

A Sustainable Banking Network (SBN)  
Flagship Report  
Addendum to SBN Global Progress Report

October 2019

# Country Progress Report

## South Africa



Sustainable  
Banking  
Network



**IFC**

International  
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# 1. Country Progress Summary – South Africa



**SBN Member:** [Banking Association of South Africa \(BASA\)](#) (member since 2016)

**SBN Working Group:** Measurement Working Group, Green Bond Working Group

## **Key policy documents:**

- ☐ Green Economy Accord (Economic Development Department - EDD, 2011)
- ☐ Principles for managing Environmental and Social risks (BASA, 2015)
- ☐ King IV Code On Corporate Governance (Institute of Directors in Southern Africa - IoDSA, 2016)
- ☐ Debt Listings Requirements for the Green Segment (Johannesburg Stock Exchange - JSE, 2017)
- ☐ Primer on "Embedding environmental scenario analysis into routine financial decision-making in South Africa" (National Treasury, GIZ and CISL 2018)
- ☐ Guidance Notice: Sustainability of investments and assets in the context of a retirement fund's investment policy statement (Financial Sector Conduct Authority - FSCA, 2019)

## **Key milestones since 2018 SBN Report:**

- ☐ The Financial Sector Conduct Authority (FSCA) issued guidance in June 2019 on how pension funds should report on their approach to ensuring sustainability in investments and assets. This will impact mandates for other financial institutions, including banks, who invest on behalf of pension funds. FSCA has stated intentions to seek harmonization of sustainability reporting across the financial sector.
- ☐ South Africa's National Treasury, GIZ, and the Cambridge Institute for Sustainability Leadership (CISL) developed a primer on "Embedding environmental scenario analysis into routine financial decision-making in South Africa" (2018)
- ☐ BASA continues to actively educate South African banks on ESG risks, including climate change risk and disclosure best practice (e.g. TCFD).
- ☐ South Africa has therefore progressed from "Developing" to "Advancing" under the "Implementation" stage, as indicated in the "Progression Matrix" below.

