



Centre *for*
Environmental Rights
Advancing Environmental Rights in South Africa

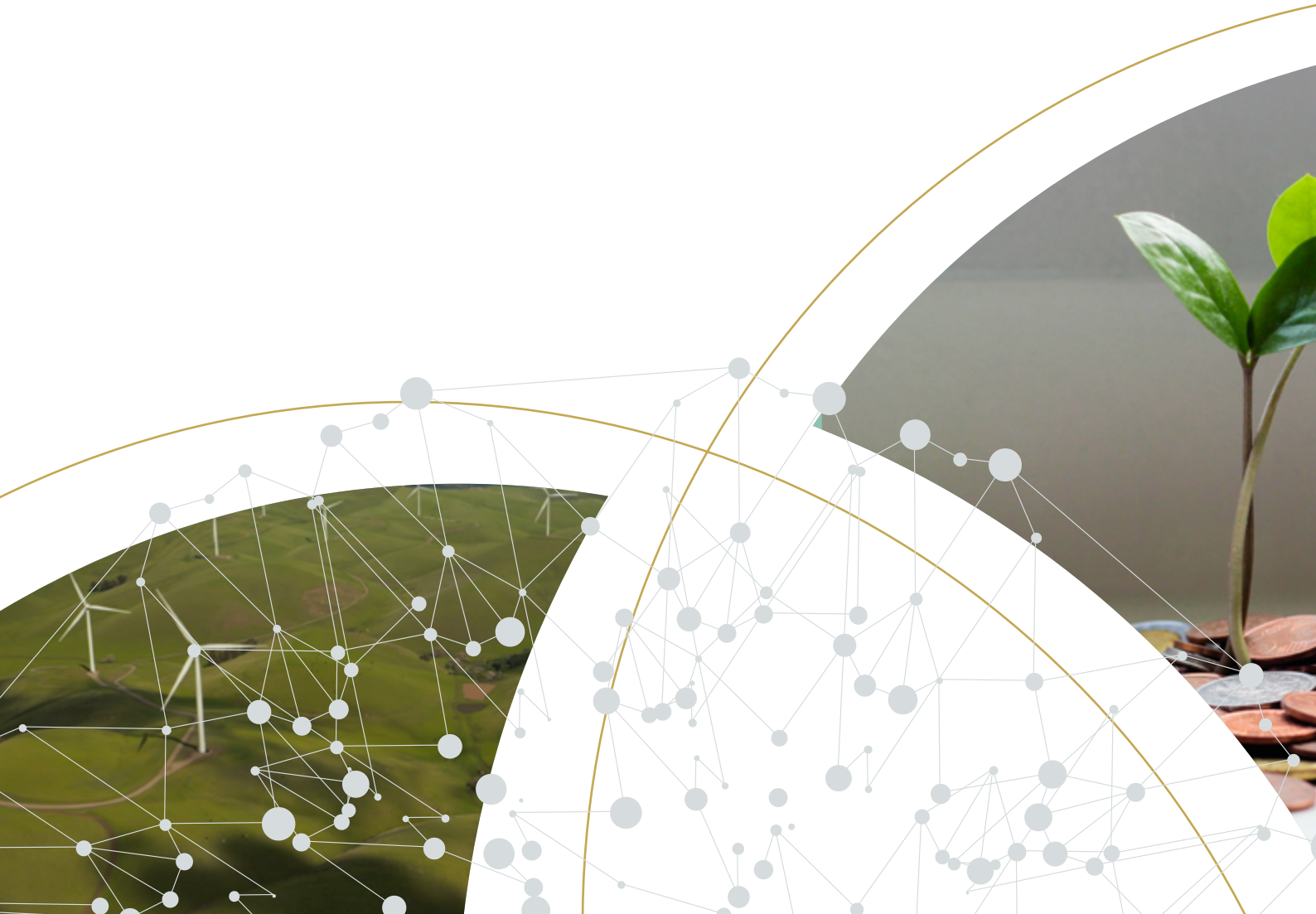
Financing **Fairly**

Assessing the Sustainability of Investment Policies for
Development Finance Institutions in South Africa



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Introduction

Development finance institutions (DFIs) play a crucial role in the economic and social development of the countries and regions in which they operate. DFIs provide financing to companies and fund infrastructure development for power generation, bulk water supply, and transportation networks. By financing strategic projects, DFIs can improve welfare, reduce poverty and inequality, and promote a healthy environment – all while preserving our resources for generations to come.

DFIs have the potential to fulfil an important role in financing a more equitable and just society, one in which the inter-dependence of people and the environment is valued and protected. As a legal organisation working towards the realisation of environmental justice, the Centre for Environmental Rights (CER) recognised this potential and sought to understand the policies of DFIs in South Africa. We therefore participated in a pilot study in which we assessed the finance and investment policies of two South African DFIs, the Development Bank of Southern Africa (DBSA), and the Industrial Development Corporation (IDC). Applying a methodology developed for [Fair Finance Guide International \(FFGI\)](#), we assessed the sustainable development and corporate social responsibility (CSR) commitments of the two DFIs against social, environmental, and human rights standards under seven themes and two sectors.

