

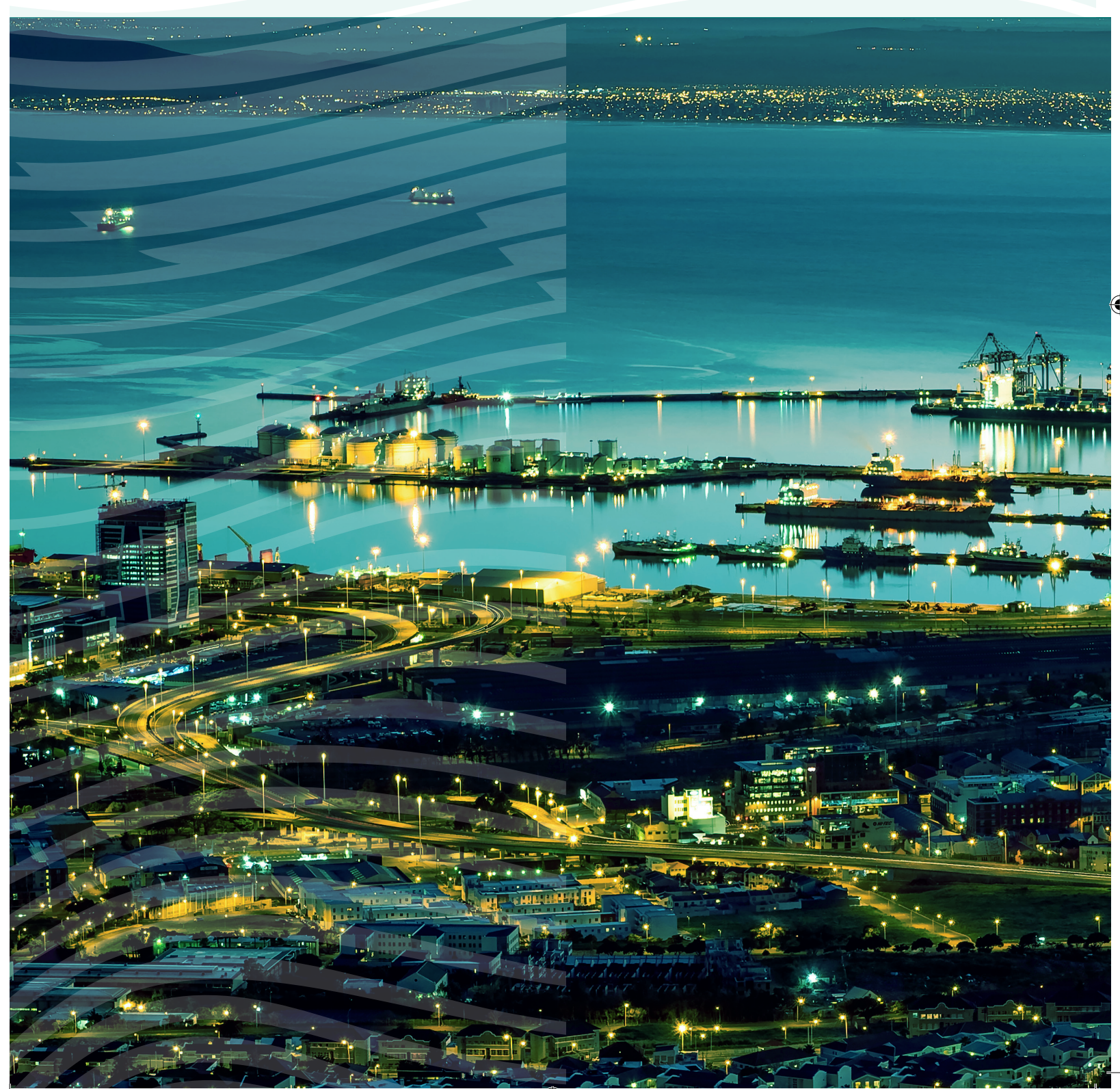


Transforming Africa's Trade
African Export-Import Bank
Banque Africaine d'Import-Export

AFRICA
Insights

Q1
2022

Committing to ESG Initiatives: how governments and businesses in Africa are improving their ESG performance



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Contents

- Chapter 1: The ESG Landscape in Africa** **5**
- Defining ESG 5
- ESG Stakeholders 5
- The Rise of ESG in Africa 6
 - Prevalence of extractive industries 6
 - South African ESG legislation 7
 - Reliance on multilateral financing, underpinned by ESG agendas 7
- ESG: An Emerging Country Risk 7

- Chapter 2: Environmental Issues** **8**
- Renewable energy adoption 9
- Key Takeaways 9
 - South Africa: A notable absence 9
 - Kenya: 100% clean energy ambitions 9
 - Senegal: Multilateral approach boosting ESG credentials 9
- Government spend on environmental protection 10
- Key Takeaways 10
 - Tourism reliance to boost environmental protection 10
 - Climate change negotiations could yield more funding for environmental protection 10

- Chapter 3: Social Issues** **12**
- Civil Liberties 13
- Key Takeaways 13
 - Cape Verde: Strong ‘rule of law’ reduces reputational risks 13
 - Mauritius: Freedom of assembly boosting environmental accountability 13
 - Ghana: Government transparency a boost to civil liberties 13
- Gender equality 13
- Key Takeaways 14
 - Namibia: Strong focus on education 14
 - South Africa: Equality enshrined into law 14
 - Rwanda: Political participation for women 14

- Chapter 4: Governance Issues** **15**
- World Governance Indicators (WGI) 16
- Key Takeaways 16

Mauritius and Cape Verde outperform again	16
Botswana cements position as a regional governance outperformer	17
Another strong showing for Namibia	17
Corporate Sustainability Reporting	17
Key Takeaways	17
South Africa leading the way on corporate ESG disclosure	17
Rest of Africa lagging	18
Conclusion	19
Mauritius	20
Namibia	20
South Africa	21

Chapter 1: The ESG Landscape in Africa

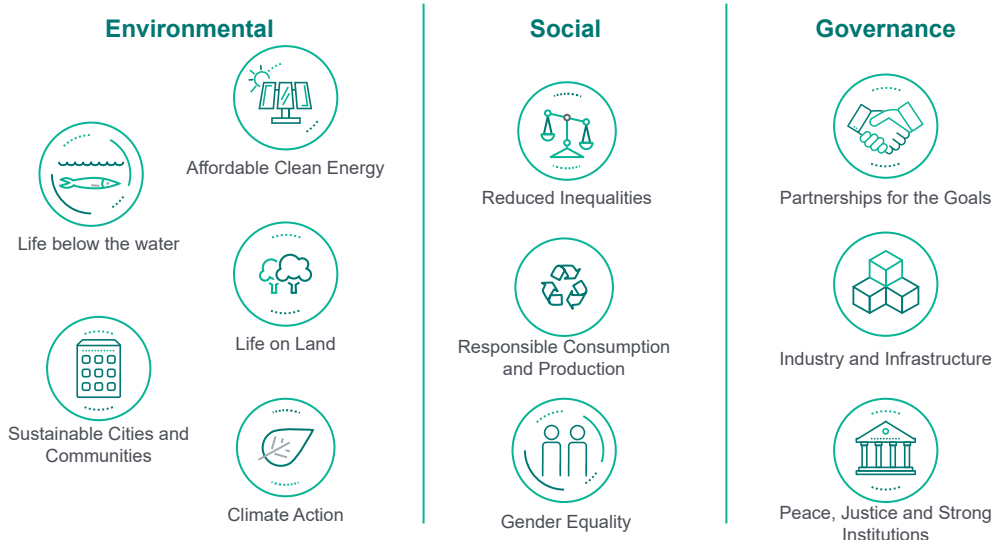
Defining ESG

ESG considerations and performance may have risen up the agenda for governments and businesses alike in recent years, but definitions often still remain vague. Generally, and in the case of

this report, ESG refers to three key factors (Environmental, Social and Governance) that impact sustainability.

