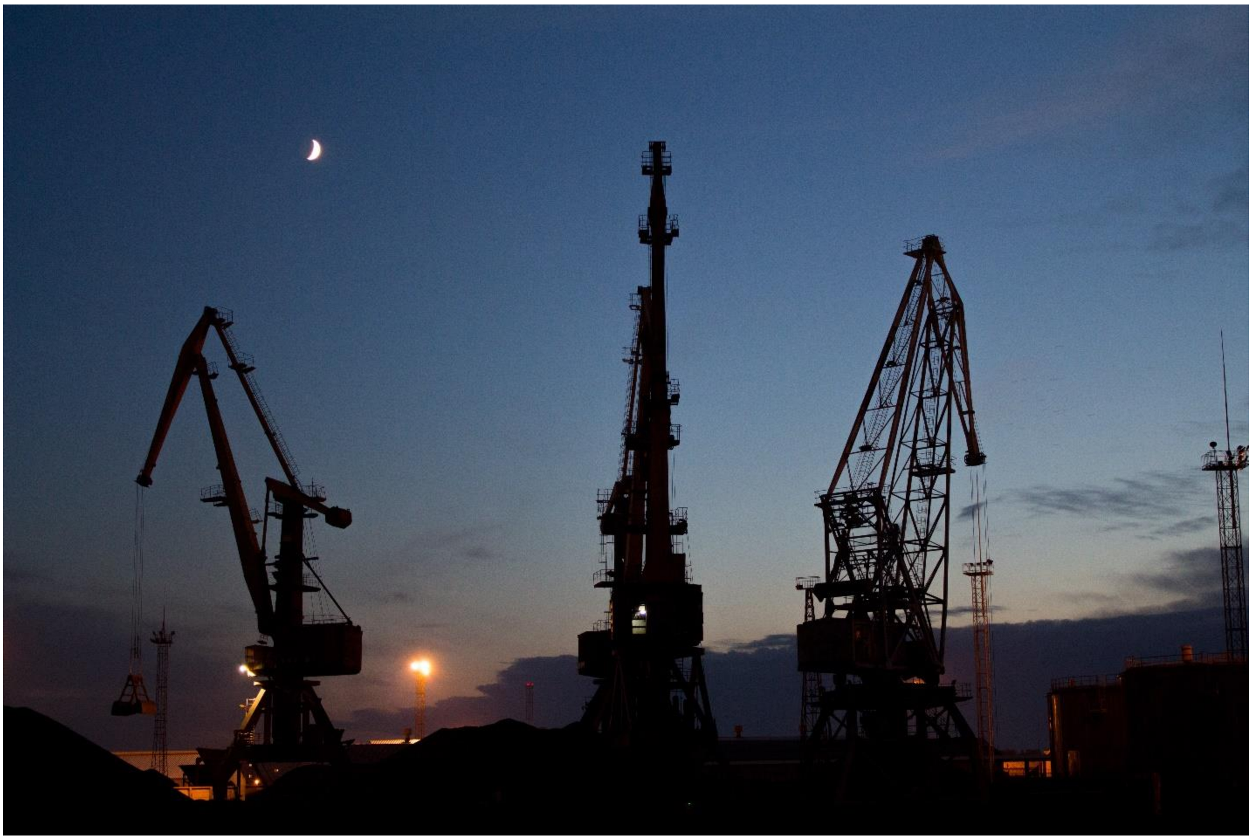
# Applying the Fair Finance Guide Methodology to DFIs

## Baseline assessment of investment and finance policies of selected Development Finance Institutions

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## About this report

This report has been commissioned by Fair Finance International. It presents the findings of a pilot policy assessment of six development finance institutions based on the Fair Finance Guide Methodology.

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## Authorship

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## Disclaimer

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## Abbreviations

| Abbreviation | Explanation |
| --- | --- |
| **ADB** | Asian Development Bank |
| **ADF** | African Development Fund |
| **AfDB** | African Development Bank |
| **BRICS** | Brazil, India, China and South Africa |
| **DBSA** | Development Bank of Southern Africa |
| **CITES** | Convention on International Trade in Endangered Species of Wild Fauna and Flora |
| **CSO** | Civil Society Organization |
| **DEG** | Deutsche Investitions- und Entwicklungsgesellschaft |
| **DFI** | Development Finance Institution |
| **DRC** | Democratic Republic of Congo |
| **EIA** | Environmental Impact Assessment |
| **EIB** | European Investment Bank |
| **EIF** | European Investment Fund |
| **ESG** | Environmental, Social and Governance |
| **ESIA** | Environmental and Social Impact Assessment |
| **ESMS** | Environmental and Social Management System |
| **ESS** | Environmental and Social Standards |
| **ESSS** | Environmental and Social Safeguard Standards |
| **FFG** | Fair Finance Guide |
| **FFI** | Fair Finance International |
| **FMO** | De Nederlandse Financierings-maatschappij voor Ontwikkelingslanden (Dutch Development Bank) |
| **IDC** | Industrial Development Corporation |
| **IFC** | International Finance Corporation |
| **ILO** | International Labour Organisation |
| **IRP** | Integrated Resources Plan |
| **ISS** | Integrated Safeguards System |
| **KYC** | Know Your Customer |
| **NCJ** | Non-Cooperative Jurisdictions |
| **NDB** | New Development Bank (BRICS Development Bank) |
| **NDC** | Nationally Determined Contribution |
| **NDP** | National Development Plan |
| **NTF** | Nigeria Trust Fund |

| Abbreviation | Explanation |
|---|---|
| **OECD** | Organisation for Economic Cooperation and Development |
| **PFMA** | Public Finance Management Act |
| **PPGs** | Public Policy Goals |
| **RMCs** | Regional Member Countries |
| **SDGs** | Sustainable Development Goals |
| **SME** | Small and Medium-sized Enterprise |

## Introduction

Already for decades, many civil society organizations (CSOs) across the world have conducted systematic and long-term advocacy on Development Finance Institutions (DFIs) such as the World Bank Group, the Asian Development Bank (ADB) or the European Investment Bank (EIB), to let them live up to their promise to contributing to concrete positive economic, environmental and social impacts. Various studies have shown that the way in which DFIs conduct their business does not always result in the promised outcomes.[1] This is also visible in the many complaints filed with complaint mechanisms that tell the human cost of DFI lending, both directly and indirectly through financial intermediaries.

Targeted advocacy action that illuminates the impacts of DFI financing in relation to human rights, environment and climate change is still needed very much. A structural analysis of their investment and finance policies, like Fair Finance International (FFI)[i] is already doing for commercial banks, insurance companies and pension funds, may be an interesting additional source of information for advocacy work. When doing so, attention should be paid to the special status of these institutions, their immunity and the institutional and organizational context and incentives that channel financial flows under the development mandate umbrella, as well as the connections and relationships between DFIs and commercial banks. With this in mind, FFI decided to research the benefits of using the Fair Finance Guide Methodology to conduct a policy assessment for the work of CSOs regarding DFIs.

This report presents the findings of a pilot study on assessing the policies of a sample of six DFIs' finance and investment policies on nine selected themes included in the Fair Finance Guide Methodology 2018:

- Climate change
- Corruption
- Gender equality
- Health
- Human rights
- Nature
- Financial sector
- Power generation
- Transparency and Accountability

For each theme, the DFI's policy is assessed against several assessment elements, based on internationals standards and initiatives regarding responsible business conduct. This results in a score with a maximum of 10, based on both the content (does it cover the principle?) and scope (does it cover all financial activities?) of the policy. Scores are only given for publicly available documents (investment and finance policies, annual reports, websites, codes of conduct etc.).

The research was carried out between August 2019 and March 2020. All the DFIs assessed have been contacted to provide feedback on the evaluation of their policies. Where feedback has been received, it has been incorporated in this evaluation. For more information on the FFG

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[i] Fair Finance International (FFI) is an international civil society network of 50 CSOs, initiated by Oxfam, that seeks to strengthen the commitment of banks and other financial institutions to social, environmental and human rights standards. FFI is organised in 10 country coalitions active all over the world. These coalitions use a common methodology, the Fair Finance Guide Methodology, to assess investment policies & practices. For more information: fairfinanceguide.org

Methodology please consult the website: www.fairfinanceguide.org.

This report discusses the special roles and mandates of DFIs in Chapter 1. Chapter 2 then provides a brief summary of the nine themes in the FFG Methodology which are used to assess the policies of the DFIs. The results of the assessments are discussed per DFI in Chapter 3, and the results per theme are analysed in Chapter 4. In Chapter 5 some conclusions are drawn.

While policy assessment is a useful tool to hold financial institutions accountable, identify areas of improvement and establish points of comparison between banks, FFI is aware that reality can differ from written commitments. Hence, it is always important for FFI to complete the policy assessment with case studies in order to capture more broadly the sustainability behavior of financial institutions and bring to light potential non-compliance of banks with their corporate social responsibility policies.

# Chapter 1 The special case of Development Finance Institutions

## 1.1 What are Development Finance Institutions (DFIs)?

Development Finance Institutions (DFIs) are unique bank institutions because they are often majority-owned by governments, are financed by public funds and act under a specific political mandate to finance development in certain regions or countries. However, DFIs can also differ significantly in relation to a range of characteristics, which are important for assessing DFIs, These characteristics include:

- the capital structure (integral or partially controlled by the government);
- the funding (fiscal and parafiscal, fundraising with clients or in the market, return of assets);
- the variety of sectors supported; the clients' size (there are institutions that only work with micro and small enterprises, whereas others work with differentiated sizes);
- the loan models (direct and/or indirect operations);
- the credit conditions;
- regulation and monitoring (special regime or monetary authority);
- corporate governance (independent or controlled by the state);
- several instruments of credit support: financing offer, guarantees, insurance, reinsurance, shareholding, interest equalization, non-reimbursable funds, and support for reparation of projects, among others.[2]

For this reason, this report sets out by providing a profile for each DFI in the sample before discussing the results of the assessment of their policies against the FFG Methodology.

A common feature of development banks in general, and in particular in the present sample, is that they are government(s)-owned and have the political mandate or public policy to offer financial support to the private and public sector regarding strategic long-term investments. While the integration of economic, social and environmental dimensions of development has become increasingly significant over the last decades, the underlying political rationale sets the agenda. Development Finance Institutions play a significant role for the economic and social development of the countries and regions in which they operate.

