each of our 5 demands", online: https://coalpolicytool.org/best_practices/, viewed in October 2022.

[24.] Fair Finance Southern Africa (n.d.), "About us", online: <https://www.fairfinancesouthernafrica.org/>, viewed in October 2022.

[25.] Only policies publically available before March 2022 were taken into account in this policy assessment.

[26.] Laplane, J., A. Herder and J. Schmidt (2020, May), *Applying the Fair Finance Guide Methodology to DFIs - Baseline assessment investment and finance policies of selected development finance institutions*, Amsterdam, The Netherlands: Profundo.

[27.] Ramirez, J. and J. Laplane (2022, November), *Sustainability policies of PFIs in Africa: Assessment based on the Fair Finance Guide Methodology*, Amsterdam, The Netherlands: Profundo.

[28.] Profundo, (n.d.), "About Us", online: <https://www.profundo.nl/en/>, viewed in October 2022.

2. THE FAIR FINANCE GUIDE METHODOLOGY

Fair Finance International²⁹, together with policy research experts, Profundo, and other stakeholders, developed the Fair Finance Guide (FFG) Methodology in 2014. Since then, the FFG Methodology has been used by coalitions globally to assess financial institutions' compliance with 422 international sustainability standards and criteria across 23 themes, including Corruption, Human Rights, and Climate Change. The FFG Methodology only assesses pub-

licly available information and policies on how financial institutions align with and embed sustainability standards and social responsibility into their operations and activities. Every two to three years, the FFG Methodology is updated to remain aligned with the latest international standards and to incorporate new data. The current version of the FFG Methodology was updated in 2021.

Table 2 below illustrates some of the international sustainability standards used in the FFG Methodology:

Table 2: International Standards in FFG Methodology



The Fair Finance Coalition Southern Africa (FFCSA) used this FFG Methodology to conduct a policy assessment of six public finance institutions (PFIs) operating in Southern Africa: The Development Bank of Southern Africa (DBSA), the Industrial Development Corporation (IDC), the Public Investment Corporation (PIC), the Export Credit Insurance Corporation (ECIC), the African Development Bank (AfDB), and the New Development Bank (NDB).

THE 2022 POLICY ASSESSMENT SERVES TWO KEY PURPOSES:

1. To evaluate the extent to which the policies of the six PFIs comply with relevant international standards; and
2. To use the findings to open up dialogue and engagement between civil society and PFIs using a fact-based assessment and to urge PFIs to adopt more responsible and sustainable finance and investment policies and practices.

[29.] Fair Finance International (n.d.), "About Us", online: <https://fairfinanceguide.org/>, viewed in October 2022.

The 2022 Policy Assessment follows a previous pilot study published in 2020 and commissioned by Fair Finance International. The Centre for Environmental Rights (CER)³⁰ and Profundo conducted the 2020 policy assessment on a sample of development finance institutions (DFIs) in Southern Africa using the 2018 version of the FFG Methodology. That pilot study set the basis for the design and planning of the current policy assessment.

The 2022 Policy Assessment assesses an expanded group of financial institutions, using the latest FFG Methodology and assessing the policies against more comprehensive international standards. For the 2022 Policy Assessment, member organisations of the FFCSA conducted policy research for three PFIs: the AfDB, the DBSA, and the IDC. Profundo conducted the policy research for the three additional PFIs, including the ECIC, the NDB, and the PIC. Profundo provided oversight for the project and published a report³¹ outlining the assessment findings for each PFI. This report is based on the key findings of the Profundo report and explains the relevance of these findings in the Southern African context.

The internal operations and financial activities of the six PFIs were assessed on eight sustainability themes, scoring each PFI per theme from 0 (no policies) to 10 (excellent policies). PFIs received points based on the policy content (i.e. whether their policy aligns with the criteria listed in the theme) and the policy scope (whether the policy applies to some or all of their financing activities). For each criterion found in the PFI policies, a content score of 1 is awarded, and if no sufficient policy exists, 0 is received. As described in Profundo's report,³² "the content score is then multiplied by a scope score, shown as a percentage based on the coverage of four credit/investment categories:

- Corporate credits;
- Project finance;
- Equity investment; and
- Proprietary assets.

If the PFI does not clarify the scope of its policy, it is assumed that only 50% of the bank's activities are covered. The scope percentage is increased for each credit/investment category to which the bank explicitly applies the policy. If all relevant categories are covered, the scope score is 100%." Table 3 illustrates the scoring possibilities used in the FFG methodology.

Table 3: Scoring possibilities for policy analysis in FFG Methodology

CONTENT OF POLICY	CONTENT SCORE	SCOPE OF POLICY	SCOPE SCORE	CRITERIUM SCORE
None or insufficient	0	<i>Not relevant</i>	50%	0
Partially sufficient	1	Applied to all categories	50%	0.5
Sufficient	1	Unclear	50%	0.5
Sufficient	1	Applied to one or more categories	50-100%	0.5-1
Sufficient	1	Applied to all categories	100%	1

It is important to note that the FFG Methodology only assesses publicly available policies and information of the financial institutions, including finance and investment policies, annual reports, press releases, websites, and governance documents.

[30.] Centre for Environmental Rights, (2020), "Financing Fairly: Assessing the Sustainability of Investment Policies for Development Finance Institutions in South Africa", (online): <https://cer.org.za/wp-content/uploads/2020/05/Financing-Fairly-Report-and-Assessment-2020.pdf>, viewed in 2022

[31.] Ramirez, J. and J. Laplane (2022, November), Sustainability policies of PFIs in Africa: Assessment based on the Fair Finance Guide Methodology, Amsterdam, The Netherlands: Profundo.

[32.] Ibid

The process of the 2022 Policy Assessment is set out below:

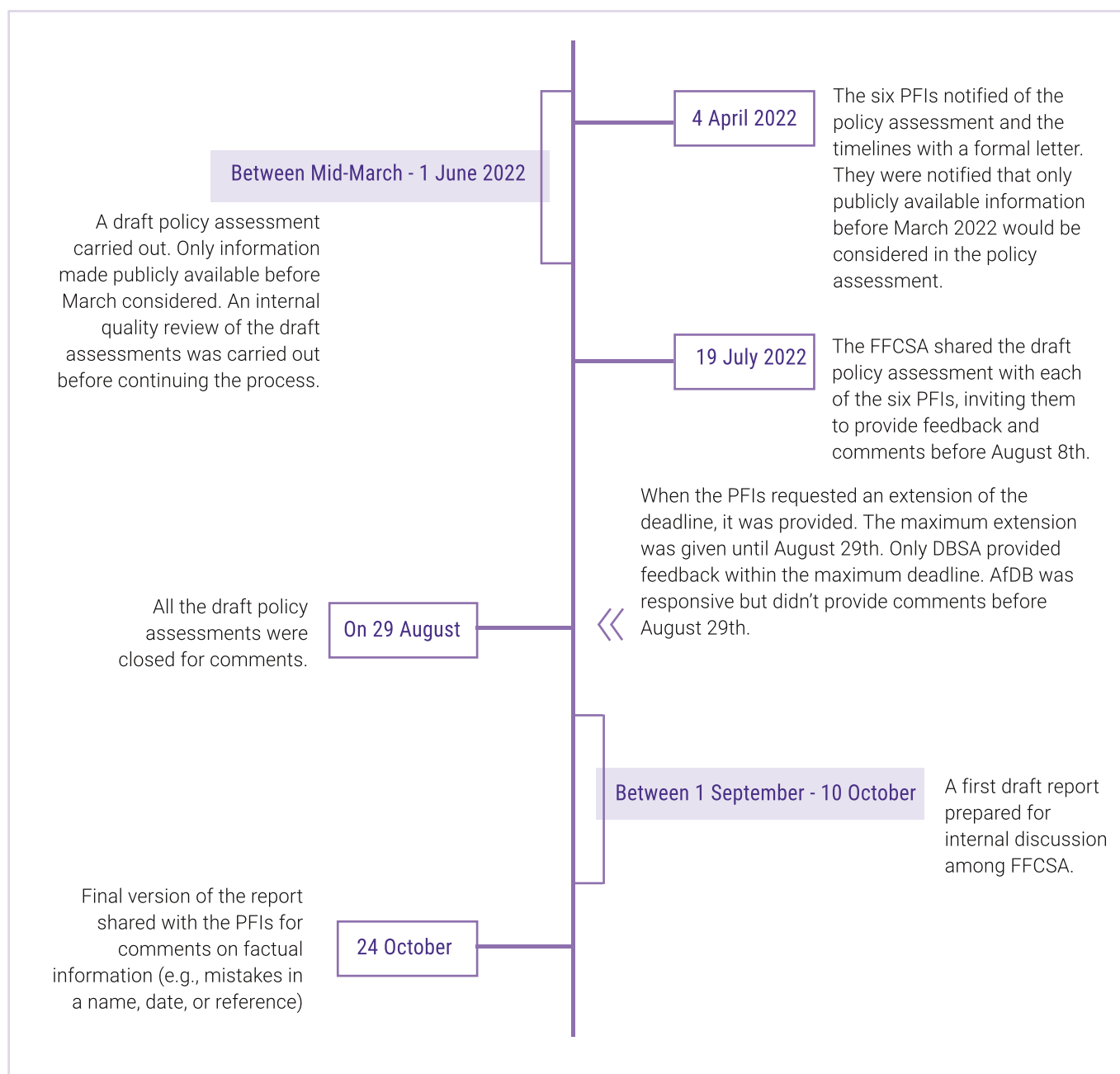


Figure 1: The policy assessment process and timelines

As illustrated in figure 1, the six PFIs were contacted and invited to provide feedback or raise questions on a draft version of the policy assessment findings. However, only two of the six PFIs, the AfDB and DBSA, provided feedback on their assessment. The AfDB's feedback was only received after the final deadline, despite two extensions; therefore, it was not feasible to integrate the AfDB's input into the final assessment.

THE EIGHT SUSTAINABILITY THEMES ASSESSED

The six PFIs were assessed on the following sustainability themes:



Climate Change:

PFIs need to proactively address climate change by measuring and reporting the carbon footprint of their financial portfolios and presenting strategies or policies to ensure their portfolios are consistent with the 1.5°C Paris target. More importantly, PFIs must have adequate strategies to guide the transition to a low-carbon economy, including shifting from fossil fuels to renewable energy sources. PFIs policies need to explicitly indicate how they, and equally the companies they invest in, intend to measure, disclose, and phase out their financing of and investment in activities with high greenhouse gas emissions (GHG).



Power generation:

Power generation and distribution are essential for ensuring equal access to meet Africa's energy needs. A primary concern related to power generation is its contribution to climate change, with burning fossil fuels (coal, oil, and gas) accounting for more than 70 per cent of all global emissions.³³ Climate scientists and the International Energy Agency agree that a substantial³⁴ shift in investments from fossil fuels to renewable energy is needed to meet climate goals and investments in energy efficiency.³⁵ Importantly, PFIs need to ensure the transition is financed by making significant investments in renewable energy projects and ensuring that they do not negatively impact local communities, land use, biodiversity, and wildlife.³⁶



Transparency & Accountability:

Everyone has the right to know what impacts development projects could have on their fundamental human rights and any other negative risks. Civil society organisations, interested and affected communities, and the public must have access to all relevant information, including possible alternatives to the proposed project or development, to adequately protect their social, cultural, and environmental interests. As the United Nations Guiding Principles on Business and Human Rights³⁷ highlights, businesses must be accountable for and adequately redress any adverse social and environmental impacts they contribute to or cause across their value chain, from employees to public authorities, civil society organisations, and local communities. Given their mandate to promote sustainable development, PFIs are equally responsible for ensuring that transparency and accountability are integrated into their policies, both internally, and in terms of the companies they finance and invest in. Financial institutions must participate in and set up grievance mechanisms for individuals and communities adversely affected by the project they finance or invest in.³⁸



Human Rights

Human rights are freedoms inherent to all human beings, regardless of their nationality, sex, sexual orientation, national or ethnic origin, colour, language, religion or any other status.³⁹ They comprise civil and political rights (e.g. the right to life), economic, social, and cultural rights (e.g. rights to food, education), and collective rights (e.g. rights to self-determination). Protecting human rights has become more complex due to globalisation and the unprecedented power and influence that multinational corporations have gained. Within this context, PFIs are responsible for safeguarding human rights and ensuring the companies and projects they finance do too.⁴⁰

[33] Friedlingstein, P. et al (2022), "Global Carbon Budget 2021", online: <https://essd.copernicus.org/articles/14/1917/2022/>, viewed in October 2022.