The close relationship ESG has with the concept of ‘sustainability’ is encapsulated by the UN Sustainable Development Goals (SDGs). The 17 SDGs were outlined as part of the 2030 Agenda for Sustainable Development, adopted by all UN member states in 2015, and form a blueprint for peace and prosperity for people and the planet. The majority of the individual goals can be categorised into environmental, social and governance pillars, as highlighted below.

Fig 1.1: SDGs/ESG Synergies



Source: Fitch Solutions

The overarching aim of the 2030 Agenda for Sustainable Development is to end poverty and other deprivations, via strategies such as improving access to education, health and utilities, reducing inequality and boosting economic growth, while at the same time combatting climate change and ensuring environmental stewardship.

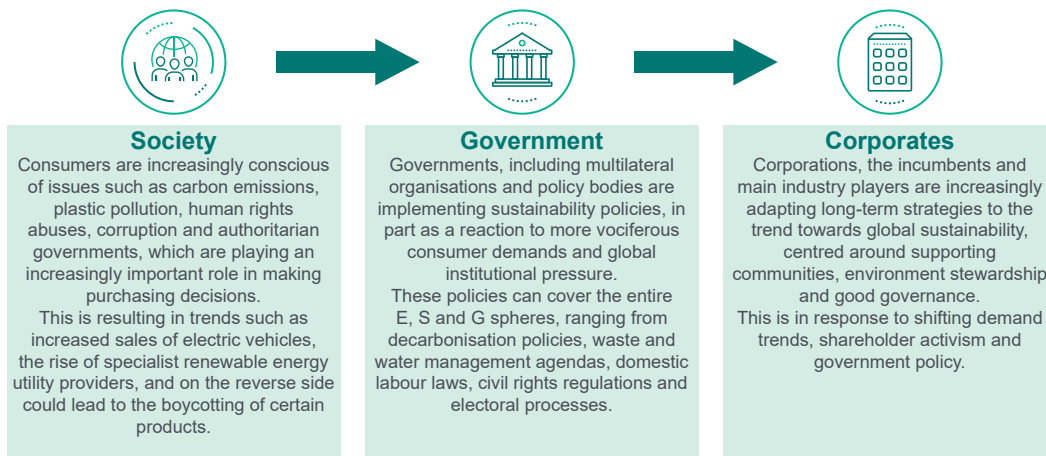
One major distinction between ESG and SDGs is that the central focus of SDGs lies with poverty alleviation, whereas this is not the case with ESG. Indeed, the ESG performance of an individual country does not necessarily indicate the level of poverty within that country. Similarly, corporations operating in poorer countries are not penalised in terms of their ESG compliance. Instead ESG performance is largely based on how supportive stakeholders are towards facilitating SDGs, whether this is through effective government sustainability policy or via sustainable corporate strategy and investment.

This is an important distinction that will be reiterated throughout the report. Countries that are highlighted as outperforming under the different E, S and G pillars are not necessarily the most economically developed countries in the region, but instead show significant promise in implementing policies and strategies that align with sustainability.

ESG Stakeholders

ESG is centred on three major stakeholders: society, government and business. These stakeholders are interlinked, and each has a key role to play in driving the transition to global sustainability, as outlined below.

Fig 1.2: ESG Stakeholders



Source: Fitch Solutions

The Rise of ESG in Africa

Global progress towards sustainability has been evident through a combination of increased multilateral agreements, new government legislation, greater consumer pressure, high-profile investor activism and corporate investment decisions. This trend has been more pronounced in the world's major economies, with the EU, UK and Canada leading the way, and to a lesser extent in China.

While a focus on ESG in Africa has been slower to gather momentum, there has been a notable shift, both in the way firms are operating and investing in the continent, and also an

acceleration of sustainable policies enacted by governments in the region. The table below provides a snapshot of some of the ESG strategies and policies that have been spearheaded across countries in the region. The majority of these will be featured in the analysis of this report.

Looking outside of the drivers of global sustainability (consumer preferences, government policy and corporate sustainability strategy), there are some specific factors relevant to the Africa region that are spearheading ESG momentum. These are discussed below.

1.3: Example ESG Strategies & Initiatives in Africa

Environmental		Social		Governance	
Polluter Pays Principle	South Africa	New Equitable Economic Empowerment Framework (NEEEF)	Namibia	Code for Responsible Investing in South Africa (CRISA)	South Africa
Renewable Energy Auction Policy (REAP)	Kenya	Basic Conditions of Employment Act	South Africa	Ethics and Integrity Directorate	Botswana
Renewables Independent Power Project (IPP) programme	Morocco	2016 Independent Police Complaints Commission (IPCC)	Mauritius	Anti-Corruption Commission (ACC)	Namibia
Climate Finance Strategy and Roadmap	Cape Verde	Land Policy of 2015	Botswana	Right to Information Act	Ghana
GET FiT Program	Uganda	National Gender Policy	Rwanda	Sustainable Stock Exchange Initiative	South Africa
National Water Resources Plan	Egypt	'Angolanisation' principle	Angola	Political Parties Act	Malawi

Source: Fitch Solutions

Prevalence of extractive industries

Africa is home to some of the world's largest reserves of oil and gas, coal, and metals and minerals, and these sectors are sizeable contributors to GDP and export earnings. As such, many African countries are heavily dependent on extractive industries to drive economic growth and support local employment.

These sectors face significant scrutiny in terms of their ESG performance, given the high levels of environmental degradation that is often caused by extractive industries, as well as complex

social and governance issues linked to land rights, resource nationalism and labour force abuses. In line with this, firms across the extractive and manufacturing industries are increasingly shifting their corporate strategy to reflect new sustainability priorities. While increased sustainability considerations will add to the challenges in some industries – for example by driving divestment of coal assets in South Africa – they will also create investment opportunities in others, for instance for providers of small-scale renewable energy solutions at manufacturing (e.g. Morocco, South Africa and Tunisia) and mining operations (e.g. DRC, Mozambique and Zambia).

South African ESG legislation

Progressive ESG regulation in South Africa is encouraging improved ESG performance across the whole continent. South African firms have a significant presence in other African markets, and financial institutions in South Africa are a major source of finance for African firms. South Africa's Johannesburg Stock Exchange (JSE) has adopted strict ESG reporting standards for firms listed on the exchange via the King Report on Corporate Governance, the latest version of which was implemented in 2016.

Meanwhile, Regulation 28 of the Pension Funds Act came into force in 2011 and enabled pension funds to take ESG factors into consideration. As a result, institutional investors such as South Africa's Government Employees Pension Fund, which is Africa's largest institutional investor and the sixth-largest pension fund globally, is guided by a responsible investment policy.

Reliance on multilateral financing, underpinned by ESG agendas

The historically significant role of development finance institutions as sources of capital into Africa has shaped the way investment into the region is positioned. Core infrastructure financing needs can be described as contributing to sustainable development objectives, which are closely aligned with many ESG investment frameworks. For example, electrification programmes increasingly include renewable energy generation, urban planning and developments designed to have less environmental impact. New investors, including bondholders, non-traditional bilateral lending countries and commercial banks have also made efforts to incorporate sustainability into their investment strategies in Africa.

ESG: An Emerging Country Risk

Up to now, the majority of ESG analysis has been centred at the corporate level, evaluating how businesses impact sustainability within the countries in which they operate. However, this typically does not take into full consideration the wide-ranging strategic, operational and reputational risks associated with it.

Sovereign-level ESG analysis will be increasingly important for both countries and corporates in the coming years. ESG performance varies considerably across African countries, with some economies providing supportive environments for sustainable companies while others come with significant reputational and compliance risks.

At a company level, the ESG credentials of multinational supply chains are becoming important to investors, consumers and regulators, alongside the traditional focus on a firm's internal sustainability practices. Countries where the practices of government, society and business are unsustainable will provide operating challenges for foreign firms seeking to maintain a positive ESG profile.