Furthermore, DFIs serve to fill the financing gap for companies and projects that are unable to attract funding or financing on the financial market. DFIs often have the objective to 'crowd in' private investors in development projects to catalyse subsequent private investments. They can play an essential role in the achievement of the 17 Sustainable Development Goals adopted by all United Nations Member States in 2015. DFIs can be either bilateral, i.e. serving to implement their government's foreign development and cooperation policy, or multilateral, i.e. acting as private sector arms of International Finance Institutions established by more than one country."[3]

DFIs have been instrumental in the creation of international standards or guidelines regarding sustainability impacts, such as the Equator Principles, which is based on the investment policies of the IFC, the private sector arm of the World Bank.[4]

Next to direct financing of governments and business, indirect investments and financing by DFIs has been increasing for several years. The DFI then finances financial intermediaries, such as banks and private equity fund managers, which invest these funds in different companies.[5] According to Oxfam International, direct lending is more transparent than investments through financial intermediaries, which often disregard ESG policies and are less transparent.[6] This trend of increasing indirect financing has thus resulted in lower accountability and transparency regarding the due diligence of some DFIs, in several cases associating DFIs with serious human rights violations.[7]

According to research by Eurodad, by 2012 commercial banks were by far the largest recipients of DFI funds amongst financial intermediaries, although private equity funds were also rapidly gaining in popularity. DFIs often justify the shift in focus to the finance sector due to their willingness to scale up funding for small businesses.[8]

DFIs such as the IFC have claimed that their responsibility for what is done with their funds is limited to private equity investments, stating that investments in financial institutions as intermediaries limit their responsibility, as it does not extend to the companies or projects a financial intermediary chooses to finance. Furthermore, the IFC has pointed to confidentiality laws that, in their view, prevent commercial banks from disclosing clients and projects they fund. According to civil society organisations, this has not only led to reduced transparency and accountability, but also to the financing of companies and projects that clearly violate the social and environmental policies of the DFIs.[9] They argue that the IFC itself, as well as other DFIs, have shown that clients can be disclosed when the financial institution announces in advance that this disclosure is a precondition for financing.[10]

## 1.2 Risk management

DFIs often consider environmental and social factors in their risk management. AfDB defines operational risk as "losses due to process, system or human failures, unexpected events or unenforceability of contracts. This class of risks has unlimited downside and can expose an institution to serious financial and reputational losses, as evidenced in recent well-publicized large corporate failures around the world."[11]

Most financing by DFIs is directly to governments and government-funded projects. Another part goes directly to the private sector in developing countries. For such direct forms of financing, DFIs have developed policy frameworks which set out in detail their responsibilities regarding environmental, social and governance (ESG) risks.

The way such frameworks are structured often follows these levels: First, DFIs define a few sectors or certain business activities that they do not finance and publish these in an exclusion list. Second, DFIs outline frameworks for environmental and social assessments and classify projects in different risk categories, leading to specific due diligence depending on the level of risk and governance structure, or to restrictions or special conditions for financing. Adhering to the framework is a prerequisite for potential DFI's borrowers/clients and DFIs are in charge to monitor compliance with that framework throughout the duration of all projects financed. DFIs and particularly Multilateral Development Banks have been pioneers in developing detailed environmental and social risk framework, including the categorisation of projects commensurate with the magnitude of potential environmental and social risks and impacts.

These practices were later adopted by commercial banks with the launch in June 2003 of the Equator Principles, a risk management framework based on the standards of the International Finance Corporation (the private sector arm of the World Bank), aiming at determining, assessing and managing environmental and social risk in projects. Third, DFIs sometimes also specify a separate category for on-lending to the financial sector. However, the degree of control or conditions set for financial intermediaries differs across DFIs.

## 1.3 Political mandate

DFIs are established by one or more governments. The nature of their mandate, overall goal, the target sectors as well as the geographical scope of their activities are enshrined in their founding statute. For instance, the purpose of the African Development Bank (AfDB Group) is to "contribute to the sustainable economic development and social progress of its regional members individually and jointly."[12]

However, the political mandate as well as the fact that DFIs are often owned by governments limit their freedom in terms of their own agenda-setting and decision-making as they have to follow prescribed policies and laws. This becomes very clear in the case of the European Investment Bank (EIB) and nuclear power generation: "EU energy policy acknowledges the right of individual Member States to determine their energy mix and to use nuclear energy as part of their strategy to reduce $CO_2$ emissions and to enhance energy security. In this context, the Bank adopts a technology neutral approach towards nuclear energy in line with the EU energy policy. [⋯] The main piece of legislation framing the EU nuclear sector is the Euratom Treaty. Through the Treaty, the Commission furthers the nuclear safety and security framework, helping to set a level playing field for investments in Member States willing to keep the nuclear option in their energy mix, [⋯] The EIB supports the fight against climate change, aligning its activities with EU climate change policy."

The political mandate is also visible with respect to the reliance on fossil fuels, which still plays an important economic role in Africa. An example it the AfDB announcement in September 2019 that it plans to ''scrap coal power stations across the continent'' and commits to ''getting out of coal'' to switch to renewable energy. But at the same the AfDB explains that it continues to finance the oil and gas sector to support infrastructure projects, in particular in the transport sector.

IDC even mentions tar sands as an export opportunity for the Democratic Republic of Congo (DRC)[13], while responsible investors often exclude tar sands from their investment portfolio due to the severe detrimental environmental impacts. In how far IDC is following South African policies here, is not clear.

When looking at the assessments of DFI policies made in this report, it is of paramount importance to do this in light of the DFIs' particular mandates. The six DFIs assessed which include both bilateral and multilateral institutions operate under different political mandates and in different geographical areas. Consequently, while comparisons between DFIs will be made when deemed relevant, the first objective of that study is to assess to what extent the policies disclosed by these institutions comply with international recognised standards when it comes to environmental, sustainability and human rights issues.

## Chapter 2 Sustainability themes assessed

In this pilot study the policies of a sample of six DFIs were assessed on nine selected themes included in the FFG Methodology 2018:

- Climate change
- Corruption
- Gender equality
- Health
- Human rights
- Nature
- Financial sector
- Power generation
- Transparency and Accountability

Since the DFI policies were assessed in this project, the 2020 version of the FFG Methodology has been released. Overall, the new version is still comparable with the 2018 version, but in some aspects it has become more stringent.[14]

The following paragraphs provide a brief summary of what the FFG Methodology evaluates for each theme.

### 2.1 Climate change

For financial institutions, the challenge is to deal with climate change risks in a proactive way, by measuring and reporting the carbon footprint of their financial portfolios and presenting strategies to make their portfolio's consistent with the internationally agreed 2°C limit of temperature increase. This also requires having a strategy for the transition to a low-carbon economy, including the switch from using fossil fuel to renewable energy sources. Besides encouraging companies in which they invest to measure, disclose and reduce emissions, financial institutions should also phase-out investment in and finance of activities with unacceptably high greenhouse gas emissions.

Therefore, the FFG Methodology pays special attention to the characteristics of the commitments made by financial institutions in their so-called divestment policies. Furthermore, an investment and finance policy regarding climate change should include criteria for compensation, adaptation and lobbying against governmental climate change regulation.[15]

### 2.2 Corruption

Corruption has significant negative consequences on the political, social and environmental fields. On the political field, corruption forms a large obstacle when developing the rule of law. Government representatives lose their legitimacy when many abuse their office for personal gain. It also undermines the faith of the people in the political system, which leads to frustration and apathy. It clears the way for leaders, whether chosen democratically or not, to appropriate national assets for themselves without supervision. And if corruption is the norm, honest and capable civilians will leave the country.[16]

One can expect from responsibly operating financial institutions that they do not deliberately assist clients in money-laundering and paying or receiving bribes, and that they do not accept or pay bribes themselves. Moreover, financial institutions have the responsibility to only grant financial services to companies that do not engage in corruption and negatively influencing the development of international norms. [17]

## 2.3 Gender equality

Gender refers to socially constructed identities, attributes and roles for women and men.[18] In short, gender determines what is expected, allowed and valued in a woman or a man in a given context. Gender equality refers to the equal rights, responsibilities and opportunities of women and men.[19] Equality between women and men requires that women's and men's rights, responsibilities and opportunities do not depend on whether they are born male or female.

While gender inequalities also affect men and transgender individuals and can be applied at the level of sexual orientation (lesbian, gay, bisexual), this theme focuses on women. Women's constructed identities, attributes and role in society have traditionally led to a gender imbalance of power between men and women. The policies of financial institutions, both as a direct employer and as an influencer in other parts of the value chain, can have a great impact on achieving gender equality.[20]

## 2.4 Health

Good health is of great value, for individuals as well as for the economy. Globally, health care costs are rapidly increasing and for a lot of developing countries these costs are hard to bear. Furthermore, illness or disability decreases labour productivity and also limits the abilities of individuals to contribute to the society in which they live. For this reason, it is of great social and economic importance that companies put health on the agenda and financial institutions should take various health concerns - ranging from health and safety at work, over dealing with toxic substances, chemicals and chemical waste, to access to medicine, antimicrobial resistance and passive smoking - into account when developing policies on health.[21]

## 2.5 Human rights

Human rights are rights and freedoms inherent to all human beings, whatever their nationality, place of residence, sex, national or ethnic origin, colour, religion, language, or any other status.[22] The rights and freedoms that are generally considered as human rights comprise of civil and political rights – such as the right to life, freedom of expression and equality before the law – and economic, social and cultural rights – such as the right to an adequate standard of living, the right to food, work and education. Human rights also include collective rights, such as the rights to development and self-determination. Globalisation presents new and complex challenges for the protection of human rights. Economic players, especially multinational companies that operate across national borders, have gained unprecedented power and influence across the world. Companies have an enormous impact on people's lives and the communities in which they operate. DFIs have the responsibility to respect human rights and to promote and ensure this respect among the companies and projects they finance. [23]

## 2.6 Nature

The biological diversity of planet earth - its ecosystem diversity, species diversity and genetic diversity - forms a complex web of life that is of great importance to the economic and social development of our society, for our culture and for our leisure facilities. The accelerating decline of the global biodiversity (nature) is one of the most urgent environmental concerns. The loss of biodiversity imposes huge potential costs and risks, such as the destruction of habitats, the loss of the functions of ecosystems, the threat of food supply and the loss of medicinal plants.[24] The care for the natural riches of the world is a moral and ethical responsibility for all mankind.