[34] 80 per cent of the world's coal reserves, 30 per cent of oil reserves, and 50 per cent of gas reserves must remain unused. Source: McGlade, C. and P. Elkins (2015), "The geographical distribution of fossil fuels unused when limiting global warming to 2°C", *Nature*, 517, p. 187-190.

[35] European Commission (2017, 10 February), "New study: investing in renewable energy in the next 30 years", online: <https://ec.europa.eu/energy/en/news/new-study-investing-renewable-energy-next-30-years>, viewed in October 2019.

[36] Laplane, J. and L. van Loenen (2021, October), *Fair Finance Guide International Methodology 2021*, Amsterdam, The Netherlands: Profundo.

[37] United Nations Human Rights Office of the High Commission (2011), *Guiding Principles on Business and Human Rights*, online: https://www.ohchr.org/sites/default/files/Documents/Publications/GuidingPrinciplesBusinessHR_EN.pdf, viewed in April 2022.

[38] United Nations Human Rights Council (2008), *Promotion and Protection of All Human Rights, Civil, Political, Economic, Social and Cultural Rights, Including the Right to Development*, A/HRC/8/5, United Nations Human Rights Council, p. 26.

[39] United Nations (1948, December), *Universal Declaration of Human Rights*, United Nations General Assembly resolution 217 A (III), article 23, New York, the United States: United Nations.

[40] Laplane, J. and L. van Loenen (2021, October), *Fair Finance Guide International Methodology 2021*, Amsterdam, The Netherlands: Profundo.



Nature

The planet's biodiversity forms an intricate web of life that maintains balance and supports everything humans need to survive - clean air, water, food, medicine, and a stable climate. Biodiversity loss is accelerating at an unprecedented rate due to human activities, with substantial economic, social, and health costs and risks. The destruction of habitats and the loss of critical ecosystem functions destabilise food supply and systems, accelerating the loss of key species and medicinal plants, and leading to a rise in new infectious diseases.^[41] The climate crisis is a key driver of biodiversity loss. In turn, destroyed and degraded ecosystems undermine nature's capacity to store carbon and protect against extreme weather events, exacerbating climate change.^[42] PFI policies must then ensure they only finance and invest in companies and governments that protect nature and prevent further biodiversity loss across their supply chains and put this principle into practice.^[43]



Gender

Gender refers to socially-constructed identities, attributes, and roles for women and men.^[44] Equality between all genders means that rights, responsibilities, and opportunities do not depend on gender identity or whether someone is born male or female.^[45] This theme focuses on women, even though gender inequalities affect men and transgender individuals and can apply at the level of sexual orientation (lesbian, gay, bisexual). Women's socially-constructed identities, attributes, and roles in society have traditionally led to an imbalance of power between men and women. PFIs' policies, both as a direct employer and as an actor in other parts of the value chain, can contribute to gender equality.^[46]



Corruption

Corruption negatively affects political, social, economic, and environmental domains. The legitimacy of elected officials and the rule of law are undermined when government representatives abuse their power for personal gain. PFIs must ensure that they do not assist clients that engage in corruption, money laundering, paying or receiving bribes and that PFIs do not accept or pay bribes themselves.^[47]



Labour Rights

Companies and governments are responsible for protecting people in their working environments. According to the International Labour Organisation (ILO), companies must have fair recruitment practices and demonstrate that their employees have a safe working environment without discrimination or mistreatment and with fair compensation. All employees have these basic rights regardless of race, colour, sex, language, political affiliation, social origin, or other factors. Ensuring labour rights helps to create a strong workforce and healthier democracies, leading to a more investor-friendly environment for corporations.^[48]

[41] UN (n.d.), "Biodiversity - our strongest natural defence against climate change", online: <https://www.un.org/en/climatechange/science/climate-issues/biodiversity>, viewed in October 2022.

[42] WEF (2021, June), "New Report shows why fighting climate change and nature loss must be interlinked", online: <https://www.weforum.org/agenda/2021/06/new-report-shows-biodiversity-key-to-fighting-climate-change/#:~:text=For%20example%2C%20changes%20in%20temperature,carbon%2C%20thus%20exacerbating%20climate%20change>, viewed in October 2022.

[43] Laplane, J. and L. van Loenen (2021, October), *Fair Finance Guide International Methodology 2021*, Amsterdam, The Netherlands: Profundo.

[44] UN Committee on the Elimination of Discrimination against Women (2010), General Recommendation N. 28 The Code Obligations of States Parties under Article 2 of the Convention, CEDAW/C/CG/28, para 5, New York, the United States: United Nations, p.31.

[45] UN WOMEN (2017) "The UN WOMEN Gender and Economics Training Manual", New York, the United States: United Nations.

[46] Laplane, J. and L. van Loenen (2021, October), *Fair Finance Guide International Methodology 2021*, Amsterdam, The Netherlands: Profundo.

[47] Ibid

[48] Laplane, J. and L. van Loenen (2021, October), *Fair Finance Guide International Methodology 2021*, Amsterdam, The Netherlands: Profundo.

3. WHO ARE THE SIX PUBLIC FINANCE INSTITUTIONS?

FFCSA conducted the 2022 Policy Assessment on six state-owned PFIs, all with a mandate to advance sustainable development in the countries in which they operate:

1. DEVELOPMENT BANK OF SOUTHERN AFRICA (DBSA)

a development finance institution

2. INDUSTRIAL DEVELOPMENT CORPORATION (IDC)

a development finance institution

3. NEW DEVELOPMENT BANK (NDB)

a multilateral development bank

4. AFRICAN DEVELOPMENT BANK (AfDB)

a regional multilateral development bank

5. PUBLIC INVESTMENT CORPORATION (PIC)

a public asset manager

6. EXPORT CREDIT INSURANCE COMPANY (ECIC)

a national export credit insurance agency

Table 4 below sets out the ownership of the PFIs, their sources of capital, the types of projects they finance, and the types of finance they provide.

Table 4: Profiles of the 6 Public Finance Institutions

	DBSA	IDC	AfDB	NDB	PIC	ECIC
Ownership	Owned by the South African government.	Owned by the South African government and supervised by the Department of Economic Development.	60% of ownership sits with the 54 African countries, while the remaining 40% is owned by 27 non-African countries who became owners as demand for investments from African countries grew and the bank's financial resources were limited.	Brazil, Russia, India, China, and South Africa (BRICS) each hold 19.4% of shares, while Bangladesh holds 2%, and the United Arab Emirates (UAE) holds 1%. The distribution of voting power is also the same.	Owned by the South African government and operates under the auspices of the Department of Trade, Industry and Competition (DTIC).	Owned by the South African government and represented by the Minister of Finance.
Source of capital	Government of South Africa (the Ministry of Finance is the sole shareholder of the DBSA), European Union, other DFIs such as KfW Bankengruppe, the European Investment Bank (EIB), and French Development Agency (AFD) that participate in programmes such as the Infrastructure Investment Programme for South Africa (IIPSA).	Initial funding provided by the Government of South Africa. Funding is generated through income from loan and equity investments, borrowings from commercial banks, DFIs and others.	AfDB funds are derived from subscriptions by member countries, especially non-African member countries, borrowings on international markets and loan repayments. Its resources also come from ADF and Nigeria Trust Fund (NTF) capital increases.	Founding members (Brazil, Russia, India, China and South Africa) have made initial contributions to the NDB's capital. The United Arab Emirates and Bangladesh are also currently shareholders of the NDB.	The South African government, represented by the Department of Trade Industry and Competition (DTIC), is the sole shareholder of ECIC.	The government of South Africa, represented by the Minister of Finance, is the sole shareholder of PIC.

	DBSA	IDC	AfDB	NDB	PIC	ECIC
Types of projects	Large scale infrastructure projects within the private and public sector. Emphasis on water, energy, transport and information and communications technology (ICT)	Financing of companies and projects for industrial development in critical sectors such as mining, agriculture, manufacturing, tourism and telecommunications.	AfDB's active portfolio was led by transport (26.1%), power (19.2%), finance (16.4%), agriculture (11%), and water and sanitation (9%). The AfDB also finances other sectors like mining and social sectors.	The NDB supports public or private projects in the following sectors: clean energy, transport, social infrastructure, urban development, environmental protection, water resource management, supply and sanitation, public health, information & communications technology, energy, sustainable infrastructure, and covid-19 emergency related projects.	The three largest sectors in the portfolio, representing 74% of the total exposure, are power and energy (27%), telecommunications (26%), and infrastructure (20%).	PIC focuses its investments on economic infrastructure, environmental sustainability, social infrastructure, small-medium enterprises, and private equity.
Types of finance	Debt, public-private partnerships, finance through other entities.	Debt, equity, quasi-equity, guarantees, trade finance, and venture capital.	Loans, lines of credit, guarantees, equity and quasi-equity, trade finance and risk management products.	Loans, guarantees, equity participation and other financial instruments.	Export credit insurance, investment insurance, small & medium transactions, and bond insurance.	PIC clients consist of 24 public bodies that operate pension, provident, social security, and guardian funds. This includes Government Employees Pension Fund (89%), Unemployment Insurance Fund (5%), Compensation Commissioner Fund (2%) and other public entities.
Geographic footprint	DBSA delivers developmental infrastructure in South Africa (73% of the long-term development loans in 2022) and the rest of the African continent (27% of the long-term development loans).	South Africa	AfDB finances the economic development of the African continent and its 54 African regional member countries. AfDB is headquartered in the Ivory Coast.	The NDB mobilises resources for infrastructure and sustainable development projects in BRICS and other emerging economies and developing countries. The bank is headquartered in Shanghai, China.	ECIC is committed to increasing its footprint in Africa, and its entire insurance portfolio is restricted to countries in that region, with the exception of Iran. The top 10 countries where the ECIC has exposure are: Ghana (21.75%), Zambia (19.91%), Zimbabwe (12.78%), Mozambique (11.17%), Tanzania (9.14%), Iran (8.82%), Liberia (5.71%), Angola (3.23%), Lesotho (2.04%), and Sierra Leone (1.96%).	Most of the investments are in South Africa, and the remaining cover the rest of the continent and globally.

4. THE KEY FINDINGS

The key findings of the 2022 Policy Assessment are:

1. Overall, the six PFIs scored poorly in the policy assessment. As is seen in figure 2 below, only two of the PFIs (DBSA and AfDB) scored above 5.0 out of 10; the remaining four PFIs scored below 3.0 out of 10.

2. Out of the eight themes, the PFIs scored best on the themes of Human Rights and Labour Rights. See table 5.
3. Out of the eight themes, the PFIs scored worst on the themes of Climate Change and Transparency and Accountability. The PFIs also performed poorly on the themes of Power Generation and Gender Equality.

4. None of the six PFIs publicly disclose concrete policies or plans to phase out fossil fuels in their financing or investment portfolios.

Given the importance of the themes of **climate change, power generation, and transparency & accountability** in the Southern African context and for the work of FFCSA and its member organisations, the focus of the remainder of this report is directed towards the last two key findings of the Policy Assessment in relation to those three themes.