At the country level, a nation's ESG performance can have a significant impact on the economy's long-term competitiveness, stability and creditworthiness. Even in countries where fundamental macroeconomic factors are supportive of expansion, the long-term challenges created by unsustainable environmental, social and governance practices will constrain growth. Increased social unrest, low labour force participation, endemic corruption

and depleted freshwater resources will weaken economic growth potential in the long term. Moreover, natural resource endowments that cannot be extracted sustainably risk never being exploited.

Case Study: Sustainability Challenges in Africa's Palm Oil Sector

The development of West Africa's palm oil sector is a useful example of how sustainability issues can cause challenges at both the corporate and country level.

Africa's palm oil production is geographically focused in West Africa, with Nigeria, Côte d'Ivoire, Cameroon and Ghana the largest producers. Palm oil has been one of the first sectors within agribusiness to face sustainability challenges in recent years as accusations of deforestation have led to a decline in palm oil demand for food products from key markets, such as the EU. Respecting sustainability standards in palm oil production is shifting from being a niche strategy to a mainstream one, and players along the palm oil supply chain – from palm producers to food manufacturers and retailers – are increasingly using it as a competitive tool. Most large palm oil players have been ramping up their sustainability policy since 2017, making it a key priority.

Much of the growth in Africa's palm oil production is reliant on investment from South East Asian firms, including Olam. A number of South East Asia-based palm oil producers have announced plans to expand into Africa, with some already having started operations. These firms will be increasingly wary of the reputational risks associated with potential environmental degradation resulting from new palm oil plantations. For instance, Malaysian palm oil firm Sime Darby sold its subsidiary in Liberia in 2020 following controversy relating to deforestation in the country, resulting from the company's investments.

Chapter 2: Environmental Issues

The Environmental pillar of ESG is generally the one that receives the most attention among policy-makers, corporates and society, largely due to the gathering global momentum behind climate change policy.

Specifically, the 2015 Paris Climate Conference marked a watershed moment for global climate change regulation and galvanised commitment to environmental sustainability. The resulting COP21 Paris Agreement centred on limiting global warming to 1.5 degrees C–2 degrees C above pre-industrial levels and was ratified by 189 countries representing around 97% of global carbon emissions. The country-level commitments launched as part of the agreement, known as Intended Nationally Determined Contributions (INDCs) and Nationally Determined Contributions (NDCs), provide a blueprint for long-term

climate resilience and emissions-reduction goals. Almost all countries in Africa signed the Paris Agreement and submitted ambitious INDCs, and most have ratified their NDCs, with the exception of Libya and Eritrea. In October 2021, the latest global climate summit, COP26, resulted in a G20 agreement to reduce the role of coal-fired power (although there was no consensus on when to end coal use). This provides significant upside to low carbon energy sources globally as financing for coal projects dries up and funding for renewable energy becomes more forthcoming, as part of COP26's 'breakthrough agenda' that seeks to establish renewable power generation as the most affordable and reliable option for all markets by 2030.

While decarbonisation – that is, reducing greenhouse gas emissions through the transition to a low-carbon economy – typically forms the backbone of corporate and sovereign climate change policy, there are several other areas that fit within the 'environmental' pillar of ESG, such as waste and water management and resource stewardship. Examples of how environmental performance can be measured at the sovereign level are outlined below.

Fig 2.1: Environmental Factors



While numerous factors influence environmental performance at a country level, this chapter focuses on two indicators that are particularly useful at assessing the African environmental sustainability landscape. These are 'renewable energy share' and 'government spending on environmental protection'.

Fig 2.2: Comparison of major environmental indicators

Indicator	Definition	Source	Link to ESG
Renewable energy share	This refers to the share of renewable energy generation in total electricity production. It is inclusive of wind, solar, marine, geothermal and biomass sources. Electricity generation refers to the amount of electricity that is produced over a specific period of time. Measured in megawatt-hours (MWh), as a percentage of the total.	US Energy Information Administration (EIA), International Renewable Energy Agency (IRENA)	Adopting renewable energy into the domestic energy mix is an important way for governments to decarbonise economies and adhere to increasingly stringent emissions-reduction legislation.
Government spend on environmental protection	This refers to government expenditure on environmental protection measures, as a percentage of the country's GDP. These measures are part of a specified set of activities, as outlined by the framework of the Classification of Functions of Government (COFOG), and include pollution abatement, protection of biodiversity and waste management.	IMF	A high degree of spending on environmental protection indicates a strong focus on sustainability within government policy.

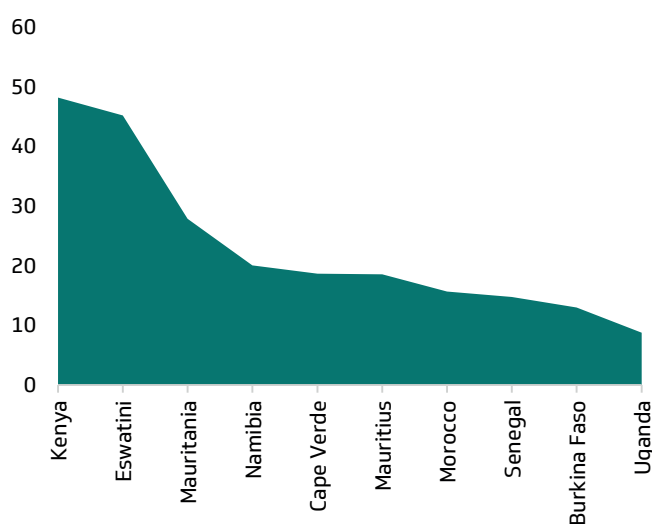
Source: Fitch Solutions

Renewable energy adoption

As a major source of emissions, the energy sector holds the key to responding to the global climate challenge. Adopting renewable energy into the domestic energy mix is a popular way for governments to decarbonise economies and adhere to increasingly stringent emissions-reduction legislation. In line with this, renewable energy has risen up the policy agenda across Africa and the capacity deployment of wind, solar, biomass and geothermal energy has increased in line with the adoption of favourable regulations.

Not only does integrating renewable energy sources into the electricity sector support domestic and international decarbonisation efforts, but it also benefits corporations operating in the country as they seek to make their supply chains low carbon. In fact, increasing numbers of companies are choosing to sign long-term power purchase agreements (PPAs) directly with a renewable energy generator for the output of a project (also known as corporate PPAs) or are developing their own renewable energy facility on site for self-generation (rooftop solar, or a project alongside an office, factory or industrial unit).

Fig 2.3: Renewable energy share, by African country (% of total electricity mix), 2020



Source: EIA, IRENA

Key Takeaways

South Africa: A notable absence

Using the indicator of renewable energy share as opposed to the total amount of capacity installed is important because it gives a better indication of the government's commitment to renewable energy. It means that the region's largest electricity markets will not necessarily feature in the top ten, even though they likely have a larger amount of overall renewable electricity capacity installed. For example, South Africa – the region's largest renewable energy market – still relies heavily on coal for electricity generation (estimated 88% in 2020), while non-hydro renewable energy accounts for less than 6% of the power mix.

Meanwhile, smaller markets with only a handful of renewable energy projects commissioned can perform better in this indicator because the renewable energy generation will have a much bigger impact on the overall share of the electricity mix. Examples include Mauritania, Eswatini, Cape Verde and Mauritius.

Kenya: 100% clean energy ambitions

Non-hydropower renewable electricity already supplies nearly half of Kenya's electricity and the government aims to transition to 100% clean energy sources by 2030 (as part of the COP26 agreement). In order to do this, the government has established a number of policies to attract investment into the domestic wind, solar and geothermal industries, which will support strong capacity growth over the coming years. Specifically, the Kenyan government released its Renewable Energy Auction Policy (REAP) at the start of 2021, which calls for a shift away from feed-in tariffs to a competitive bidding system to procure renewable energy capacity.

Senegal: Multilateral approach boosting ESG credentials

The World Bank's Scaling Solar initiative has been an important driver of renewable energy growth in Africa, supporting the development, procurement and financing of solar projects in countries including Senegal, Niger, Togo, Namibia, Madagascar, Zambia and Côte d'Ivoire. Cooperation between governments and multilaterals like the World Bank is helping to de-risk projects, incentivising investment into the sector and boosting ESG credentials in those markets that participate.