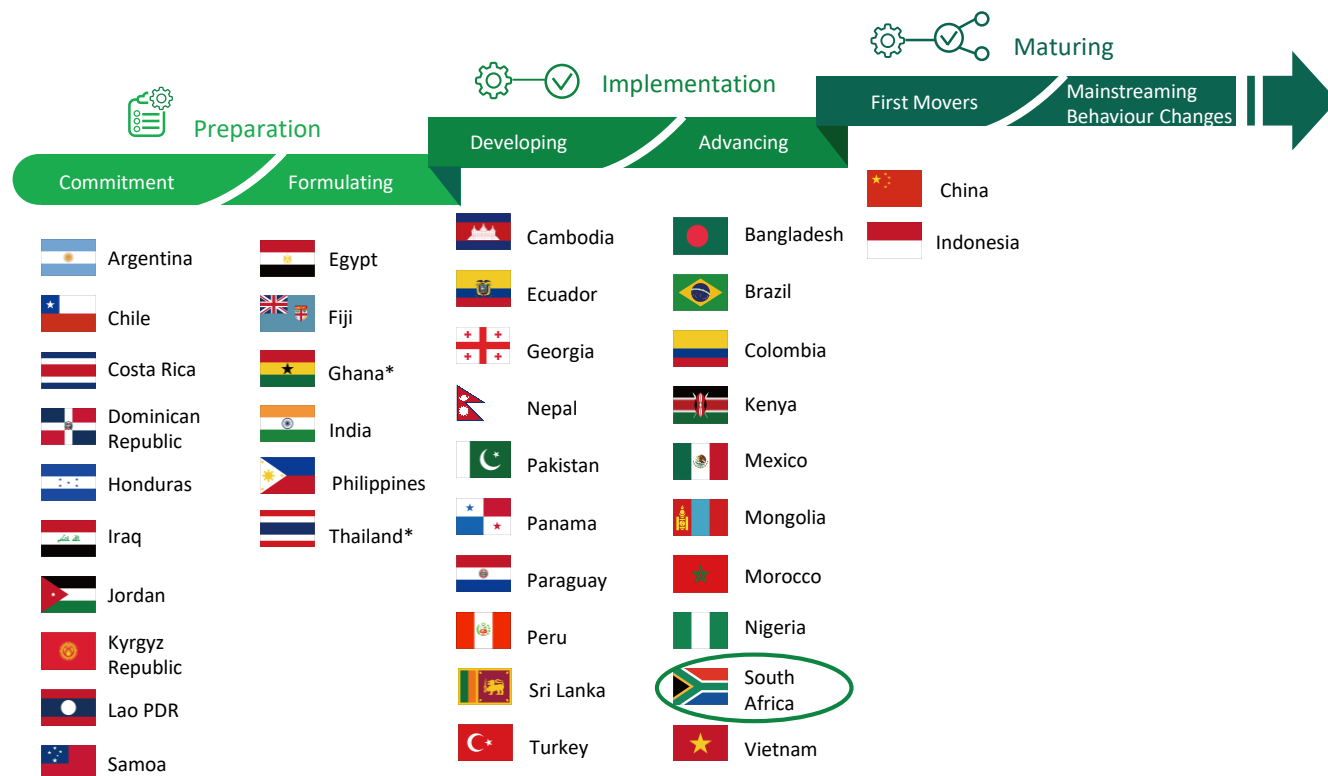
## **Ambitions for next phase:**

- ☐ The National Treasury is currently working on a Discussion Paper on Financing a Sustainable Economy, which will set out a roadmap for developing a national sustainable finance policy and regulatory framework. A draft is expected to be released in 2019 for public commentary.
- ☐ Climate risk and scenario training is planned in October 2019 to implement the primer on "Embedding environmental scenario analysis into routine financial decision-making in South Africa" - South Africa is one of three countries where this pilot training will be undertaken.

**SBN and IFC role:** IFC, in partnership with SECO, has provided sustainable finance advisory services to South Africa's financial sector regulators and industry associations since 2011, particularly in relation to multi-stakeholder engagement, development of policies and guidelines, and capacity building. Through SBN, BASA and the National Treasury (as an observer) have shared their experience with other SBN members and benefited from the collective SBN knowledge base.