As an overall ranking across all themes, the PFIs ranked in the following order:

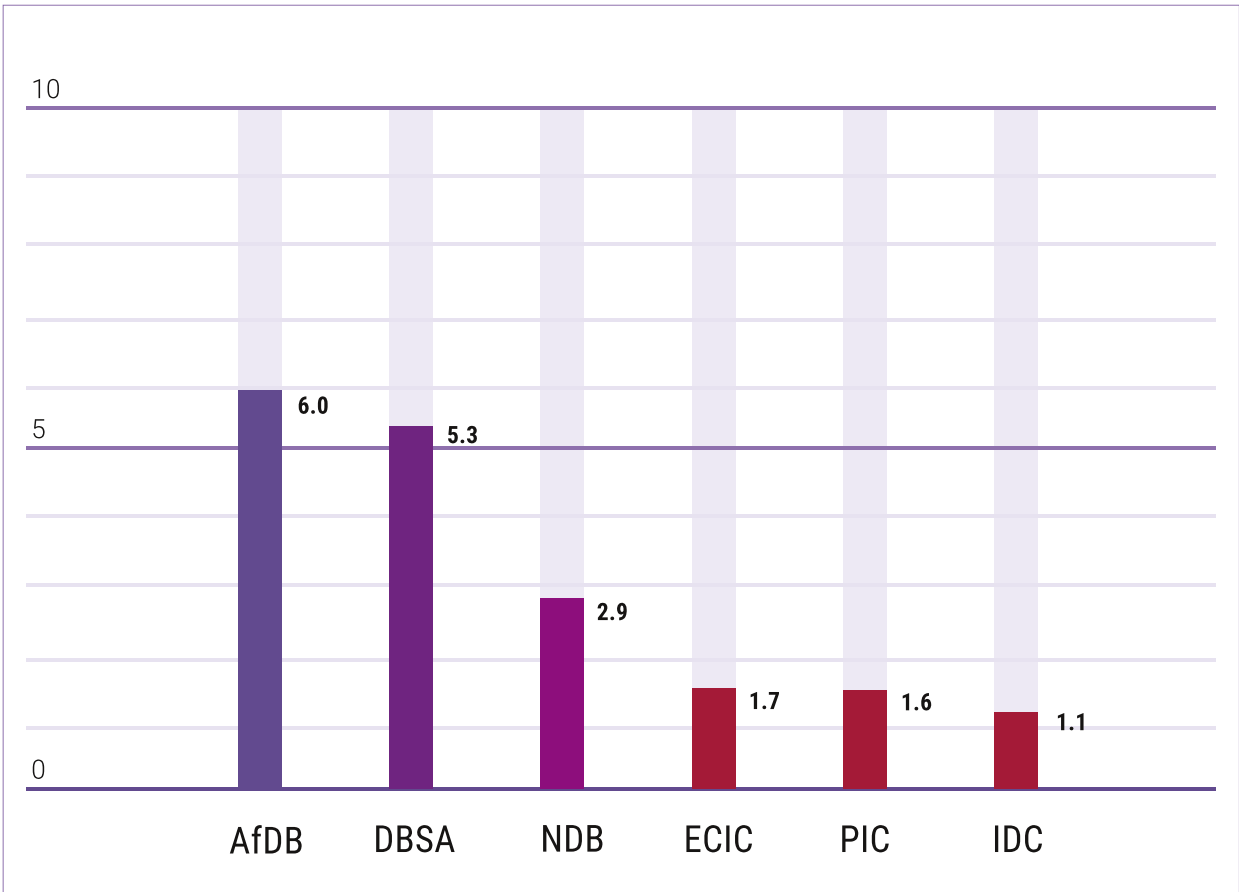
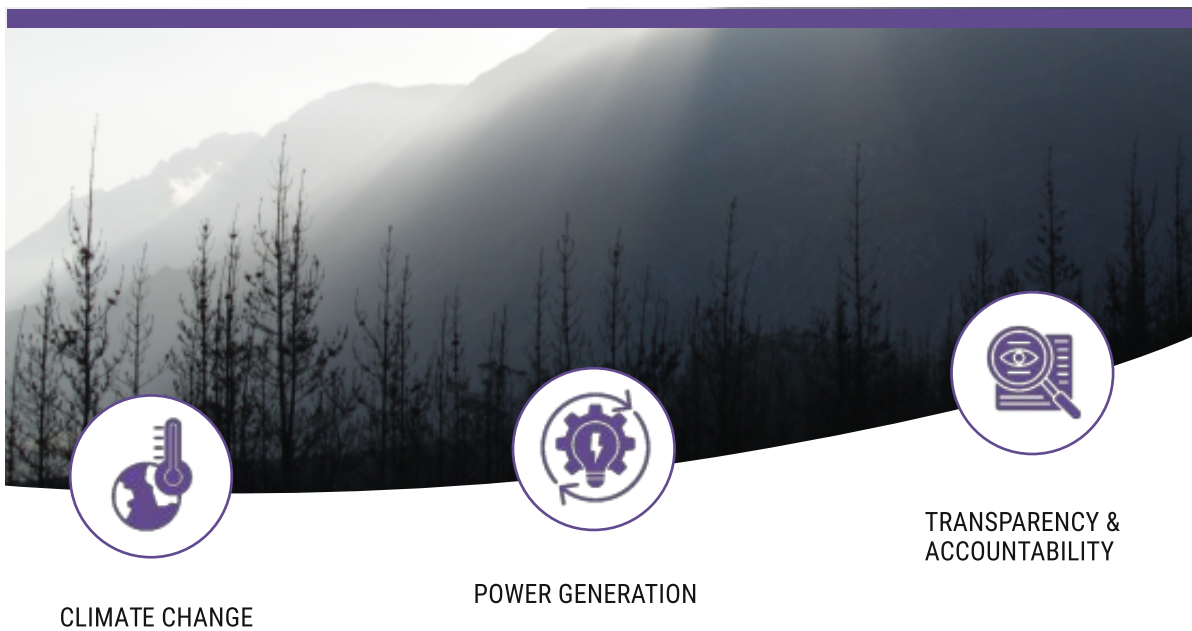


Figure 2

Table 5

In relation to each of the eight themes assessed, the PFIs ranked as follows:

THEMES	DBSA	IDC	AfDB	NDB	ECIC	PIC
CLIMATE CHANGE	2.2	0.2	1.7	1.1	0.6	0.0
HUMAN RIGHTS	7.7	0.7	7.7	4.0	2.0	4.0
NATURE	8.0	0.0	8.7	5.0	3.2	0.0
TRANSPARENCY & ACCOUNTABILITY	3.3	0.9	4.0	4.3	1.3	2.4
POWER GENERATION	5.2	0.5	5.5	1.9	1.0	1.0
LABOUR RIGHTS	8.2	0.3	9.1	1.9	2.8	2.5
GENDER EQUALITY	6.6	1.7	4.1	1.9	1.3	0.6
CORRUPTION	2.5	5.0	7.1	3.3	1.7	2.5
TOTAL	5.3	1.1	6.0	2.9	1.7	1.6



5. WHY DO THESE FINDINGS MATTER?

CLIMATE CHANGE, POWER GENERATION AND TRANSPARENCY & ACCOUNTABILITY IN SOUTHERN AFRICA

The FFG Methodology themes of **climate change**, **power generation** and **transparency & accountability** are crucially important for the advancement of climate action in Southern Africa. The findings under these themes are an important revelation of how PFIs are - or are not - assisting the region as it embarks on a decarbonisation pathway and a more sustainable energy future.

In South Africa, a country currently experiencing an electricity crisis with daily rolling blackouts or 'load-shedding', the need to generate sufficient energy to meet demand sustainably has become an urgent social, economic and environmental issue. The country's state-owned power-generating utility, Eskom, is responsible for 39% of South Africa's greenhouse gas emissions - primarily due to its coal-fired power stations.

PFIs can play an important role in addressing this situation by adopting policies aligned with international standards to curb the negative effects of **climate change** and **power generation** supplied by fossil fuels. In order to encourage the continent's transition to a low-carbon economy, PFIs hold power in deciding which companies to finance and invest in.

In light of the global climate emergency and the particular vulnerabilities of the continent, coupled with the electricity crisis in South Africa and the potential that PFIs have to alleviate the situation - **it is a disap-**

pointing revelation that the six PFIs' policies are still far from being aligned with international standards on climate change and power generation. The 2022 Policy Assessment findings show that, while some PFIs finance renewable energy projects and have signaled an intention to exclude fossil fuel financing from their portfolios, none of the six PFIs have or disclose any concrete policies or plans to divest from fossil fuels. In relation to the policies that the PFIs do have and publicly disclose, the findings show that the PFIs do not set any limits or conditions on the financing of and investment in fossil-fired power generation (including coal-fired power generation), thermal coal mining, and oil and gas extraction.

The principles of **transparency & accountability** are intrinsically linked to the themes of climate change and power generation, not only in relation to the PFIs' disclosure of policies but also to assess the finance and investment portfolios of PFIs properly. It must be noted that **transparency & accountability** is a cross-cutting theme in the FFG Methodology with elements that overlap with other themes assessed, which explains certain instances of PFIs receiving a slightly higher scoring under this theme while still rating poorly on the other two.

The six PFIs' individual scores under the themes of **climate change**, **power generation** and **transparency & accountability** are set out below with explanations behind the scoring received.

Development Bank of Southern Africa (DBSA)

The DBSA is a state-owned development finance institution (DFI) in South Africa focusing on infrastructure development in critical sectors, including in the energy sector. Overall, the DBSA ranks second place in the Policy Assessment with an average score of 5.3.

On the theme of **climate change**, the DBSA scores poorly, with a low score of 2.2 out of 10. The few points the DBSA received under this theme come from its Environmental and Social Safeguards Standards (ESSS) that require that for large-scale project financing, the DBSA must compile environmental impact assessments that include data on greenhouse gas emissions and climate risks. The

ESSS further require that the companies the DBSA invests in or finance comply with certain elements. For example, companies must disclose and reduce their direct and indirect greenhouse gas emissions, integrate climate change criteria in their procurement and operational policies, and include clauses on compliance with criteria on climate change in their contracts with subcontractors and suppliers.

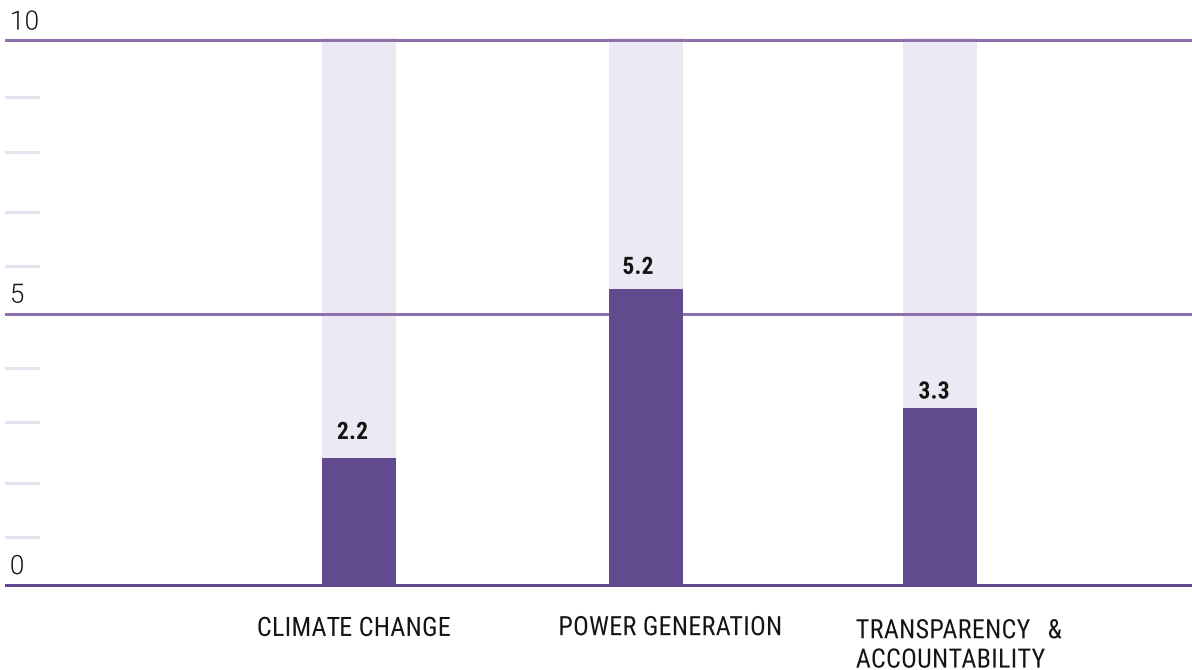
The DBSA's policies, however, do not comply with most of the elements regarding the DBSA's management of its portfolio of corporate loans and investments in climate change. For example, the DBSA's policies do not disclose the greenhouse gas emissions associated with all or a selection of companies and specific sectors it finances or invests in, nor do its policies commit to financing or investing in companies which are active in fossil fuel-fired power generation and extraction of oil and gas over a certain threshold of the bank's activities. Some of these elements may be included in the DBSA's approved Integrated Just Transition Investment Framework⁴⁹ - however, that policy is not publicly available.