In particular, Senegal is well positioned for renewables growth thanks to an attractive policy environment, in line with the government's ambitious aims to source 30% of the country's energy mix from renewable energy by 2025 and its participation in

Scaling Solar. Two major solar power plants under the programme have been operating in Senegal since May 2021.

Environmental: Implications for trade and investment case study

Besides being a key component of domestic decarbonisation, the widespread deployment of renewable energy can also provide governments with an additional revenue stream through the trade of the excess electricity generated. Countries that are looking to become trade hubs for renewable energy include Morocco, Tunisia, Egypt, Ethiopia and Guinea, among others.

In particular, rapid adoption of renewable energy in North Africa could allow governments in the region to sell excess electricity generated to mainland Europe. In line with this, the project pipeline for cross-border interconnection projects is strengthening in order to facilitate electricity exports. Most recently, Xlinks unveiled plans in September 2021, to build a GBP16 billion (USD21.9 billion) sub-sea cable, which will export power from Morocco to the UK. The cable, which will run 3,800 kilometres, will supply power from 10.5GW of large-scale solar and wind farms in Morocco. Power transmission is likely to start via the first connection by 2027.

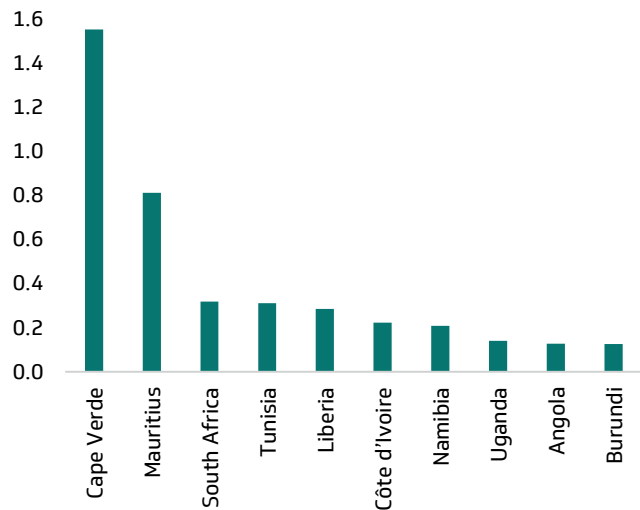
In addition, plans are in place to construct a 500kV sub-sea interconnection between Egypt and Greece, via Cyprus at an estimated cost of approximately USD2.7 billion. Stakeholders expect that this will provide offtakers with a reliable source of renewable electricity from Egypt, feeding into the European interconnected grid system through Greece. Lastly, the 600MW Elmed Interconnector Project between Tunisia and Italy (Sicily) is progressing with an inter-governmental agreement for the development and joint construction of the project signed in 2019. Construction is expected to commence in 2023 and is scheduled for completion in 2027.

Government spend on environmental protection

Government expenditure on environmental protection is particularly relevant to African markets given the population's high dependency on land for livelihoods. In fact, according to the UN, in most African countries, natural capital accounts for between 30% and 50% of total wealth. As such, natural resource protection is key to long-term sustainability, across all areas of E, S and G.

Therefore, government spending on environmental protection, in areas such as pollution abatement, protection of biodiversity and landscapes, and waste management, provides a useful indication of a country's environmental sustainability performance.

Fig 2.4: Government spend on environmental protection, by African country (as % of GDP)



Source: IMF

Key Takeaways

Tourism reliance to boost environmental protection


Government spending on environmental protection is particularly high in Cape Verde and Mauritius, where tourism is a major economic driver. Tourism accounted for 19.5% of Mauritian GDP, prior to the global Covid-19 pandemic in 2019, while the share was even higher at 38.1% in Cape Verde. Both countries are seeking to position themselves as 'ecotourism' destinations to take advantage of the gradual recovery in global tourist numbers over the coming years. In Cape Verde, the government's Strategic Plan for Sustainable Development lays out the long-term vision for sustainable tourism over 2018–2030. Policies will include government funding for switching to sources of power generation that reduce local pollution, such as renewable energy.

In Mauritius, a new fisheries bill is being finalised (reportedly 80% complete as of March 2022), with the aim of better protecting the country's marine ecosystems, which are a key draw for foreign tourists. These measures highlight how improved ESG performance, in this case through the protection of domestic ecosystems, can have positive impacts on long-term economic growth.

Climate change negotiations could yield more funding for environmental protection

Overall environmental spending is still relatively low in Africa compared with other regions globally. Government spending on environmental protection averaged just 0.31% of GDP across African countries in 2019, according to the IMF. This compares to a global average of 0.45% of GDP and the highest regional level of 0.59% in Europe.

That said, multilateral funding for African countries to mitigate the effects of climate change on domestic ecosystems could help raise the continent's overall spending on environmental protection. Securing funding to address economic and ecological damage from



increasing global temperatures will be a key demand of developing countries in advance of COP27, and this will become a more significant issue because such countries remain most vulnerable to climate change. For example, Ethiopia has to spend close to 6% of its GDP to deal with extreme weather conditions, according to Power Shift Africa. In fact, Power Shift Africa estimates that African countries will have to spend on average 4% of GDP on adapting to climate breakdown, despite their relatively low global emissions

contribution. Rich countries had agreed in 2009 to provide USD100 billion annually from public and private sector sources to developing countries by 2020 to help reduce emissions and cope with the impacts of the climate crisis. However, so far this target has gone unmet (more likely by 2023) and the funding that countries have received has been targeted at renewable energy rather than helping countries to adapt to climate change.

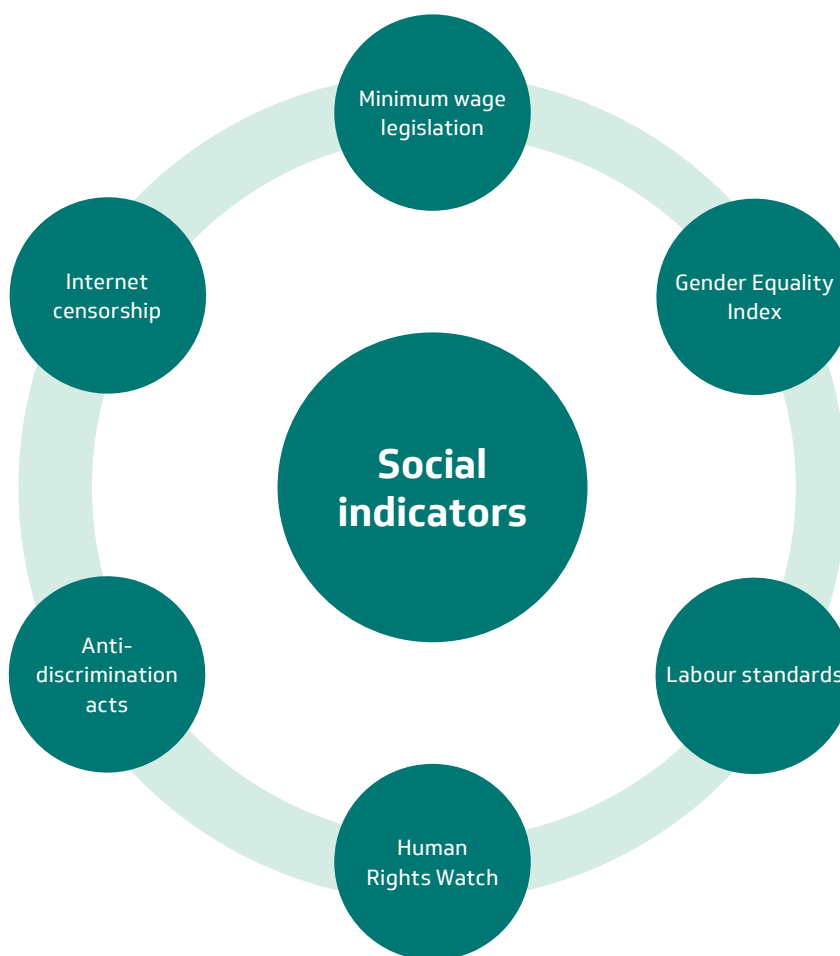
Chapter 3: Social Issues

Countries that perform well in social sustainability tend to benefit from low risks of unrest, a diverse and active labour force, and higher levels of gender and income equality. These qualities not only help support long-term economic growth, but also boost the

investment appeal of the country by minimising reputational risks for companies.