The investment policy of financial institutions should ensure that financial institutions are only involved in investments in companies and governments that aim to prevent further loss to natural riches and also put this principle into systematic practice. [25]

## 2.7 Financial sector

In an increasingly globalised world, financial institutions play a crucial role in the global division of financial means. Most governments and companies depend on financial institutions to invest and to provide products and services. The investments of financial institutions take place in a global marketplace where their monies can be deployed in all industries and on all continents in virtually any social activity, including financial institutions that only have offices in their own country. This ubiquity creates opportunities and risks. Because their monies are deployed in all corners of the world, financial institutions are in a unique position to play a role in the social changes that are necessary to enable a sustainable and socially just future. They can invest in or finance new products and production processes with which energy is saved and sustainable energy provision is encouraged, with which income and development opportunities are offered in developing countries or with which millions of people can get access to health care.

Financial institutions should also set conditions to the loans they supply to other financial institutions including public banks, commercial banks, insurance, reinsurance, leasing companies, microfinance providers, private equity funds and investment funds. This is particularly relevant for DFIs which often use financial intermediaries to direct capital to companies, SMEs and projects under the form of Financial Intermediary loans, lines of credit, guarantee or equity investment. The investment policy of DFIs should ensure that financial institutions only lend money to other financial institutions that also take their social responsibilities seriously. [26]

## 2.8 Power generation

Power generation is essential to meet society's demands for energy and is central to efforts to achieve sustainable development and poverty reduction. There are many pressures on energy suppliers to generate power in a manner that offers security of supply, is affordable for consumers, and which has a minimal level of negative environmental impacts. A crucial concern regarding power generation is its impact on climate change. Electricity and heat production is the largest source of anthropogenic (man-made) greenhouse gas emissions globally, accounting for roughly 25% of all global emissions.[27] Research has indicated that up to eighty per cent of the world's coal reserves, thirty per cent of known oil reserves and fifty per cent of gas reserves are not burnable if the world is to stay below the goal of a maximum of 2°C of climate warming, which does not even address the goal of limiting warming to 1.5°C.[28]

In general, power generation using renewable energy, including wind power, solar power, geothermal power, smaller scale hydroelectric power as well as tidal marine power, are responsible for much lower emissions of greenhouse gasses than fossil fuels (although due to the emissions from the construction, maintenance and decommissioning of technologies like solar panels and wind farms, these technologies are not completely free of harmful emissions). It is generally agreed by The International Energy Agency and climate scientists that a substantial increase in investments in renewable energy is needed, alongside investment in energy efficiency, to decarbonize the energy sector and meet emissions reduction targets.[29] However, financial institutions financing power generation from renewable energy must also be mindful of its potential impacts, in terms of factors such as impacts on land use, wildlife and local communities.[30]

## 2.9 Transparency and Accountability

Each individual has the right to know what consequences business activities can have for his or her life and which risks he or she is exposed to in these activities. People whose lives are influenced by economic activities are unable to defend their legitimate interests if they are not fully informed on the social, economic and environmental advantages, as well as the costs and risks connected to that activity. Also, they have to be informed on the possible alternatives for the proposed activity. In order to properly defend their social, cultural and environmental interests, civil society organisations should have access to all relevant information.

All businesses should be accountable for their impacts on the society and the environmental, taking into consideration all the stakeholders involved in their value chain including employees, clients, public authorities, civil society organisations and local communities. This duty of transparency is all the more essential for DFIs whose core mandate is to promote sustainable economic development. As stated in the UN Guiding Principles on Business and Human Rights, when businesses caused or contributed to environmental and social adverse impacts, including violation of human rights they are responsible to provide adequate remedy. This implies to participate or set up grievance mechanisms for individuals and communities who may be adversely impacted[31].

As capital providers, financial institutions play an important role in virtually all economic industries. And for the social and environmental consequences of all these economic activities they as investors and financiers carry a certain responsibility. To this effect, financial institutions not only have to inform the public of their own activities, but they also should be transparent about the companies, projects and governments in which they invest. For financial institutions, transparency also provides a significant advantage in that they are able to timely recognise and solve the public concerns on activities in which they want to invest before actual conflicts arise.[32]

## Chapter 3 Assessment of DFI policies against the FFG Methodology

This chapter presents and discusses the results of the six DFIs assessed on nine themes from the FFG Methodology. While first providing a high-level overview of the total scores and general findings, the analysis subsequently focuses on the results per bank and their policy documents.

### 3.1 Overview of the results

Table 1 provides an overview of the scores of the DFIs for the nine assessed themes, as well as the averages per theme and per DFI.

**Table 1 Scores per theme of DFIs assessed in pilot study**

| Themes | AfDB | DBSA | EIB | FMO | IDC | NDB | Average per theme |
|---|---|---|---|---|---|---|---|
| Climate change | 2.1 | 1.3 | 7.9 | 4.0 | 0.0 | 0.8 | 2.7 |
| Corruption | 7.1 | 3.3 | 8.3 | 7.5 | 3.3 | 3.3 | 5.5 |
| Gender equality | 3.2 | 3.0 | 6.4 | 2.5 | 1.3 | 1.3 | 3.0 |
| Health | 7.5 | 3.4 | 8.0 | 5.6 | 0.0 | 4.7 | 4.9 |
| Human rights | 7.7 | 4.0 | 7.7 | 6.2 | 0.0 | 2.3 | 4.6 |
| Nature | 8.0 | 5.6 | 8.7 | 5.3 | 0.0 | 5.0 | 5.4 |
| Financial sector | 2.0 | 0.5 | 1.8 | 1.4 | 0.0 | 0.0 | 1.0 |
| Power generation | 6.8 | 4.4 | 6.7 | 4.2 | 0.5 | 2.4 | 4.2 |
| Transparency and Accountability | 6.1 | 3.6 | 8.8 | 6.1 | 1.8 | 1.6 | 4.7 |
| **Average per DFI** | **5.6** | **3.6** | **7.1** | **4.8** | **0.8** | **2.4** | **4.0** |

Table 1 shows that there is significant variation in the scores of the DFIs evaluated. EIB tops the ranking with an average score of 7.1 out of 10, while the lowest score, 0.8 out of 10 is observed for IDC. The scores yield the following ranking from top to lowest scores:

1. EIB
2. AfDB
3. FMO
4. DBSA
5. NDB
6. IDC

The variation in scores can be explained first by the differences in levels of disclosure on the sustainability themes evaluated. IDC, which reaches the lowest score, does not publicly disclose the majority of its policies, including its environmental and social risk management framework, while EIB, AfDB, FMO and DBSA disclose in a detailed way the environmental and social standards applied in their operations.

The quality of the policies and their alignment with international recognised standards is the second differentiating factor between the DFIs. For instance, FMO achieved a score of 6.2 on Human Right as it makes clear reference to the UN Guiding Principles on Business and Human Rights and applies the IFC Performance Standards in its operations.

Finally the different business models, the nature of DFIs' mandates and geographical scopes of operations are important variables to take into consideration in the interpretations of the findings of this study. In order to account for the specificities of the DFIs, the banks are portrayed in the next sections in line with the following important characteristics:

- Ownership or dependency
- Political mandate or public policy
- Mission and vision
- Organizational structure
- Geographic footprint
- Sources of capital
- Targeted client segment

The following sections present the scores of the DFIs per theme and highlight the highest and lowest scores compared to their peers. Furthermore, the results also discuss the availability of policy documents and the scope of disclosure.

## 3.2 AfDB

The African Development Bank Group (AfDB) is a regional multilateral development finance institution established to contribute to the economic development of the African continent. The following sheds some light on the specificities of the AfDB:

- **Ownership or dependency**

  AfDB is owned to 60% by the 54 African countries, while the remainder is owned by 26 non-African countries who became owners as demand for investments from African countries grew and the bank's financial resources were limited.[33]

- **Political mandate or public policy**

  AfDB's overarching objective is to "spur sustainable economic development and social progress in its regional member countries (RMCs), thus contributing to poverty reduction."

- **Mission and vision**

  AfDB states its commitment to the Sustainable Development Goals (SDGs).[34] The bank's high 5 priority areas as specified in its Ten Year Strategy 2013–2022 are: Light Up and Power Africa, Feed Africa, Industrialize Africa, Integrate Africa, and Improve the Quality of Life.

- **Organizational structure**

  The AfDB comprises three entities: the African Development Bank (ADB), the African Development Fund (ADF) and the Nigeria Trust Fund (NTF), which have different target beneficiaries among the regional member countries (RMCs).

- **Geographic footprint**

  The AFDB finances the economic development of the African continent and its 54 African regional member countries (RMC). AfDB is headquartered in the Ivory Coast.

- **Sources of capital**

  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.

- **Targeted client segment**

  AfDB provides finance to African governments and private companies investing in the regional member countries (RMC). AfDB also provides policy advice and technical assistance to support development efforts.

  As of 31 December 2018, the Bank Group's active portfolio was led by transport (25 percent), power (22 percent), finance (19 percent), agriculture (10 percent), and water and sanitation (9 percent)[35]. In addition, the AfDB Group has widened the scope of its activities to cover new initiatives such as water, sanitation and health (HIV/AIDS), as well as initiatives on debt reduction of highly indebted poor countries.[36]

In the FFG policy assessment of six DFIs in this study, AfDB achieves the second place with an average score of 5.6. Table 2 provides an overview of the results of AfDB in the FFG policy assessment.