The DBSA scored 5.2 under the **power generation** theme - notably higher than its score on climate change. This difference in scoring between the climate change and the power generation themes is primarily due to the DBSA's financing of renewable energy generation and elements in its ESSS requiring

the companies it finances or invests in to prevent certain negative impacts. However, none of the DBSA's publicly available policies state that the DBSA considers fossil-fuel power generation - including coal-fired power generation - to be unacceptable.

The DBSA recently published a Statement on Net Zero⁵⁰ in which the Bank states that it is committed to playing an active role in a Just Transition that achieves net zero emissions by 2050. The statement makes mention of the DBSA's approved Integrated Just Transition Investment Framework, saying that it will incorporate the Bank's net zero pathway, which will include details of the DBSA's net zero greenhouse gas emissions targets across its total investment and loan portfolios in alignment with the South African government's net zero targets in the Nationally Determined Contribution. FFCSA welcomes this as a first step in the right direction while noting that the statement does not mention any concrete and publicly available policies by the DBSA nor set any specific objectives.

On the theme of **transparency & accountability**, the DBSA scores relatively low with 3.3. While the DBSA publishes the names of the governments in which it invests, it does not do the same for companies it invests or excludes due to sustainability issues, nor does the Bank publish a sufficiently detailed breakdown of its portfolio.



[49] "The DBSA's approved Integrated Just Transition Investment Framework will incorporate its net-zero pathway, which will include details of the DBSA's net-zero GHG emissions targets across its total investment and loan portfolios." Source: Burger, S (2021), DBSA commits to playing its part in a just transition to net-zero emissions by 2050, online: https://www.engineeringnews.co.za/article/dbsa-commits-to-playing-its-part-in-a-just-transition-to-net-zero-emissions-by-2050-2021-11-03/rep_id:4136.

[50] DBSA (n.d.), "DBSA Statement on Net Zero", online: <https://www.dbsa.org/press-releases/dbsa-statement-net-zero>, viewed in October 2022.

The DBSA's policies suggest that the Bank is aware of sustainability issues in its internal operations, financing and investments and that the Bank is increasingly financing renewable energy. The Bank's Statement on Net Zero is welcomed progress; however, its commitments must be set out in a publicly available policy, which includes concrete targets to reduce greenhouse gas emissions and to limit the maximum global temperature increase to 1.5° C.

Industrial Development Corporation (IDC)

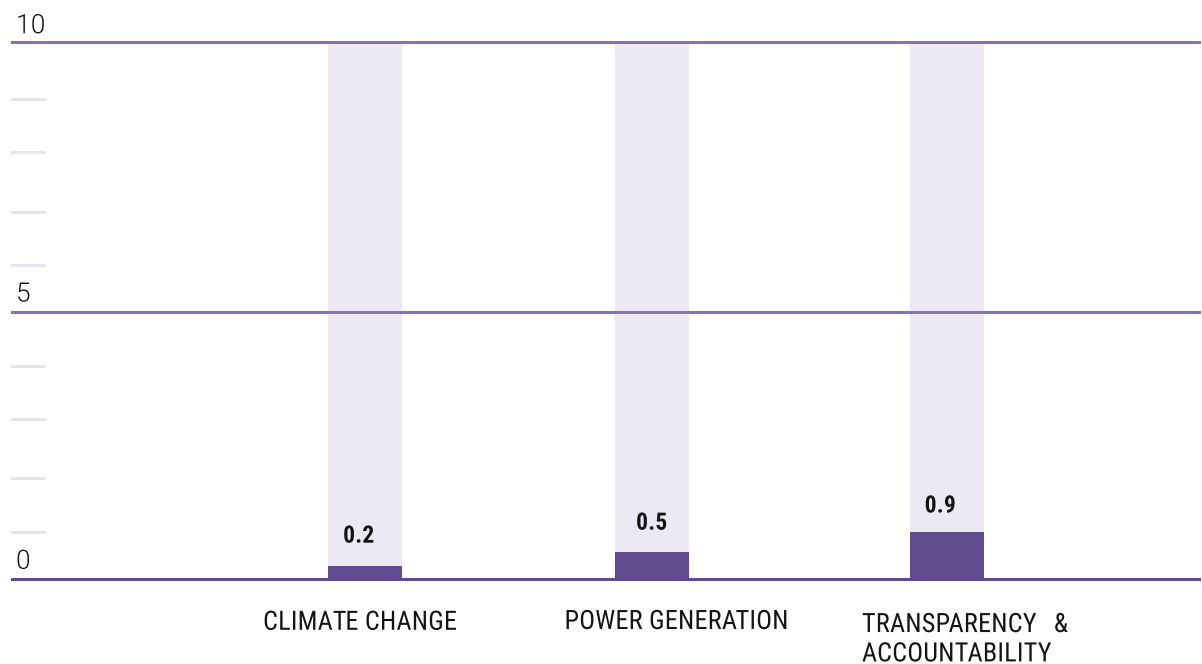
The IDC, like the DBSA, is a state-owned DFI in South Africa with investments in sectors such as mining. Overall, the IDC scored poorly on the policy assessment, ranking last out of the six PFIs with an average score of 1.1. On the themes of **climate change, power generation, and transparency & accountability**, the IDC scores below 1 point in all three themes.

The IDC scores a low 0.2 for **climate change** since the only element its policies satisfy is that its Environmental and Social Policy⁵¹ indicates that the IDC carries out environmental impact assessments that include data on greenhouse gas emissions and climate risks. Only a partial score was awarded for this element as the IDC does not clearly state that

all project finance undergoes an environmental assessment that includes data on greenhouse gas emissions and climate risks.

The IDC receives a slightly higher score of 0.5 for **power generation** since its Integrated Report of 2021 indicates that it invests in energy infrastructure with a targeted focus on renewable energy.

On the theme of **transparency & accountability**, the IDC receives a score of 0.9. A partial score was awarded here because the IDC has a publicly available Environmental and Social Framework which ensures consistent consideration of environmental and social issues in all its project investments. The IDC also publishes a breakdown of its portfolio by region, size and industry.



While the IDC has a publicly available Responsible Investment Policy, which incorporates an exclusions list, that Responsible Investment Policy makes no mention of fossil fuel investments, including coal. At a minimum, the Responsible Investment Policy states that the IDC is a signatory to the United Nations Environment Programme (UNEP) Statement by Financial Institutions on the Environment and Sustainable Operations. Still, the commitments in that Statement do not reflect in the IDC's policies.

[51] This Policy dates back to 2017 and has not been reviewed every four years or earlier, as stipulated in the Policy.

In 2020, the IDC formed the Energy Strategic Business Unit (SBU), intending to be a leading funder of clean energy solutions in Africa and contribute to South Africa's Just Energy Transition and energy security.⁵² While this contribution by the IDC is commendable; sources indicate that the IDC is still heavily investing in coal.

The Global Coal Exit List (GCEL) research tool indicates that as of November 2021, the IDC had a total shareholding of 1545 million USD in two coal companies on the GCEL⁵³:

Table 6: IDC's total shareholding as of 25 October 2022 (Adapted from GCEL's website⁵⁴)

Industrial Development Corporation of South Africa

Total: 1545.00 Shareholding: 1545.00 Bondholding: unknown

Company	Country of HQ	Shareholding (Mio \$)	Bondholding (Mio \$)	Total (Mio \$)
Sasol Ltd	South Africa	813.92		813.92
BHP Group Ltd	Australia	730.84		730.84

It is important to note that after the first pilot FFG Policy Assessment in 2020, in which the IDC's policies were assessed for the first time, members of the FFCSA called on the IDC to have more of its policies available online on its website. It is encouraging to see that more of the IDC's policies were publicly available during this second policy assessment - albeit that the policies are largely inadequate in relation to the FFG Methodology's standards.

The IDC's publicly available policies illustrate that while the Bank has an environmental and social policy that commits to incorporating environmental and social considerations in all its investment activities, it does not include specific commitments to climate change or power generation. The IDC does not have a publicly available policy committing to phase out its finance of and investment in fossil fuels, and in practice, continues to do so.

Public Investment Corporation (PIC)

The PIC, a state-owned entity, is one of the three largest South African institutional investors in the coal industry. While the PIC is not a development finance institution, as an asset manager of public clients, it has the mandate to invest for developmental outcomes while ensuring good financial returns for its clients.

This policy assessment is particularly important for a public institutional investor such as the PIC, as its

asset base is built on contributions from ordinary working South Africans. The PIC's clients are primarily public sector entities which focus on the provision of social security, including the Government Employees Pension Fund (GEPF), Unemployment Insurance Fund (UIF), Compensation Commissioner Fund (CC), Compensation Commissioner Pension Fund (CP) and Associated Institutions Pension Fund (AIPF). It is, therefore, paramount to know how the PIC invests these public funds.

[52] 48 IDC (n.d.), "Development Funding for the Just Energy Transition", online: https://www.idc.co.za/wp-content/uploads/2022/05/IDC-MI-ENERGY-BROCHURE_digital.pdf, viewed in October 2022.

[53] Global Coal Exit List (n.d.), "Industrial Development Corporation of South Africa", online: <https://www.coalexit.org/investor/industrial-development-corporation-south-africa>, viewed in October 2022.

[54] Global Coal Exit List (n.d.), "Industrial Development Corporation of South Africa", online: <https://www.coalexit.org/investor/industrial-development-corporation-south-africa>, viewed in October 2022.

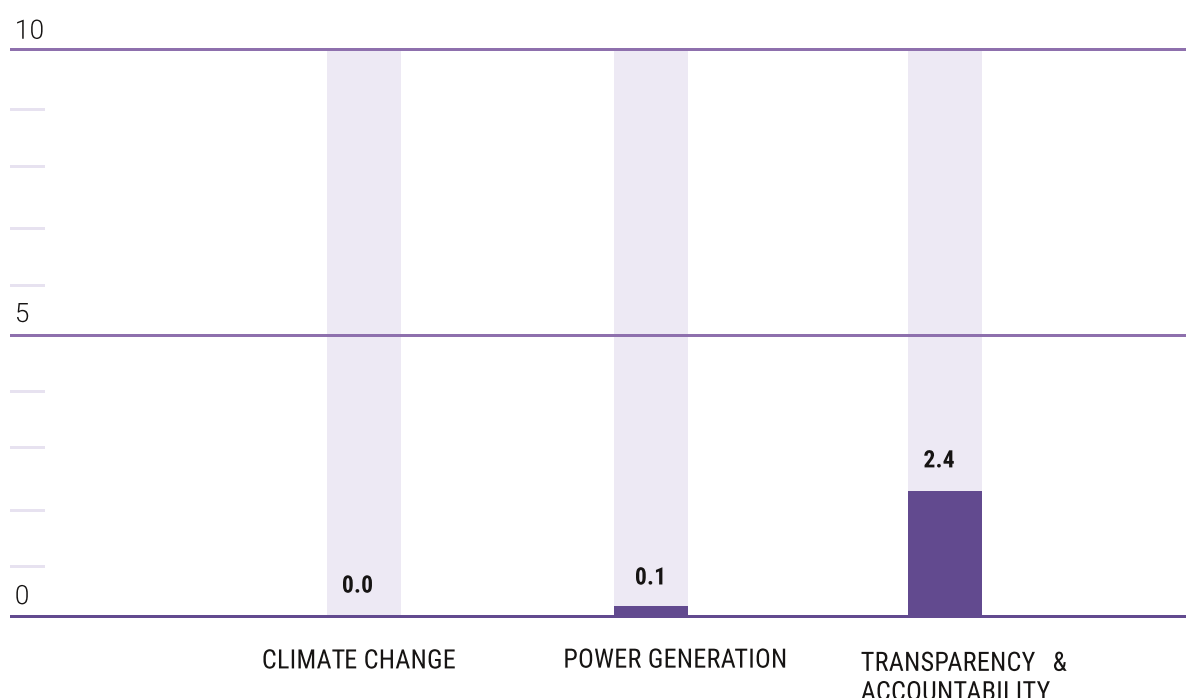
DOES THE PIC USE OUR PUBLIC'S MONEY TO PROMOTE THE FOSSIL FUEL INDUSTRY?

