PAFA SUSTAINABILITY WEEK: DAY2 – REIMAGINING PUBLIC SECTOR REPORTING; AND THE ROLE OF THE REGULATOR

02 August 2022

PAN AFRICAN FEDERATION OF ACCOUNTANTS

DAY 2 PROGRAMME: REIMAGINING THE PUBLIC SECTOR

14:00 – 14:10	Opening remarks	**Mr Yacouba Traore**, Chairman, PVM_TAG – PAFA
14:10 – 14:35	Key insights from the State of the Accountancy Profession in Africa report	**Mr Kwame Akufo**, Snr Manager, PwC Ghana
14:35 – 14:50	Keynote address	**Mr Harsen Nyambe**, Director Sustainable Environment and Blue Economy, the African Union
14:50 – 15:35	Sustainability reporting and assurance in the public sector: • Making the case • IPSASB playing its part	**Mr Patrick Kabuya**, Snr Governance Specialist, World Bank **Ms Lindy Bodewig**, Deputy Chair, IPSASB
15:35 – 16:15	Panel discussion: Regional perspectives on the adoption and implementation of sustainability reporting and assurance in Africa	**Mr Vickson Ncube**, ZESCO Ltd – Zambia **Mr Tshepo Ramodibe**, IDC – South Africa **Mr Edwin Njamura**, PSASB – Kenya **Dr Iheanyi Anyahara**, FRC – Nigeria
16:15 – 16:35	Questions and answers	**Mr Reuben Orwaru**, Manager, PAFA
16:35 – 16:45	Closing remarks	**Ms Lebogang Senne**, Director, PAFA

State of the Accountancy Profession in Africa

Sustainability reporting in the public sector: the opportunity facing the accountancy professional and the capacity challenge

Presentation by Kwame Ansa Akufo
Senior Manager, Strategy Consulting
PwC Ghana
2 August 2022

The presentation will cover

1

Study methodology

The study was designed to determine the state of the accountancy profession in Africa.

The main objectives of the study were to:

1. **Determine** the challenges and opportunities for professional development in Africa
2. **Advance** collaboration and synergies among key stakeholders of the profession
3. **Emphasise** how the profession can be most effective in influencing fiscal and socio-economic reform

We adopted a 4-phase approach and analysed the results through 4 themes/ lenses.

Methodology…

Phase 1
Desk research

Phase 2
Quantitative survey

Phase 3
Qualitative survey

Phase 4
Analysis & reporting

Study themes/ lenses…

- Capabilities
- Partnerships
- Influence
- Future-readiness

The respondents comprised professionals working across the continent...participation was higher southwards of the Sahara.

Sector mix

- Private sector = **79%**
- Public sector = **21%**

Geographical distribution

- Eastern Africa & The Horn = **42%**
- Southern Africa = **31%**
- Western Africa = **21%**
- Central Africa = **2%**
- Northern Africa = **2%**
- Non-Africa = **1%**

PAO affiliation mix

- Non-ACCA = **36%**
- ACCA only = **46%**
- ACCA & Others = **18%**

Number of stakeholder groups = **8**

- HEIs
- PAOs
- Regulators & Standard Setters
- International Agencies
- Practice Firms
- Business Enterprises
- Chambers of Commerce
- Public Sector

Gender mix

- Male = **64%**
- Female = **36%**

No. of study contributors

~1,870

Experience distribution

- < 1 years = **7%**
- 1 – 3 years = **13%**
- 3 – 10 years = **29%**
- 10 – 20 years = **34%**
- > 20 years = **17%**

Demographic distribution

- < 35 years = **46%**
- 35 - 45 years = **33%**
- 45 – 65 years = **20%**
- > 65 years = **1%**

**1,762 = number of quantitative survey respondents only*

2

Current state of the profession

What we found about the current state of the accountancy profession in Africa…

~60	Number of affiliated PAOs mentioned by respondents
123K	Estimated number of accountancy and finance professionals that are members of PAOs in Africa
0.012%	Estimated number of African PAO-member accountants per capita

“What did we find out about the state of Africa’s accountancy profession by looking through our four lenses?

“

Capabilities...

Is the African accountant equipped to play the role expected and required through the rapid evolution that is changing business and the government?

The profession has developed the resources it needs to deliver on its societal mandate, but major skill gaps are emerging…

Capabilities

- Existence (and adoption) of national standards
- Non-uniform progress in adoption of international standards
- Top 4 skill gaps identified:
  - Information systems and data analysis **(53.9%)**
  - Strategy planning and performance management **(49.3%)**
  - Internal control and fraud prevention **(40.4%)**
  - Incorporation of non-financial agenda into financial reporting **(38.9%)**

“

Partnerships…

What are the strategic alliances that accountancy stakeholders need to forge to ensure that the profession can roundly deliver on its promise to society?

The profession knows the value of partnerships and leverages them. Still, there are opportunities to unlock more benefits…

Partnerships

- Partnerships exist among PAOs in Africa, and between PAOs and other stakeholders
- Stakeholders consider collaborations to be a better way to “get the work done”
- However, strategic alliances with stakeholders are not optimised with some overlaps in responsibilities
- More effective alliances will enhance:
  - Curricula in Higher Education Institutions (HEIs)
  - Internships in Practice Firms and related impact
  - Impact of public programmes, e.g. PFMRPs
  - Unlock greater financial resources and direct to public sector capacity gaps

Influence…

What must 'step up to the plate and get counted' mean for professional accountants on a continent that is on the cusp of transformational socio-economic development – but also bedevilled with weak governance?

No doubt, the profession has clout in government & business, and its impact can only be restrained by its capacity limitations

Influence

- **67%** of respondents consider PAOs to be proactive and thought leaders with policy makers
- The profession's paradox! Professionals contribute to building sustainable & ethical businesses in Africa **(48%)**… *yet are lacking in ESG acumen!*
- Respondents agree that the profession helps to hold businesses accountable for the impact their operations have on the environment and society through reporting **(43%)**…*yet, how many entities have Sustainability reports?*
- Stakeholders expect accountancy professionals to *play a more impactful role and serve as trusted advisors to governments*

“

Future-readiness…

What is meant by the future ready accountant, and how does that contrast with present and past professionals?

The profession's storyline is changing quickly; professionals need to acquire new skills to remain protagonists in the plot…

Future-readiness

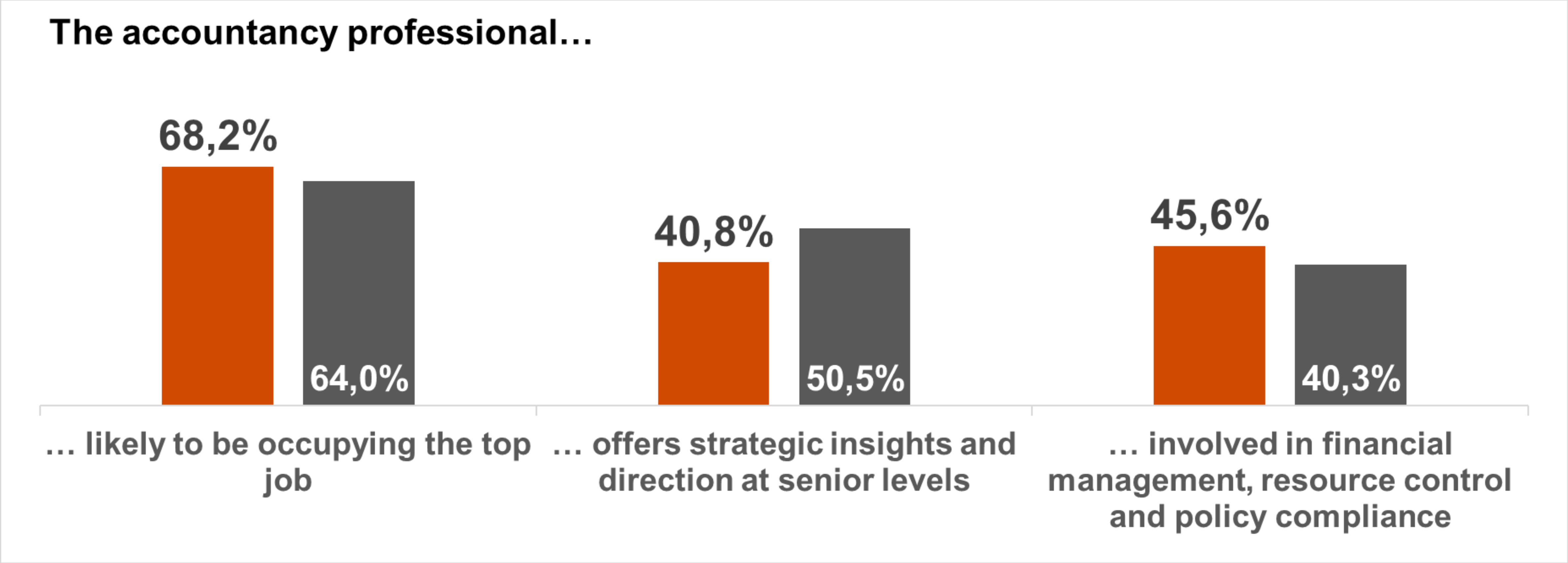
- **Top 5 future-altering trends** according to survey respondents are:
  - Digital transformation of the accounting function **(71%)**
  - Expanding skill set to include knowledge of new technologies and business strategies **(50%)**
  - Increased availability and supply of qualified accountants **(39%)**
  - Increased adoption of global accounting standards **(27%)**
- **77%** of respondents agree that the profession is prepared and agile for that future
- **16%** of respondents consider ESG to be a future-altering trend. Professionals in the mining industry who do not see ESG among the industry's top future-altering trends **(92%)**
- As a major development driver, PAOs perform many duties to advance and future-proof the profession. Need to diversify support to PAOs to include capacity building and public policy formulation