**Table 2 Results AfDB in FFG policy assessment**

| Themes | Total |
|---|---|
| Climate change | 2.1 |
| Corruption | 7.1 |
| Gender equality | 3.2 |
| Health | 7.5 |
| Human rights | 7.7 |
| Nature | 8.0 |
| Financial sector | 2.0 |
| Power generation | 6.8 |
| Transparency and Accountability | 6.1 |
| **Average** | **5.6** |

The expectations towards clients are laid down in AfDB's *Integrated Safeguards System (ISS) Policy statement and operational safeguards,* from 2013, and the additional *ISS Guidance on Safeguard Issues* (2015). Operational safeguard 1 – Environmental and social assessment describes how projects are screened, investment decisions are made, and agreements with clients are monitored. It determines which operations are likely to cause significant environmental and social impacts (Category 1), operations that are likely to cause such impacts but less averse than those of category 1 (Category 2) or operations with negligible adverse impacts (Category 3). Then Category 4 operations involves lending to financial intermediaries, who are expected to apply AfDB's operational safeguards to its own Category 1 and 2 sub-projects as if they were directly financed by AfDB. The subsequent operational safeguards 2-5 describe the expectations from clients supported by AfDB regarding:

- Involuntary resettlement: land acquisition, population displacement and compensation
- Biodiversity, renewable resources and ecosystem services
- Pollution prevention and control, hazardous materials and resource efficiency
- Labour conditions, health and safety

As can be derived from this list, the ISS cover a range of topics dealt with in the FFG Methodology. However, it does not fully meet the expectations of FFG Methodology. Highest score is observed in Human Rights which can be explained by the content of the operational safeguards 2 (Involuntary resettlement) and 4 (Labour conditions and Health and safety) covering the main human rights issues at stake for local communities potentially affected by the projects financed. AfDB also displays good results in the themes Health and Nature due to its commitment to comply with a large number of international standards and conventions regarding biodiversity, pollution prevention, and hazardous materials.

AfDB also released some new policies explaining its strategy to prevent illicit financial flows, including money Laundering, tax evasion and bribery issues which justifies the high score observed in Corruption theme. AfDB carries out an assessment of gender issues for every project, however it does not report on quantitative targets regarding access of women at senior position level in its investments.

Regarding its strategy to fight climate change, the focus of AfDB is to assist African countries meet the mitigation and adaptation commitments of their Nationally Determined Contributions (NDCs). AfDB announced in September 2019 that it will exit financing coal, but the revised energy policy including the implementation of that commitment has not been released yet which impacts the score negatively. In addition, the financial institution explains that although it does not finance oil and gas exploration activities, it still needs to support oil and gas sector which continue to play a significant role in Africa's energy mix for the foreseeable future.

AfDB did not publish a sustainability report but does report on the complaints dealt with by its grievance mechanism. In addition, on its data portal[37], AfDB publishes information about the projects it finances, including sources of financing, commitments, sectors, country but also, financial information, results and links to publicly disclosed documents including Environmental and Social Impact Assessment (ESIA).

## 3.3 DBSA

The Development Bank of Southern Africa (DBSA) was established in 1983 to perform a broad economic development function within the political dispensation that prevailed at the time. In 1997 the DBSA was reconstituted in terms of the Development Bank of Southern Africa Act, as a development finance institution (DFI). The following sheds light on the specificities of the DBSA:[38]

- **Ownership or dependency**

  The DBSA is fully owned by the Government of South Africa. Its regulations provide for a sharp focus on infrastructure development, especially in South Africa, where it is located in a development finance system in which various DFI's have been given specific areas of focus to limit duplication and unnecessary overlaps. The DBSA focuses on the key sectors of energy, water, transport and information and communications technology. The constitution and conduct of the DBSA Board of Directors are primarily governed by the DBSA Act (No 13 of 1997) and further regulated by the Public Finance Management Act (PFMA), the principles of the King III Report and the Protocol on Corporate Governance in the Public Sector.[39]

- **Political mandate or public policy**

  DBSA primarily plays a key role in the preparation, funding and building phases of the infrastructure development value chain. The DBSA provides infrastructure development in key sectors (energy, water, transport and information and communications technology). Each sector is guided by South Africa's National Development Plan (NDP). The energy sector is primarily guided by South Africa's Integrated Resources Plan (IRP).

- **Mission and vision**

  Vision: A prosperous and integrated resource efficient region, progressively free of poverty and dependency.

  Mission: To advance the development impact in the region 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 the investment in economic infrastructure;
  - Support regional integration;
  - Promote sustainable use of scarce resources.

- **Organizational structure**

  DBSA operates through a number of fund and programmes. The funds include the DBSA Project Preparation Fund, the Infrastructure Investment Programme for South Africa (IIPSA), and the SADC Project Preparation & Development Facility (PPDF). Further programmes include the Pan African Capacity Building Programme (PACBP), a partnership initiative of the DBSA and the IDC; a national Green Fund (accredited by the Green Climate Fund), a Global Environment Facility (GEF) and an infrastructure cooperation agreement between the DBSA and U.S. Trade and Development Agency (USTDA).

- **Geographic footprint**

  DBSA delivers developmental infrastructure in South Africa (75% of the gross development loans in 2019) and the rest of the African continent (25% of the gross development loans)[40].

- **Sources of capital**

  Funding is provided by the Government of South Africa, the European Union as well as Development Finance Institutions (KFW, EIB and AFD) that participate in specific programmes such as the IIPSA.[41]

- **Targeted client segment**

  DBSA finances municipalities, state-owned enterprises, public-private partnerships, public-public partnerships, as well as the private sector through debt, mezzanine finance, and limited non-recourse lending. The DBSA currently focuses on large scale infrastructure projects within the private and public sector. Primary sectors financed are water, energy, transport and ICT as well as social sectors of health and education.

DBSA achieves fourth place with an overall average score of 3.6. Table 3 provides an overview of the results of DBSA in the FFG policy assessment.

**Table 3 Results DBSA in FFG policy assessment**

| Themes | Total |
|---|---|
| Climate change | 1.3 |
| Corruption | 3.3 |
| Gender equality | 3.0 |
| Health | 3.4 |
| Human rights | 4.0 |
| Nature | 5.6 |
| Financial sector | 0.5 |
| Power generation | 4.4 |
| Transparency and Accountability | 3.6 |
| **Average** | **3.6** |

Most scores are generated because of the expectations towards clients as laid down in DBSA's *Environmental and Social Safeguard Standards (ESSS) 2018.* Standard 1 describes how projects are screened, investment decisions are made, and agreements with clients are monitored. It determines which activities are classified as high or substantial risk (Category 1), medium risk (Category 2) or low risk (Category 3), as well as what clients need to provide when applying for financial support. Then Category 4 projects involves lending to financial intermediaries, who are expected to apply DBSA's standard to its own Category 1 and 2 sub-projects. The subsequent standards 2-6 describe the expectations from clients supported by DBSA:

- Stakeholder engagement and information disclosure
- Gender mainstreaming
- Indigenous peoples
- Development induced displacement and resettlement
- Labour and working conditions
- Community Health and Safety
- Cultural heritage
- Biodiversity conservation and sustainable living natural resources management
- Resource efficiency, pollution prevention and management
- Safety of dams

As can be derived from this list, the ESSS cover a range of topics dealt with in the FFG Methodology. DBSA states it applies to all programmes and projects which it considers for financing. However, it does not fully meet the expectations of the FFG Methodology especially on climate change, financial sector and gender equality.

Some of the DBSA's other policies only apply to certain of its projects or programmes and are not reflective of DBSA's broader policy position, such as its *Embedded Generation Investment Programme: Environmental and Social Management Framework (ESMF)*. Some policy documents mentioned in the DBSA's policies are not publicly available but seem to be relevant for the assessment, for example:

- Employment Equity Policy;
- Environmental Policy Framework;
- Environmental Sustainability Strategy Framework; Integrated Energy Sector Investment Framework; and Climate Change Policy Framework. It must be noted that the researchers who conducted the assessment for the DBSA subsequently received the draft Climate Change Policy Framework, but only after requesting it from the DBSA. We therefore recommend the DBSA to publicly disclose, amongst others, the abovementioned policies. Disclosure of its *Integrated Energy Sector Investment Framework*, policy, for example, would provide much-needed clarity on the DBSA's stance regarding its financing of or investment in fossil fuels.

## 3.4 EIB

The European Investment Bank (EIB) is the lending arm of the European Union and the biggest multilateral financial institution in the world. The following sheds light on the specificities of the EIB.[42]

- **Ownership or dependency**

  The shareholders of the European Investment Bank are the 28 Member States of the European Union.

- **Political mandate or public policy**

  The EIB states that the "over-arching EU policy goals related to EU social and economic cohesion and to climate action and the current Public Policy Goals (PPGs) will continue to be pursued in the immediate future." EIB's activities are fully aligned to the growth objectives of the Europe 2020 strategy, i.e. smart, sustainable and inclusive growth, which is related to social and economic cohesion, climate action and competitiveness. In addition, the four primary public policy goals (PPGs) include innovation, SMEs and Mid-cap financing, infrastructure and environment.[43]

- **Mission and vision**

  The EIB provides finance and technical assistance to achieve sustainable, inclusive growth. The mission of the European Investment Bank is to foster sustainable growth within the EU and abroad. It states that it is firmly committed to sustainable development: "We help the economy, create jobs, promote equality and improve lives for EU citizens and for people in developing countries."

- **Organizational structure**

  The EIB operates through two complementary entities, the European Investment Bank and the European Investment Fund (EIF). The EIF specialises in finance for small businesses and mid-caps, in particular through the issuance of guarantees to financial intermediaries (such as banks and micro-finance institutions) and the participation in private equity funds.

- **Geographic footprint**

  The EIB is headquartered in Luxembourg and has a network of local and regional offices. It provides finance to projects and companies in the European Union and developing countries. The EIB conducts one-tenth of its activity outside the EU.

- **Sources of capital**

  The EIB is financially autonomous. The EIB raises money from investors by issuing bonds on international capital markets and does thus not use taxpayer money to finance projects.

- **Targeted client segment**

  The EIB lends to the public and private sectors, supports small companies through local banks and lends money to innovative start-ups. Mid-cap companies can receive direct support for research and development investments. It is noteworthy that the EIB does not lend more than half of the cost of a project, because it wants its loans to crowd in financing from private investors and other public financial institutions.

With a total average score of 7.1, EIB leads the ranking of DFIs in this pilot study. Table 4 provides an overview of the results of EIB in the FFG policy assessment.