On the themes of **climate change** and **power generation**, the PIC received poor scores of 0.0 and 1.0, respectively. The only score the PIC received under the power generation theme was due to the PIC's financing of renewable energy generation (the PIC has invested about 15 billion ZAR in South Africa's Renewable Energy Independent Power Producer Programme).

On the theme of **transparency & accountability**, the PIC scored 2.4. The PIC scored partially under this theme as its website explains, the PIC's investment process includes consideration of Environmental, Social and Governance (ESG) issues; however, the list of ESG criteria considered by the PIC is not disclosed. While the PIC does not have any publicly available sustainability report, its Integrated Annual Report (2021) includes some ESG-related information, resulting in further scoring for the PIC under this theme.

It is important to note that the PIC has few policies publicly available - only its Code of Ethics, Integrated Annual Report (2021), Annual Financial Statements (2021), proxy voting reports, and Treating Customers Fairly Policy. The Treating Customers Fairly Policy refers to the PIC's due diligence processes that are conducted by the PIC before investment decisions are taken. However, such processes are not set out in any publicly available policy. The PIC does not, for example, publicly disclose its full investment portfolio; any policy that serves to guide or provide criteria for its investments; any concrete investment framework regarding environmental and social issues; any environmental and social standards policies applied by the PIC to the companies it invests in; or any investment exclusions lists; nor any sustainability reports. The PIC has also not made any public statements or commitments about divestment from fossil fuels.

In September 2021, the PIC published an invitation to tender proposals to appoint a service provider that could assist the PIC with formulating the net zero action plan (titled 'Project Climate: Net Zero Action Plan')⁵⁵. The PIC has since not disclosed any climate change strategy, policies, or action plans that have come out of the tendering process.



⁵⁵] Public Investment Corporation (2021), "Invitation to Tender: Bid No (AUM009/2021) Project climate: Net Zero Action Plan", online: <https://www.pic.gov.za/DocTenders/RFP%20for%20the%20appointment%20of%20a%20service%20provider%20to%20assist%20the%20PIC%20with%20for%20mulating%20the%20Climate%20Change%20Strategy.pdf>, viewed in October 2022.

In November 2021, the PIC held a total bond and shareholding of 3590 million USD in companies listed on the Global Coal Exit List (GCEL)⁵⁶:

Table 7: PIC's total shareholding as of 25 October 2022 (Adapted from GCEL's website⁵⁷)

Public Investment Company (South Africa)

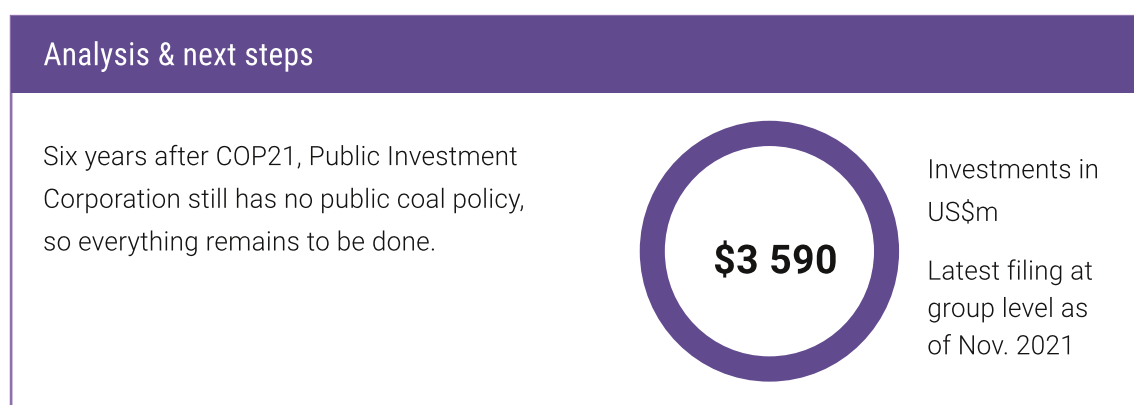
Total: 3590.00 Shareholding: 3590.00 Bondholding: unknown

Company	Country of HQ	Shareholding (Mio \$)	Bondholding (Mio \$)	Total (Mio \$)
Sasol Ltd	South Africa	1,640.95		1,640.95
BHP Group Ltd	Australia	1,254.08		1,254.08
Exxaro Resources Ltd	South Africa	615.51		615.51
Thungela Resources Ltd	South Africa	51.59		51.59
Grindrod Ltd	South Africa	23.94		23.94
Resource Generation Ltd (Resgen)	Australia	3.75		3.75

Reclaim Finance's Coal Policy Tool⁵⁸ confirms that the PIC has no:

- policy excluding coal mines, coal plants and coal infrastructure projects;
- policy excluding the financing of or investment in coal companies developing new coal projects;
- policy excluding the financing of or investment in coal companies based on their coal share of revenue/power generation;
- policy excluding the financing of or investment in coal companies based on their annual thermal coal production or their coal capacity; and
- coal phase-out commitments.

The Tool points out that six years after COP21, the PIC still has no public coal policy and continues to invest millions of dollars in coal.



Adapted from the Coal Policy Tool website⁵⁹

[56] Global Coal Exit List (n.d.), "Public Investment Corporation of South Africa", online: <https://www.coalexit.org/investor/public-investment-corporation>, viewed in October 2022.

[57] Global Coal Exit List (n.d.), "Public Investment Corporation of South Africa", online: <https://www.coalexit.org/investor/public-investment-corporation>, viewed in October 2022..

[58] The Coal Policy Tool counts, compares and rates the coal policies adopted by banks, (re)insurers, asset owners and asset managers; enables clients, media, financial institutions and other stakeholders to easily navigate the coal policy jungle; and aims at ensuring high quality coal policies that effectively contribute to keep global warming below 1.5°C. Coal Policy Tool (n.d.), "Analysing the quality of coal policies", online: <https://coalpolicytool.org/>, viewed in October 2022.

[59] Coal Policy Tool (n.d.), "Analysing the quality of coal policies", online: <https://coalpolicytool.org/>, viewed in October 2022.

Like the other two state-owned South African PFIs (the DBSA and the IDC), the findings of the 2022 Policy Assessment illustrate that while PIC finances renewable energy, it continues to promote the fossil fuel industry all while using public money. As a financial institution that claims to support the United Nations Global Compact (UNGC), the Principles for Responsible Investment (PRI)⁶⁰, and the United Nations' Sustainable Development Goals,⁶¹ the PIC can do better to align its investment portfolio with South Africa's goal to take urgent action to combat climate change and its impacts (SDG 13) through a transition to a low-carbon economy.



An important consideration to bear in mind is that South Africa's energy sector is guided by the country's Integrated Resources Plan, which currently still incorporates coal-fired power into South Africa's energy mix. State-owned PFIs such as the DBSA, IDC and PIC have a legislative and political mandate to finance projects in line with local policy (such as the IRP), which often limits their ability to determine their policies and execute decisions. Still, DFIs should align their policies with South Africa's sustainability objectives and international commitments to transition to a low-carbon economy and its mission and vision to advance sustainable development in South Africa. Policy considerations, therefore, undoubtedly play a role in these three PFI's policy and decision-making, including its continued financing of and investment in mining companies. The DBSA, IDC and PIC should ensure that they contribute to sustainable economic growth and development in South Africa in line with their missions and visions.

Export Credit Insurance Corporation of South Africa (ECIC)

This lack of transparency and accountability around the PIC's policies is particularly concerning, considering the PIC's demonstrated a continued investment in fossil fuels, particularly coal.

The ECIC is a state-owned national export credit agency with a mandate to facilitate export trade and cross-border investments between South Africa and the rest of the world.

Power and energy are among the three largest sectors in the ECIC's portfolio.

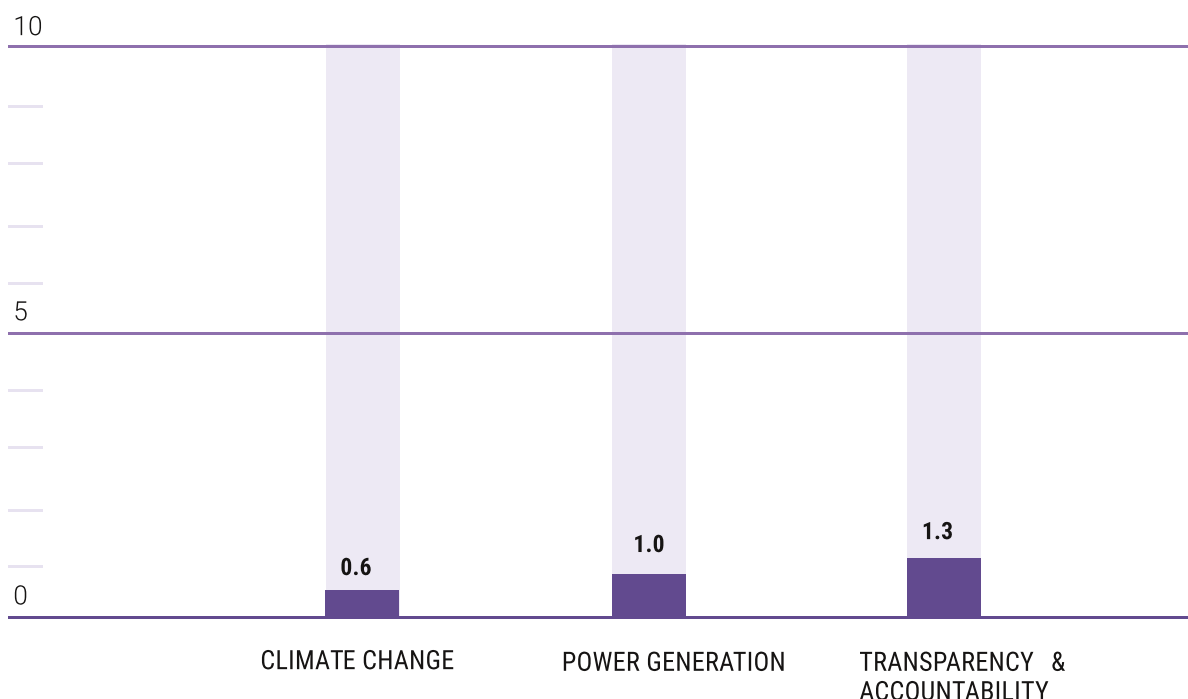
With respect to the themes of **climate change** and **power generation**, the ECIC received low scores of

0.6 and 1.0, respectively. The ECIC received partial scoring under climate change and partial scoring under power generation since it requires insured projects that impact natural resources to adhere to the Equator Principles and IFC Performance Standards.

The ECIC also received a low score of 1.3 for **transparency and accountability**. The ECIC discloses the names of governments in which it invests and publishes a breakdown of its portfolio by region, size, and industry. The ECIC also lacks detail when describing its finance and investment framework regarding environmental and social issues.

[60] Public Investment Corporation (n.d.), "PIC CEO's Statement of continued support for the United Nations global compact", online: https://ungc-production.s3.us-west-2.amazonaws.com/attachments/cop_2022/508236/original/PIC%20CEO%20Statement%20Of%20Continued%20Support%20For%20The%20United%20Nations%20Global%20Compact%2020202021.pdf?1644849391, viewed in October 2022.