In the sections below, we highlight the nature and mandate of development finance institutions as well as the reasons why finance and investment policies are important. We then reveal the scores and assessments of the DBSA and the IDC before setting out some general observations of our assessment and specific observations in relation to the two DFIs. This is followed by a more in depth discussion of DFIs role in one of the two sectors assessed, the area of power generation, with reference to the theme of climate change.

We set out two important considerations that impact the role which DFIs could play in the area of power generation, before providing an analysis of key policies and international standards that should inform DFI policy in that sector. Importantly, we submit that the two DFIs can rely more heavily on constitutional imperatives, South African public policy and international development standards, to justify improved commitments within their finance and investment policies. Improvements that could meet the complex and fraught developmental agenda in South Africa in a sustainable manner.

A Mandate to Finance Development

DFIs are institutions that offer long-term strategic finance and investments in the private and public sector. They provide the capital required for the development of infrastructure and production, which enable productive capacity, creates jobs, and builds wealth.

South Africa is home to two state-owned DFIs: [The Development Bank of Southern Africa \(DBSA\)](#) and the [Industrial Development Corporation \(IDC\)](#). Both DFIs are established through acts of Parliament which establish their specific developmental mandates.

DFIs must operate in accordance with their legislative mandates. As such, the freedom of DFIs to determine their own policy and decision making is limited. Each DFI must invest in certain types of assets or provide specific types of finance, in line with South Africa's underlying political rationale or public policy.



	DEVELOPMENT BANK OF SOUTHERN AFRICA (DBSA)	INDUSTRIAL DEVELOPMENT CORPORATION (IDC)
Mandate	To promote economic development and growth, human resource development and institutional capacity building by mobilising financial and other resources from the national or international private and public sectors for sustainable development projects and programmes.	To promote economic growth and industrial development and develop domestic industrial capacity.
Source of Capital	Government of South Africa, European Union, other DFIs such as KfW Bankengruppe, the European Investment Bank (EIB), and French Development Agency (AFD) that participate in programmes such as the Infrastructure Investment Programme for South Africa (IIPSA)	Initial funding provided by the Government of South Africa. Funding is generated through income from loan and equity investments, borrowings from commercial banks, DFIs and others.
Types of Projects	Large scale infrastructure projects within the private and public sector. Emphasis on water, energy, transport and Information and Communications Technology (ICT)	Financing of companies and projects for industrial development in critical sectors such as mining, agriculture, manufacturing, tourism and telecommunications.
Types of Finance	Debt, public-private partnerships, finance through other entities.	Debt, equity, quasi-equity, guarantees, trade finance, and venture capital.

The DBSA and IDC also play a critical role in realising objectives set out in public policy documents, in line with their developmental mandates. The funding provided by DFIs is likely to be channelled towards the specific sectors and industries prioritised by the state. The IDC, for example, *states* that its approach to sustainable economic activities and national priorities is guided by the *National Development Plan: Vision 2030* (NDP), *Industrial Policy Action Plan* (IPAP), the *New Growth Path* (NGP) and other state policies such as *Broad-Based Black Economic Empowerment* (BBBEE) Act. Similarly, the DBSA *states* that its strategy is linked to the objectives of the NDP.

South Africa's NDP sets out the current long-term roadmap for the country's development. It prioritises job creation, poverty elimination, and inequality reduction to address the country's most pressing developmental issues.

The NGP targets employment creation, primarily through infrastructure development in energy, transport, communication, water, and housing. The IPAP sets out details for the implementation of industrial policy to promote industrialisation and export industries, to absorb South Africa's excess labour.

Investment Policies Matter!

Although DFIs must conduct their activities within the parameters of legislative mandates and government policy, they retain crucial decision-making powers. DFIs are ultimately responsible for setting the criteria with which companies and projects must comply to qualify for funding. They may also determine the conditions on which their funding must be used.

DFIs are guided in their decision making by their internal policies, such as finance and investment policies as well as their stated mission and vision. These policies serve as potent tools

that can direct capital towards more socially responsible, fair, and sustainable projects and activities.

Therefore, in addition to legislative mandates and the realisation of objectives set out in public policy documents, both the DBSA and the IDC have committed to implementing sustainable development¹ in their vision and mission statements.² These commitments should be encapsulated within finance and investment policies, which set out the principles of a DFIs' decision-making process and establish investment criteria.

