FINANCING FAIRLY 2024

Are Public Finance Institutions Financing a (Truly) Just Energy Transition in Southern Africa?

A Sustainability Policy Assessment

FairFinance Southern Africa

EXECUTIVE SUMMARY

Background

Globally and regionally, governments and policymakers have started to acknowledge that in order to contain the impacts of climate change and ensure that development is sustainable, a transition from fossil fuel dependency is inevitable. The Just Energy Transition focuses on this transformation of the energy sector from one that is reliant on fossil fuels, to one that is low-carbon and environmentally sustainable. These transitions are already underway in the Southern African region (for example, in both South Africa and Mozambique) and holds a new promise for the Southern African region – an economy and society that prioritises environmentally and socially sustainable production and consumption practices. But a transition of this scale and nature will not be possible without finance. Public Finance Institutions (PFIs) operating in Southern Africa, as the financial providers for major energy infrastructure and industrial development projects in the region, have a crucial role to play in advancing a Just Energy Transition.

In *Financing Fairly 2022*, the results of the Fair Finance Coalition Southern Africa (FFCSA)'s sustainability policy assessment revealed that PFIs in Southern Africa still had much work to do to ensure transparent public finance that adequately addresses the climate crisis. Many of those PFIs have since committed to supporting the transition to a low-carbon economy in the energy sector. In this third iteration of the series, Financing Fairly 2024, FFCSA analyses whether the policies of these PFIs are indicative of an energy transition that is (truly) just for Southern Africa. The report presents the findings of research conducted on the publicly available policies of eight PFIs[1] operating in Southern Africa. The eight institutions comprise a mix of national, regional and multilateral development banks, all of which provide financial support for the energy sector in the region. The research used the Fair Finance Guide Methodology to assess and benchmark the publicly available policies of the eight institutions against international sustainability standards across nine different themes[2]. The findings of this latest policy assessment reveal that PFIs operating in Southern Africa are far from demonstrating the policy commitments necessary to enable a Just Energy Transition in the region.

1 **The eight Public Finance Institutions assessed are:** African Development Bank (AfDB), African Export-Import Bank (Afreximbank), Development Bank of Southern Africa (DBSA), Export Credit Insurance Corporation (ECIC), Industrial Development Corporation (IDC), New Development Bank (NDB) Public Investment Corporation (PIC), and the World Bank (WB).

2 **The nine different themes are:** Climate Change, Corruption, Gender Equality, Human Rights, Labour Rights, Nature, Oil & Gas, Power Generation, and Transparency & Accountability.

The Key Findings

Overall, the policies of the eight PFIs scored poorly against the Methodology, indicating that there is much room for improvement when it comes to aligning their policies with international sustainability standards.

Theme	AfDB	Afrexim	DBSA	ECIC	IDC	NDB	PIC	WB
Climate Change	1.1	0.0	2.7	0.5	0.2	0.9	0.0	4.5
Corruption	5.6	5.0	3.8	1.5	4.6	3.1	3.5	5.0
Gender Equality	2.9	0.0	5.5	2.4	1.3	1.1	1.6	3.4
Human Rights	7.7	0.0	6.7	2.7	0.7	4.7	3.7	4.7
Labour Rights	6.6	0.0	6.6	2.4	0.8	0.8	2.4	6.3
Nature	8.0	0.4	8.0	3.6	0.0	4.3	0.0	5.0
Oil & Gas	2.2	0.0	2.5	0.6	0.6	0.0	0.6	2.8
Power Generation	5.0	0.7	3.0	0.0	0.7	1.7	1.3	2.7
Transparency & Accountability	5.9	0.5	3.5	2.3	1.7	3.4	3.3	9.5
Average score	**5.0**	**0.7**	**4.7**	**1.8**	**1.2**	**2.2**	**1.8**	**4.9**

The low scores on key themes such as **Oil & Gas, Climate Change** and **Power Generation** demonstrate that the policies of the eight PFIs are inadequate to address a Just Energy Transition in Southern Africa:

- **Climate Change:** Six out of the eight PFIs do not disclose policies that exclude companies active in or involved in the development of new fossil fuel (coal, oil and gas) exploration, mining and power generation from its financing and investments. The PFIs also have no time-bound phase-out strategy for fossil fuels that is aligned with a 1.5-degree climate scenario. Only two of the PFIs (NDB and World Bank) have policy commitments to exclude the development of new coal-fired power plants from their investment and financing.

- **Power Generation:** While the majority of the PFIs have committed to financing renewable energy resources, none of the eight PFIs disclose policies with a measurable target to reduce either their total amount of finance for fossil fuel-fired power generation, or to reduce their finance for fossil fuel-fired power generation relative to their finance for renewable energy generation.

- **Oil & Gas:** None of the eight PFIs disclose policies that exclude new oil & gas exploration and development or the construction of new oil and gas pipelines from its financing and investment. (The only exception is the World Bank who has made a commitment to exclude the development of new oil projects.) In addition, none of the PFIs disclose policies that require the companies they invest in or finance to phase out their oil and gas operations in line with a 1.5-degree scenario. In fact, the results indicate that all eight PFIs are actively investing in and financing new gas projects in Southern Africa. Two of the PFIs (DBSA and IDC) have endorsed the use of natural gas as a 'transition fuel' and have played a key role in the development of a Gas Masterplan for the Southern African region, of which they will be the key implementers. One of the PFIs (Afreximbank) has been part of the creation of the new Africa Energy Bank focused solely on financing the oil & gas industry for energy projects in Africa.