[61] "The PIC supports the United Nations' Sustainable Development Goals and considers environmental, social and governance issues in all its investments." Source: Public Investment Corporation (n.d.), "About Us", online: <https://www.pic.gov.za/who-we-are/about-us>, viewed in October 2022.



In 2021, a report published by the ECIC, 'Trade and Investment Opportunities in Africa: Renewable Energy',⁶² noted that the ECIC currently has no exposure in the renewable sector but that it intends to further explore trade and investment opportunities in the energy sector through promoting and supporting South African exporters of capital goods and services in the sector.

Regarding fossil fuel financing, the ECIC signed a loan agreement worth 800 million USD to fund the Total Liquefied Natural Gas (LNG) projects in Mozambique⁶³, intended for export to the European market. The total project financing of 14.9 billion USD includes a loan from the African Development Bank.⁶⁴ FFCSA member Justica Ambiental (Friends of the Earth Mozambique) reports several concerns⁶⁵ surrounding the LNG industry in Mozambique, expressing that the LNG projects will not benefit the local community. Since most of the gas is to be exported, communities will continue to lack electricity. Furthermore, Justica Ambiental reported that forced removals have been happening without proper compensation. They remain concerned that LNG projects will not create local jobs but will

greatly impact the environment. Their report also highlights that gas extraction projects in Cabo Delgado, Mozambique, "have the potential to result in a huge release of greenhouse gas emissions, especially methane, which could increase the whole of Mozambique's greenhouse gas emissions by 14%", contributing not only to the instability and insecurity in the region but also to climate change, which is already having a disastrous effect on Mozambique as is evidenced by the cyclones in 2019.

The 2022 Policy Assessment reveals that while the ECIC has conducted research to identify potential trade and investment opportunities in the renewable energy sector, the PFI has no concrete policies or plans to address the renewable energy sector or to phase out financing fossil fuel projects. The ECIC does not disclose any policy or commitments related to climate change, the reduction of greenhouse gas emissions, and the reduction of credit for investment in coal-fired power generation and other fossil fuels, such as coal and gas. Indeed, the ECIC continues to finance fossil fuel projects such as the LNG Mozambique projects.

[62] Export Credit Insurance corporation of South Africa (n.d.), "Sector Reports", online: <https://www.ecic.co.za/country-info/sector-reports/>, viewed in October 2022.

[63] Export Credit Insurance corporation of South Africa (2020), "Trade and Investment Opportunities Arising from Natural Gas Investments Mozambique", online: https://www.ecic.co.za/wp-content/uploads/2020/10/ECIC-Trade_Investment-Mozambique-Web.pdf, viewed in October 2022.

[64] Global Trade Alert (2020, July), "South Africa: ECIC provides financing for the Mozambique LNG project", online: <https://www.globaltradealert.org/state-act/46452/south-africa-ecic-provides-financing-for-the-mozambique-lng-project>, viewed in October 2022.

[65] Bank Track (2020, March), "The Impacts of the LNG industry in Cabo Delgado, Mozambique", online: https://www.banktrack.org/download/the_impacts_of_the_lng_industry_in_cabo_delgado_mozambique/impacts_of_lng_in_mozambique_by_ja.pdf, viewed in October 2022.

African Development Bank (AfDB)

The AfDB is a regional multilateral public finance institution with a mandate to "spur sustainable economic development and social progress in its regional member countries (RMCs)". The AfDB's portfolio focuses on the power and mining sectors.

In the 2022 Policy Assessment, the AfDB ranked first among the six PFIs assessed. Despite its high ranking, the AfDB only scored 1.7 on climate change. The few points received in this theme come from the AfDB's Integrated Safeguards System (ISS) Policy Statement⁶⁶ and Operational Safeguards. For instance, the Bank's operational safeguards identifies, assesses, and categorises the severity of the environmental and social impacts - including those linked to climate change - associated with its grant-financed operations and lending to financial intermediaries. These intermediaries include Banks, insurance, reinsurance and leasing companies, microfinance providers, private equity funds, and investment funds that use the Bank's funds to lend or provide finance to their clients. Operational safeguards 2-5 also set conditions for the clients AfDB supports regarding pollution, hazardous materials, and more. However, the Bank's poor performance on the assessment's **climate change** theme is due to the absence of a clear strategy that details **how** and **when** it will phase out fossil fuel financing and align with the Paris Agreement.

It is noteworthy that **power generation** overlaps with elements from climate change, nature, and human rights themes, explaining the Bank's average score of 5.5 on this theme. Though the Bank also receives points under power generation for indicating its increasing support and funding for renewable energy generation⁶⁷ (e.g. wind, solar, geothermal, and other green energies); there is no clear plan or targets for increasing investments in this sector, while simultaneously phasing out finan-

cing for fossil fuels to mitigate climate change. It is essential for the AfDB to phase out financing for fossil fuels if the institution aims to align with its commitment to achieve the SDGs in Africa as part of its mission and vision and build a climate-resilient future for the continent.

Relevant to the climate change and power generation themes, AfDB's publicly available documents **do not**:

- Identify a **measurable** target to reduce its greenhouse gas emissions in line with the Paris Agreement target in its internal operations, finance, and investment portfolios
- Measure or recognise climate-related impacts in line with the Task Force on Climate-related Financial Disclosures
- Set limits on or conditions to financing and investment in fossil fuel extraction and power generation

Despite publicly announcing its intention to get out of coal in September 2019⁶⁸, the AfDB has still not updated its energy policy with this commitment, undermining the credibility of such statements. Furthermore, its Climate and Green Growth Strategic Framework 2022 mentions that the Bank "will cease all investment in coal or coal-related technologies"⁶⁹, and while it's a step in the right direction, no clear timeline or details are provided. A further concern is that the AfDB considers gas a transition fuel and continues to provide support and loans for fossil fuel projects. According to a recent report⁷⁰, the AfDB, compared to other multilateral financial institutions, provided the highest amount of project finance for fossil fuel projects in Africa between 2016 and the end of June 2021.

[66] AfDB (2013, December), *Safeguards and Sustainability Series: African Development Bank Group's Integrated Safeguards System "Policy statement and operational safeguards*.

[67] AfDB (n.d.), "The Bank's Group Strategy for the New Deal on Energy for Africa 2016-2025", online: https://www.afdb.org/fileadmin/uploads/afdb/Documents/Generic-Documents/Bank_s_strategy_for_New_Energy_on_Energy_for_Africa_EN.pdf, viewed in April 2022.

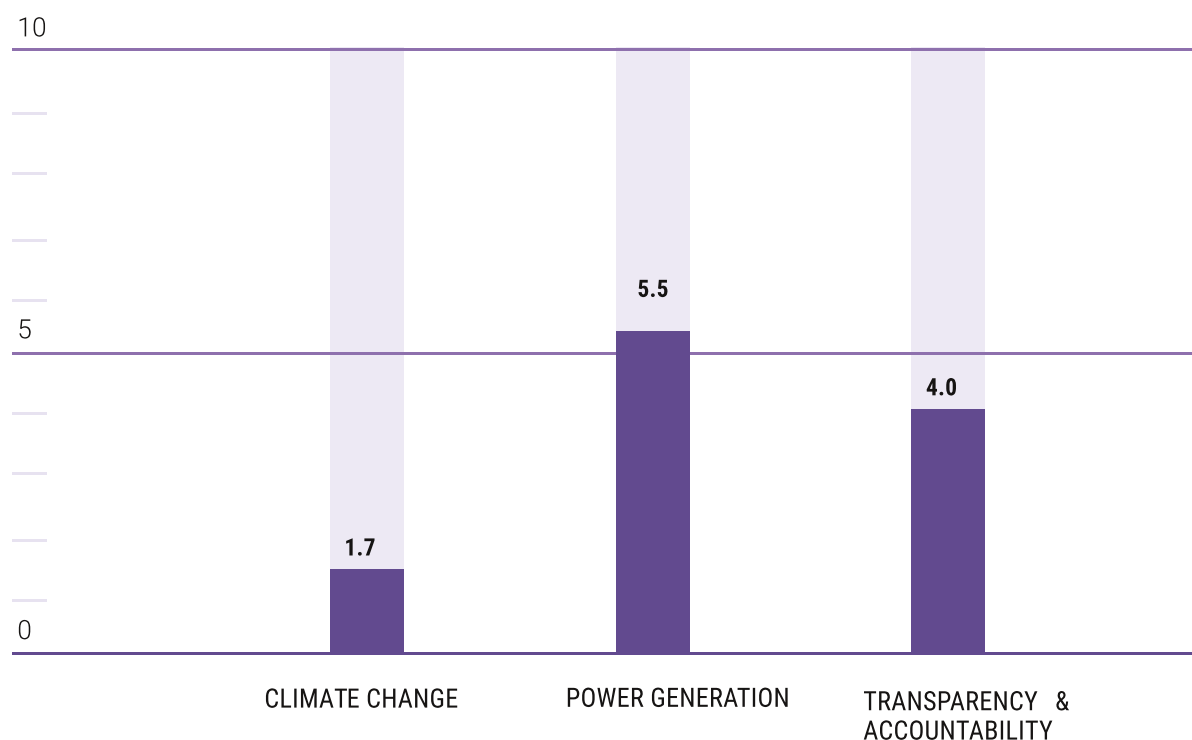
[68] AfDB (2019, September), "UNGA 2019: No room for coal in Africa's renewable future: Akinwumi Adesina", online: <https://www.afdb.org/en/news-and-events/press-releases/unga-2019-no-room-coal-africas-renewable-future-akinwumi-adesina-30377>, viewed in April 2022

[69] AfDB (2022, March), "Climate and Green Growth Strategic Framework: Projecting Africa's Voice - Policy", online: <https://www.afdb.org/en/documents/climate-and-green-growth-strategic-framework-projecting-africas-voice-policy>, viewed in August 2022.

[70] Geuskens, I & Butijn, H (2022, March) "Locked out of a Just Transition: Fossil Fuel Financing in Africa", online: https://www.banktrack.org/download/locked_out_of_a_just_transition_fossil_fuel_financing_in_africa/07_md_banktrack_fossil_fuels_africa_rpt_hr_1.pdf, viewed in October 2022.

One example is the AfDB's loan of \$400 million⁷¹ in 2020 as part of co-financing for the construction of the Liquefied Natural Gas Plant in Mozambique.

The project was criticised for not aligning with the Paris Agreement target and increasing Mozambique's emissions by up to 10%.⁷²



Under the **transparency and accountability** theme, the Bank received an average score of 4.4. The AfDB lacks a clear policy that outlines how it responds to companies and clients when adverse social and environmental issues arise and does not disclose the names of companies it has engaged with concerning adverse environmental and social impacts or even the topics of those interactions. The fact that AfDB publishes information on the projects it finances boosts its score on transparency & accountability. Details include sources of financing, commitments, sectors, and country, along with financial information and results linked to publicly disclosed documents, such as the Environmental and Social Impact Assessments (ESIAs).

Overall, the AfDB's policies show the Bank recognises the need to include sustainability in its operations, financing, and investments. However, the Bank's performance in the 2022 policy assessment reveals that it needs to improve its climate change policies by setting concrete GHG targets and developing a decarbonisation action plan that includes all credit and investment portfolios. The AfDB must provide more ambitious leadership for African PFIs by ensuring its climate change policies, action plans, and targets align with best practice international standards and the 1.5°C Paris target.

[71] AfDB (2020, July), "African Development Bank set to join landmark \$20 billion Mozambique LNG financing", online: <https://www.afdb.org/en/news-and-events/press-releases/african-development-bank-set-join-landmark-20-billion-mozambique-lng-financing-36929>, viewed in August 2022.

[72] Kaminski, I (2021, December) "UK embarrassed into funding Mozambique gas project, court hears", online: <https://www.theguardian.com/world/2021/dec/08/uk-embarrassed-into-funding-mozambique-gas-project-court-hears#:~:text=The%20African%20Development%20Bank%20is,meet%20its%20own%20climate%20targets>, viewed in August 2022.