Example

When determining whether it should invest in a coal-fired power plant, a DFI may have an internal policy in place stating that operating a coal-fired power plant without flue-gas desulphurisation or carbon capture and storage is unacceptable or undesirable within its investment portfolio.³

If the DFI does decide to invest in a company associated with fossil fuel activities, it may have a policy restriction in place stating that total coal-fired power generation and coal mining activities of that investee company may not exceed 30% of all its activities.⁴

Finance policies may also apply to beneficiaries' operations and commitments. A DFI might require companies to follow a particular human rights due diligence process⁵, as a condition for receiving financing.⁶

¹ According to the United Nations, development is sustainable when it "meets the needs of the present without compromising the ability of future generations to meet their own needs." In 2015, the UN General Assembly adopted a resolution setting out the 2030 Agenda for Sustainable Development, which culminated in the formulation of 17 Sustainable Development Goals (SDGs). Through this global process, world leaders set in place a blueprint for realising a sustainable future for all. They recognise that: "ending poverty and other deprivations must go hand-in-hand with strategies that improve health and education, reduce inequality, and spur economic growth – all while tackling climate change and working to preserve our oceans and forests." (See: [UN Sustainable Development Goals Website](https://www.un.org/sustainabledevelopment/))

² DBSA 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 resource." (See DBSA Sustainability Review 2018-19, p 17)

IDC Vision: "To be the primary driving force of commercially sustainable industrial development and innovation for the benefit of South Africa and the rest of Africa." Mission: "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." (See IDC Website <https://www.idc.co.za/about-us/>)

³ See assessed elements: Climate Change Theme, Element 13

⁴ See assessed elements: Climate Change Theme, Element 6

⁵ See assessed elements: Human Rights Theme, Element 4

⁶ See assessed elements: Human Rights Theme, Element 2

⁷ The FFGI methodology has historically only been used to assess the policies of commercial banks.

FFGI Policy Assessment and Findings

To determine whether and to what extent the investment and finance policies of the South African DFIs comply with international standards, CER participated in a pilot project of Fair Finance Guide International (FFGI) and Profundo. The purpose of the project was two-fold. Firstly, it tested whether the FFGI methodology is suitable for assessing the investment and finance policies of DFIs.⁷ Secondly, it evaluated the extent to which the policies of six DFIs comply with relevant international standards. The six assessed DFIs include the African Development Bank (AfDB), Development Bank of Southern Africa (DBSA), European Investment Bank (EIB), Netherlands Finance Development Company (FMO), Industrial Development Corporation (IDC), and New Development Bank (NDB).

The CER evaluated the policies of the DBSA and IDC against international standards while Profundo oversaw the pilot project on behalf of FFGI and conducted assessments for the four other DFIs. Following the pilot, Profundo [published a report](#) setting out comprehensive findings for all assessed DFIs. At the same time, the CER has prepared this report concerning the DBSA and IDC.

The Methodology and Assessment

The sustainable development and corporate social responsibility (CSR) commitments for assessed DFIs were measured against [152 specific elements](#) of international standards and initiatives. Some of the international standards considered in the assessment include:

Equator Principles	IFC Environmental, Health, and Safety Guidelines	IFC Performance Standards
OECD Guidelines for Multinational Enterprises	UN Global Compact	UN Principles for Responsible Investment
TCFD Recommendations	GRI Reporting Standards	Roundtable on Sustainable Biomaterials (RSB)
UN Guiding Principles on Business and Human Rights	Standards relating to UNESCO World Heritage Sites	WHO Framework Convention on Tobacco Control
Stockholm Convention (on POPs)	Montreal Protocol	ILO Conventions

The elements are grouped under seven themes and two sectors: transparency and accountability; climate change; corruption; human rights; gender equality; health; nature; the financial sector; and power generation sector.

Points were awarded to DFIs based on the *policy content* (establishing whether their policy complies with the requirements of an element), and *policy scope* (based on whether the policy applies to some or all of the DFIs' financing activities).

The assessment considered [publicly available](#) policies only, including investment and finance

policy documents, annual reports, websites, and governance documents that demonstrate compliance with particular elements. A final [score out of ten](#) was awarded to each DFI based on their publicly available policies, and the DFIs were ranked accordingly.

Note: The DFIs were provided with an opportunity to comment on the provisional assessment findings before finalisation. However, no response was received from the IDC within the timeframe allocated to the assessment. A partial response was received from the DBSA and its comments have been incorporated into the assessment.



The Findings

The assessment found that the FFGI methodology could successfully be applied to DFIs. The FFGI methodology and approach could also be useful for the work of civil society organisations in influencing investment decisions by DFIs. Further, the evaluation of the policies of the six DFIs provides insight into the commitments and, in some instances, lack of commitment, to environmental, social, and governance issues.