- **Human Rights:** Only three of the PFIs disclose policies that require companies they invest in or finance to have processes to enable the remediation of any adverse human rights impact which they cause or to which they contribute. This is particularly concerning for PFIs with a significant footprint in the fossil fuel industry, an industry known for being associated with adverse human rights impacts.

- **Gender Equality:** Only three of the PFIs disclose policies that require the companies they invest in or finance to make a policy commitment to mitigate the human rights risks faced by people as a result of their gender. Again, this is particularly concerning for PFIs with a significant footprint in the fossil fuel industry, an industry known for being associated with adverse human rights impacts that disproportionately affect women.

- **Transparency & Accountability:** Only four out of the eight PFIs have established a grievance mechanism for individuals and communities that may be adversely affected by projects that the PFI is connected to. This is particularly important for PFIs operating in the fossil fuel industry and in the Southern African region where the majority of energy projects are situated close to indigenous or local communities who bear the brunt of negative environmental and social impacts associated with the projects.

Financing Gas as a Transition Fuel in Southern Africa

Natural gas has long been touted as a 'transition fuel' by economies dependent on coal for energy, as an alternative that is 'cleaner', quicker to build, and that promotes energy and economic growth. In the Southern Africa region, many countries are already in the emerging production phase (Mozambique) or exploratory phase (South Africa and Namibia) of gas production.

While many of the PFIs have made policy commitments and statements to supporting a Just Energy Transition and a gradual move away from fossil fuels, they simultaneously position gas-to-power projects as an emerging or evolving energy generation opportunity alongside the region's potential for renewable energy generation. This has generally been positioned in the context of balancing the monetization of the region's natural resources to meet energy demand and promote industrialisation (economic growth), against the risks associated with climate change and the transition (environmental sustainability). It is no surprise, then, that the eight PFIs assessed received the lowest scores for their policies (or lack thereof) on Oil & Gas. As public institutions, PFIs have an overarching mandate to advance socio-economic development in the countries in which they operate and, in the era of a climate crisis, should be the drivers of a decarbonized economy. A lack of transparency across these institutions makes it difficult to accurately assess the true scale of capital allocated to fossil fuel projects, raising concerns that public funds—potentially amounting to millions or even billions—may become locked into assets at risk of becoming stranded as the world moves away from carbon intensive resources. PFIs are too quick to support gas projects in the name of energy security and a gradual transition. This line of reasoning is outdated and neglects to highlight the real cost of continuing to depend on fossil fuels relative to the cost of renewables today. The role of gas as a transition fuel should be strictly questioned in terms of its real contribution to reducing GHG emissions, its alignment with a socially just transition, as well as its reputational and financial risks.

The Risks of Gas

1. Methane, a greenhouse gas at least 20 times more potent than CO2, can leak during extraction, transportation and storage, undermining the climate benefits of switching to gas.

2. Long-term lock-in — developing natural gas infrastructure might lock the country into fossil fuel use for decades, potentially slowing the adoption of renewable energy.

3. High cost and investment risks related to gas infrastructure, especially import infrastructure and pipelines that divert funds away from renewable energy projects, delaying full and real decarbonization.

Recommendations

FFCSA recommends that the eight PFIs:

1. Develop and strengthen their sustainability policies to align with international standards, including the Paris Agreement's 1.5-degree target:

- While there is room for improvement across the nine themes, PFIs should pay particular attention to how their policies fall behind in terms of the standards under Climate Change, Oil & Gas, and Power Generation. The FFG Methodology can be used by PFIs as a guidance for developing their policies and best practices.
- PFIs that act as intermediaries for climate finance should have robust policies that enable a truly Just Transition (including a Just Energy Transition). With an increased need for climate finance to support climate action in Southern Africa, policies regarding climate change, energy and human rights should be updated to meet current climate needs.

2. Improve transparency regarding their due diligence frameworks and processes:

- Some of the PFIs have ESG policies that guide their internal operations and financing activities but have not publicly disclosed those policies. This is not sufficient. PFIs must make those policies publicly available, together with clear objectives, strategies, and metrics for accountability.
- **Overall, there is a need for more accessible information from PFIs to enable greater transparency regarding climate finance deals and the basic operations of the financial institutions.**

3. Establish a fossil fuel finance exclusion plan or policy:

- In the face of the accelerating climate crisis and the Just Energy Transition underway, it is important for PFIs to have in place a policy or plan that explicitly excludes fossil fuels from their finance and investment portfolios.
- The policy or plan should explicitly cover a) the phasing out of existing finance and investment in fossil fuel extraction and power generation projects and b) the exclusion of any new finance and investment in fossil fuel extraction and power generation projects, including: thermal coal mining, coal-fired power generation, oil & gas extraction (both offshore and onshore) and oil & gas power generation.
- The policy or plan should include clear timelines and targets for an equitable phasing out of finance for and investments in fossil fuels.

4. Align their policies with the latest climate science and reject false solutions:

- In the age of false solutions where gas is being promoted as a 'transition fuel', PFIs should align their investments with climate science which says that in order for global climate action to remain on the 1.5 pathway, the transition to renewable energy must be the priority. Commitment to oil and gas exploration in Africa will not only plunge the continent into further climate collapse, but will also delay a truly just transition.

5. Engage with the Fair Finance Coalition Southern Africa (FFCSA):

- PFIs should seek to understand the expectations of FFCSA and other civil society organisations and to consult with project-affected communities regarding the social and environmental responsibilities of PFIs. Given the Just Energy Transition, this is particularly important with regard to civil society organisations and local communities working in the environmental, climate, social and economic justice sectors.
- One way that PFIs can do this is by engaging with FFCSA on the FFG Methodology and how it can be used to develop and improve their policies and practices.