Climate Action in Financial Institutions

PRINCIPLES FOR MAINSTREAMING CLIMATE ACTION

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Creation of IDC's Climate Change Response Strategy

Institution	Principle	Related Work Stream(s)
IDC Industrial Development Corporation *Your partner in development finance*	PRINCIPLE 1: COMMIT to Climate strategies	SPREADING A CLIMATE STRATEGY INTO A WHOLE ORGANISATION

Publication date: 2017

Date Policy/ Tool Established	Additional Capacity Required (e.g., staff, resources, other)	How Established?
2017: IDC Established a Climate Change Response Strategy	Integrating of the function to existing Small Business Unit responsibility; Creation of a Green Strategic Business Unit (SBU) and appointment of trained staff, building capacity, establishing communication platform and coordinating strategy for top-down approach and bottom-up feedbacks and support.	Green SBU and EHS Department have been prompted by the drive to transform the economy to become green, and tracking of the Bank's annual performance, reporting standard has been based on the Standard disclosure from the GRI Sustainability Reporting Guidelines. Climate information disclosure accuracy was based on the decision from the external audit assurance gap analysis report following the Bank's annual audit findings of its internal carbon management and reporting platform (formerly guided by existing Environmental & Sustainability Policy Framework established in 2016 as amended).
Monitoring, reporting tools		**How Implemented?**
N/A		Use of Climate Change Response Strategy, in which a phase approach was adopted building on past sustainability initiatives internally.

Key Lessons

- Developing and implementing strategy to ensure that climate change and environmental sustainability issues and opportunities are adequately mainstreamed and addressed in Bank operations, and in line with South African strategy program (CSP) and commitments to emission reduction.
- Establishing a centralized climate change department or unit within the corporation which will assist to streamline all climate change related business, coordinate, provide an oversight, work with government and other private sector clients to develop and finance energy and climate change resilient programmes.
- Development of guidelines and process to support implementation, including: Carbon Risk Management Guidelines; Internal Monitoring and reporting frameworks and guidelines.
- Where critical human resource gaps are identified, workshops be held either internally or externally to build skills capacity to ensure that the climate change information meet the requirements of the Bank's GRI indicators.

Introduction

The IDC, being the largest DFI by assets in South Africa (formed by Act of government), carries a mandate of leading Industrial Development. It has a controlling stake by shareholding in some of South Africa's key industrial sectors (acquired through debt funding and/or equity). It is a registered public corporation and a Schedule 2 listed entity in terms of the Public Finance Management Act (PFMA), No 1 of 1999, and the related Treasury regulations. Its strategy is focused on the need to maximise development impact through jobs-rich industrialisation and ensuring the long-term sustainability of the Corporation by addressing specific issues related to financial capital, human capital, social capital, stakeholders, the natural environment and increasing the efficient use of resources.

Following Cabinet approval of the White Paper Renewable Energy (2003), IDC set a target of 10,000GWh of energy to be produced from renewable energy sources (mainly from biomass, wind, solar and small-scale hydro) by 2013. This was confirmed to be economically viable with the use of subsidies and carbon financing. As a public DFI, the IDC supports the Paris Agreement, the broader sustainable development agenda and the new global emission reduction policy frameworks. The Bank has forged ahead with a green investments policy that embraces the transition towards a low carbon economy within its operational boundaries (South Africa and the rest of Africa) not only in support of the South African government's emission reduction commitments of 42 % by 2025 made in Copenhagen, but also in support of the global emission reduction agenda. The government policy is reviewed every 4 years.

Implementation

To mainstream climate change investments into the IDC's core business activities, and drive transformation towards a green economy, IDC's funding activities are built on its internal policies. These policies are designed to support Government's regulatory policies on Green Investments and international emission reduction commitments. Furthermore, the IDC identifies the key climate risk factors inherent in the project finance value chain (from inception, commissioning, growth & closure).

IDC's progress in this area has been linked with advances in government policy on climate-related topics. Key policy milestones Include:

2003: Introduction of a White Paper on Renewable Energy target

2011: Government introduction of the IPP programme.

2014: Government Carbon Tax Bill

2017: Government promulgated Air Quality Act, 2004 as amended (inclusion of GHG emissions management plan)

2017: IDC Established a Climate Change Response Strategy

The IDC's policy implementation and strategy initiative & Implementation started in 2010 (as guided by the then Environmental & Sustainability Policy) and continued today on the basis of Climate Change Response Strategy, in which a phase approach was adopted. Reporting of climate change information and management has been legislated under the South African Air Quality Act of 2004 as amended (GHG Management Plan Disclosure), and the Carbon Tax Policy Bill yet to be legislated.