3

Spotlight: Sustainability reporting in the Public Sector

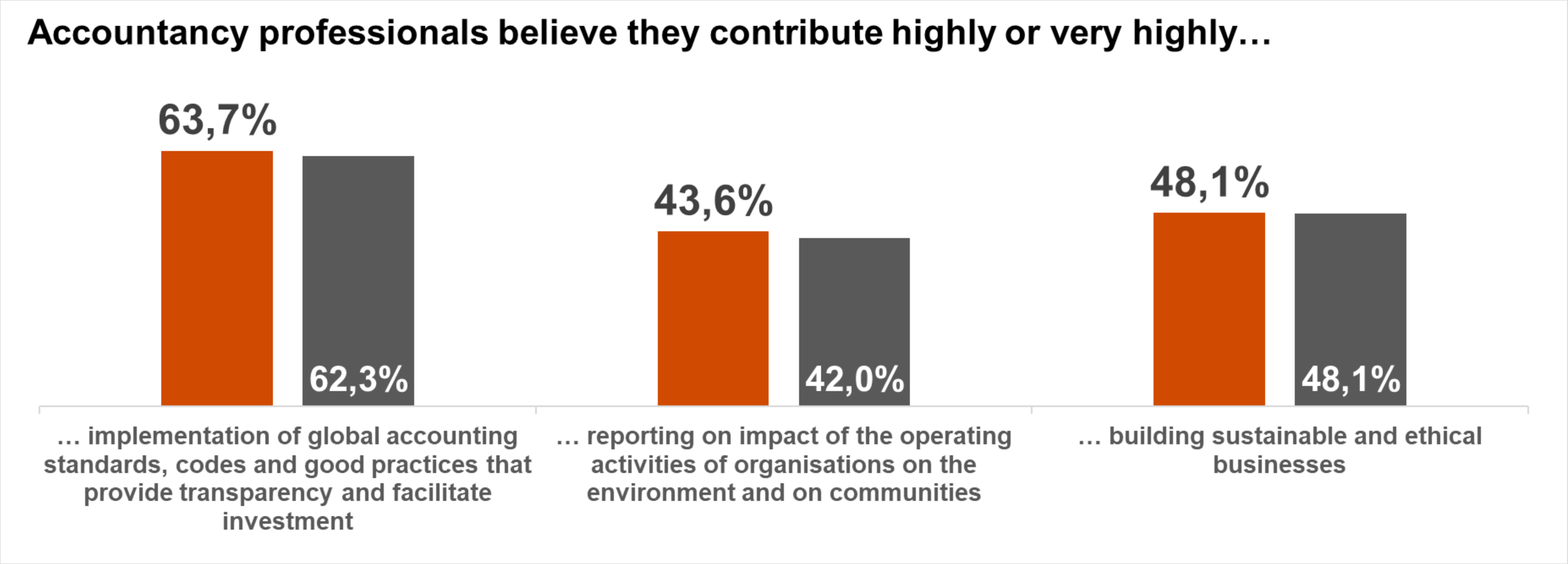
Accountants wield considerable power in business and society. They occupy positions of influence and trust. This comes with responsibility. Such responsibility needs significant capacity.

Accountants have privileged positions of influence and trust!

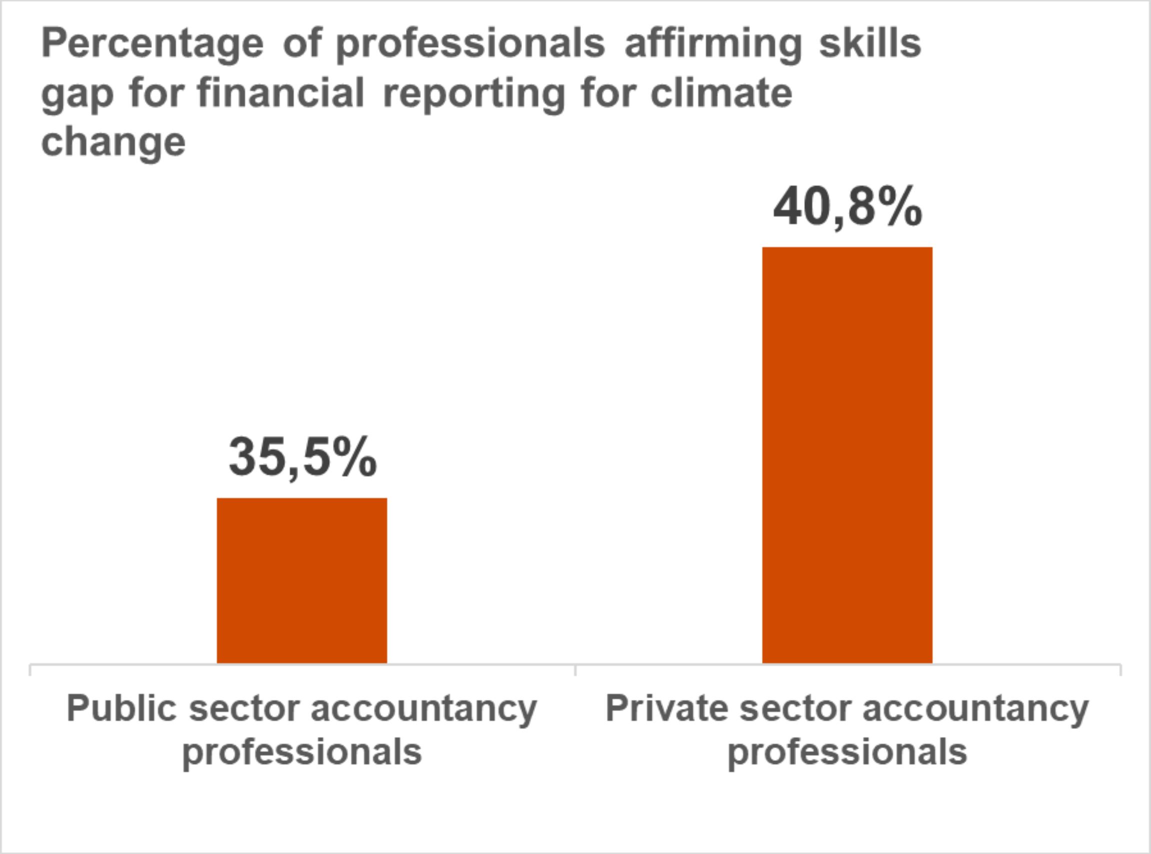


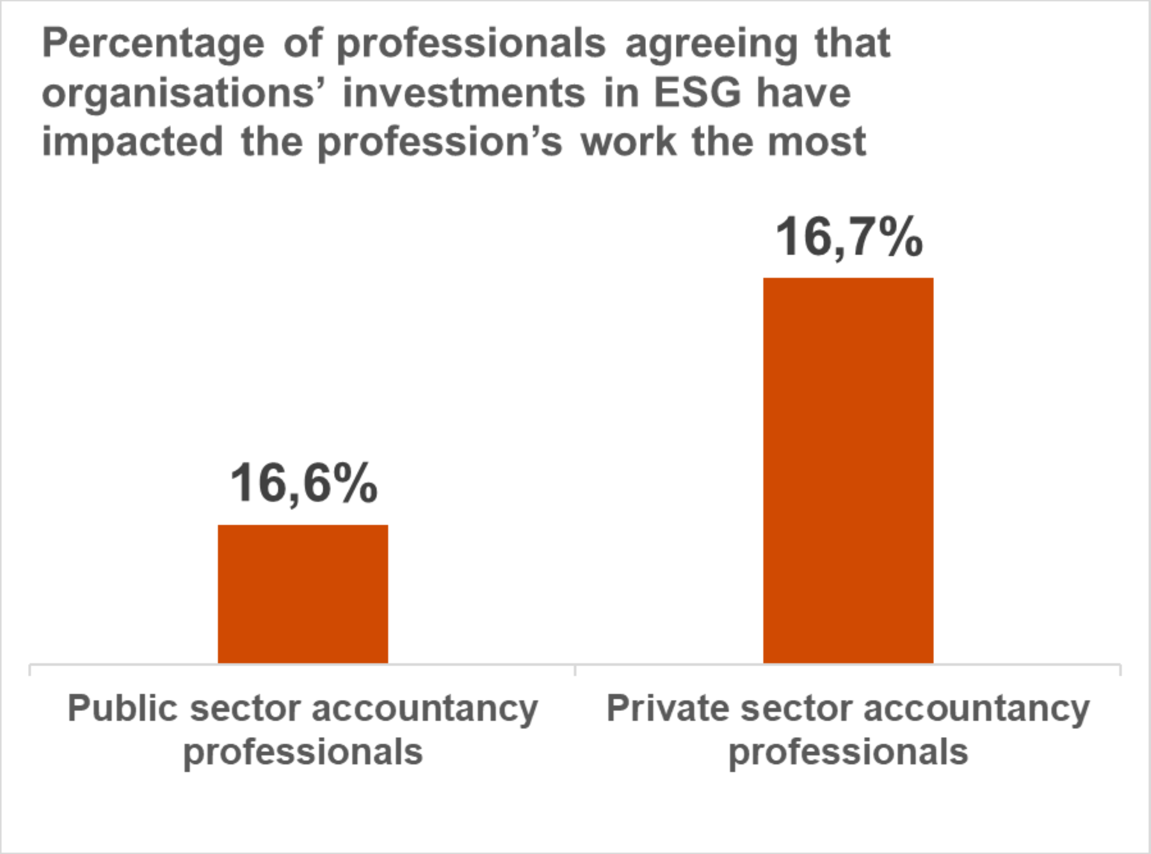
Such positions of influence and trust place a responsibility on professionals to support initiatives that ensure transparency in resource utilisation and investment facilitation