**Figure 1: SBN Progression Matrix with Assessment Results<sup>1</sup>**

Assessment based on progress up to and as of June 2019<sup>2</sup>

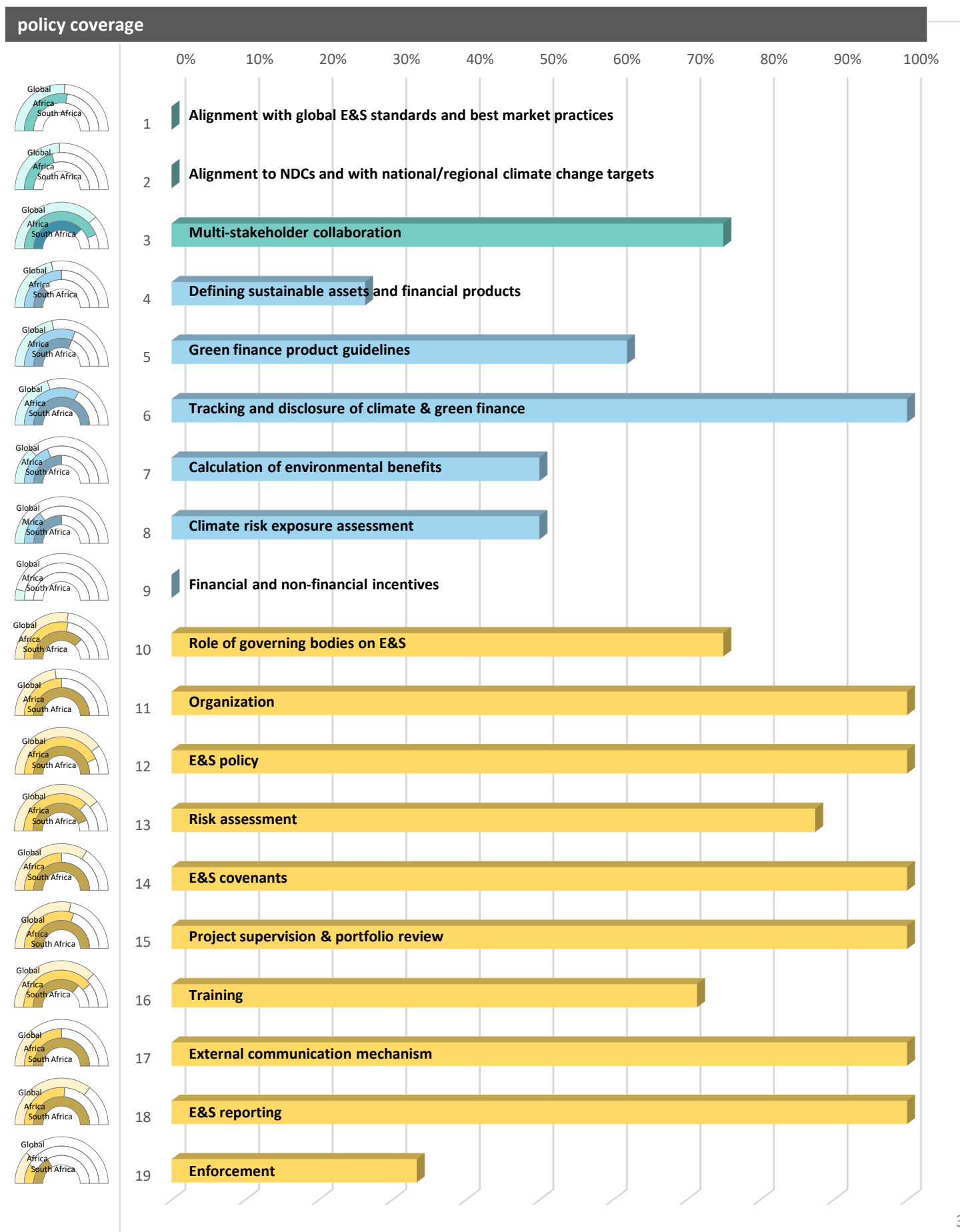


*Note:*

1. Please refer to the SBN Global Progress Report for an explanation of the Progression Matrix.

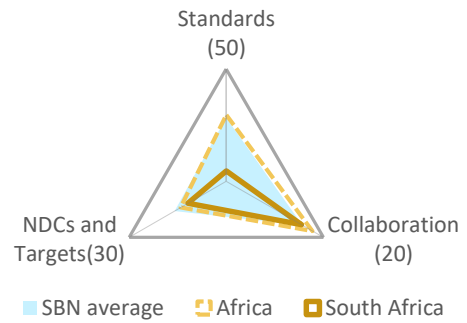
2. Ghana and Thailand launched their policies and principles in August 2019, after the cut-off date of June 2019 for this report.

## 2. Overview of policy coverage by indicators



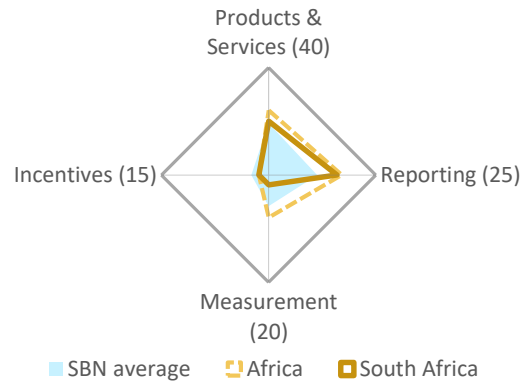
### 3. Policy coverage developed

#### Pillar I: Strategic Alignment



Indicator	Policy requirement	Reference
Alignment with global E&S standards and best market practices		
<b>Indicator 1</b>	<p>Although the BASA Principles on E&amp;S Risk Management are not mandatory and don't specifically refer to international standards, they were developed with active consideration for and engagement with the Equator Principles and UNEP FI.</p> <p>King IV is recognized as the basis for good practice in corporate governance in South Africa and includes strong requirements for governance and disclosure of ESG matters, including climate change risk. It extends the consideration of corporate accountability to stakeholders and is also aligned with international best practice in Integrated Reporting, including disclosure on natural, social, and human capital. Companies listed on the Johannesburg Stock Exchange must comply with and disclose their adherence to King IV. This applies to all listed FIs.</p> <p>South Africa's Code for Responsible Investing (CRISA), which encourages institutional investors and asset managers to consider ESG factors, was inspired and supported by the PRI.</p>	<p>Principles for managing Environmental and Social risks (BASA, 2015) - 4.2.4</p> <p>King IV Code of corporate governance (IoDSA, 2016)</p>
Alignment to NDCs and with national/regional climate change targets		
<b>Indicator 2</b>	<p>In its Guidance Note Communication, the FSCA refers to international climate change initiatives (including Paris Agreement, TCFD) as well as South Africa's NDCs and the Climate Change Bill tabled by South Africa's Department of Environmental Affairs in June 2018.</p>	<p>Guidance Notice: Sustainability of investments and assets in the context of a retirement fund's investment policy statement (FSCA, 2019)</p>
Multi-stakeholder collaboration		
<b>Indicator 3</b>	<p>The BASA Principles encourage banks to collaborate with public bodies, although more detail on the 'external stakeholders' that banks should interact with would be useful.</p> <p>The FSCA Guidance Note was developed through extensive industry and stakeholder consultation. It refers to and builds on the sustainable finance dialogue and Working Group initiated by National Treasury in 2016, consisting of regulators, industry associations, and the Johannesburg Stock Exchange.</p>	<p>Principles for managing Environmental and Social risks (BASA, 2015) - 3.2</p> <p>Guidance Notice: Sustainability of investments and assets in the context of a retirement fund's investment policy statement (FSCA, 2019)</p>