This initial steps were linked to concurrent policy advancements in South Africa. Through a process of extensive consultation with stakeholders, the South African government introduced the 2011 IPP (Independent Power Producers) programme with the objective to produce 47 25MW of renewable energy through a bidding process, and a further determination to additional 3200 MW by 2012. In support of this program and the broader green economy agenda, the IDC created a Green Strategic Business Unit (SBU) (today known as Industrial Infrastructure Unit). Through extensive consultation with shareholders, public-private partnership participation, and a series of bidding processes, the IDC provided an equity funding and/or debt to create downstream and upstream development. The Government has strengthened international relationships in this area via partnerships established during the World Summit on Sustainable Development (WSSD) in 2002.

IDC has taken a number of steps over the last years to support the mainstreaming of climate-related issues internally:

- Developing and implementing strategy to ensure that climate change and environmental sustainability issues and opportunities are adequately mainstreamed and addressed in Bank operations, and in line with South African strategy program (CSP) and commitments to emission reduction.
- Establishing a centralized climate change department or unit within the corporation which will assist to streamline all climate change related business, coordinate, provide an oversight, work with government and other private sector clients to develop and finance energy and climate change resilient programmes.
- Carbon Risk Management Guidelines that stipulate clear cut reporting lines and provide structural information with respect to responsibilities & functions with respect to tools, strategy, and support to build climate business and oversight.
- Monitoring and reporting periodically on the implementation of the operational translation of the Bank's Climate Risk Management Policy and on the overall Bank's efforts in relation to energy, climate change in project finance.
- Clear communication and reporting guidelines to ensure consistency in carbon disclosure reporting across all IDCs subsidiary operations. The climate change information is to be built into the corporation performance targets as tied to its strategy will filter across its departmental structural units to ensure senior management buy-in to making climate issues part of the business-as-usual i.e. elevate climate issues accordingly. This will ensure that the climate change information is included in the corporate scorecards thereby creating an incentive for member staff to prioritize climate business opportunities.
- By providing capacity building, and incentives to embracing cleaner production to existing clients, the IDC assisted in mitigating the climate risk challenge, and the financial risk associated with the looming impact of Carbon Tax from material business partners, which showed high probabilities of eroding their profit margins. Such move ensured that the dividend per share is not affected by carbon tax, thereby ensuring the IDC financial sustainable.

Experience and impact

IDC's green portfolio (by 2012) reached R10.4 billion (Fuel based energy 10 %, energy efficiency 4 %, Renewable energy 73 %, Biofuels 1.3 %) through public-private partnership and is expected to exceed this quantum once the biomass, waste stream energy projects are commissioned in the next few years thus addressing the 17 UN- based SDGs.

- The IDC investment commitment to renewable energy has increased to R7,7 billion through equity funding. On top of this, the IDC benefits from a R400 million credit line from the French Development Agency (AFD) Renewable Energy Fund to fund small-scale renewable energy (1 – 5MW). These include the four fuel-based energy cluster projects generating 277 164 MWh equivalent over 10 years, resulting in an estimated associated reduction of 385.1 tons CO2e per year. One of the projects received a KARSLUHE Sustainability Finance award in 2016. IDC's biggest exposure is in the Concentrated Solar Power (CSP) project with expected CO2 avoidance in the order of 31 million tons of CO2e over 20 years. The total financial exposure in 2014 increased to R13.1 billion (from clean technologies: Photovoltaic, Concentrated Solar, Hydro and Wind).
- Furthermore, IDC has commitment to fund energy efficiency projects through the establishment of the Green Energy Efficiency

Fund (GEEF) to a total commitment of 35% of the R500 million allocation.

- Recently the IDC partnered with private business and government to finance, through equity investment, a venture capital project associated with Carbon Capture and Utilization process. The project uses all the CO and CO2 waste stream (from smelters and other chemical processes) as feedstock to form ethanol, resulting in a material reduction of carbon emissions (equivalent to 250,000 cars) thereby promoting clean air and mitigating climate change. It is anticipated that a huge reduction in the quantity of CO2e from other biggest CO2 emitters in South Africa and across the globe will be enjoyed once the project reaches commercial scale, and replicated across the globe. This project forms a strong platform to addressing all the UN-based 17 Sustainable Development Goals (SDGs).