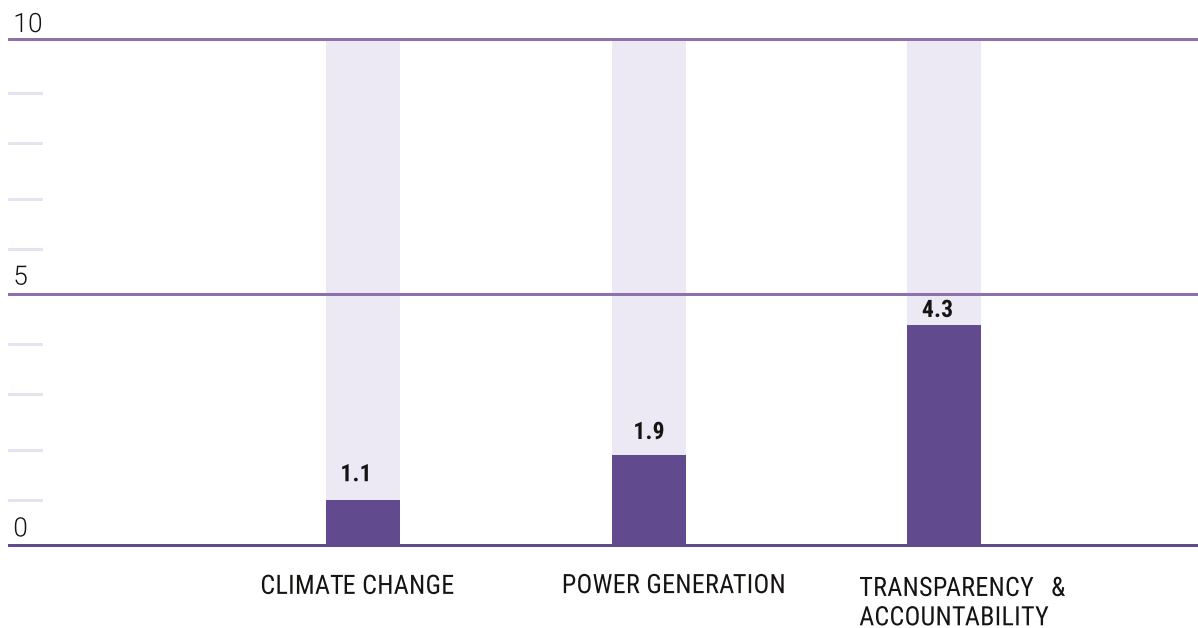
New Development Bank (NDB)

The NDB is a multilateral development bank (MDB) established by the leaders of the BRICS countries: Brazil, Russia, India, China and South Africa. The NDB has the mandate to supplement the efforts of multilateral and regional financial institutions for global development and a mission and vision to support infrastructure and sustainable development efforts in the BRICS countries. The NDB finances projects across various sectors, including energy (and clean energy) and sustainable infrastructure. The NDB's General Strategy for 2022-2026⁷³, entitled "Scaling Up Development Finance for a Sustainable Future", signals the NDB's intentions to be a leading provider of infrastructure and sustainable development solutions for emerging market economies and developing countries.⁷⁴ In line with its latest General Strategy, the NDB's financing for the 2022 - 2026 period will focus on clean energy and energy efficiency, environmental protection, and climate-smart projects.

The NDB received low scores under the climate change and power generation themes, with scores of 1.1 and 1.9, respectively. The Bank's scores received under climate change are due to its Environmental and Social Framework (ESF) and Social Standards as defined in the ESF, which include core standards related to environmental and social is-

ssues, including climate change. The standards consider options to reduce project-related greenhouse gas emissions and, for projects with significant greenhouse gas implications, to quantify direct and indirect emissions in line with national protocols, which require companies to disclose and reduce their direct and indirect greenhouse gas emissions. Further, the NDB has developed a Sustainable Financing Policy Framework, places a strategic emphasis on supporting its member countries' transition towards low-emission and climate-resilient development, and has made climate finance commitments. However, it is unclear how the NDB proactively encourages companies to phase out fossil fuels (for example, through financial incentives). The Bank scored under power generation due to its financing of clean energy projects.

The NDB received an average score of 4.3 for **transparency & accountability**. Points were awarded for the Bank's Environmental and Social Framework, which applies to all its projects. Scores under this theme were also given for the Bank's publication of its investment projects, the names of the governments it invests in, the companies in which it has invested and granted credit, and a sufficiently detailed breakdown of the Bank's portfolio.



[73] NDB (2022), "New Development Bank General Strategy for 2022-2026", online: https://www.ndb.int/wp-content/uploads/2022/07/NDB_StrategyDocument_Eversion-1.pdf, viewed in October 2022.

[74] NDB (2022, May), "NDB Board of governors approved the bank's general strategy for 2022-2026", online: https://www.ndb.int/press_release/ndb-board-of-governors-approved-the-banks-general-strategy-for-2022-2026/, viewed in October 2022.

By the end of 2021, the NDB had committed 5.2 billion USD to climate finance, including for South Africa. However, while the NDB has provided climate finance for the Just Transition in South Africa, two of the BRICS countries (India and China) remain the biggest exporters of South Africa's coal.⁷⁵

The NDB states that it aims to achieve a development impact aligned with the development efforts of its member countries and seeks to become an important player in helping the countries reach the UN's 2030 Sustainable Development Goals and the Paris Agreement.⁷⁶ Apart from the NDB's Sustainable Financing Investment Policy, which sets out its clean energy and sustainable development projects, the 2022 Policy Assessment indicates that the NDB does not have publicly disclosed policies or commitments related to climate change and the reduction of greenhouse gas emissions or the reduction of finance and investment in fossil fuels and coal-fired power generation. The NDB's provision of climate finance is commendable, but at the same time, the Bank needs to ensure that its member countries exit from exporting fossil fuels from the same countries for which the NDB is providing climate finance.

[75] In 2021, China was the third biggest importer of coal from South Africa's Richard's Bay Coal Terminal, with 6.09 million tonnes, and India with more than 24 million tonnes. Source: Reid, H & Banya, N (2022, June) "Europe imports more South African coal as Russian ban looms", online: <https://www.reuters.com/markets/commodities/europe-imports-more-south-african-coal-russian-ban-looms-2022-06-15/>, viewed in October 2022.

[76] NDB (2020, May) "Sustainable Financing Policy Framework governing the issuances of green/social/sustainability debt instruments", pg 5, online: https://www.ndb.int/wp-content/uploads/2020/05/2020_FC22_AI13_018_b-NDB-Sustainable-Financing-Policy-Framework.pdf, viewed in October 2022.



CLIMATE FINANCE IN SOUTH AFRICA AND THE ROLE OF PUBLIC FINANCIAL INSTITUTIONS

At the UN Climate Change Conference (COP26) on 2 November 2021, an announcement was made of a partnership between the South African government and the governments of France, Germany, the United Kingdom (UK) and the United States (US), as well as the European Union (EU), to support a just transition to a low-carbon economy and a climate-resilient society in South Africa.

The announcement committed to mobilising an initial \$8.5 billion over the next three to five years for the just transition. The partnership, the first of its kind, presents a unique opportunity to structure a climate finance deal that is transparent and participatory, ensures accountability, and delivers on real climate justice and the just transition - particularly for those who bear the brunt of South Africa's heavy reliance on coal. Here, the role of public DFIs will be necessary, particularly concerning financing mechanisms for implementing climate finance deals. Through engagements with PFIs and multilateral development banks (MDBs) and the policy assessments, FFCSA has noted a lack of transparency and accountability for project pipelines, approvals, engagement with civil society, and ongoing due diligence. Local PFIs, in particular, should play a vital role in any climate finance deals. For this to happen, there needs to be enhanced due diligence processes and much higher standards of transparency and accountability. PFIs cannot adopt a 'business as usual' approach to their role in climate finance deals.

Moreover, South Africa's Presidential Climate Commission or designated institution must have close oversight of PFIs and MDBs while ensuring regular reporting to the public on the utilization of funds and implementation of projects. Civil society organisations in South Africa⁷⁷, including FFCSA, are closely monitoring this climate finance deal to ensure transparency and participation. They have demanded⁷⁸ that the deal must not include finance for any new fossil fuels, including coal, gas and nuclear.

The initial \$8.5 billion is a start. Still, according to the "Making Climate Capital Work" report, South Africa will need \$250 billion over the next three decades to transition to a new energy system.⁷⁹

While there are talks of coal phase-outs and transitioning to a low-carbon economy, the Russian invasion of Ukraine and the consequent ban on Russian coal imports has led European countries to seek an alternative in the form of purchasing more coal from South Africa. In June 2022, the Blended Finance Task Force reported that European countries (including the Netherlands, Italy, France, Spain, Denmark, Poland, Germany, and Ukraine) had imported more than 40% more coal from South Africa's central export hub in the first five months of this year than over the whole of 2021.⁸⁰ Europe's scramble for coal is one of the reasons that South Africa is still focusing on new coal mining. The concern is that while Europe is providing South Africa with climate finance, they are, at the same time, still purchasing our coal.

[77] Life After Coal (2022, February), "Letter to Head of the Presidential Climate Finance Task Team 17 Feb 2022", online: <https://lifeaftercoal.org.za/virtual-library/letter-to-head-of-the-presidential-climate-finance-task-team-17-feb-2022>, viewed in October 2022. [ah]

[78] Life After Coal (2022, September), "Letter to Head of the Presidential Climate Finance Task Team 2 September 2022", online: <https://lifeaftercoal.org.za/virtual-library/submissions-and-correspondence/letter-to-head-of-the-presidential-climate-finance-task-team-2-september-2022>, viewed in October 2022.

[79] Blended Finance Taskforce (n.d.), "Making climate Capital Work", online: <https://www.blendedfinance.earth/making-climate-capital-work>, viewed in October 2022.

[80] Reid, H & Banya, N (2022, June) "Europe imports more south African coal as Russian ban looms", online: <https://www.reuters.com/markets/commodities/europe-imports-more-south-african-coal-russian-ban-looms-2022-06-15/>, viewed in October 2022.

Table 8: Positive steps taken by PFIs in relation to climate change and power generation

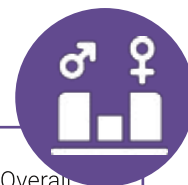
Positive steps taken by the PFIs in relation to climate change and power generation	
DBSA	• Issued a public statement indicating that the DBSA will not support any new fossil fuel investments that are not part of a clear and unambiguous Just Transition plan to a decarbonised future. • Finances renewable energy projects. • Development of DBSA's approved Integrated Just Transition Investment Framework (but not publicly available).
IDC	• IDC's contribution to the Just Energy Transition through the formation of the Energy Strategic Business Unit (SBU) in 2020 to ensure sustainable energy security in South Africa and the rest of the continent.
PIC	• 'Project Climate: Net Zero Action Plan': PIC published an invitation to tender in relation to a request for proposals for the appointment of a service provider to assist the PIC with formulating a net zero action plan. • Finances renewable energy: the PIC has invested about 15 billion ZAR in South Africa's Renewable Energy Independent Power Producer Programme.
ECIC	• 'Trade and Investment Opportunities in Africa: Renewable Energy' report signals ECIC's intention to explore trade and investment opportunities in the renewable energy sector by promoting and supporting South African exporters of capital goods and services.
AfDB	• Public announcement of its intention to get out of coal in September 2019.
NDB	• NDB's provision of climate finance for the Just Transition in South Africa.

On a positive note, the findings show that all six PFIs have illustrated an initial step, intention or contribution to the region's transition to a climate-resilient and sustainable energy future. It should not stop there: the PFI's ought to follow through by adopting meaningful, concrete policies indicating fossil fuels exclusions, measurable targets in relation to the reduction of greenhouse gas emissions, and adequate climate strategies.

OTHER SUSTAINABILITY THEMES ASSESSED

The six PFIs were also assessed in terms of their performance on gender equality, corruption, human rights, nature, and labour rights themes. Although not the report's main focus, this section briefly outlines similarities among the PFIs' performance on each theme, given their link and relevance to the other sustainability themes, particularly climate-related issues.