… and accountants rate themselves fairly high in their performance



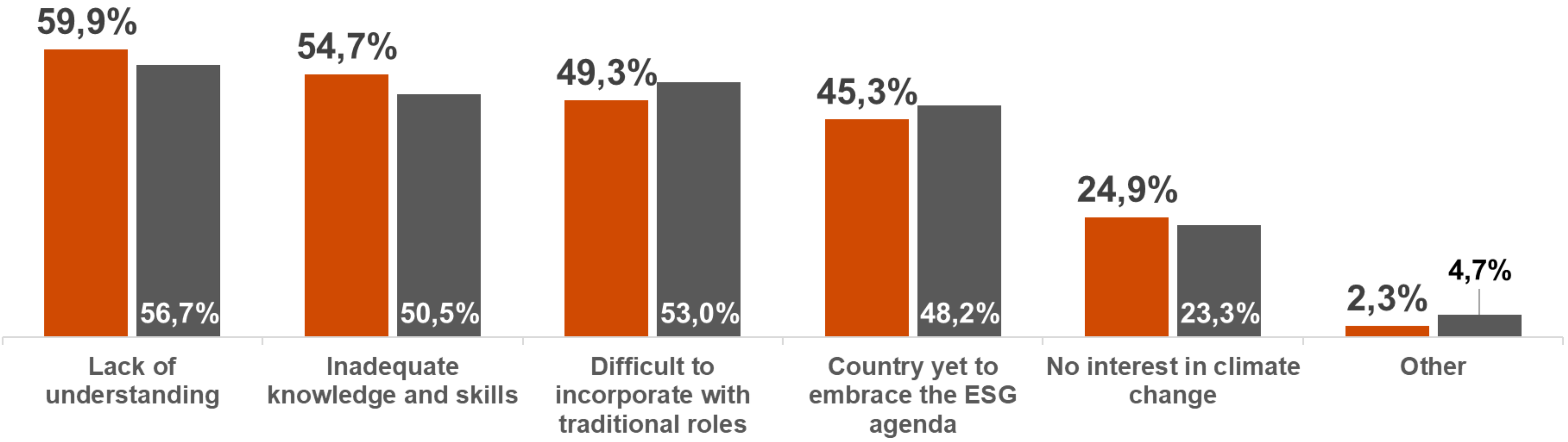
However, it would seem that accountancy professionals practicing in the public sector face some key limitations that inhibit their ability to have maximum impact…





…however, it would seem that accountancy professionals practicing in the public sector face some key limitations that inhibit their ability to have maximum impact…

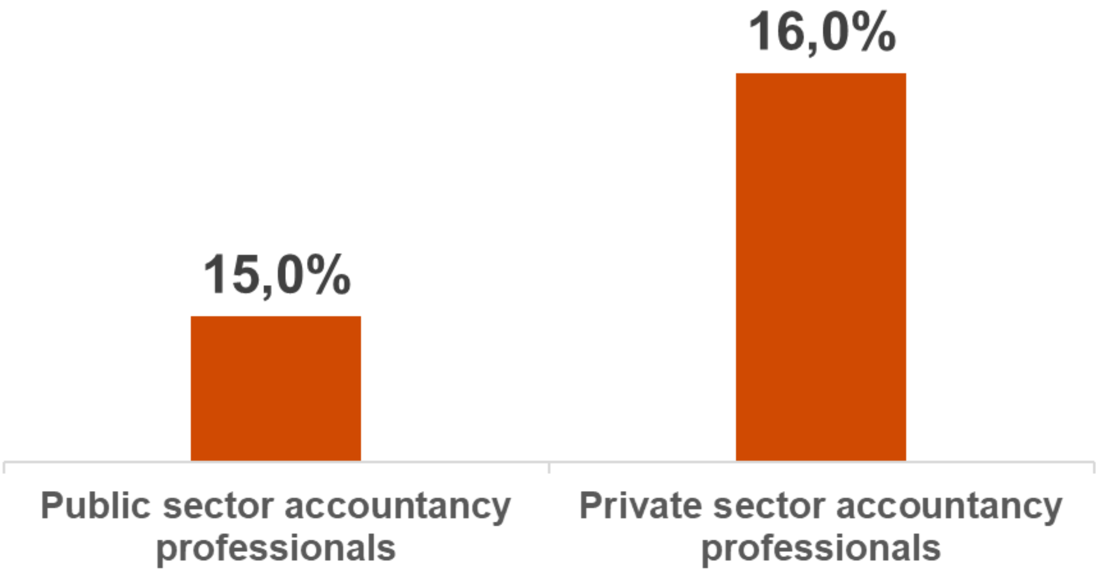
Key factors preventing accountancy professionals from maximum involvement in climate change and ESG agendas



Going into the future, accountancy professionals appear to give contradictory signals as to how much they expect ESG to impact the profession or the work of the professional

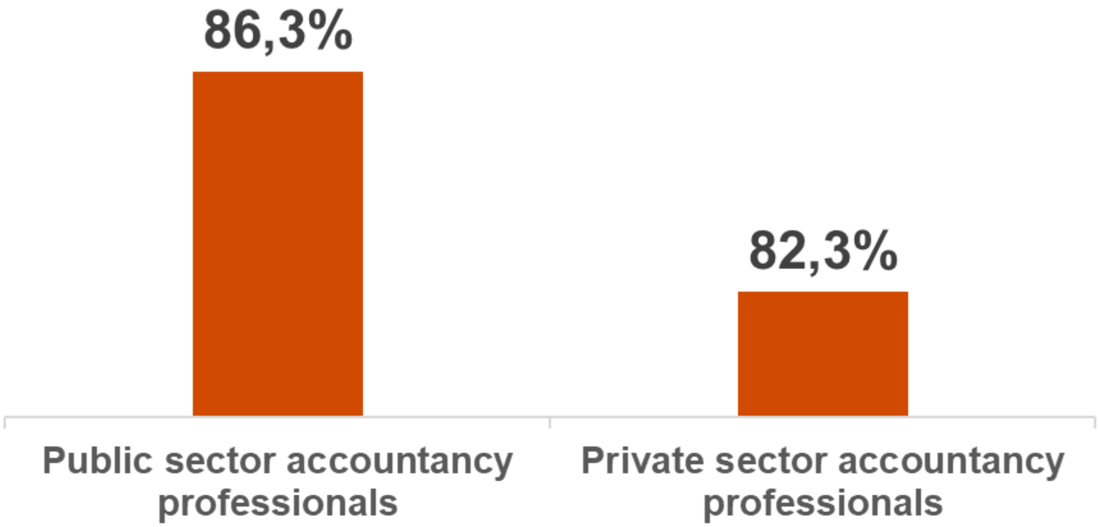
Accountants don’t expect ESG to have much impact

Professionals agreeing that ESG would be among the topmost trends or changes to impact the profession



Still, they believe citizen demand creates opportunity

Professionals agreeing that increasing citizen awareness would create demand for transparent disclosures about resource utilisation, social costs and profits



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Calls to action!

Governments must invite the profession (personified by PAOs) to take a seat at the public policy table.

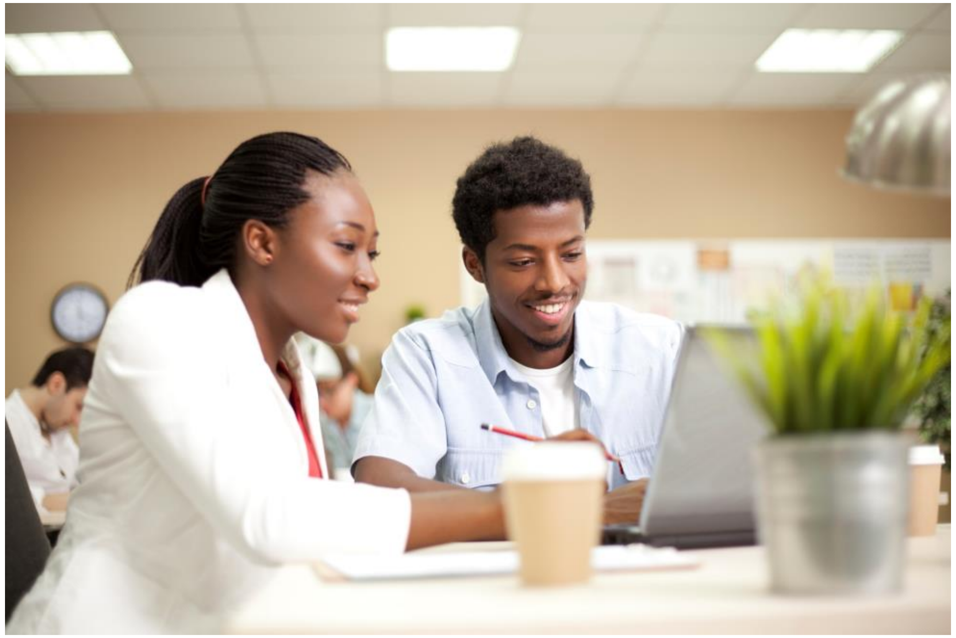
Governments and public sector institutions

1. Drive efforts to enhance transparency, accountability and responsible governance in public sector institutions
2. Co-develop performance measures for the professional, while seeking support to implement medium-term programmes that would improve professionalisation within the public sector
3. Make training in good governance and ethics a mandatory CPE requirement for professionals at all levels in the public sector

PAOs will remain the foundation on which Africa’s future accountancy profession is built. Capacity building is the focus, yet collaboration is a strong muscle PAOs need to be successful.

Professional Accountancy Organisations (PAOs)

1. Prioritise upskilling and reskilling members to close core skills gaps in traditional areas and non-traditional skill areas
2. Deepen the focus on professionalising public sector accountancy through targeted capacity-building initiatives
3. Push more strongly for adoption and implementation of international standards in Africa and – where appropriate – for the harmonisation of national and international standards
4. Review curriculum and examinations to facilitate learning that will prepare professionals for the future



Accountancy will remain a regulated profession; regulators will remain "partners". The study highlights need for clear roles so regulators focus on matters relating to standards & compliance.