In terms of overall performance, the European Investment Bank (EIB) ranked the highest out of the six DFIs assessed. The EIB received its highest scores for the transparency and

accountability, nature, corruption, and climate change themes, due to comprehensive policies in those areas. Although the EIB scored the highest on most themes, the African Development Bank (AfDB) performed best in the Financial Sector analysis, dealing with the policies required in dealing with financial intermediaries, and tied with the EIB with a score of 7.7 for human rights.

Turning to the South African DFIs, the DBSA ranked fourth, achieving its highest scores on the nature, power generation, and transparency and accountability themes. On the other hand, the IDC came in last of the six DFIs, only achieving minimal scores for the assessed themes.

THEMES / SECTORS	EIB	AFDB	FMO	DBSA	NDB	IDC	AVERAGE SCORE
Climate Change	7.9	2.1	4.0	1.3	0.8	0.0	2.7
Corruption	8.3	7.1	7.5	3.3	3.3	3.3	5.5
Gender Equality	6.4	3.2	2.5	3.0	1.3	1.3	3.0
Health	8.0	7.5	5.6	3.4	4.7	0.0	4.9
Human Rights	7.7	7.7	6.2	4.0	2.3	0.0	4.6
Nature	8.7	8.0	5.3	5.6	5.0	0.0	5.4
Financial sector	1.8	2.0	1.4	0.5	0.0	0.0	1.0
Power Generation	6.7	6.8	4.2	4.4	2.4	0.5	4.2
Transparency and Accountability	8.8	6.1	6.1	3.6	1.6	1.8	4.7
AVERAGE SCORE PER DFI	7.1	5.6	4.8	3.6	2.4	0.8	4.0



General Observations

The findings are summarised in a ranked scorecard. However, it is important to remember that the scores demonstrate investment and finance policy alignment

with many elements across a wide range of international standards. The scores provide a standardised overview of DFI investment and finance policies which allows for a general comparison between DFIs. When interpreting the results, it is also crucial to bear in mind that:



The political mandates of the respective DFIs, and the public policy objectives, may influence their decision-making.

These political considerations can override existing policy standards, or impact the willingness of a DFI to set certain standards within its policies, or whether to adopt investment policies at all.



The state of development of the country or region from which the DFI originates plays a role. Disparities between scores in thematic areas and sectors could reflect the relative importance of realising international standards in certain themes depending on the developmental context of the DFI.



Differences in development should not excuse a lack of strong policy commitments. The AfDB's strong performance on all elements, except climate change and gender



equality, demonstrates that African banks are capable of setting similar standards to their European counterparts despite differing developmental challenges. Similarly, across thematic areas, it is difficult for any DFI to justify lower scores in themes such as corruption, and transparency and accountability, regardless of its location. Here, the elements are not causally related to a developmental agenda and primarily require actions directly within the control of the DFI and its clients.





Only publicly available finance and investment policies were considered in the assessment. An exceptionally low score within a particular theme could reflect poor policies – but is more likely to reflect a lack of publicly available policies (as is the case with the IDC). Further, the assessment only considers the content of finance and investment policies in awarding points. DFI practices are not assessed.



Specific Observation in relation to the DBSA: Inconsistent Policies

The DBSA ranked fourth out of the six DFIs assessed. The results reveal that the DBSA scores comparatively well for its policies on human rights and nature themes, and in relation to the power generation sector. However, the DBSA's low score on its climate change theme has brought down its average score. We take a closer look at the reasons behind this.

The primary reason for the DBSA's low score under the assessment's climate change theme is that its publicly available policies fail to include or align with the elements of international climate change standards. For example, the DBSA **does not**, in any of its publicly available policies:

-  Include a *measurable target* for reducing its own greenhouse gas emissions;
-  Disclose its financed greenhouse gas emissions (i.e. the emissions of the companies in which it invests) nor establish a measurable reduction target for those financed emissions;
-  As an alternative, strive towards a carbon neutral investment portfolio; or
-  Indicate any maximum threshold restricting the finance of and investment in fossil fuel extraction and fossil fuel power generation.

Furthermore, the DBSA is still on its way to becoming compliant with the recommendations set out by the [Task Force on Climate-related Financial Disclosures](#) (TCFD) and could not be awarded a point for this element.

Notably, the DBSA's Integrated Energy Sector

Investment Framework - though mentioned in some of the DBSA's other policies, and which may have been useful in assessing the climate change theme - is an internal document of the DBSA and is not publicly available. Without access to the DBSA's Energy Framework, it was not possible to assess that policy against the abovementioned elements under the climate change theme.

It is also important to unpack the reason for the DBSA achieving its second highest score on its power generation theme, despite the low score on the climate change theme.

The power generation theme focuses on elements which indicate whether the DBSA finances companies involved in renewable energy generation and has a measurable target to increase its finance for renewable energy generation. In this regard, the DBSA, through its programmes and meetings with civil society organisations, has demonstrated a strong commitment to the financing of "green energy."