Topics that fall under the Social umbrella are largely categorised into issues around labour conditions, civil rights and equality. Indicators of how social sustainability performance can be measured at a sovereign level are highlighted below.

Fig 3.1: Social Factors



This chapter focuses on two specific indicators to measure social-related sustainability performance in a country. These are civil liberties and gender equality.

Fig 3.2: Comparison of major social indicators

Indicator	Definition	Source	Link to ESG
Civil liberties	The civil liberties score is derived from four sub-categories: Freedom of Expression and Belief; Associational and Organisational Rights; Rule of Law; and Personal Autonomy and Individual Rights. The highest overall score that can be awarded for civil liberties is 60.	Freedom House	Civil liberties are basic rights and freedoms granted to citizens of a country through its legal system. Such rights and freedoms form the basis of a democratic society. An open civic space fosters a more profitable business environment and long-term economic growth.
Gender equality	Measurement of the country's performance in achieving Goal 5 of the UN Sustainable Development Goals (SDGs), 'Achieve gender equality and empower all women and girls', as judged by the UN Sustainable Development Solutions Network (SDSN) in partnership with Bertelsmann Stiftung. Scores out of 100.	UN	Gender equality, diversity and inclusion is a fundamental human right. Empowering women and girls helps expand economic growth, promote social development and establish more stable and just societies.

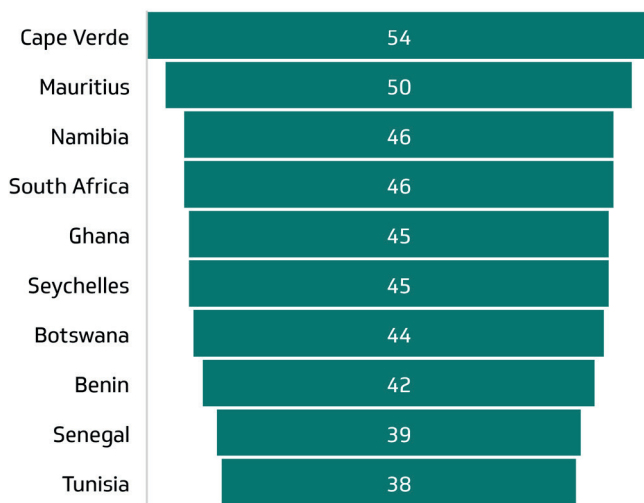
Source: Fitch Solutions

Civil Liberties

Civil liberties is an all-encompassing indicator from Freedom House that includes areas such as freedom of expression and belief, associational and organisational rights, rule of law, and personal autonomy and individual rights. The broad nature of the indicator means it is ideal for assessing a country’s social sustainability performance across several areas.

While civil liberties have generally been improving across African countries over the last decade, there was a notable withdrawal of civil liberties globally in 2020 and 2021 catalysed by the Covid-19 pandemic. This was seen across the African continent, as governments imposed lockdown measures and travel restrictions, introduced vaccine passports and test-and-trace schemes. It has also led to the normalisation of emergency powers being exercised, a precedent that is concerning in respect of some of the more authoritarian regimes on the continent.

Fig 3.3: Civil Liberties by African Country – Top Ten (scores out of 60)



Source: Freedom House

Key Takeaways

Cape Verde: Strong ‘rule of law’ reduces reputational risks

While Cape Verde scores well across the board for all four components of civil liberties, it outperforms in terms of ‘rule of law’ suggesting that there is general confidence in the country abiding by the rules of society, including in areas of contracts, property rights, the police and the courts. In fact, despite the Covid-19 pandemic, the courts improved their performance in 2020, reducing the number of pending cases. Furthermore, the government established a small claims court, inaugurated in October 2020, and new judges were appointed during the year.

This strength in the rule of law helps companies operating in Cape Verde to reduce the reputational risk arising from operating in a market that once suffered from serial abuse of contracts, land and labour rights. This is particularly beneficial to infrastructure

companies where land rights and long-term contract enforceability is crucial to project development.

Mauritius: Freedom of assembly boosting environmental accountability

Mauritius is also a regional outperformer, ranked in second place in the civil liberties indicator. In particular, there is a growing emphasis in the country on associational and organisational rights, for example the free operation of civil society groups and the general freedom of assembly.

This right has gathered momentum in Mauritius following the Wakashio oil spill in July 2020, which saw the MV Wakashio run aground on a coral reef off southern Mauritius, leading to over 1,000 tonnes of oil being spilled near two environmentally protected marine ecosystems and the Blue Bay Marine Park reserve. As a response to the handling of the disaster, tens of thousands of people protested in August and September 2020 and January 2021, resulting in greater accountability for the disaster from the government and those involved. In December 2021, the captain and first mate of the Wakashio were found guilty of ‘endangering safe navigation’ and were sentenced to 20 months in prison. The ship’s insurers also agreed to pay out MUR112,000 (USD2,580) to 1,000 fishermen, applicant fishermen and fishmongers for loss of earnings – this is on top of funds established by the Mauritian government and MOL shipping company (that chartered the Wakashio) in 2020. This sets a precedent in Mauritius for both environmental accountability and upholding civil liberties.

Ghana: Government transparency a boost to civil liberties

Active media coverage, robust laws and institutions, and government anti-graft initiatives all boost Ghana’s performance across the civil liberties indicator. Legislation adopted in 2017 established the Office of the Special Prosecutor (OSP) to investigate political corruption.

Furthermore, the government operates with relative transparency, and in 2019, President Akufo-Addo signed the Right to Information Act, which came into effect in early 2020. The Act grants citizens the right to seek, access and receive information from public as well as some private institutions. It aims to promote transparency and accountability by empowering people to access information on central and local governments as well as non-governmental organisations, which are publicly funded. By enforcing civil rights in Ghana, this legislation reduces the risk of a foreign firm suffering reputational damage from a scandal related to civil rights infringements by firms in the local supply chain.

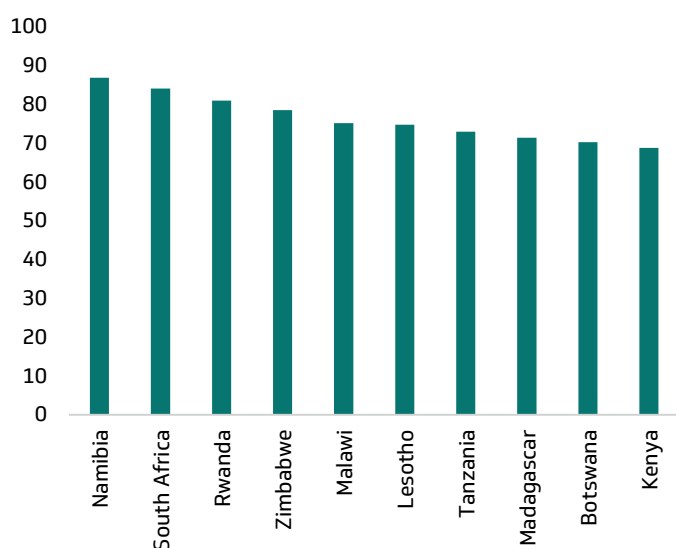
Gender equality

This indicator is a measurement of the country’s performance in achieving Goal 5 of the UN SDGs: ‘Achieve gender equality and empower all women and girls.’ A key component of reducing gender equality is improving access to education, skills and training facilities, public health, and employment. As such, governments have a vital role in closing the gender gap.