Regulators and standard-setters

1. Define clear roles between PAOs and regulators
2. Enforce impartial regulation and adherence to rules by PAOs and their members
3. Drive harmonisation of national and international standards
4. Work closely with PAOs to regularly review the minimum professional licensing

Many of the stakeholders in the specialist group are drivers of the trends altering the profession's future.

Specialist groups (including, ESG, digital, employers, Chambers of Commerce, Gen Z)

1. Establish formalised platforms and channels to facilitate knowledge and experience sharing with and feedback from educational providers and learning institutions (including PAOs) to strengthen the faculties available to such organisations/ institutions – improving the education/training provided to accountancy students, enabling them to make a greater impact when they leave school
2. Collaborate with HEIs and PAOs to mould professionals in time for change.

Development agencies have an interest in having a profession that is well capacitated, especially in the public sector; and they have the means to help actualise the future state.

International development agencies

1. Strengthen PAO institutional capacity to roundly deliver a future-proof mandate that covers all levels/ types of the accountancy and finance professional in both the private and public sectors.
2. Encourage governments to adopt IPSAS and to include robust capacity building projects into their applications for funding PFM reforms

5

Conclusion and what next?

In conclusion…

The accountancy profession may be transient without active and deliberate collaborative efforts to drive the agenda for change and transformation.

Going forward…

“

We hope this joint report will inspire follow up stakeholder community engagements that will see PAOs and professionals strategically position themselves and engage with stakeholder groups –

Jamil Ampomah, Africa Director, ACCA

Thank you for listening

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Sustainability reporting and assurance in the public sector - Making a case

Patrick Kabuya, Senior Financial Management Specialist, World Bank

WORLD BANK GROUP
Governance

PAFA
PAN AFRICAN FEDERATION OF ACCOUNTANTS

Are Sustainability elements fully integrated in public sector?

National Development Plans

SDGs, Africa Agenda 2063, global issue

Social, Environmental and Economy

MDAs are responsible for implementation

- Global crises: climate change, COVID-19, Conflicts
- Increased demand by investors and stakeholders
- Global frameworks and standards

Are Sustainability elements fully integrated in public sector

Limited **integration** of sustainability elements in public sector

Limited **identification** of sustainability risks and opportunities in public sector

Incomplete, **inconsistent** and **incomparable** sustainability information in public sector

Principles by Coalition of Finance Ministers

» Principle 4. Take climate change into account in **macroeconomic policy, fiscal planning, budgeting, public investment management, and procurement practices**.

THE WORLD BANK

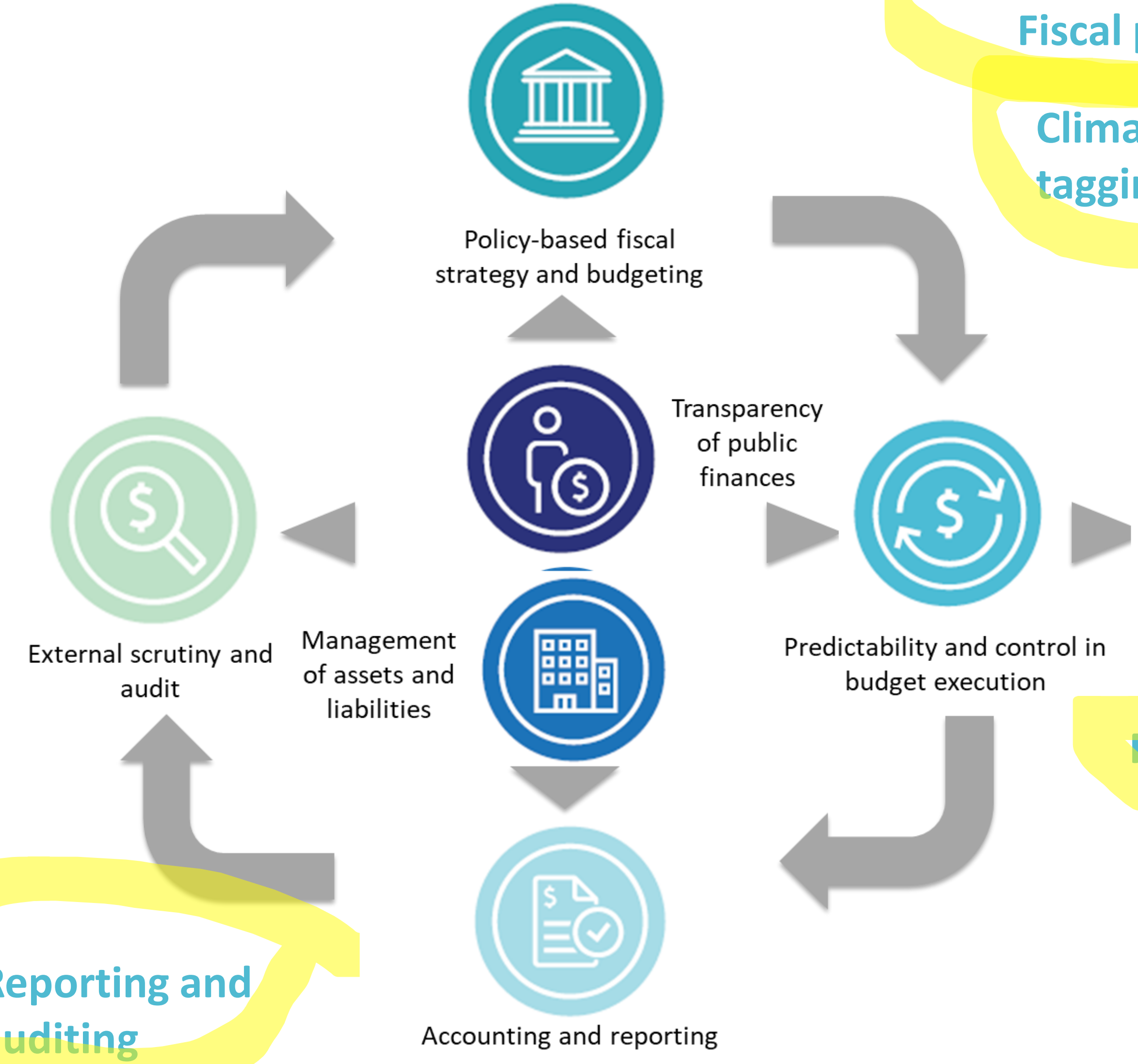
Green Public Finance management

"the integration of climate-friendly perspectives into PFM practices, systems and frameworks". (IMF)

Integration

Identification

Information – complete, comparable, consistent



Fiscal planning

Climate Budget tagging

Public procurement

Public Asset Management

Public Investment Management

Reporting and auditing

Source: PEFA secretariat

INDICATORS
CRPFM–1 Budget alignment with climate change strategies
CRPFM–2 Tracking climate related expenditure
CRPFM–3 Budget circular
CRPFM–4 Legislative scrutiny
CRPFM–5 Climate responsive public investment management
CRPFM–6 Climate responsive non-financial asset management
CRPFM–7 Climate related liabilities
CRPFM–8 Climate responsive procurement
CRPFM-9 Climate responsive revenue administration
CRPFM–10 Compliance of climate related expenditure
CRPFM–11 Climate responsive fiscal decentralization framework
CRPFM–12 Climate related performance information
CRPFM-13 Climate related evaluation
CRPFM–14 Expenditure outturn for climate activities

Source: PEFA secretariat

LEVEL OF CRPFM PRACTICE ON A FOUR-POINT ORDINAL SCALE

Score	Level of practice
A	Climate change issues and the policy response are mainstreamed in the relevant PFM institutions, processes, or systems
B	Climate change issues and the policy response are partially mainstreamed in the relevant PFM institutions, processes, or systems
C	Initial efforts have taken place to mainstream climate change issues and the policy response in the relevant PFM institutions, processes, or systems
D	Performance is less than the basic level of performance

EXAMPLE OF INDICATOR: CRPFM—3.1. BUDGET CIRCULAR

SCORE	MINIMUM REQUIREMENTS FOR SCORES
A	The budget circular provides a methodology to track climate change related expenditure, as well as expenditures that are counter to climate policy. It contains guidance on how to factor climate change mitigation and adaptation planned expenditure into budget proposals, and on how to limit expenditures that are counter to climate. It refers to the national climate change strategies.
B	The budget circular provides a methodology to track climate change related expenditure. It contains guidance on how to factor climate change mitigation and adaptation planned expenditure into budget proposals and refers to the national climate change strategies.
C	The budget circular contains guidance on how to factor climate change mitigation or adaptation planned expenditure into budget proposals.
D	Performance is less than required for a C score.

Climate financing

[Source: SOVEREIGN CLIMATE AND NATURE REPORTING
Proposal for a Risks and Opportunities Disclosure Framework, World Bank]

The Paris Agreement states that addressing climate change will require "making finance flows consistent with a pathway towards low greenhouse gas emissions and climate resilient development."

To be successful, global **financial flows must align** with these broad objectives.

Sustainability reporting can play a central role in driving capital to sustainable investments and away from environmentally harmful ones.

Why is a Reporting Framework for Sovereigns Needed?