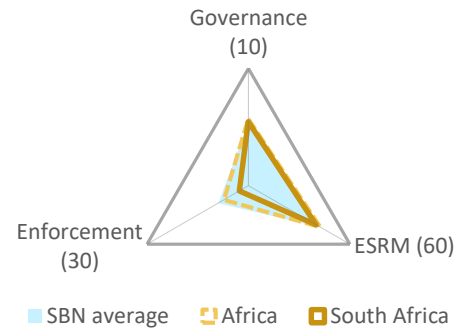
## Pillar II: Climate and Green Finance



Indicator	Policy requirement	Reference
Products and services		
<b>Indicator 4, 5</b>	<p><u>Defining sustainable assets and financial products</u> The JSE Debt Listings Requirements' Green segment refers to the ICMA Green Bond Principles as a global standard to be followed by issuers. Some policy documents, such as the Green Economy Accord, identify key target sectors for green finance.</p> <p><u>Green finance product guidelines</u> The JSE launched a Responsible Investment Index series in 2015, which includes a dozen local FIs. It also sets out debt listing requirements for green bonds, referring to ICMA's Green Bond Principles, and recommending third party verification.</p>	<p>Debt Listings Requirements for the Green Segment (JSE, 2017); Green Economy Accord (EDD, 2011) - Introduction page 6 &amp; 7 and from page 11</p> <p>Debt Listings Requirements for the Green Segment (JSE, 2017) - Green Segment 6.10 &amp; 6.12</p>
Climate and green investment reporting		
<b>Indicator 6</b>	<p>BASA is currently implementing the UNEP-FI Positive Impact Finance Principles, which will require the creation of publicly available independent data dashboards.</p> <p>The JSE Green Bond Segment asks FIs to report on climate/green finance flows and encourages them to disclose publicly.</p>	Debt Listings Requirements for the Green Segment (JSE, 2017) - Green Segment 6.12 (p50)
Measurement		
<b>Indicator 7, 8</b>	-	-
Incentives		
<b>Indicator 9</b>	The Green Economy Accord encourages green finance innovation and greater flows of green funding.	Green Economy Accord (EDD, 2011)



## Pillar III: ESG Integration



Indicator	Policy requirement	Reference
Governance of E&S		
<b>Indicator 10, 11</b>	<u>Roles of governing bodies</u> King IV requires one of the FI's governing bodies to approve an E&S strategy and for management to report on the E&S strategy implementation to the governing bodies.	King IV Code On Corporate Governance (IoDSA, 2016) - Principle 3 - 14.d & Principle 8 - 43.e & Principle 10 - 78, 97
	<u>Organization</u> King IV requires FIs to define E&S roles and responsibilities.	King IV Code On Corporate Governance (IoDSA, 2016) - Principle 8 - 39
E&S risk management		
<b>Indicator 12 - 18</b>	<u>E&amp;S Policy</u> King IV requires FIs to formalize an E&S or ESG policy and encourages them to go beyond E&S requirements of local laws and regulations. It requires FIs to set E&S or ESG objectives and targets. It also asks FIs to publicly disclose their E&S policy and its governance.	King IV Code On Corporate Governance (IoDSA, 2016) - Principle 3 - 14.d; Principle 13 - 25 & Principle 14 - 29.b; Principle 14 - 34.h; Principles for managing Environmental and Social risks (BASA, 2015) - 4.1.2;
	<u>Risk assessment</u> The BASA Principles recommend that banks set up systems and processes that allow them to take E&S risks into consideration, by "develop[ing] and maintain[ing] appropriate environmental and social due diligence guidelines for lending to high risk industries". The Principles also require due diligence at both transaction level and client level, as well as encouraging FIs to categorize projects and clients according to their level of E&S risks.	Principles for managing Environmental and Social risks (BASA, 2015) - 4.2.1, 4.2.2 & 4.2.3
	<u>Project supervision &amp; portfolio review</u> BASA members are encouraged to monitor E&S risks over the lifetime of projects. FIs are also expected to develop processes to manage E&S risks during supervision.	Principles for managing Environmental and Social risks (BASA, 2015) - 4.2.4
	<u>Training</u> Training related to E&S risks are recommended when deemed necessary. BASA provides E&S risk assessment (ESRA) training, which is available on demand. The intent is to provide all frontline staff with an understanding of Sustainable Finance, including the importance of E&S risk management.	Principles for managing Environmental and Social risks (BASA, 2015) - 3.5
	<u>E&amp;S Reporting</u> While the BASA Principles themselves do not require E&S disclosure, King IV, enforced by JSE listing requirements, requires listed banks to report on E&S risk management and ESG performance, including publicly, to investors or to regulators.	King IV Code On Corporate Governance (IoDSA, 2016) - page 41 "Disclosure on Application of King IV"
Enforcement		
<b>Indicator 19</b>	-	-