Where the DBSA falls short, even under the power generation sector theme, is that it has not simultaneously illustrated a clear shift away from the financing of fossil fuels such as coal. The DBSA has established a Climate Change Policy Framework but that framework does not include a *measurable target* to reduce its finance for fossil fuel power generation or the fossil fuel sector as a whole.

Additionally, as stated above, the DBSA's Energy Sector Investment Framework remains an internal document and is not publicly available for assessment. This inconsistency between the DBSA's strides towards financing renewable energy and its lack of commitment under international climate change standards requires a closer look at two main influencing factors, which are discussed in more detail below.

[The Full DBSA Assessment Sheet](#)



Specific Observation in Relation to the IDC: Transparency and Policy Availability

The IDC ranked last out of the six assessed DFIs, primarily because none of its formal policies were publicly available. Points awarded to the IDC are based on information found in its Integrated Annual Report for 2019, however such information is limited and is often insufficient to award a score for compliance with a particular element of international standards.

Despite several requests made to the IDC to obtain its policies, the IDC failed to respond. Following notice to the IDC, informing it that the opportunity to comment on the findings had closed, the DFI finally provided its Board Charter and Code of Ethics and Business Conduct. Nonetheless, it failed to provide more pertinent policies such as its Environmental and Social Policy, Responsible Investment Policy, and Corporate Governance Framework for IDC Subsidiaries and Investee Companies.

The IDC's poor performance in the assessment highlights the importance of transparency and access to information. This is particularly relevant for public institutions such as DFIs that finance large infrastructure projects intended for the public good using public funds.

The policies of DFIs must be publicly available and easily accessible to enable civil society and

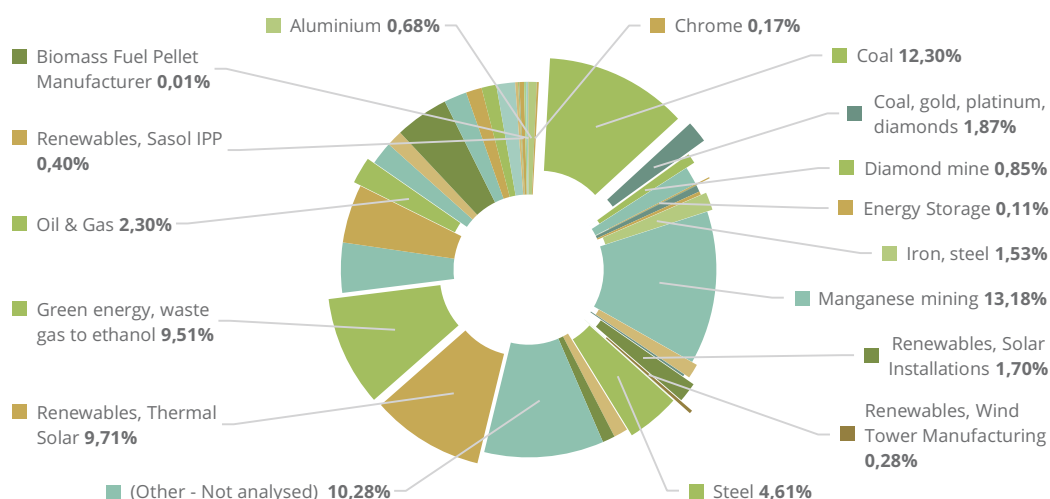
the public to analyse DFIs' decision-making, and to understand and assess DFIs' compliance, and their requirements for investees' compliance with environmental, social and governance standards.

Nonetheless, it must be noted that the absence of policies in the public domain does not, on its own, indicate that the IDC's policies fail to comply with international standards. However, when one considers its practices, it is apparent that the IDC does not have a policy in place to sufficiently support the transition to a low-carbon economy.

An element in which the IDC was awarded a point was for its verification of the ultimate beneficial owners of a company, including politically exposed persons, under the corruption theme. The IDC was awarded this point because it discloses a list of all IDC funded business partners each year, with details of the investment, and this information was set out in its Integrated Annual Report.

The list published during the period of CER's assessment details the IDCs funding and investment activities during FY2018/19. Upon analysis, the CER found that the IDC provided funding of R11.7 billion between April 2018 and March 2019. Of that sum, more than 20% was channelled towards renewable energy-related industries. However, at least 14% was provided to coal-related companies and activities and almost 3% to oil and gas projects.

IDC Investments FY 2018/19



[The Full IDC Assessment Sheet](#)



In the next section, we consider, based on our assessment of the DBSA and IDC, the role of these two DFIs in relation to one assessed thematic area - power generation in South Africa. We recognise that we are highlighting just one sector out of nine, however this sector is of particular relevance to the CER.