**Table 4 Results EIB in FFG policy assessment**

| Themes | Total |
|---|---|
| Climate change | 7.9 |
| Corruption | 8.3 |
| Gender equality | 6.4 |
| Health | 8.0 |
| Human rights | 7.7 |
| Nature | 8.7 |
| Financial sector | 1.8 |
| Power generation | 6.7 |
| Transparency and Accountability | 8.8 |
| **Average** | **7.1** |

The EIB has disclosed policies on most sustainability issues at stake in the FFG Methodology. In particular, the multilateral development bank, details its environmental and social risk framework in the *EIB Environmental and Social Standards (ESS).* This document is structured in ten different standards. Standard 1 outline the borrower's/promoter's responsibilities to assess, manage and monitor environmental and social impacts and risks associated with the operations. The evaluation of borrower's environmental and social policy commitment and its adherence to sustainability standards is described as part of EIB due diligence process.

For projects in the EU, EIB uses the classification and assessment criteria described in the EU Environmental Impact Assessment Directive. Projects outside the EU are also subject to an Environmental and Social Impact Assessment (ESIA) consistent with the principles contained in the EU EIA Directive and best international practice. The subsequent standards 2-10 describe the expectations from clients supported by EIB on to the following environmental and social topics:

- Standard 2: Pollution prevention and abatement
- Standard 3: EIB standards on Biodiversity and Ecosystems
- Standard 4: EIB climate-related standards
- Standard 5: Cultural Heritage
- Standard 6: Involuntary resettlement
- Standard 7: Rights and interests of vulnerable groups
- Standard 8: Labour standards
- Standard 9: Occupational and public health, safety and security

- Standard 10: Stakeholder engagement

Overall, EIB *Environmental and Social Standards* cover a broad range of topics dealt with in FFG policy assessment. Highest score is observed in the theme Nature due to the content of EIB standards on biodiversity and ecosystems, which aligns with main international biodiversity standards as the Convention on Biological Diversity and includes extensive due diligence to prevent negative impact on critical habitats. In November 2019, EIB released its new energy lending policy[44], in which it commits to align all its financing activities with the principles and goals of the Paris agreement by the end of 2020, and phase out the financing of unabated fossil fuel energy projects, including natural gas, by the end of 2021. Such commitment which is, as of today, the most ambitious among Multilateral Development Banks explains the high score of EIB (7.9) in Climate change. However, this new energy lending policy still contains some loopholes, as EIB states it will ''continue to potentially approve gas infrastructure projects already formally under appraisal until the end of 2021. Moreover, during this period, the Bank can approve any gas infrastructure project on the 4th PCI list co-financed with EU budget''.[45]

Note that the underlying political mandate of the EIB becomes very clear with respect to nuclear power generation: "EU energy policy acknowledges the right of individual Member States to determine their energy mix and to use nuclear energy as part of their strategy to reduce $CO_2$ emissions and to enhance energy security. [⋯] The main piece of legislation framing the EU nuclear sector is the Euratom Treaty. Through the Treaty, the Commission furthers the nuclear safety and security framework, helping to set a level playing field for investments in Member States willing to keep the nuclear option in their energy mix. [⋯]."[46]

As a good practice, EIB *Environmental and Social Standards* and *Guide to procurement* covers also promoter responsibilities with their suppliers, contractors or subcontractors.

Main area of weakness is observed when assessing EIB's expectations for its financial intermediaries (score of 2.1). When lending though financial intermediaries, EIB requires its financial intermediaries to on-lend the EIB funds in line with its E&S standards. However, the FFG Methodology also assesses DFIs' due diligence on their financial intermediaries' overarching policies and compliance with international standards (such as the Equator Principles, the Principles for Responsible Investments). EIB's due diligence on its financial intermediaries does not cover the general policies and adherence to international standards of its financial intermediaries which explains the low score observed in this theme.

## 3.5 FMO

FMO is the Dutch entrepreneurial development bank. The following sheds light on the specificities of the FMO:

- **Ownership or dependency**

  The FMO is 51%-owned by the Dutch state and 49% of the shares are held by commercial banks, trade unions and other members of the private sector.

- **Political mandate or public policy**

  FMO aims to contribute to development in the business sector in developing countries in alignment with both the goals of the governments of the relevant countries and the Dutch governmental policies with regard to development assistance. For its own operations, FMO applies Articles of Association as defined guidelines to how it partners with clients, partners and associates.[47]

- **Mission and vision**

  FMO's mission is to "empower entrepreneurs to build a better world" and to promote decent work, less inequality and climate action in order to create local stability.[48] FMO focuses on three sectors: financial institutions, energy and agribusiness, food & water.

- **Organizational structure**

  FMO has a platform function for public and private investors and facilitates the following public and private investor platforms:

  - Public funds and programs for the Dutch government (e.g. MASSIF, IDF, AEF), EU (NASIRA), and other public parties such as the Green Climate Fund (GCF);
  - Funds managed on behalf of EDFI like ElectriFI and AgriFI (both funded by EU);
  - All the commercial investment funds FMO has developed, such as the Actiam-FMO SME Finance Fund, FMO Privium Impact Fund, and NN FMO Emerging Markets Loan Fund;
  - Investment platforms such as Arise and Climate Investor One, which FMO initiated.

- **Geographic footprint**

  FMO finances entrepreneurs in developing countries and supports Dutch exports and Dutch companies that want to expand internationally with the ambition to drive positive change in emerging markets.

- **Sources of capital**

  FMO development programmes are funded by the Dutch government, the EU, as well as private investors through funds managed by its the subsidiary, FMO Investment Management.

- **Targeted client segment**

  FMO invests in businesses, projects and financial institutions, by providing capital (direct and syndicated loans, as well as direct and indirect equity investments), guarantees, knowledge and networks.

  FMO ranks third in this pilot study with an average score of 4.8. Table 5 provides an overview of the results of FMO in the FFG policy assessment.

**Table 5 Results FMO in FFG policy assessment**

| Themes | Total |
|---|---:|
| Climate change | 4.0 |
| Corruption | 7.5 |
| Gender equality | 2.5 |
| Health | 5.6 |
| Human rights | 6.2 |
| Nature | 5.3 |
| Financial sector | 1.4 |
| Power generation | 4.2 |
| Transparency and Accountability | 6.1 |
| **Average** | **4.8** |

FMO is the only DFI of the panel which has adopted the Equator Principles and signed the UN Principles for Responsible Investment. FMO disclosed that it follows a number of international guidelines, such as the OECD Guidelines for Multinational Enterprises, UN Guiding Principles on Business and Human Rights, the International Labour Organization and the Natural Capital Declaration.[49] Its Sustainability Framework consists of one introductory document called the *Sustainability Policy* and several position statements and (internal) guidance documents that should be read in conjunction. In all these documents FMO refers to 'Clients', but it is made clear that this also includes investee companies, portfolio companies and other relationships, and therefore they are considered to apply to all relevant investment categories in the FFG Methodology (in this case Corporate credits, Project finance, Asset management for own account).

FMO's policies are detailed and cover many of the FFG themes and elements, leading to a ranking in third position. The high score in Transparency and Accountability is, as compared to the other DFIs, mainly due to its complaint mechanism and the reporting thereof.

FMO made a commitment to align its strategy with a 1.5 degrees climate scenario and has set targets for reducing GHG emissions. The bank has also described its vision in the Sustainability Policy and a Position Statement on Coal, in which its excluding direct investing in coal-based power generation and/or coal mining projects. But their climate policy still falls short from the expectations in the FFG Methodology, because FMO's exclusion criteria only regard coal and not all fossil fuels. Also, the bank is still working on a methodology to calculate its financed greenhouse gas emissions which it plans to use for aligning its portfolio with the 1.5-degree pathway.

In the theme Corruption, FMO covers many of the elements because it expects clients and investee companies to uphold the OECD Guidelines for Multinational Enterprises, and because of the measures described in its Anti-Bribery and Corruption statement.

As a good practice, FMO is the only institution of the panel to disclose a dedicated Human Rights policy.

## 3.6 IDC

The Industrial Development Corporation (IDC) was established in 1940 as a national development finance institution in South Africa. The following sheds light on the specificities of the IDC:[50]

- **Ownership or dependency**

  The IDC is owned by the South African government and supervised by the Economic Development Department.

- **Political mandate or public policy**

  The IDC was set up to promote economic growth and industrial development. During the 1990s, the IDC's mandate was expanded to include investment in the rest of Africa. The IDC states it "aligns its priorities with government's policy direction and remains committed to developing the country's industrial capacity, as well as playing a major role in facilitating job creation through industrialisation."[51]

- **Mission and vision**

  The Industrial Development Corporation is a national development finance institution whose primary objectives are to contribute to the generation of balanced, sustainable economic growth in Africa, and to the economic empowerment of the South African population, thereby promoting the economic prosperity of all citizens.

Its vision is to be the primary driving force of commercially sustainable industrial development and innovation for the benefit of South Africa and the rest of Africa.

- **Organizational structure**

  The IDC implements the industrial policy through activities under the National Development Plan (NDP), the New Growth Path (NGP) and the Industrial Policy Action Plan (IPAP). Through its subsidiary, the Small Enterprise Finance Agency (Sefa), the IDC promotes entrepreneurial development in the SME sector.

- **Geographic footprint**

  The IDC's investments are in South Africa (87% of total financial exposure[52]) as well as in the rest of Africa (13% of total portfolio).

- **Sources of capital**

  The IDC's funding is generated through its income from loan and equity investments and exits from mature investments. (This means that a private equity investment may result in a profit, when it is sold after some years). IDC also relies on borrowings from commercial banks, development finance institutions (DFIs) and other lenders.

- **Targeted client segment**

  The IDC aims to "promote entrepreneurship through the building of competitive industries and enterprises based on sound business principles"[53]. The IDC's investments in Africa include mining, agriculture, manufacturing, tourism and telecommunications. The IDC offers funding structured through debt, equity and quasi-equity, guarantees, trade finance and venture capital.[54]

The IDC is at the bottom of the FFG policy ranking with a low average score of 0.8. Table 6 provides an overview of the results of IDC in the FFG policy assessment.

**Table 6 Results IDC of FFG policy assessment**

| Themes | Total |
|---|---|
| Climate change | 0.0 |
| Corruption | 3.3 |
| Gender equality | 1.3 |
| Health | 0.0 |
| Human rights | 0.0 |
| Nature | 0.0 |
| Financial sector | 0.0 |
| Power generation | 0.5 |
| Transparency and Accountability | 1.8 |
| **Average** | **0.8** |

IDC refers in its Integrated Report 2019 to two documents that could be very useful for scoring but are not published: *Environmental and Social Policy* and *Responsible Investment Policy.* As the information in the Integrated Report and on the webpages is very limited, and almost none of its finance and investment policies are publicly available, the bank receives low scores. We encourage IDC to publish the above-mentioned documents.