## 4. Policy coverage to be developed

Pillar	Sub Pillar	Gaps	Areas for improvement
<b>Pillar I: Strategic Alignment</b>	Alignment with global E&S standards and best market practices	100%	<ul style="list-style-type: none"> <li>➤ Reference to international E&amp;S targets</li> <li>➤ Reference to established international ESRM standards</li> <li>➤ Reference to established international green finance reporting standards</li> <li>➤ Reference to international climate finance reporting standards</li> <li>➤ Requirement to seek external verification for E&amp;S policies, practices, and results</li> </ul>
	Alignment to NDCs and with national/regional climate change targets	67%	<ul style="list-style-type: none"> <li>➤ Aligned with national NDCs or other national and regional policies on climate</li> </ul>
	Multi-stakeholder collaboration	25%	<ul style="list-style-type: none"> <li>➤ Collaboration with representatives of civil society</li> </ul>
<b>Pillar II: Climate and Green Finance</b>	Products & services	55%	<ul style="list-style-type: none"> <li>➤ A comprehensive taxonomy for green assets</li> <li>➤ Definitions/examples for social/sustainable assets</li> <li>➤ Guidelines for green financial assets (excluding green bond)</li> </ul>
	Climate & green investment reporting	40%	<ul style="list-style-type: none"> <li>➤ Requirement to report on climate risk exposure at portfolio level</li> </ul>
	Measurement	100%	<ul style="list-style-type: none"> <li>➤ Requirement for FIs to calculate the environment benefits of their investments</li> <li>➤ Taxonomy of potential environmental impacts</li> <li>➤ Methodologies, tools, and/or templates to measure and report environmental impacts</li> <li>➤ Requirement to monitor climate risk exposure at portfolio level</li> <li>➤ Reference to specific climate exposure methodologies</li> <li>➤ Encouragement of mitigation steps</li> </ul>
	Incentives	100%	<ul style="list-style-type: none"> <li>➤ Incentives for green financial products/services</li> <li>➤ Financial incentives on green products/services</li> </ul>
<b>Pillar III: ESG Integration</b>	Governance of E&S	50%	<ul style="list-style-type: none"> <li>➤ Requirement of FI operational bodies to report to the governing bodies on implementation of the E&amp;S strategy</li> <li>➤ Highlight the roles of front officers and second lines of defense</li> <li>➤ Requirement to define competencies for each role</li> </ul>
	E&S risk management	37%	<ul style="list-style-type: none"> <li>➤ Encourage site visits for high-risk transactions</li> <li>➤ Invitation to engage with clients to implement mitigation measures in case of negative impacts</li> <li>➤ Requirement to incorporate E&amp;S covenants and investment conditions into legal agreements with clients</li> <li>➤ Encourage a periodic review of E&amp;S risks at aggregate portfolio level</li> <li>➤ Highlight the training of (i) front officers, (ii) second lines of defense, and (iii) E&amp;S experts</li> <li>➤ Requirement of FIs to establish and maintain any inquiry/complaints/grievance mechanism in relation to E&amp;S or ESG practices</li> <li>➤ Requirement of E&amp;S or ESG reporting and disclosure to be more consistent across financial institutions through introducing principles, guidelines, or templates</li> </ul>

## 4. Policy coverage to be developed (cont.)

Pillar	Sub Pillar	Gaps	Areas for improvement
Pillar III: ESG Integration (cont.)	Enforcement	100%	<ul style="list-style-type: none"><li>➤ Implementation of the framework regularly verified or information regularly collected from FIs</li><li>➤ Financial and non-financial incentives for establishing ESRM systems</li><li>➤ Sanctions/penalties/warnings in case of noncompliance with the framework</li></ul>

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