Note: The other assessed themes are equally important but not central to the focus of CER's work. We hope that other civil society and community organisations will utilise the full assessments of the IDC and the DBSA on other thematic areas, which include transparency and accountability; corruption; climate change; human rights; gender equality; health; nature and the financial sector, to inform their own understanding of DFI policies. We hope that our assessments will prove useful in their work and advocacy.

DFI Policy and Power Generation in South Africa: Climate versus Coal

The ability to generate sufficient energy to meet demand in South Africa is a pressing developmental issue. The country has been unable to generate power in a manner that guarantees security of supply and affordability for consumers. And it has yet to generate power at scale in a manner that is sustainable.

Eskom, the state-owned electricity utility, is responsible for 39% of South Africa's greenhouse gas (GHG) emissions, of which nearly all are the result of coal-fired power generation. In addition, the use of coal for power remains prevalent within heavy industry. Sasol's Coal-to-Liquid (CTL) plant in Secunda is the largest single point source of GHG emissions in the world. Nearly 50% of its emissions are the result of power generation as an input to the CTL process.

As a result of the heavy reliance on coal, South Africa punches above its weight in per capita

emissions of greenhouse gases and is the 14th highest emitter of greenhouse gases in the world.⁸ Unabated emissions and air pollution have heightened risks and harm associated with human health, climate change and environmental degradation.

In addition, South Africa's weather patterns are changing, and the water scarce country faces worsening drought conditions as climate change intensifies.⁹ Due to low levels and uneven distribution of protection, South Africa's water source areas are highly vulnerable to inappropriate development. Cape Town was set to become the first major city in the world to run out of water following a serious drought in 2015.¹⁰ However rural areas in South Africa's interior, which accommodate some of the most historically disadvantaged and vulnerable sectors of society, are likely to be impacted most by climate-driven temperature increase and drought.

The failure to protect the environment has already resulted in a deterioration of the health and well-being of South Africa's people. The COVID-19 pandemic has exposed the fault lines of deep-rooted unequal development. Millions of people residing in informal settlements are exposed to higher risks of infection, compounded by uneven distribution and access to food and water. The need to protect our water sources, ensure food security, and create a healthy environment so as to reduce people's vulnerability to the effects of climate change and to infections and viruses such as COVID-19 has never been more urgent.

DFIs can help address this situation by ensuring that the companies and projects they choose to finance and invest in comply strictly with social, environmental and human rights standards. At the same time, DFI policies can encourage a transition to a low carbon economy to limit the harm associated with climate change.

⁸ Carbon Brief Profile: South Africa (last updated October 2018)

⁹ "Water is the primary medium through which the impacts of climate change are being felt in South Africa according to the National Water Resource Strategy," according to South Africa's Second National Climate Change Report 2016

¹⁰ See media reports: BBC, Time, National Geographic

Such strategies, if founded in science and based on real commitment, could ensure that workers and communities transition into jobs that are safe and dignified, while protecting our environment.

Transitioning to a Low-Carbon Economy

The NDP recognises the urgent need for South Africa to transition towards a low-carbon economy and prioritises the inclusion of renewables in South Africa's energy mix. It targets the decommissioning of 11GW of coal-fired power, [stepping up investments in energy efficiency](#), and contracting at least 20GW of renewable energy by 2030.

Financial institutions play a critical role in financing this transition towards a low-carbon economy, and one that is recognised by both the DBSA and IDC who actively fund renewable energy projects, and crowd in other investors.

Yet, the funding of renewable energy is only one part of an energy transition. An effective transition requires a switch from burning fossil fuels to developing renewable sources of energy. For DFIs, this means phasing out investment in and financing of activities with unacceptably high GHG emissions, such as coal-fired power generation.

The need to phase out coal and transition towards renewable energy should be reflected in DFIs' finance and investment policies, which should be publicly available. Crucial elements of these policies could include:



Financing of companies involved in renewable energy generation;



Targets to increase finance for renewable energy generation; and



Exclusions against financing of new coal-fired generation, fossil-fuel fired generation, nuclear power, oil and gas projects or large scale hydro-power.

Putting in place such a policy supports a DFIs' strategy to mitigate the physical and transitional risks associated with investment in carbon

intensive industries. A [successful strategy](#) would also deal with climate change risks proactively, by measuring and reporting on the carbon footprint of their financial portfolios and implementing strategies which align their portfolios with the internationally agreed 2-degree temperature increase limit.

Despite this, the assessment of the DFIs' finance and investment policies reveals that neither the DBSA nor the IDC have fossil fuel exclusion policies, nor do they take strong positions against coal-fired power generation.

Political Considerations

As indicated above, in the general observations of our assessment, the political mandates of DFIs may influence their decision-making. These political considerations can override existing policy standards or impact the willingness of a DFI to set certain standards within its policies, including the decisions on whether to adopt investment policies at all.