Women and girls are considered one of the groups most vulnerable to the impacts of the climate crisis. Without interventions, the climate crisis will worsen existing gender inequalities and undermine the health, safety, and livelihoods of women and girls⁸¹. To address these issues, PFIs are responsible for ensuring that gender equality is embedded in their internal operations, investments, and financing.

Apart from the DBSA, who scored 6.6, the remaining PFIs scored poorly on the gender equality theme, receiving less than 5 points. DBSA's gender mainstreaming programme and signature of the UN Women's Empowerment Principles (WEPs) sets it above the other PFIs.

Regarding internal operations and workforce, AfDB, DBSA, and NDB have zero-tolerance policies related to gender discrimination and gender-based violence in the workplace, including harassment. ECIC, IDC, and PIC perform poorly on this theme as they fail to

address these issues in their policies fully. Overall, the six PFIs can improve their performance on gender equality by

1. Establishing internal systems that ensure:

- ✓ Pay equity
- ✓ Equal access for women and men at senior management levels, with at least 40% female representation

2. Ensuring companies they invest in have stringent policies related to:

- ✓ Zero tolerance for gender-based violence and discrimination
- ✓ Equity pay
- ✓ Targeted professional development
- ✓ Access to top management within the companies, their procurement, contractors, and subcontractors



Africa is home to one-fifth of the planet's biodiversity,⁸² and its protection is vital for human wellbeing and climate resilience. At the same time, the climate crisis and biodiversity loss are inextricably linked. With Southern Africa forming part of one of the last frontiers of biodiversity, PFIs are responsible for ensuring their internal policies and the companies and projects they finance prevent further biodiversity loss across their supply chains.

Under the nature theme, the PFIs that perform best include AfDB (8.7), DBSA (8.0), and NDB (5.5.) because their policies on nature are integrated into their social and environmental frameworks. The three PFIs can improve by elaborating on the policy scope - i.e. whether the policy applies to some or all of their financing activities - and alignment with international

standards such as the International Finance Corporation's Performance Standards, the Equator Principles, the OECD Guidelines, and the UN Global Compact. IDC, PIC, and ECIC have little to no policies to protect nature. These institutions urgently need to put clear measures in place that apply to the projects and companies they invest in. At the minimum, policies to protect nature must prevent adverse impacts on:

- High Conservation Value areas (HCV)
- Areas that fall under the categories I-IV of the International Union for Conservation of Nature (IUCN)
- UNESCO World Heritage Sites
- Areas that fall under the Ramsar Convention on Wetlands
- Animal species on the IUCN Red List of Threatened Species

[81] UN Women (2022, February), "Explainer: How gender inequality and climate change are interconnected", online: <https://www.unwomen.org/en/news-stories/explainer/2022/02/explainer-how-gender-inequality-and-climate-change-are-interconnected>, viewed in October 2022.

[82] Sintayehu, D.W. (2018, June) *Impact of climate change on biodiversity and associated key ecosystem services in Africa: a systematic review*, *Ecosystem Health and Sustainability*, 4:9, 225-239

[83] Geuskens, I & Butijn, H (2022, March) "Locked out of a Just Transition: Fossil Fuel Financing in Africa", online: https://www.banktrack.org/download/locked_out_of_a_just_transition_fossil_fuel_financing_in_africa/07_md_banktrack_fossil_fuels_africa_rpt_hr_1.pdf, viewed in October 2022.



HUMAN RIGHTS

Fossil fuel extraction in Southern Africa, and equally across the continent, is often linked to human rights violations⁸³, particularly among individuals and communities most affected by the projects. Based on the United Nations Guiding Principles on Business and Human Rights, PFIs are responsible for ensuring human rights are protected within their operational policies and have policies that require the same commitment from the companies and projects they finance.

Most PFIs perform best on the human rights theme, with scores ranging from 0.7 for IDC to 7.7 for AfDB. AfDB and DBSA received the highest scores in this theme for

- Integrating human rights policies into their social and environmental frameworks
- Having due diligence processes based on human rights criteria to account for adverse impacts linked to business activities
- Remediation processes
- Grievance mechanisms

In contrast, ECIC, IDC, PIC, and NDB need more elaborate human rights policies that apply across their operations, and the companies and projects they finance or invest in. An important area to start would be to include policies that safeguard the rights and guarantee the free, prior, and informed consent (FPIC) of Indigenous peoples and peoples with customary tenure rights. PFIs must also pay specific attention to the wording of their policies. For instance, the AfDB performs well in this theme and includes free, prior, and informed consultation in its policies. Still, a major gap exists in the current wording, given that consultation does not imply consent. In other words, the AfDB can consult with communities affected by its projects without receiving their consent. PFIs need to improve in this area by developing clearer and more elaborate human rights policies, drawing on the International Finance Corporation's Performance Standards, the UN Global Compact, and OECD guidelines.



LABOUR RIGHTS

Like human rights, most PFIs received high scores for labour rights, ranging from 0.3 for IDC to 9.1 for AfDB. Once again, AfDB and DBSA obtain high scores for integrating labour rights into their environmental and social frameworks and aligning their internal operations and financial portfolios with the ILO Declaration on Fundamental Principles and Rights at Work. Some of these include freedom of association, recognition of the right to collective bargaining, elimination of all forms of forced or compulsory labour, and more. Scoring below 3 points, IDC, NDB, PIC, and ECIC need to do more to ensure the companies and projects they finance have labour rights policies integrated into their business operations and across the value chain.



[84] Centre for Environmental Rights, (2020), "Financing Fairly: Assessing the Sustainability of Investment Policies for Development Finance Institutions in South Africa", online: <https://cer.org.za/wp-content/uploads/2020/05/Financing-Fairly-Report-and-Assessment-2020.pdf>, viewed in 2022



Apart from AfDB, who received 7 points, the remaining PFIs scored 5 points or less for the corruption theme. The six PFIs have policies to prevent corruption, such as bribes, from occurring in their internal operations and lending activities. However, in terms of their internal operations, none of the PFIs have internal policies explicitly detailing how to report on their participation in decision-making processes or compliance with international norms and legislation. Apart from the AfDB, additional gaps exist in the other PFIs' policies, or lack thereof, regarding the companies and projects they finance and invest in. One example, among others, is that the PFIs do not request companies to include anti-corruption criteria in their procurement or operational policies. As pointed out in the 2020 pilot study⁸⁴, PFIs cannot justify poorer scores in themes such as corruption, because the criteria under this theme are not influenced by political considerations or a developmental agenda. Instead, there are actions PFIs can adopt, directly within their control and their clients, to improve their performance related to corruption.



6. RECOMMENDATIONS

Based on the findings of the 2022 Policy Assessment and the work of the Fair Finance Coalition Southern Africa, the six PFIs are recommended to:

1. **Establish a fossil fuel finance exclusion plan or policy** with clear timelines and targets for an equitable phasing out of finance for and investment in fossil fuels. The plan should explicitly cover the phasing out of financing for and investment into coal-fired power generation, thermal coal mining, fossil-fired power generation, and oil and gas extraction, with an immediate halt to financing new fossil fuel projects.
2. **Align their policies with the 1.5°C Paris Agreement target by establishing and disclosing measurable targets to reduce greenhouse gas emissions** in their internal operations, finance, and investment portfolios. And make meaningful commitments to meeting those targets by providing regular public updates on the progress and status towards achieving them.
3. **Improve the level of disclosure and sustainability of their policies across the eight themes of this Policy Assessment.** PFIs need to pay special attention to improving their performance on international standards and best practice on climate change, power generation, and transparency & accountability.
4. **Use the Fair Finance Guide Methodology for policy guidance on the latest international standards and expectations of better sustainability practices.** These include the International Finance Corporation Performance Standards, the Equator Principles, the UN Global Compact, and the OECD Guidelines for Multinational Enterprises.
5. **Disclose the scope and content of their existing and future policies.** Sustainability policies should apply to the PFIs internal operations as well as its credit and investment portfolios. Indicators of good policies include establishing objectives, targets, timelines, and metrics for accountability.
6. **Engage and consult with the Fair Finance Coalition Southern Africa (FFCSA) in order to understand the expectations of civil society organisations regarding the social and environmental responsibilities of PFIs.** PFIs should also engage with FFCSA to receive training to improve its policies in line with the FFG Methodology and to establish meaningful relationships with civil society organisations and project-affected communities.

7. CONCLUSION

Just last month, the State of Climate Action 2022 report⁸⁵ was released, warning that the window to limit warming to 1.5°C is rapidly closing and that urgent action is required from governments, corporates, civil society, and financial institutions. The report acknowledges the concern that the global financial system is a major underwriter of greenhouse gas emissions and carbon lock-in, with many of the world's leading financial institutions still financing and investing in fossil fuels. It also acknowledges that developing regions, such as Southern Africa, are being hit particularly hard by the ongoing impacts of climate change. The target indicated in the report for the phasing out of public financing for fossil fuels is 2030, with G7 countries and international financial institutions achieving this by 2025. The report notes that global public financing for fossil fuels has fallen by an average of 15 billion USD per year between 2016 and 2020 but needs to fall by an average of 69 billion USD between 2020 and 2030 to meet the 2030 phaseout target date. "Progress toward phasing out public financing of fossil fuels globally by 2030 is therefore well off track", warns the State of Climate Action 2022 report.

This second iteration of the Financing Fairly report shows that PFIs operating in Southern Africa indeed still have much work to do to ensure transparent public finance that helps to address the climate crisis. PFIs have specific development mandates. To truly fulfil these, they need to consider the total impact of their financing and investments. Having concrete and transparent policies is the first step to ensuring that the operations of PFIs meet socially and environmentally responsible criteria to fully support and sustainably develop the regions in which they operate.

Of the six PFIs assessed, only two, the AfDB and DBSA, scored higher than 5 out of 10 across the Policy Assessment. For policies on climate change, the result is worse, with 2.2 being the highest score achieved. Two of the three South African state-owned PFIs (DBSA, IDC and PIC) finance and invest

in renewable energy but have yet to commit to divesting from fossil fuels. None of the PFIs assessed have disclosed measurable targets for reducing direct and indirect greenhouse gas emissions aligned with keeping the global temperature increase to a maximum of 1.5°C. At this stage, three of the PFIs (DBSA, PIC, and AfDB) have indicated an intention to do so, but have no concrete policies backing up these intentions.

For policies on power generation, the result is mixed: with two PFIs (AfDB and DBSA) receiving average scores of 5.5 and 5.2 respectively, and the remaining four PFIs all scoring under 2. The results under this theme are slightly better than under climate change due to the PFIs' financing of renewable energy projects. Still, the PFIs can improve on this theme by committing to no longer finance any fossil fuel-powered generation.

In the other key theme of transparency & accountability, performance was marginally better than on the theme of climate change. However, with the highest score of 4 out of 10, there is a long way to go before civil society and citizens of the countries in which these PFIs operate can feel confident that the work of these institutions is transparent and ultimately accountable to them, the public.

Fortunately, in the other assessed themes (Corruption, Gender Equality, Human Rights, Labour Rights, and Nature), the PFIs scored slightly better. However, even here, there is still much room for improvement.

The impacts of climate change are already affecting people's lives and livelihoods across the African continent, and the particularly vulnerable Southern Africa region. These impacts will affect the decisions PFIs must make when financing and investing for development. The FFCSA calls on PFIs to engage with these policy assessments and with the Coalition. The urgency and need to improve performance in these assessments is crucial for building trust in our PFIs and ensuring that strong policies are guiding finance and investment decisions that are transparent and in the interest of climate justice and a sustainable future for Southern Africa.

85. Boehm, S., L. Jeffery, K. Levin, J. Hecke, C. Schumer, C. Fyson, A. Majid, J. Jaeger, A. Nilsson, S. Naimoli, J. Thwaites, E. Cassidy, K. Lebling, M. Sims, R. Waite, R. Wilson, S. Castellanos, N. Singh, A. Lee, and A. Geiges. 2022. State of Climate Action 2022. Available online: https://climateactiontracker.org/documents/1083/2022-10-26_StateOfClimateAction2022.pdf.

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