The scores for Gender equality is based on the Remuneration Philosophy and Policy and the reporting of the percentage of women in the board in the Integrated Report 2019. This report is a sustainability report, provides a sector and regional breakdown of transaction and mentions briefly the due diligence process under the environmental and social review framework, resulting in a score on three elements at Transparency and Accountability.

## 3.7 NDB

The New Development Bank (NDB) was established by the leaders of Brazil, Russia, India, China and South Africa in 2014. The following sheds light on the specificities of the NDB:

- **Ownership or dependency**

  As of October 2019, Brazil, Russia, India, China and South Africa (BRICS) own each 20% of the NDB, with the same distribution in terms of voting power. The bank's Articles of Agreement specify that all members of the United Nations could be members of the bank, however the share of the BRICS nations can never be less than 55% of voting power.[55]

- **Political mandate or public policy**

  The founders 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.

- **Mission and vision**

  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 will partner nations through capital and knowledge, achieving development goals with transparency and empathy and creating an equal opportunity for the development of all countries."

  The Bank also strives to bring a variety of positive externalities, such as enhancing productivity, contributing to the development of domestic capital markets and promoting overall trade and investment opportunities. As the operations of the Bank expand, NDB also commits to act as a counter-cyclical force in sustaining the funding of infrastructure and sustainable development investments, moderating the negative effects of economic cycles and growth volatility.

- **Organizational structure**

  New Development Bank comprises only one entity.

- **Geographic footprint**

  The Bank mobilizes resources for infrastructure and sustainable development projects in BRICS and other emerging economies and developing countries. The bank is headquartered in Shanghai.

- **Sources of capital**

  During the founding period of the NDB, it was agreed that the initial contribution to the Bank should be substantial and sufficient for it to be effective in financing infrastructure. NDB issues bonds constituting obligations of NDB to borrow money in the international capital market.

- **Targeted client segment**

  NDB supports public or private projects through loans, guarantees, equity participation and other financial instruments. It shall also cooperate with international organizations and other financial entities, and provides technical assistance for projects to be supported by the Bank.

NDB scores poorly in the rating with an average score of 2.4 and positioned at second last place in the ranking. Table 7 provides an overview of the results of NDB in the FFG policy assessment.

**Table 7 Results NDB in FFG policy assessment**

| Themes | Total |
|---|---|
| Climate change | 0.8 |
| Corruption | 3.3 |
| Gender equality | 1.3 |
| Health | 4.7 |
| Human rights | 2.3 |
| Nature | 5.0 |
| Financial sector | 0.0 |
| Power generation | 2.4 |
| Transparency and Accountability | 1.6 |
| **Total** | **2.4** |

The central policy document of NDB is the *NDB Environment and Social Framework*, dating from June 2016. Like the other DFIs it presents the indicators against which projects are screened and categorized and how the bank identifies and mitigates for the social and environmental risks of clients. Besides a description of the objective, scope and key requirements of the three Environmental and Social Standards (ESS), namely on ESS1 Environmental and Social Assessment, ESS2 Involuntary Resettlement and ESS3 Indigenous Peoples.

NDB's highest scores are observed in the theme Health and Nature. This can be explained by the fact that its environmental and social standards related to this topics explicitly require compliance with international standards such as the World Bank Group's Environment, Health and Safety guidelines.

NDB discloses all projects online, including details.

Overall, compared to the other two multilateral banks included in that study (AfDB and EIB), NDB's policies appear to be less demanding especially when it comes to gender equality, human rights, and climate change.

# Chapter 4 Analysis of DFI policies per sustainability theme

Analysis of DFI policies per sustainability theme

In this pilot study the policies of a sample of six DFIs were assessed on nine selected themes included in the FFG Methodology 2018:

- Climate change
- Corruption
- Gender equality
- Health
- Human rights
- Nature
- Financial sector
- Power generation
- Transparency and Accountability

Since the DFI policies were assessed in this project, the 2020 version of the FFG Methodology has been released. Overall, the new version is still comparable with the 2018 version, but in some aspects it has become more stringent.[56]

This chapter presents the scores of the six DFIs for each theme that was part of the pilot and discusses the most interesting findings with respect to the scores of the different DFIs.

## 4.1 Climate change

How the FFG Methodology evaluates the theme Climate change is briefly described in section 2.1. Table 8 provides an overview of the scores of the DFIs for their Climate change policies, when assessed against the FFG Methodology.

**Table 8 DFI scores for Climate change policies**

| DFI | AfDB | DBSA | EIB | FMO | IDC | NDB |
|---|---|---|---|---|---|---|
| **Total score** | 2.1 | 1.3 | 7.9 | 4.0 | 0.0 | 0.8 |

EIB leads the panel on climate change with a score of 7.9. The bank commits to no longer finance fossil fuels projects from the end of 2021, and to support EUR 1 trillion of climate related investment in the decade to 2030. In addition, EIB is the only DFI in the panel to disclose the greenhouse gas emissions on all investment projects financed with significant GHG emissions, while FMO communicates it will start to report about its portfolio's absolute emissions in 2020.

Aside from EIB, two other DFIs assessed in that study have displayed some commitment to exclude coal from their financing. The Dutch development bank FMO, in its Position Statement on Coal, excludes financing of coal-based power generation and coal mining, and the AfDB announced in September 2019 its intention to ''getting out of coal''[57]. However the bank has not released yet its revised energy policy.

DBSA, NDB and IDC display particularly weak scores. This could be as a result of these DFIs' particular political mandate and public policy – for example, the DBSA's energy projects are primarily guided by the South Africa's national electricity plan. Nonetheless, these results have to be read while keeping in mind the contribution of different regions to world global $CO_2$ emissions. In 2017, China was responsible of 27% of the global emissions, the European Union of 9.8%, while all the African continent accounted for 3.7% of the global emissions (South Africa 1.3%)[58].

Of note, none of the six DFIs evaluated requires its borrowers to not participate in lobbying practices aimed at weakening climate policies.

## 4.2 Corruption

How the FFG Methodology evaluates the theme Corruption is briefly described in section 2.2. Table 9 provides an overview of the scores of the DFIs for their Corruption policies, when assessed against the FFG Methodology.

**Table 9 DFI scores for Corruption policies**

| DFI | AfDB | DBSA | EIB | FMO | IDC | NDB |
|---|---|---|---|---|---|---|
| Total score | 7.1 | 3.3 | 8.3 | 7.5 | 3.3 | 3.3 |

All DFIs have adopted policies to prevent both internal (involving the bank's workforce) and external (through lending and investment activities) risks of corruption. Unlike most of the environmental and social issues which are integrated in their Environmental and social risk management framework, the issues of corruption and money laundering which are closely linked to international, regional and national regulations are sometimes tackled in separate policies. EIB, AfDB, FMO and NDB disclose an integral policy in this regard.

EIB Anti-Fraud Policy and the EIB Group Policy Towards Weakly Regulated, Non-transparent and Non-cooperative Jurisdictions and Tax Good Governance ("EIB Group NCJ Policy") detail the principles adopted by the bank to prevent, investigate, and sanction Prohibited Conduct (defined as ''corruption, fraud, collusion, coercion, obstruction, money laundering and terrorist financing''). EIB policies is aligned with the United Nations Convention Against Corruption and explicitly mentions zero tolerance towards Prohibited Conduct.

FMO has an *Anti-Bribery and Corruption statement* and a *KYC and Anti-Money Laundering policy*. The financial institution commits to applying the United Nations Convention Against Corruption, OECD guidelines and Convention on Combating Bribery in its relations with staff, clients and counterparties.

AfDB displays its strategy to fight against corruption in its Bank Group Strategic Framework and Action Plan for the Prevention of Illicit Financial Flows in Africa and its Bank Group Policy on Prevention of Illicit Financial Flows policy. These documents cover most of the issue at stake in this topics including the verification of ownership structure and ultimate beneficial owners and the presence of Politically Exposed Persons.

NDB discloses an *Anti-Corruption, Anti-Fraud and Anti-Money Laundering Policy,* however it does not include enhanced due diligence to enter in relations with Politically Exposed Persons neither require specifically companies to have a management system which results in immediate actions if suspicions arise that employees or suppliers are guilty of corruption.

IDC mentions it has adopted a risk-based approach to customer due diligence to prevent money laundering and terrorist financing risks however this framework is not disclosed. Although DBSA does not release specific anti-money laundering policy, this issue is partially addressed in its Management *of Politically Exposed Persons Policy.*

None of the DFI assessed requires public disclosure of companies' ultimate beneficial owner(s). In addition, DFIs are not transparent on their participation in the decision-making processes of international norms and legislation, neither request financed companies to do so. Only EIB and AfDB report they require their clients to insert clauses related to compliance with criteria on corruption in their contracts with subcontractors and suppliers

## 4.3 Gender equality

How the FFG Methodology evaluates the theme Gender equality is briefly described in section 2.3. Table 10 provides an overview of the scores of the DFIs for their Gender equality policies, when assessed against the FFG Methodology.

**Table 10 DFI scores for Gender equality policies**

| DFI | AfDB | DBSA | EIB | FMO | IDC | NDB |
|---|---|---|---|---|---|---|
| Total score | 3.2 | 3.0 | 6.4 | 2.5 | 1.3 | 2.2 |

Four DFIs out of six disclose zero tolerance policy commitment for all forms of gender discrimination in their own workforce. EIB, DBSA, and AfDB have commitments to foster gender equality both for their own operations as well as for the companies they finance.

EIB publishes targets for equal participation of women in the board of directors. AfDB does as well, but these are not enough ambitious (28 percent of women in management roles). It is interesting to note that DBSA included gender equality in its remuneration policy. Four DFIs (EIB, FMO, AfDB and DBSA) have adopted or already implemented programs to foster equal access for women to senior level positions.

As regards the promotion of gender equality within their operations, AfDB, EIB, DBSA and FMO have system in place to ensure gender issues are integrated into their borrowers' due diligence. Particularly, AfDB carries out an assessment of gender issues for every financing (both for public and private sectors operations). For its public-sector operations AfDB has adopted a Gender Marker System (GMS) which is a four-category system that marks the extent to which the design of a project integrates gender equality perspectives. The Bank is working towards categorizing a target of 100% of all public-sector operations starting 2019 (in 2018, public sector operations represented 59% of the Bank's total project portfolio).