There has been growing momentum behind gender equality in Africa in recent years, culminating in the Global Gender Summit 2019 in Kigali, Rwanda, which brought together leaders from across

the continent to 'unpack constraints to gender equality'. The growing awareness of gender equality and its role in fulfilling Africa's economic potential is driving governments in the region to foster more conducive environments for women and girls. This includes investing in human capital, creating economic opportunities within the domestic economy and within government itself, and enforcing laws, policies and regulations that facilitate gender equality.

Fig 3.4: Gender Equality by African Country – Top Ten (Scores out of 100)



Source: UN

Key Takeaways

The leaders for gender equality in Africa are generally located in southern and eastern Africa, outperforming in areas such as education, government representation and more equal participation in professional and technical jobs. Within these regions, three countries stand out: Namibia, South Africa and Rwanda.

Namibia: Strong focus on education

Namibia is the highest-scoring African country in the gender equality index, largely due to the government's strong and relentless focus on access to education for women and girls over the last 20 years. The government has taken several measures to improve the share of girls completing school (and increase their access to vocational training, notably in science and technology fields). Public funding of education is also key. In Namibia's government schools, primary and secondary education has been free since 2016, and the government has made education compulsory for children between the ages of six and 16. All of these efforts have culminated in Namibia being one of the few countries in Africa to achieve gender parity in education. This is trickling down into women's participation in the workforce and Namibia has achieved gender parity in the representation of women in professional and technical roles.

South Africa: Equality enshrined into law

South Africa is one of three countries (alongside Rwanda and Zimbabwe) that enshrine equal rights for men and women into law, which ensures it scores well in the gender equality index. South Africa has also introduced quotas to ensure the representation of women in political positions at the provincial and national level. The government reinforced its efforts to get more women into politics by putting in place a day care centre in the parliament building.

Rwanda: Political participation for women

Rwanda is a notable outperformer on the political front: the country's constitution mandates that women account for at least 30% of all decision-making bodies in the government, including its bicameral parliament. Rwanda is unique in having women-only elections in which only women stand for office and only women vote. This policy has led political parties to adopt quotas for the number of women candidates. Lastly, Rwanda has made a concerted effort to improve healthcare outcomes by building a strong primary healthcare system based on a vision of equity and inclusiveness.

Social: Implications for trade and investment case study

Greater focus is being placed on supply chain sustainability, with corporates and countries increasingly assessing the ESG credentials of their inputs/imports. One pertinent example is the Conflict Minerals Regulation, which was introduced by the EU in January 2021, and is likely to have an impact on Africa's mineral producers. The law aims to help stem the trade in four minerals – tin, tantalum, tungsten and gold – which sometimes finance armed conflict or are mined using forced labour.

One country that could capitalise on this is Ghana, Africa's largest gold producer. As highlighted above, the country performs well in terms of civil liberties and is taking other proactive steps across the ESG landscape to boost its sustainability credentials and performance. The gold sector (which accounted for around 83% of merchandise exports in 2020) could benefit from increased investment from mining companies with ESG standards and from gold-importing European countries (Switzerland, Belgium, Italy, UK, Portugal, Austria, Latvia and the Netherlands all currently import gold from Ghana).

Furthermore, Ghana's push to integrate artisanal miners into its gold production output will place more focus and accountability on the small-scale mining sector in the country, which has previously been the source of significant environmental damage. The ban on small-scale mining in Ghana that was put in place in 2017 was not effective in curtailing illegal mining activity, but its lifting is likely to result in more regulations targeted at the sector and the need for greater transparency in the supply chain for importers.

Chapter 4: Governance Issues

The Governance pillar is often overlooked when analysing ESG performance; however, sustainable governance plays a vital role in meeting environmental and social criteria. Indeed, a country with

weak institutions and widespread corruption is unlikely to implement effective social and environmental safeguarding regulations.

Topics that fall under the governance umbrella are largely categorised into areas of electoral process, government functionality and corporate governance. Examples of how governance sustainability performance can be measured at the sovereign level are outlined below.

Fig 4.1: Governance Factors



This chapter focuses on two indicators: the World Bank Group's Worldwide Governance Indicators and corporate sustainability reporting. These two provide a useful gauge for assessing governance-related performance in a country, as outlined below.

Fig 4.2: Comparison of major governance indicators

Indicator	Definition	Source	Link to ESG
World Governance Indicators (WGI)	An average of scores for six categories from the World Bank's World Governance Indicators (WGI) project: Voice and Accountability; Political Stability and Absence of Violence/Terrorism; Government Effectiveness; Regulatory Quality; Rule of Law; and Control of Corruption. Scores range from approximately -2.5 (weak) to 2.5 (strong).	World Bank	Good governance is essential to successful, sustainable economic and social development. A country with strong institutions, government accountability and low corruption is more likely to implement effective social and environmental safeguarding regulations.
Corporate sustainability reporting	Counts the number of companies publishing sustainability reports that meet the minimum requirements.	UNCTAD	Corporate sustainability reporting can help organisations measure, understand and communicate their economic, environmental, social and governance performance, and then set goals, and manage change more effectively. Sustainability reporting ensures accountability and shows credible demonstrations of their level of sustainability, by following proper guidelines for sustainability reporting.

Source: Fitch Solutions

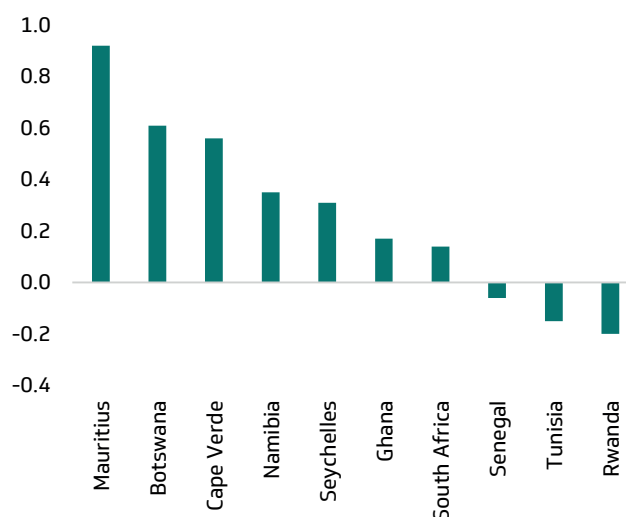
World Governance Indicators (WGI)

WGI define governance as the 'traditions and institutions by which authority in a country is exercised', including the process by which governments are selected, monitored and replaced, and how government capacity is formulated so that it implements sound policies in respect of its citizens and governs economic and social interactions effectively.

The WGI covers six categories (Voice and Accountability, Political Stability and Absence of Violence/Terrorism, Government Effectiveness, Regulatory Quality, Rule of Law, Control of Corruption) and therefore provides a thorough basis by which to evaluate governance sustainability performance.

While efforts have been taken to promote good governance across Africa, violent unrest remains a pertinent threat to social and political stability, corporate activity and investor sentiment. The growing strength of jihadist insurgencies in the Sahel, conflict between the Ethiopian federal government (Prosperity Party) and the Tigray People's Liberation Front (TPLF) in Ethiopia, and the Islamist insurgency in the northern Cabo Delgado province in Mozambique all provide examples of ongoing instability affecting the region and weighing on governance performance. Additionally, 2021 saw a rise in coups across the region, notably in West Africa (in Mali and Guinea, and a coup was also attempted by elements of the military in Niger) and Sudan.

Fig 4.3: World Governance Indicators by African Country – Top Ten Countries (Scores range from approximately -2.5 (weak) to 2.5 (strong))



Source: World Bank

Key Takeaways

Mauritius and Cape Verde outperform again

There is a degree of correlation between some social and governance indicators, as highlighted by Mauritius and Cape Verde. The two countries scored highest in the civil liberties indicators (within the Social pillar) and are ranked first (Mauritius) and third (Cape Verde) in the WGI.