» Can Help Countries Attract Capital

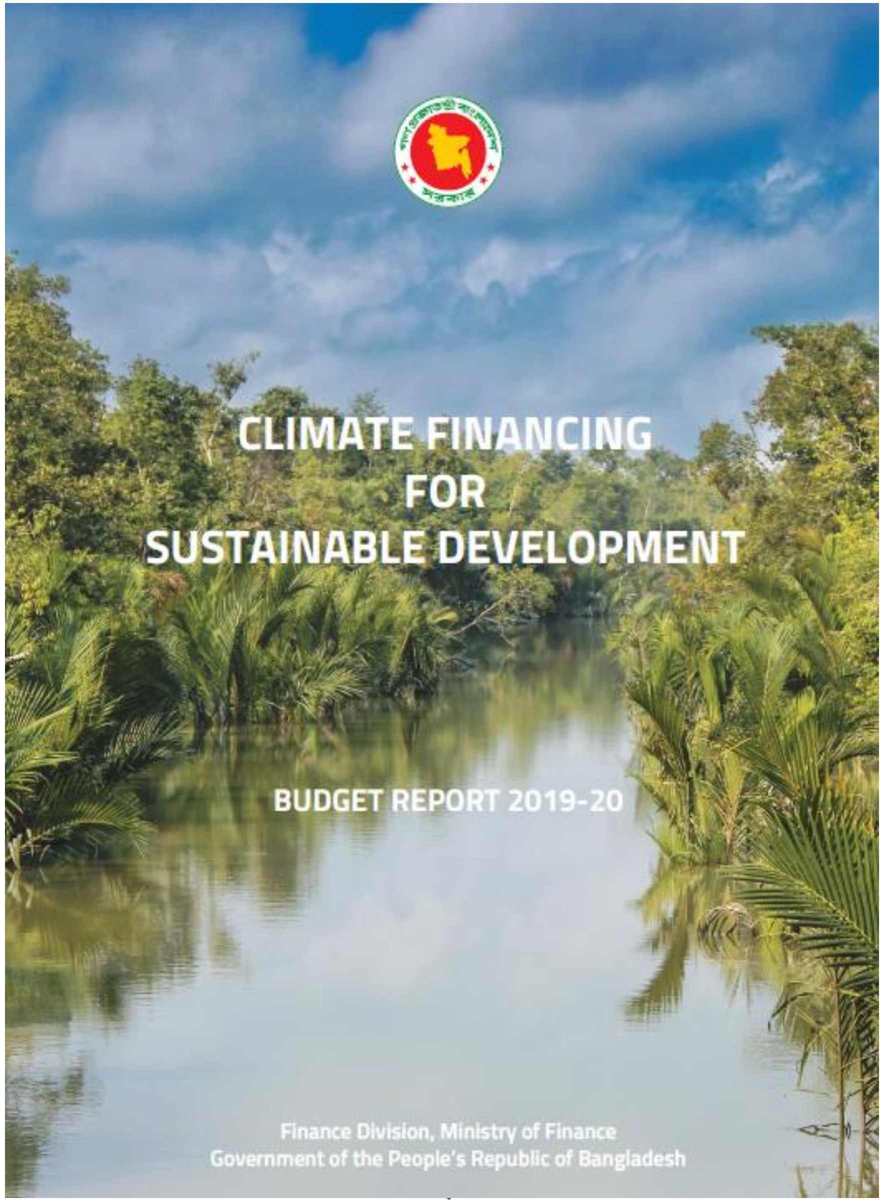
» Demand for climate-related financial information by investors

» Existing information does not meet the needs of Investors and other stakeholders

Climate Budgeting Tagging

"The practice of identification, measurement and monitoring of climate-relevant activities and expenditure in the budget cycle"

- Identifies **climate expenditures** in the national budget
- Reports on expenditures, distribution and trends
- Auditing climate tagged information



Source: World Bank

How to Integrate Climate Change in the Budget

Annual Budgeting Cycle

Develop Tools and Analytics → Guidance → **Plan and Prepare Climate-Informed Budget Proposals** → Analysis → **Prioritize CC Programs in Budget** → Reporting → **Monitor Expenditures and Tracking Climate Performance**

Develop Tools and Analytics
- **Climate Change Expenditure Review**
- Initial climate budget database
- Budget process and framework review
- **Design CC typology and guidelines for tagging**

Plan and Prepare Climate-Informed Budget Proposals
- Risk screening and climate-informed program planning
- Climate change expenditure tagging
- Ministry level prioritization
- Climate budget analysis and briefs

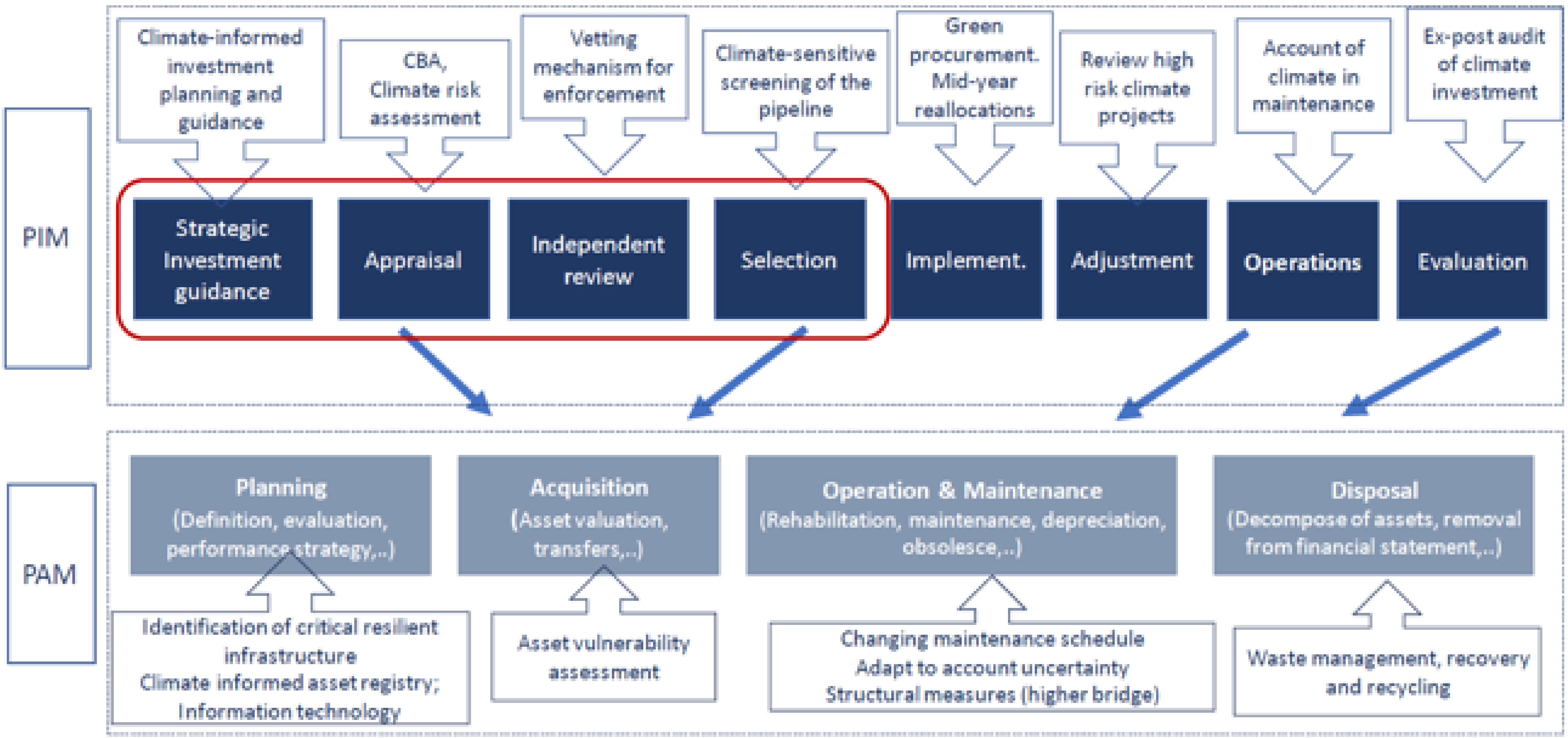
Prioritize CC Programs in Budget
- Dialogue on climate budget
- Implement climate policies through the budget

Monitor Expenditures and Tracking Climate Performance
- Open data system
- Implementation review of National Climate Change Action/Strategy