Therefore, one explanation for the lack of full commitment towards a low-carbon transition on the part of South African DFIs is the continued incorporation of coal-fired power into South Africa's energy mix. Although South Africa's NDP encourages a transition towards renewable energy, the latest iteration of South Africa's [Integrated Resource Plan](#) (the national electricity plan) makes provision for 1500MW of new coal-based electricity in the country's energy mix.

South Africa's energy production is intricately related to the minerals-energy complex. This is reflected, for instance, in the decision to merge the Ministries of Energy and Mineral Resources in 2019. The country is rich in minerals and commodities, including coal. As such, mining continued to be viewed as a primary driver of the South African economy, with coal a vital export and fuel source for energy generation. **Yet this minerals-energy complex, as we have seen it play out, continues to be a barrier to sustainable development.**

If one considers this in the context of the shift away from fossil fuel financing by commercial banks, DFIs have become the funders of



last resort for the financing of coal and coal infrastructure. **Without commercial funding to finance these fossil fuel activities, state-owned DFIs appear to find themselves politically persuaded to fund unsustainable activities.**

A key challenge, therefore, remains the political influence of vested interests in the fossil fuel industry on policy formulation.

Developmental Considerations

In addition to South Africa's deeply ingrained reliance on minerals and commodities, the country's state of development weighs heavily on DFIs' investment decisions.

In South Africa, development is urgently required to address chronic poverty, unemployment and inequality. The country frequently tops the list of the world's most unequal societies, with a Gini coefficient well above 0.6. According to the *Inequality Trends in South Africa Report* released by StatsSA in 2019, the country's persistent inequality is rooted in its history of racial segregation and oppression.

Today, inequality is driven by earnings disparity and extremely high levels of unemployment. In the third quarter of 2019, South Africa's unemployment rate hit a **record high of 29.1%**. For 2020, analysts predict that between 1 and 7 million additional jobs will be lost, owing to the impact of COVID-19.¹¹ The rise in unemployment disproportionately affects workers in the agricultural, mining, tourism, and manufacturing sectors. More skilled labour in the services economy has the benefit of technology to work from home and e-commerce to ensure continued sales, widening income disparities based on skills distribution.

To reduce poverty and inequality, South Africa requires targeted and sustained economic growth that actively and purposefully creates jobs, while raising the welfare of those in the informal sector. However, it is important that

DFIs weigh up these developmental goals against potentially negative immediate and long-term impacts when deciding whether to finance or invest in a project. This requires a rethinking of what sustainable development means in a country such as South Africa, and how developmental, environmental and climate objectives can be achieved through the projects being funded.

In the power generation sector, DFIs must consider the harm caused to people and the environment when financing fossil fuel extraction and power generation, as well as the increasingly devastating impacts of the climate crisis.

Looking Ahead: Development Must Be Sustainable

South African DFIs should resist political influence over their finance and investment policies, particularly in relation to transitioning to a low-carbon economy, and aim to achieve development in a sustainable manner. They could do so by relying on their legislative mandates, by acknowledging and relying on Constitutional imperatives for a healthy environment as well as reliance on the NDP and international development standards.

DFIs must be guided by the *Constitution of the Republic of South Africa*, which sets out particular development objectives for the state while simultaneously setting standards of protection for people and the environment. Section 24 specifically states that legislative measures should be enacted to "secure ecologically sustainable development and use of natural resources while promoting justifiable economic and social development." Further in this regard, the definition of sustainable development in the National Environmental Management Act, 1998 (NEMA) is essential. NEMA defines sustainable development

¹¹ See for example: *News Report*, or *Fin24 News Report*

as “the integration of social, economic and environmental factors into planning, implementation and decisionmaking so as to ensure that development serves present and future generations.

South Africa's NDP also dictates a clear outcome of an environmentally sustainable and resilient country through a transition to

a low-carbon economy. As a key implementing agency of industrial policy, the IDC's activities centre around the NDP and aim to identify development opportunities aligned with the NDP's objectives.

Similarly, the DBSA holds that its' strategy is linked both to the objectives of the NDP as well as to the SDGs. Importantly, the DBSA acknowledges that, in fulfilling its mandate, it *subscribes to the goals and targets of the United Nations' “Transforming Our World: the 2030 Agenda for Sustainable Development”*



The SDGs Include:

- Taking urgent action to combat climate change and its impacts (**Goal 13**)
- Conserving and sustainably using the oceans, seas, and marine resources (**Goal 14**)
- Protection, restoration, and promotion of sustainable use of terrestrial eco-systems (**Goal 15**)
- Reducing inequality within and among nations (**Goal 10**)
- Ending poverty in all its forms everywhere (**Goal 1**)
- Ensuring healthy lives and promoting well-being for all at all ages (**Goal 3**)
- Achieving gender equality and empowering all women and girls (**Goal 5**)

In relation to this, the NDP has a 74% convergence with the SDGs, according to *South Africa's SDG Country Report 2019*. It not only recognises the importance of addressing poverty and inequality but also highlights South Africa's exposure to climate change impacts. The Medium-Term Strategic Framework 2014-2019 (MTSF) – which commits to implementing the NDP – includes an effective climate change mitigation and adaptation response as one of its outcomes.