Another good practice observed is the adoption by EIB of the ''2X Challenge'' criteria. The "2X Challenge" is an initiative to call for the G7 and other DFIs to join together to collectively mobilize $3 billion in commitments that provide women in developing country markets with improved access to leadership opportunities, quality employment, finance, enterprise support and products and services that enhance economic participation and access[59]. In October 2019, the EIB became the first multilateral development bank to endorse the 2X Criteria through which it seeks to encourage investees to meet the 2X challenge criteria on leadership which is 20-30% of women in senior leadership positions (depending on the sector). None of the other DFIs report on quantitative targets related to women access to senior level positions within their financing.

Only EIB and AfBD appear to include gender criteria in their procurement and operational policies. Overall, NDB and IDC display insufficient commitment to foster gender equality internally and within their operations.

## 4.4 Health

How the FFG Methodology evaluates the theme Health is briefly described in section 2.4. Table 11 provides an overview of the scores of the DFIs for their Health policies, when assessed against the FFG Methodology.

**Table 11 DFI scores on Health policies**

| DFI | AfDB | DBSA | EIB | FMO | IDC | NDB |
|---|---|---|---|---|---|---|
| Total score | 7.5 | 3.4 | 8.0 | 5.6 | 0.0 | 4.7 |

All the DFIs except IDC display a commitment to require their clients to prevent the deterioration of the health of employees, clients and local communities by production processes. In their policies, DFIs refer to recognised international standards related to pollution or the use of hazardous chemicals such as the World Bank Group's Environment, Health and Safety guidelines.

Most policies tackle health and safety at work. EIB, AfDB, DBSA and NDB demand their clients to respect labour rights concerning health and safety at work, as described in the ILO conventions especially where local regulation is weak. EIB commits to comply and align with the EU environmental acquis ''comprised of the main EU legal instruments, approximately 300 directives covering environmental protection, polluting and other activities, production processes, procedures and procedural rights as well as products, and crosscutting issues'' in all its operations (both in Europe and outside Europe)[60]. EIB and AfDB are the only two banks which publicly state they require clients to also integrate clauses related to health and safety working conditions in their procurement activities.

Noteworthy is the absence of public policies framing DFIs requirement towards the healthcare sector. Indeed, none of the DFIs assessed appear to demand companies in the healthcare sector to ensure that patients with avoidable and treatable diseases have the right to access to medication.

All DFIs but DBSA, exclude tobacco manufacture and trade from their financing.

## 4.5 Human rights

How the FFG Methodology evaluates the theme Human rights is briefly described in section 2.5. Table 12 provides an overview of the scores of the DFIs for their Human rights policies, when assessed against the FFG Methodology.

**Table 12 DFI scores on Human rights policies**

| DFI | AfDB | DBSA | EIB | FMO | IDC | NDB |
|---|---|---|---|---|---|---|
| Total score | 7.7 | 4.0 | 7.7 | 6.2 | 0.0 | 2.3 |

FMO is the only DFI under review to release a position statement dedicated to Human Rights. It includes a specific commitment to act consistently with the United Nations Guiding Principles for Business and Human Rights and a requirement for clients to adopt an Environmental and Social Management System (ESMS) that respects rights consistent with the IFC Performance Standards,

AfDB and EIB refer respectively to the *African Charter of Human and Peoples' Rights* and *the Charter of Fundamental Rights of the European Union*. EIB also commits to apply the UN Guiding Principles on Business and Human Right to all its operations and activities. By signing the UN Global Compact DBSA also shows that it commits to respecting human rights as a business itself. High score achieved by AfDB and EIB are due to the adoption of specific standards within their environmental and social risk framework addressing salient human rights issues such as the rights of indigenous people and the rights of other vulnerable people including children and women. In addition, these institutions require their clients to adopt due diligence processes to identify, mitigate and account for how they address their impact on human rights.

AfDB, DBSA, EIB, FMO and NDB also require borrowers to establish or participate in effective operational-level grievance mechanisms for individuals and communities who may be adversely impacted by their operations. To prevent conflict over land rights and natural resources, AfDB, DBSA, EIB and FMO requires their clients to respect the rights of Free Prior Informed Consent (FPIC) of indigenous people. However, to fully ensure that companies do not violate the rights of local communities, this requirement should extend to all peoples with customary tenure rights. IDC policies fall short on Human rights issues.

## 4.6 Nature

How the FFG Methodology evaluates the theme Nature is briefly described in section 2.6. Table 13 provides an overview of the scores of the DFIs for their Nature policies, when assessed against the FFG Methodology.

**Table 13 DFI scores on Nature policies**

| DFI | AfDB | DBSA | EIB | FMO | IDC | NDB |
|---|---|---|---|---|---|---|
| **Total score** | 8.0 | 5.6 | 8.7 | 5.3 | 0.0 | 5.0 |

Overall, DFIs score high on Nature. All policies, but the one of IDC, tackle biodiversity, protection of natural habitats, as well as enhanced due diligence to prevent negative impacts on critical habitats. These DFIs also require their clients to conduct biodiversity impact assessment to assess the total consequences of large scale projects on biodiversity.

The banks refer to a certain number of biodiversity-related standards in their policies which differ from one DFI to another. NDB only refers to the IUCN protected areas and the CITES convention, while EIB, DBSA and AfDB also mention Ramsar Wetlands, and UNESCO World Heritage sites. Furthermore, AfDB, DBSA and EIB address trade in genetically modified organism and invasive alien species. Scores of FMO are based on its application of the IFC Performance Standards, which cover various issues assessed in this theme and rely on international standards on biodiversity. EIB and AfDB address water scarcity issues in their policies however none of the DFIs committed to exclude from its financing new operations in areas where water scarcity is pre-existing and where operations would compete with the needs of communities.

## 4.7 Financial sector

How the FFG Methodology evaluates the theme Financial sector is briefly described in section 2.7. Table 14 provides an overview of the scores of the DFIs for their Financial sector policies, when assessed against the FFG Methodology.

**Table 14 DFI scores on Financial sector policies**

| DFI | AfDB | DBSA | EIB | FMO | IDC | NDB |
|---|---|---|---|---|---|---|
| Total score | 2.0 | 0.5 | 1.8 | 1.4 | 0.0 | 0.0 |

Overall, the theme financial sector is the topic on which DFIs display weakest scores. This theme assesses more particularly to what extent DFIs align their requirements towards their Financial Intermediaries with main sustainability standards applicable to the financial sector.

When providing funds to financial intermediaries for specific projects, AfDB, EIB and DBSA ask them to apply the DFI's own environmental and social standards, including the development of an Environmental and Social Management System appropriate for the scale and nature of its operations. FMO requires Private Equity Funds to implement an ESG risk management system which is compliant with the IFC Performance Standards. AfDB goes further by requiring all its financial intermediaries to have adequate corporate environmental and social governance policies.

While these are international recognised environmental, social and governance standards more and more adopted by financial institutions, none of the DFIs appear to require its financial intermediaries to adhere to the Equator Principles nor the Principles for Responsible Investment.

With regard to responsible tax policies, EIB requires (in its *Policy towards weakly regulated, non-transparent and non-cooperative jurisdictions (NCJ) and tax good governance*) that financial intermediaries comply with all tax laws and that they apply the same requirement to their final beneficiaries. In addition, EIB states that is funds should not be allocated by financial intermediaries to final beneficiaries incorporated or established in an NCJ except in the case of operations to be physically implemented in such NCJ[61]. The bank is also the only DFIs in the panel that requires financial intermediaries to comply with the FATF recommendations, although AfDB asks its financial intermediaries clients to implement adequate measures to prevent money Laundering and combat financing of terrorism in line with law and regulation in jurisdictions in which they operate.

## 4.8 Power generation

How the FFG Methodology evaluates the theme Power generation is briefly described in section 2.8. Table 15 provides an overview of the scores of the DFIs for their Power generation policies, when assessed against the FFG Methodology.

**Table 15 DFI scores on Power generation policies**

| DFI | AfDB | DBSA | EIB | FMO | IDC | NDB |
|---|---|---|---|---|---|---|
| Total score | 6.8 | 4.4 | 6.4 | 4.2 | 0.5 | 2.4 |

All DFIs, regardless of geographic footprint, state that they are involved in the financing of renewable energy. Among the targets disclosed by DFIs, AfDB committed to allocate 40 percent of approvals to climate finance annually by 2020. The Multilateral Development Bank also aims to increase the share of renewable energy in Africa's energy mix to contribute to the Africa Renewable Energy Initiative target (Africa-owned and Africa-led initiative of the African Union aiming at harnessing Africa's abundant renewable energy resources to help achieve the Sustainable Development Goals) of at least 10 GW of generating capacity by 2020. In addition to its decision to end financing for fossil fuel energy projects from the end of 2021, EIB commits to unlock EUR 1 trillion of climate action and environmental sustainable investment in the decade to 2030.

As regards nuclear energy, only AfDB excludes this sector from its financing stating in its energy policy that this is not an area of comparative advantage for the Bank.

When looking at the environmental and social due diligence applied by their clients in power generation projects, AfDB, DBSA, EIB and FMO's policies include safeguards to prevent and mitigate adverse impacts on biodiversity and requires free, prior, informed consent from indigenous people when they might be affected by the projects.

Regarding hydropower projects, while none of the DFIs excludes financing large scale hydropower generation, EIB discloses some sector guidelines on hydropower development requiring all construction of dams to comply with the EU Water Framework Directive and AfDB and DBSA ask for compliance with the principles of the World Commission on Dams.

## 4.9 Transparency and Accountability

How the FFG Methodology evaluates the theme Transparency and Accountability is briefly described in section 2.9. Table 16 provides an overview of the scores of the DFIs for their Transparency and Accountability policies, when assessed against the FFG Methodology.