Source: World Bank

Oversight Ministries | Sector Ministries and Agencies | Partnership

Public Assets Management and Public Investment management



Source: World Bank

1

2

3

4

5

6

Comments
Thank you

IPSASB International Public Sector Accounting Standards Board®

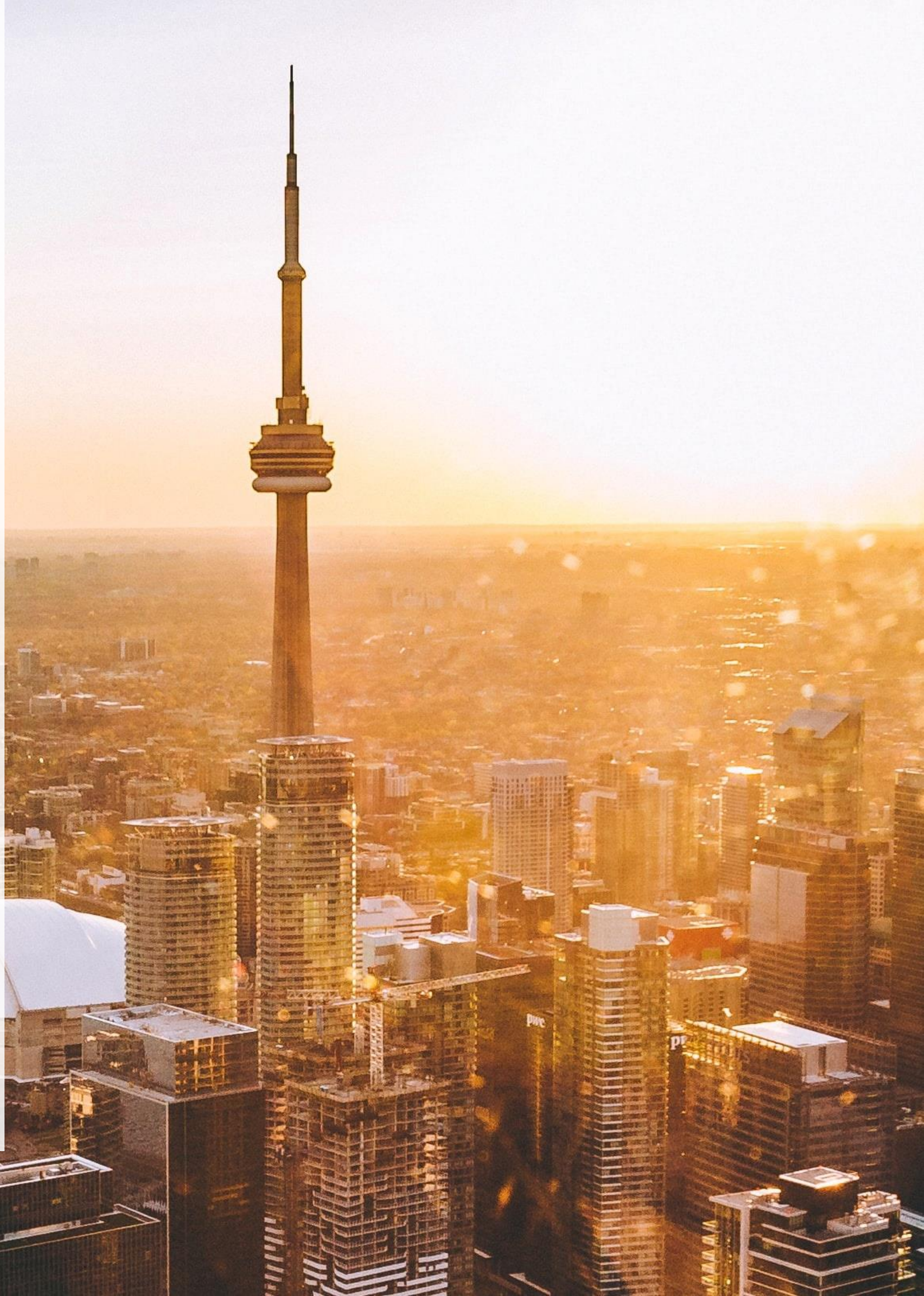
Sustainability Reporting
IPSASB playing its part

Lindy Bodewig

IPSASB Member and Deputy Chair

PAFA

August 2022



Sustainability Reporting: Action Already Taken

Thought Leadership and Resources

IPSASB

STAFF QUESTIONS AND ANSWERS
June 2020

CLIMATE CHANGE: RELEVANT IPSASB GUIDANCE

This Questions & Answers (Q&A) publication is issued by the staff of the International Public Sector Accounting Standards Board® (IPSASB®) to discuss the relevance of International Public Sector Accounting Standards™ (IPSAS™) and related Recommended Practice Guidelines (RPG) to reporting on both climate change and the United Nations' (UN's) Sustainable Development Goals (SDGs) in the general purpose financial reports (GPFR) of public sector entities.

The objective of this document is to summarize the accounting requirements and recommended practice guidelines that may be applicable to climate change.

This publication is not an authoritative pronouncement, and it is not an interpretation of an authoritative IPSASB pronouncement. It does not amend or override the requirements of existing IPSAS or provide further implementation guidance. This Q&A is not exhaustive and is not a substitute for reading the full text of IPSAS or RPG.

Background

General purpose financial reports are a cornerstone of sound financial management. The objective of GPFR is to provide users with information required for accountability and decision making. GPFR typically include the general purpose financial statements (financial statements), as well as other relevant financial and non-financial information that may be useful to readers. As part of its objective to serve the public interest, the IPSASB develops IPSAS, which are the accounting standards to be applied in the preparation of financial statements of public sector entities. The IPSASB also develops RPG, which provide guidance and best practices that public sector entities are encouraged to follow when preparing their broader GPFR. Both IPSAS and RPG are intended to enhance the quality and transparency of public sector financial reporting by providing better information for public sector financial management and decision making.

The IPSASB has initiated a project on Natural Resources. A number of queries have been received on how this project relates to the topics of reporting on climate change and the UN SDGs, and which existing IPSAS and RPG are relevant to reporting on these topics. This Q&A therefore provides the IPSASB staff's views on these matters.

This document has been prepared by IPSASB staff. It is a non-authoritative document issued for information purposes only.

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SUSTAINABILITY REPORTING

Message from the IPSASB Chair

We all have our part to play in addressing climate change and achieving the Sustainable Development Goals (SDGs) laid out by the UN. As public sector accountants, we have been asked to, and can play an important leadership role.

The World Bank's January 31, 2022 report, 'Sovereign Climate and Nature Reporting,' provides welcome further impetus to the critical issue of advancing sustainability reporting in the public sector. The report statistics that sovereign bonds make up almost 40% of the US$100 trillion global bond market is particularly striking. Together with the fact that national public sector expenditure is often the same percentage or more of GDP, this underlines both the urgency and importance of filling the current guidance gap.

Existing IPSASB Guidance

In terms of public sector reporting, the IPSASB has already provided strong foundations for reporting on programs addressing both climate change and the SDGs in its Recommended Practice Guideline (RPG) 3 on 'Reporting Service Performance Information'. This can be applied now, together with RPG 1 'Reporting on the Long-Term Sustainability of an Entity's Finances' which can be used to bring together the financial impacts of non-financial metrics and risks being managed.

What the IPSASB is Doing Now

Financial statements on their own will not provide all the information needed – non-financial information on progress towards SDG targets, the key drivers of climate change, and other sustainability information will also be required. To advance public sector sustainability reporting the IPSASB is actively exploring how it could take forward the World Bank report's invitation to lead a consultative process to gain support for developing the necessary framework.

The guidance from the new International Sustainability Standards Board is intended provide important tools for both effective decision making and strong reporting on sustainability issues globally. While having an investor focus, with suitable interpretation it has the potential to provide a basis for some of the guidance that jurisdictions will require for tracking their progress in reaching their climate change targets and other key sustainability initiatives such as the UN's SDG. The IPSASB looks forward to working closely with the ISSB as exploration starts of how to advance public sector sustainability reporting.

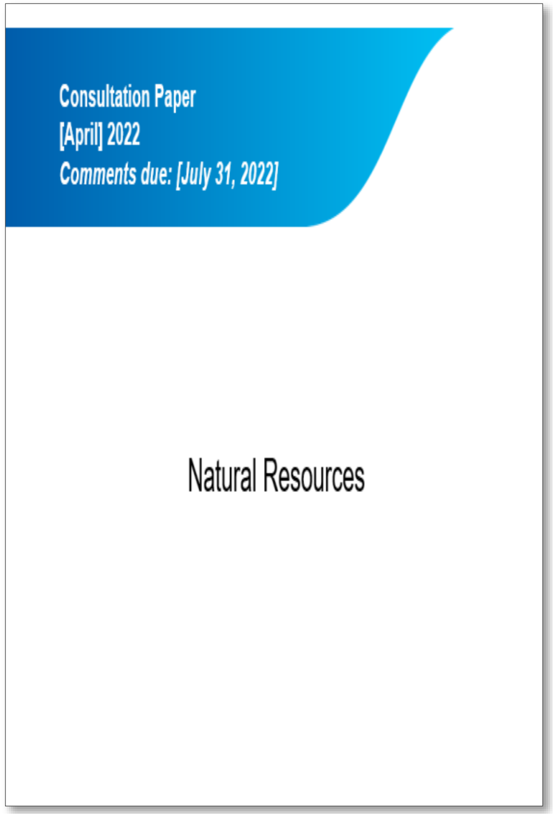
Read more from the IPSASB Chair.

OTHER USEFUL RESOURCES

- SUSTAINABLE DEVELOPMENT GOALS (SDGS)
- UN GLOBAL COMPACT (UNGC)
- GUIDANCE ON SOCIAL RESPONSIBILITY (ISO 26000)
- IFAC SUSTAINABILITY STANDARDS RESOURCES
- EVOLVING CLIMATE ACCOUNTABILITY: GLOBAL REVIEW
- FOCUSING ON VALUE CREATION IN THE PUBLIC SECTOR
- A4S: NAVIGATING THE REPORTING LANDSCAPE

Sustainability Reporting: Action Already Taken

Standards Program


Consultation Paper
[April] 2022
Comments due: [July 31, 2022]