In relation to the DBSA's commitment to the SDGs, it should be noted that in December 2019, the United Nations General Assembly adopted its eleventh resolution on sustainable development in *Harmony with Nature*. The resolution essentially recognises the inextricable

link between sustainable development and nature. It follows years of dialogue on the need for advancing different economic approaches in the context of sustainable development to further an ethical basis for the relationship between humanity and the Earth.

South African DFIs should be actively resisting political influence over their own developmental agendas and policies and instead rely on existing and compelling legislation and guidance on sustainable development to justify decision making and policy reform. This could ensure that ensure that DFIs play a positive role in our economic recovery from the impacts of the Covid-19 pandemic, while advancing the constitutional right to a healthy environment, thus paving the way for a just recovery.

DFI finance and investment policies work by requiring investees to align their projects with sustainability objectives. Essential objectives include those contained in our constitution, the NDP and the SDGs. The alignment with sustainability objectives would ensure that companies and projects financed with public funds stimulate inclusive and sustainable development and not only economic growth, whilst also addressing climate change.

Conclusion

The NDP emphasises the need for inclusive economic growth which must exceed 5% per annum over a sustained period if it is to achieve its developmental and sustainability objectives. Meanwhile, the estimated cost of achieving the SDGs globally is US\$5-7 trillion per year. To realise these financial targets, countries recognise that public finance plays a vital role by providing essential services, public goods, and catalysing other sources of finance.

DFIs are therefore critical for ensuring sustainable development. In line with their specific development mandates, DFIs (unlike private institutions) have a special responsibility to carefully consider the wider development impact of their financing. In South Africa, their developmental mandate requires DFIs to identify and address poverty, inequality, and rising unemployment. Commitments to sustainability – and, indeed, legal obligations – require them to ensure the protection of the environment for generations to come.

DFIs must formulate finance and investment policy frameworks that take into consideration the connections between economic, social and environmental concerns. However, in balancing these considerations, they cannot be allowed to ignore one aspect over another. The global climate crisis has revealed the inextricable link between the protection of the environment and the protection of other human rights. This link

is of paramount importance in a developing country such as South Africa – a country plagued by issues of poverty and inequality, and vulnerable to the effects of climate change.

The DBSA's Environmental and Social Safeguards Standards is a comprehensive policy, well-aligned with international environmental and human rights standards. It has resulted in the DBSA achieving most of its points in the assessment. While the DBSA's scores on human rights, nature and power generation themes are commendable, this is of little consequence without improving its performance on policy measures to combat climate change.

For the IDC's part, its failure to disclose its policies is worrying. As a public institution, it ought to hold itself to the highest standards of transparency and ensure that critical governance information is available online. Having said that, it is useful and indeed commendable that the IDC publishes its list of investments online. This positive step allows for more considered engagement around the IDCs investment practices. What remains necessary are positive policy actions that reflect its commitment towards "sustainable economic development."

In the midst of a severe economic crisis following the coronavirus pandemic, DFI financing and investment is more important than ever. These institutions are not only instrumental in generating long-term economic growth, but have emerged as crucial enablers of economic recovery. DFIs must, however, ensure that economic recovery is executed through the kind of development that respects social, environmental, and human rights standards, to deliver a transition that is just and future that is sustainable.

Given South Africa's own vulnerability to climate change, it is imperative that South African DFIs make the necessary commitments in their finance and

investment policies to advance the sustainability agenda endorsed by the South African government, and to ensure a just recovery that adequately responds to the challenge of the climate emergency.

Fair Finance Guide International and the Methodology

Fair Finance Guide International (FFGI) is an international civil society network initiated by Oxfam Novib (Netherlands). It seeks to strengthen the commitment of banks and other financial institutions to realising and maintaining social, environmental, and human rights standards. FFGI utilises evidence-based research and analysis to enable critical dialogue with banks, the public, and stakeholders, and to strengthen democratic oversight.

The network uses a rigorous methodology to assess, report on, and campaign for more responsible investment policies and practices. The FFGI methodology was developed by Profundo, a non-profit consulting company. It was designed to evaluate the investment policies of financial institutions and, prior to the pilot project, had successfully been used to formulate FFGI guides on the policies of some of the largest commercial banks in ten countries, including the Netherlands, France, Brazil, Japan, Thailand, and Indonesia.



About the Centre for Environmental Rights

The Centre for Environmental Rights (CER) is a non-profit organisation of activist lawyers who help communities and civil society organisations in South Africa realise our Constitutional right to a healthy environment by advocating and litigating for environmental justice.

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