**Table 16 DFI scores on Transparency and Accountability**

| DFI | AfDB | DBSA | EIB | FMO | IDC | NDB |
|---|---|---|---|---|---|---|
| Total score | 6.1 | 3.6 | 8.8 | 6.1 | 1.8 | 1.6 |

All DFIs, except for IDC, disclose their social and environmental risk management framework, but none of the framework's processes and results are audited by an independent third party. AfDB, EIB, FMO and NDB discloses information on their websites about all the projects (approved or proposed), including the sector, country, and project name. But the level of detail varies according to the DFI under review. DBSA and IDC only present a portfolio breakdown.

Four of the DFIs (DBSA, EIB, FMO and IDC) have published a sustainability report, of which FMO's report is externally audited. AfDB, DBSA, EIB and FMO (jointly with the German DFI, DEG) have established their own grievance mechanism. AfDB, EIB, and FMO release annually a dedicated report about the activity of their complain mechanism.

There is a significant variation in the scores of the assessed DFIs. While EIB tops the ranking with an average score of 8.8, NDB and the IDC are at the bottom of the list with an average score inferior to 2.0. The resulting ranking is presented in Table 16.

# Chapter 5 Conclusions

The aim of this pilot study is to assess the finance and investment policies of a sample of six DFIs on nine selected themes included in the methodology of Fair Finance International[ii]:

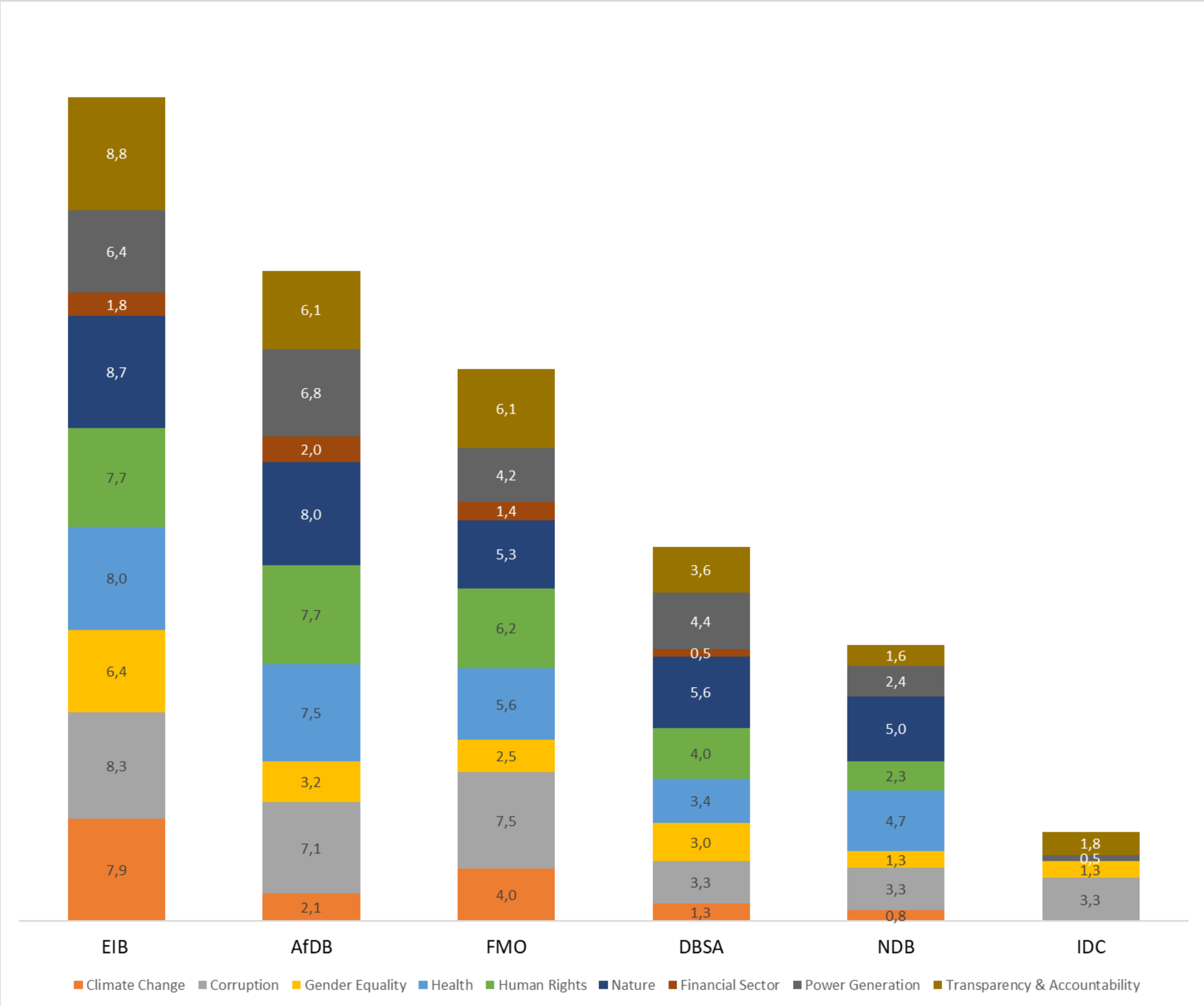
- Climate change
- Corruption
- Gender equality
- Health
- Human rights
- Nature
- Financial sector
- Power generation
- Transparency and Accountability

The research, conducted between August 2019 and March 2020, is fully based on publicly available documents such as webpages, annual and sustainability reports, risk assessment framework, position papers, sector policies and codes of conduct. DFIs were contacted in early March 2019 with the opportunity to provide feedback on the draft scores. Feedback received has been processed.

The ranking that results from this exercise is presented in Figure 1. It appears that there is a significant variation in the scores of the assessed DFIs. While EIB tops the ranking with an average score of 7.1, the IDC is at the bottom of the list with an average score of 0.8.

[ii] For this research the version of 2018 was used. The full methodology is available online at the website of www.fairfinanceguide.org.

**Figure 1 Scores of assessed DFIs**




The difference in scores can be explained by the quality of the policies, levels of disclosure, but also by the different business models, mandate and geographical zone targeted by DFI financing.

It is interesting to note that, although most DFIs in this study (AfDB, EIB, DBSA and NDB) have developed their own environmental and social risk management framework, these framework are still very comparable as they all follow the same structure and include strong similarities with the IFC Performance Standards - the benchmark in the world of DFIs.

The first standard in all these frameworks is usually dedicated to environmental and social assessments and describes how projects are screened, investment decisions are made, and agreements with clients are monitored. It determines how projects are classified according to their level of risks and the nature of related impacts. Often, these categorisation systems include a separate category dedicated to lending to financial intermediaries, who are expected to apply the DFI's risk management system as if they were directly financed by the DFI.

The subsequent standards describe the expectations towards clients supported by the DFI on specific environmental and social issues. The number of sustainability issues tackled in DFIs risk lending and investment framework, the level and granularity of due diligence expected by each DFI on these topics and the alignment of their policies with international sustainability standards are the main factors influencing the scores in the FFG assessment.

The IDC, which displays scores inferior to 2.0 on all the themes under review, insufficiently discloses the environmental and social principles governing its investment decisions. NDB also lags behind on most of the themes under review especially on climate change, gender equality and human rights. The lack of public accountability of these two DFIs is evidenced as well by the weak scores observed on the theme transparency and accountability.

EIB is clearly the frontrunner on climate change policies, mainly due its decision to no longer finance fossil fuels projects from the end of 2021, and its commitment to align all its financing activities with the principles and goals of the Paris agreement by the end of 2020. In a joint statement released on September 2019[62], a number of Multilateral Development Banks (including EIB, NDB and AfDB) committed to develop a common framework, which defines clear principles each institution will incorporate, starting from 2021 for aligning their activities with the goals of the Paris Agreement and helping clients to move away from the use of fossil fuel. Concrete actions in that regard are strongly expected by civil society organisations.

Most DFIs, apart from the IDC, disclose policies to prevent corruption. However, to go further in their engagement to prevent corruption and foster transparency, DFIs should require public disclosure of companies' ultimate beneficial owner(s), be transparent on their participation in the decision-making processes of international norms and legislation, and request their clients to report on their lobbying practices.

As regards to Human Rights, FMO is the only DFI to release a position statement dedicated to Human Rights which includes a specific commitment to act consistently with the United Nations Guiding Principles for Business and Human Rights. While AfDB and EIB refer respectively to the *African Charter of Human and Peoples' Rights* and *the Charter of Fundamental Rights of the European Union* and tackle a broad number of human rights issues in their standards (such as labour rights, the rights of vulnerable people including indigenous people children and women), human rights is a cross cutting issue which would deserve an overarching policy with a clear commitment to apply the UN ''Protect, Respect and Remedy'' framework described in the Guiding Principles on Business and Human Rights,

DFIs' scores on the Nature and Health themes appear to be homogeneous, mainly because their policies on these topics show strong similarities and include references to main international standards.

All the DFIs score remarkably low on the theme Financial sector, which focuses on the DFIs requirement toward their Financial Intermediaries. This raises concern as DFIs are increasingly providing financing through other financial institutions including public banks, commercial banks, insurance, reinsurance, leasing companies, microfinance providers, private equity funds and investment funds. If DFIs want to raise the standards of the financial sector, their due diligence with financial intermediaries should not be limited to the projects financed by the funds granted, but should apply to the environmental, social and governance strategies and policies of these financial institutions. Indeed, financial institutions such as commercial banks should assess their environmental, social and governance risks in all their financing and not only in their transactions with DFIs.

When looking at the transparency and accountability of DFIs, they often achieve higher scores than commercial banks. This can be explained by three main reasons. First of all, DFIs tend to publish the list of projects they finance on their websites (such as AfDB, EIB, FMO and NDB) including some information about the environmental and social risks associated. Secondly, some DFIs have set up their own grievance mechanism accessible to external stakeholders, and release public report on the way they handled the complaints received (such as EIB, AfDB and FMO) while most commercial banks rely on the grievance mechanism of their clients. Finally, DFIs such as AfDB, FMO and EIB consult civil society organisations and other stakeholders when revising their sustainability policies and strategy and report on the outcomes of such consultations.

The results of this pilot study indicate that a structured analysis of the content of DFIs' finance and investment policies may be useful for CSOs to use as an advocacy tool for engagement with governments and regulators. It may also be useful for engagement with the DFIs themselves as an indicator of what is lacking in their policies, and how to align their policies with international standards, guidelines and best practices in order to strengthen their commitment to social, environmental and human rights standards.

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