- Mauritius' high position is a product of the pro-market democratic direction of post-independence politics, which have helped the country avoid domestic unrest despite the heterogeneous nature of the population. There is broad historical policy continuity between one government and the

next, and the continued political dominance of the Militant Socialist Movement (MSM). In addition, Mauritius' strong history of successful coalitions helps to prevent large swings in the direction of policy.

- Cape Verde has strong democratic norms and respect for the rule of law. Presidential elections held in 2021, which were won by the opposition Partido Africano da Independência de Cape Verde (PAICV), resulted in yet another peaceful political transition, further burnishing Cape Verde's reputation as a stable and consolidated democracy. The country's political institutions are robust, independent and transparently operated.

Botswana cements position as a regional governance outperformer

Botswana has long been heralded as a 'safe haven' for investors in the region, owing largely to its governance profile. The country is likely to remain one of the most stable nations in Africa, as a result of the country's strong democratic institutions with a high level of popular participation. The BDP has won the past 12 elections in Botswana since independence from the UK in 1966. The next election is not due until 2024, by which time Covid-19 headwinds will likely have subsided further and the economic recovery will have strengthened even more, fuelling positive sentiment towards the government.

Botswana is considered one of the least corrupt countries in Africa, partly owing to a working democratic system that fosters transparency in the public sector, strong respect for the rule of law and judicial independence. Most recently, the Virtual Assets Bill was passed in January 2022, which aims to regulate cryptocurrency trading in an effort to tighten the government's anti-money-laundering measures.

This appealing business environment and low levels of governance-related compliance risks will ensure FDI into Botswana remains high, supporting Botswana's aims of becoming a major transportation gateway for the region's North-South Corridor that will help to support trade growth in southern Africa.

Another strong showing for Namibia

Namibia has scored well across the board for ESG pillars. In the case of sustainable governance, its political stability and government effectiveness is a major bright spot. Namibia's ruling party has governed uninterruptedly since the country's independence in 1990 and has consistently enjoyed strong support in generally free and fair elections. Broad policy continuity and stability will likely persist following the victory of Geingob and the ruling South West Africa People's Organisation in the November 2019 elections, ensuring a largely business-friendly policy agenda.

Namibia's robust governance and conducive business environment has supported strong inflows of FDI into the domestic transport sector, with infrastructure developers particularly benefitting from a long-term stable policy environment due to the lengthy and costly nature of road, rail and port projects. An expansion at Walvis Bay Port concluded in 2019, renovations at Hosea Kutako International Airport are ongoing, and there are plans to extend and rehabilitate the national rail line, including to neighbouring countries from the port. Overall, the government is looking to upgrade its transportation infrastructure, in line with the Fifth

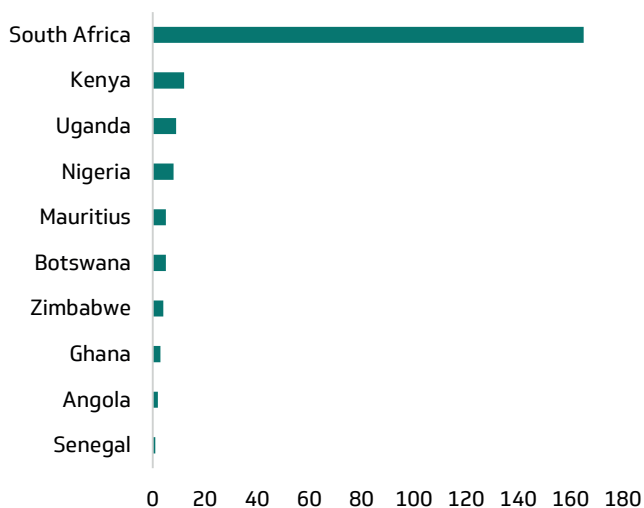
National Development Programme (2018–2022), to facilitate investment and position itself as a regional logistics hub.

Corporate Sustainability Reporting

Although this report is focused on ESG performance at the sovereign level, company-level sustainability practices are an important part of a country's ESG profile. The sustainability of business practices in a country can be a crucial factor attracting or deterring investment from foreign companies. Multinational firms wary of compliance and reputational risks will be reluctant to expand operations in a country where local suppliers and corporate clients follow unsustainable business practices.

With that in mind, the below table shows the countries in Africa that have the highest number of companies publishing sustainability reports. This metric highlights countries in which large corporations are increasing transparency related to ESG issues. This transparency is in some cases due to regulatory requirements (South Africa), while in others it is driven by voluntary disclosures by large corporations (Kenya).

Fig 4.4: Corporate Sustainability Reports by Country – Top Ten Countries (total number of companies reporting)



Source: UNCTAD

Key Takeaways

South Africa leading the way on corporate ESG disclosure

Of all Africa's economies, corporate reporting in South Africa is by far the most advanced with respect to ESG disclosures. As illustrated by the chart, more companies report on sustainability performance in South Africa (165) than in the rest of Africa combined (59). Regulation has been a key driver of this trend, as the Johannesburg Stock Exchange adopted strict ESG reporting standards for public companies following the government's King Report on Corporate Governance, the latest version of which was implemented in 2016.

Rest of Africa lagging

Outside of South Africa, firms in Africa have generally been slow to adopt sustainability reporting. Factors including immature ESG regulation in many African host countries and lower-income consumer bases mean there is limited stakeholder pressure to improve ESG performance. As a result, only 59 companies based in African countries other than South Africa published a sustainability report in 2020. This was the lowest regional total and accounted for just 1.7% of the total number of firms that published sustainability reports globally that year, compared to Africa's roughly 3% share of global GDP.

This is slowly beginning to change in line with increased global demand for ESG-compliant investments, which is encouraging African companies to improve their ESG reporting and standards. Furthermore, given that South African firms have a significant presence in other African markets and are having to increasingly adhere to ESG disclosure as part of the King Report on Corporate Governance, ESG reporting will trickle down across the region.

Governance: Implications for trade and investment case study

Senegal's President Macky Sall has taken significant steps to address corruption in the country since he was elected in 2012, including the creation of the National Office against Fraud and Corruption (OFNAC), passage of the asset declaration law, and in 2020 a national anti-corruption strategy was adopted. As a result, Senegal's score in Transparency International's Corruption Perception Index has risen from 36 out of 100 in 2012 to 43 out of 100 in 2021.

These efforts are likely to ensure investment sentiment towards the market remains favourable, particularly for those companies with a solid ESG mandate. This will help support Senegal's long-term goal of establishing itself as a major trans-shipment and trade hub of the region, through the development of its logistics infrastructure. Besides the planned Port du Futur, DP World is set to develop a deep-water port at Ndayane, reportedly investing USD837 million in the first phase and USD290 million in the second, making it the largest private sector infrastructure investment in the history of the country. Hydrocarbons, gold and agricultural products will be Senegal's major exports going forwards.

Conclusion

ESG is becoming an increasingly important focus for businesses globally, driven by multilateral agreements, government legislation, consumer pressure, high-profile investor activism and corporate investment decisions. This report has assessed how a growing focus on ESG considerations has impacted the African continent specifically, including what it means for government policy, economies and businesses operating in the region. While a focus on ESG in Africa has been slower to gather momentum when compared to other regions, there has been a notable shift, both in the way firms are operating and investing on the continent, and also an acceleration of sustainable policies enacted by governments in the region.

This report is mainly focused on sovereign-level ESG, assessing how countries in Africa are managing sustainability pressures and implementing ESG policies. A number of indicators were used to highlight regional trends and the most successful countries in terms of their performance for E, S and G pillars, including in areas as varied as renewable energy adoption, environmental spending, gender equality and corporate sustainability reporting.

The table below outlines the performance of a number of countries in Africa in terms of their E, S and G credentials, across the various indicators chosen. The countries selected are those that appear at least once in the top ten lists for the specific indicators chosen in this report.