Natural Resources

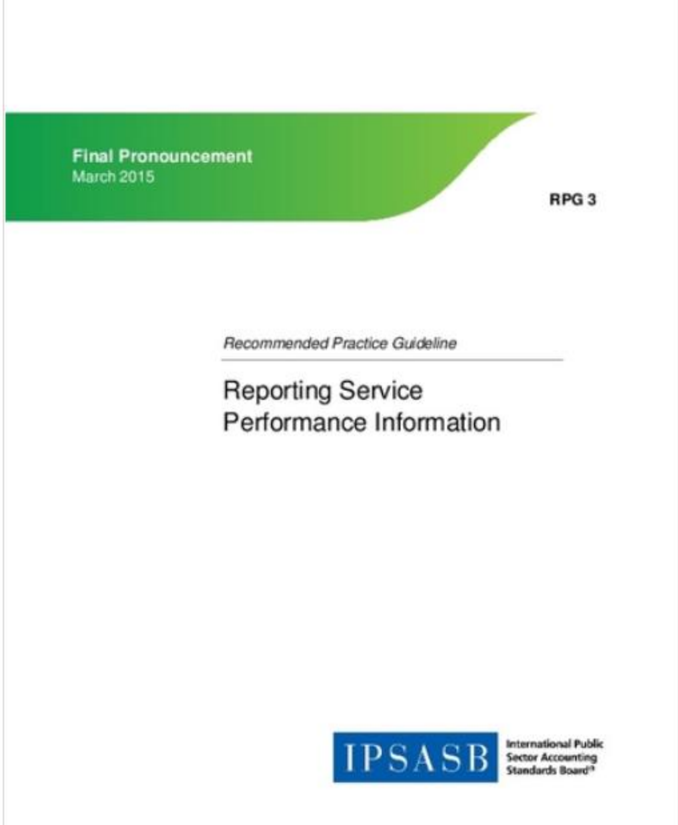

Final Pronouncement
July 2013

RPG 1

Recommended Practice Guideline

Reporting on the Long-Term Sustainability of an Entity's Finances

IPSASB International Public Sector Accounting Standards Board™


Final Pronouncement
March 2015

RPG 3

Recommended Practice Guideline

Reporting Service Performance Information

IPSASB International Public Sector Accounting Standards Board®

Theme C Project: Reporting Sustainability Program Information

IPSASB - IFRS Foundation Relationships

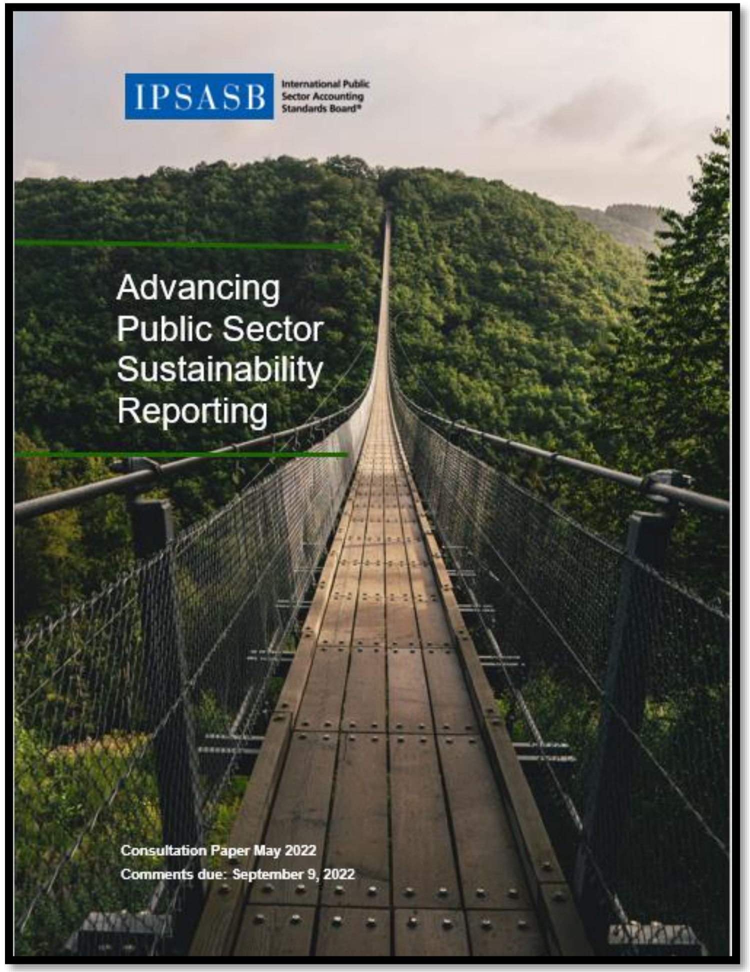
IASB

- Chair dialogue and engagement
- Work program liaison meeting (Chairs and Board Leadership)
- Commitment to staff-to-staff engagement on projects of common interest

ISSB

- IPSASB Chair acted as observer for technical readiness working group
- Exploring formalization of IPSASB relationship with new ISSB
- CP, *Advancing Public sector Sustainability Reporting* proposes building off of international guidance for public sector

IPSASB-led Global Consultation:
Advancing Public Sector Sustainability Reporting



- CP launched 9th May
- Responding to January World Bank invitation
- Major impacts driving public sector sustainability reporting need:
  - *Sovereign bonds comprise almost 40% of US$ 100 trillion global bond market*
  - *Government expenditure averages > 40% GDP in OECD countries*
  - *Public sector employs around 20% of global workforce*
- Public sector guidance need:
  - *Differences in focus*
  - *Application challenges*

Strategic Fit for IPSASB

Conceptual Framework: already covers non- financial reporting

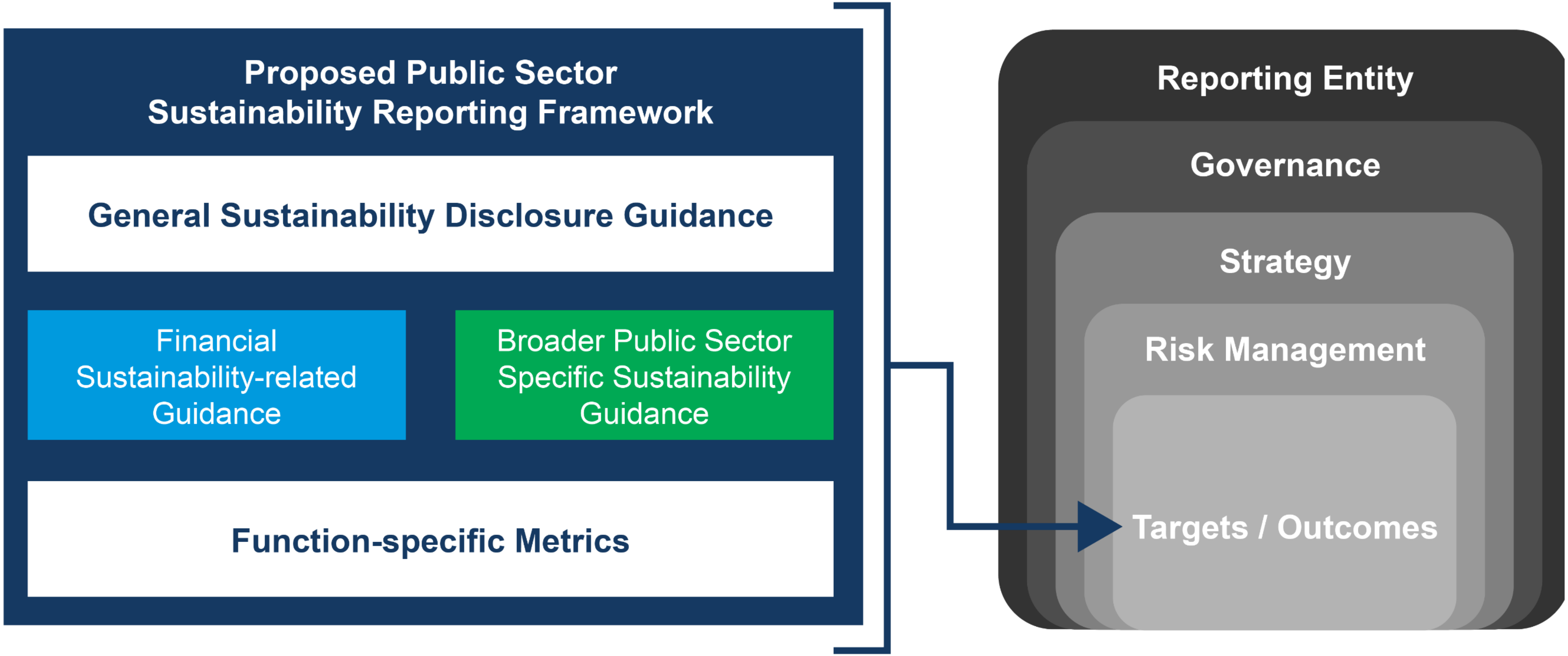
Existing relevant guidance – RPGs and IPSAS

Current projects – Natural Resources

Established processes for using IFRS where appropriate

Potential to start now

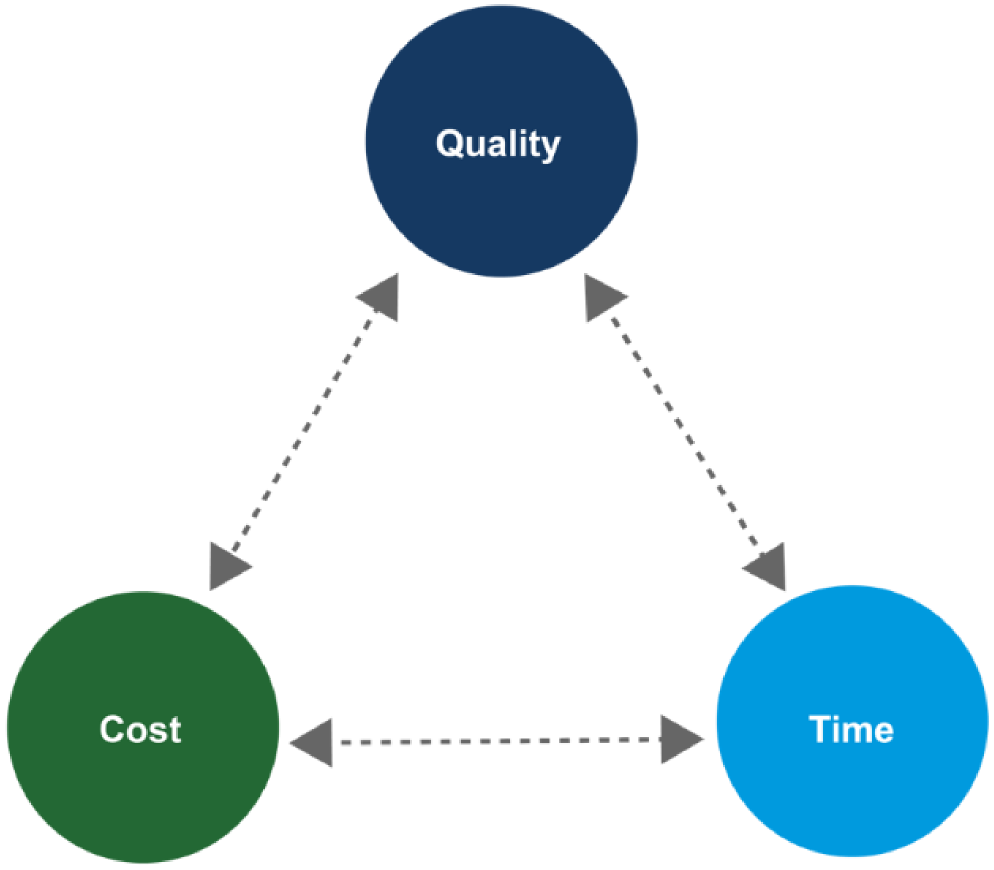
Proposed Framework: Drawing on ISSB and GRI