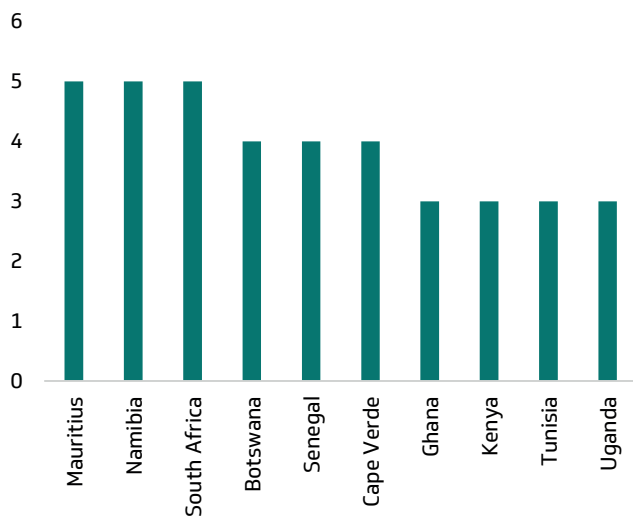
Fig 5.1: Leading countries, by ESG performance

Country	Environmental		Social		Governance	
	Renewable energy	Environmental spending	Civil liberties	Gender equality	Reporting on sustainability	World Governance Indicators
Angola						
Benin						
Botswana						
Burkina Faso						
Burundi						
Cape Verde						
Côte d'Ivoire						
Eswatini						
Ghana						
Kenya						
Lesotho						
Liberia						
Madagascar						
Malawi						
Mauritania						
Mauritius						
Morocco						
Namibia						
Nigeria						
Rwanda						
Senegal						
Seychelles						
South Africa						
Tanzania						
Tunisia						
Uganda						
Zimbabwe						

Source: Fitch Solutions

Those countries that feature most frequently in the top ten lists across the indicators are highlighted in the chart below. No country in Africa is ranked in the top ten across all six indicators, but a number feature several times. This provides us with a good indication that these markets are generally the best performing in Africa for ESG.

Fig 5.2: Appearances in Top Ten, by country (across six indicators)

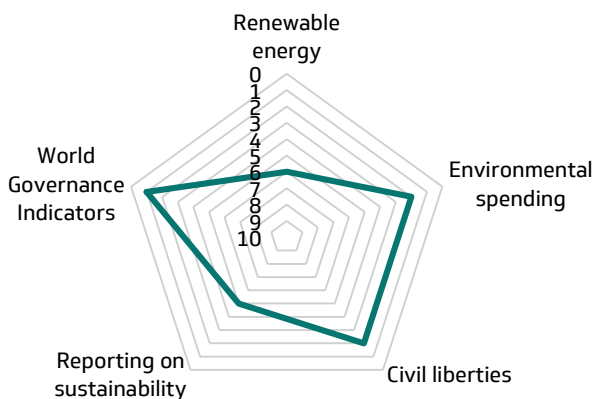


Source: Fitch Solutions

Three markets stand out for their outperforming ESG credentials: Mauritius, Namibia and South Africa.

Mauritius

Fig 5.3: Position in Rankings, by indicator (lower the number = higher the ranking out of ten)



Source: Fitch Solutions

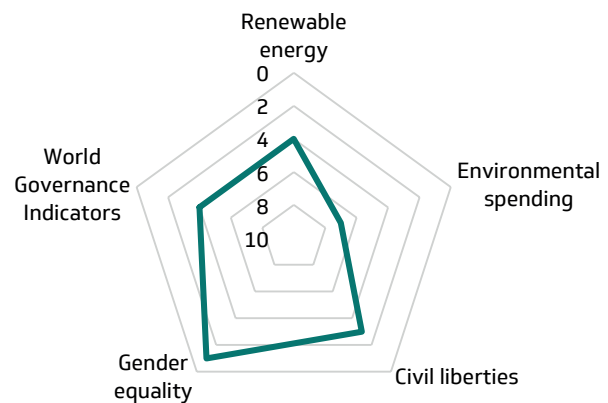
Mauritius performs well across the board for ESG-related indicators and will continue to be an attractive market for investment for those companies with a strong sustainability agenda. This will be important given Mauritius' aims to become a trans-shipment and financial hub for Sino-African trade, representing a major opportunity for Mauritian growth.

Specifically, civil liberties are generally upheld, and the country has one of the most advanced and entrenched democracies in the region. Spending on environmental protection is also particularly high in Mauritius, in part due to the importance of ecotourism to the economy. For example, renewable energy makes an important contribution to the overall electricity mix (at nearly 20%) and this is likely to increase given the country's decarbonisation agenda.

The one indicator that Mauritius is not ranked within the top ten in Africa is gender equality (ranked in 19th position). While the gender gap has closed in relation to access to healthcare and education, women's political representation remains limited: as of February 2021, only 20% of seats in parliament were held by women.

Namibia

Fig 5.4: Position in Rankings, by indicator (lower the number = higher the ranking out of ten)



Source: Fitch Solutions

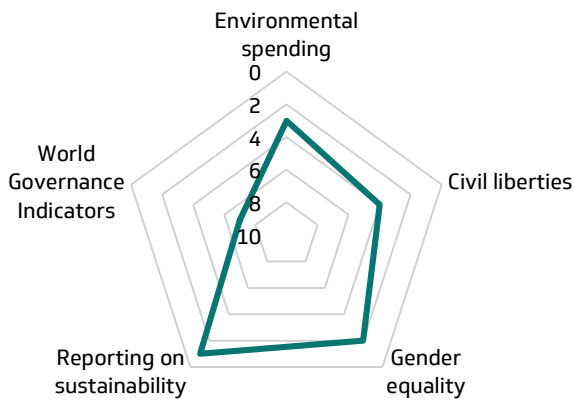
Namibia also ranks highly across the board for virtually all indicators assessed in this report, with particularly strong showings for gender equality (thanks to the government's ongoing focus on girls' education) and civil liberties. Furthermore, Namibia has a robust legal anti-corruption framework, and the Anti-Corruption Commission (ACC) remains active despite funding constraints.

Namibia also has a promising renewable energy sector that will continue to expand over the coming years in line with the country's significant natural solar resources and conducive regulatory framework, which now allows consumers and independent power producers to buy from and sell electricity to each other directly. This could pave the way for corporate power purchase agreements for renewable energy, which will benefit companies looking to make their supply chains low carbon.

Given the aforementioned factors, Namibia will continue to be an investor-friendly destination for ESG-focused businesses, despite its relatively small market size. That said, corporate sustainability reporting is lacking (there was no reporting by corporates operating in Namibia in 2020). This will need to change if Namibia is to maintain its strong ESG credentials, particularly given the domestic mining sector is set to remain a key component of the economy over the next decade, driven by uranium, diamond, copper and zinc production.

South Africa

Fig 5.5: Position in Rankings, by indicator (lower the number = higher the ranking out of ten)



Source: Fitch Solutions

South Africa is another outperformer for ESG in Africa. This is unsurprising given that progressive ESG regulation is not only encouraging improved ESG performance domestically, but also across the whole continent. Of all Africa's economies, it is South Africa in which corporate reporting is by far the most advanced with respect to ESG disclosures. In fact, more companies report on sustainability performance in South Africa (165) than in the rest of Africa combined (59).

South Africa scores well in terms of civil liberties and World Governance Indicators. Since the end of apartheid in 1994, South Africa has been viewed globally as a proponent of human rights and a leader on the African continent, cementing the country as an investment hotspot for companies keen to expand across the region. The government continues to take steps to close the gender gap and has introduced quotas to ensure the representation of women in political positions at the provincial and national level.

While South Africa has spearheaded one of the most successful renewable energy programmes in Africa (the Renewable Energy Independent Power Producer Procurement Programme – REIPPPP), in terms of attracting investment into expanding the sector, the domestic electricity mix remains heavily reliant on coal. For companies focused on ESG criteria, this heavy use of coal will not align with their environmental sustainability agenda. That said, to circumvent this issue, companies are now able to self-generate using renewable energy or to source directly from renewable energy generators via corporate PPAs.



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