Various key enablers, including new sources of external funding

Key Enablers

- Appropriate resourcing
- Experienced and active Sustainability Reference Group to advise the IPSASB
- Effective and efficient use of IPSASB Member time
- Coordination with other international sustainability reporting standard setters
- Dialogue with national standard setters



Sustainability Reporting: Next Steps……

2022 — 4-month consultation period – September 9th deadline

2022 — Analyze CP responses – December strategic decisions

TBD — Develop draft public sector specific sustainability guidance
ISSB EDs as basis for first 2 projects

TBD — Public consultations – 2 draft standards and future topics

TBD — Publish first 2 final standards + set forward work program

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The Industrial Development Corporation (IDC) of South Africa's Journey with Integrated Reporting

02 August 2022

Industrial Development Corporation

Who We Are

- The biggest development funding institution on the continent
- Committed to industrial development and economic growth
- Proactively identify new industries and look to grow existing pivotal sectors
- Focused on Black industrialist, Women-owned, Youth-owned, Black-empowered initiatives.
- Focused on creating and sustaining jobs

IDC
Industrial Development Corporation

ABOUT THE IDC – SIZE AND A SELECTION OF INVESTEE PARTNERS

IDC
Industrial Development Corporation
Your partner in development finance

- The Industrial Development Corporation (IDC) is a **financially self-funding institution** owned by the South African government
- Primary objectives are to contribute to the generation of balanced, sustainable economic growth in Africa and the economic empowerment of South Africans by
  - promoting entrepreneurship
  - funding industrial development
- In carrying out this mandate, the IDC balances a strong developmental focus with the need to invest in ventures that are based on sound business principles.
- Consistent with its mandate, the IDC has been and still is the foremost **catalytic industry development and growth funding partner** of many value chain development projects and corporations in South Africa and Rest of Africa

A selection of current major investee corporations funded/seeded by the IDC overtime

aspen HOLDINGS
sasol
bhpbilliton resourcing the future
Life HEALTHCARE
OMNIA
AngloAmerican IRON ORE KUMBA IRON ORE LTD
sappi The word for fine paper
HULAMIN Think future. Think aluminium.
MERAFE RESOURCES
YORK TIMBERS
ArcelorMittal
SOUTH32

Source: IDC Financial Statements, March 31, 2021

ABOUT THE IDC – THE IDC STRATEGY AND OVERALL OUTCOMES ARE LINKED TO THE SHAREHOLDER POLICY & STAKEHOLDER PRIORITIES

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Strategic Positioning

IDC PURPOSE AND VISION

•**Purpose:** Grow sustainable industries, support entrepreneurs, improve lives

•**Vision:** Create globally competitive industries realising Africa's potential

INVESTMENT PHILOSOPHY

stainability and Developmental Impact

STRATEGIC PRIORITIES

Developmental Impact	• Total stakeholder alignment
Financial Sustainability	• Disciplined financial and risk management
Organizational Capabilities	• Leadership and effective execution
Market Positioning	• Catalytic industry development and growth partner

The IDC Corporate Plan emphasises:

Commercial

1. Providing **catalytic commercial funding** for industrial development and growth in target sectors and geographies
2. Ensuring the performance and sustainability of **key private equity (non-listed) investments**
3. Prioritising **opportunities arising from the implementation of AfCFTA** – the Pan African development plan

Developmental

4. **Job creation and preservation** through industrialisation by contributing to and leveraging Industry Master Plans, Special Economic Zones, Localisation Initiatives, etc. across Africa
5. Supporting **Environmental, Social, and Governance (ESG)** and increasing investments into the **'Green' economy**
6. Increasing **transformation funding** to empower Africans in general and women and youth in particular

Medium-Term Plan

Total Funding Facilitated R145,1bn	**Jobs** 111 199
Transformation Funding* R44,1bn	**Funding for Women** R8,9bn
Localisation R30,6bn	**Youth Funding** R3,9bn

** Total funding includes IDC, off balance sheet and leveraged funds*

ABOUT THE IDC – IDC’S BUSINESS ACTIVITIES

IDC
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Regions

Global exports of South Arica’s goods and services
Rest of Africa South Africa

Sectors

Chemicals, medical and industrial mineral products
Machinery, equipment and electronics
Automotive and transport equipment
Agri-processing and agriculture
Tourism and related services
Textiles and wood products Media and audio-visuals
Mining and metals New technologies Infrastructure
Energy

Activities

Development of enabling environment and partnerships
Provision of development finance
Industrial projects development Research and policy inputs
Funds management Business support Capacity building

Development Outcomes

- Investment facilitation and growth
- Increased levels of employment
- Localization and beneficiation
- Economic Transformation
- Export development
- Support for AfCFTA
- Industrialization
- Green economy
- Spatial equity

Clients

- Businesses segmented into Large, Medium and Small

Products

- General debt
- Equity
- Mezzanine
- Export/Import finance
- Short-term trade finance
- Bridging finance
- Guarantees
- Lines of credit
- Syndication and lead arranging

Business Cycle

- Feasibility
- Product commercialization
- Establishment
- Expansion
- Mature
- Turnaround

IDC FUNDING – THE IDC FUNDING MODEL

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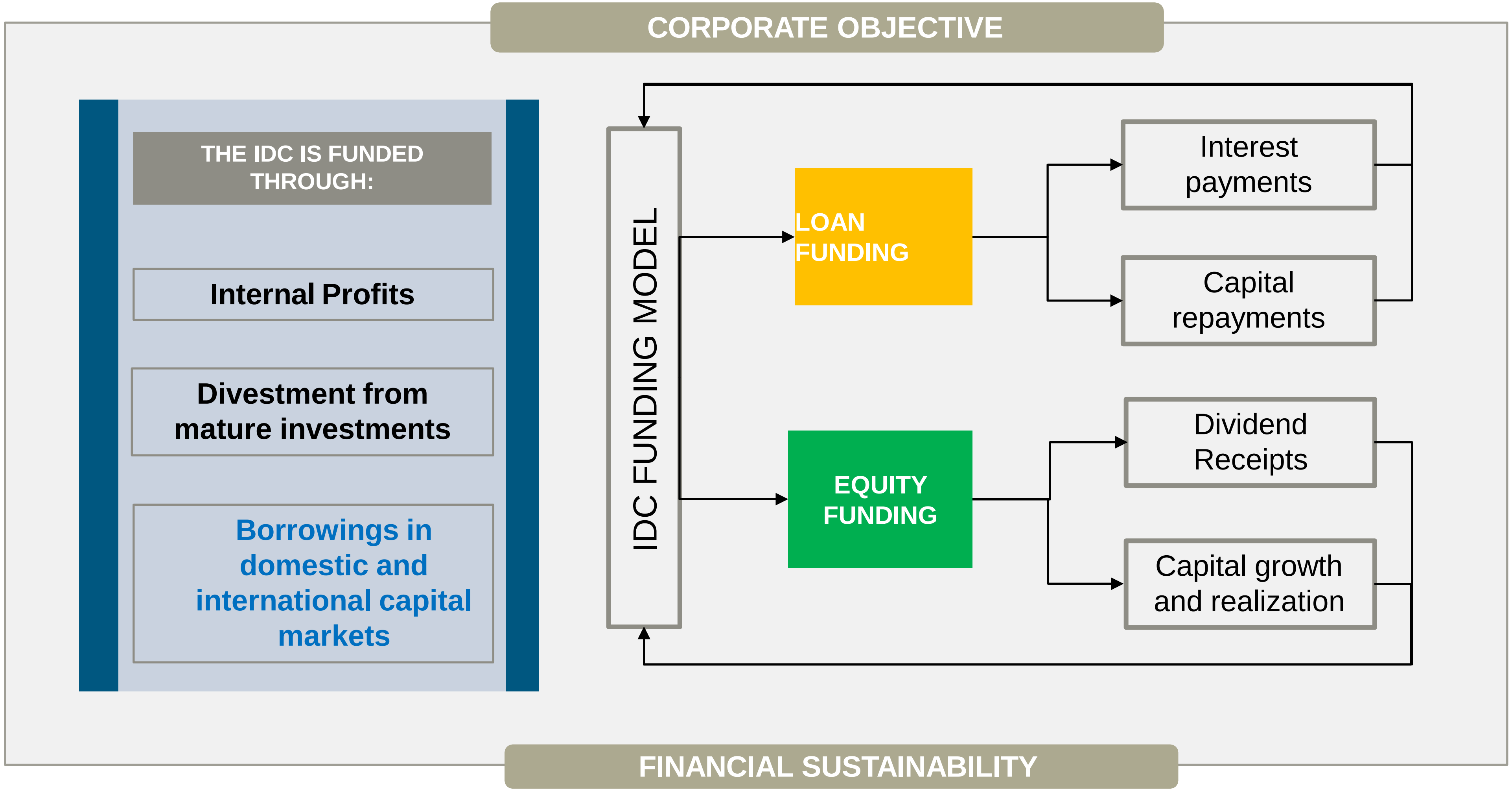


Proceeds from these funds are used to repay borrowings, cover costs and grow balance sheet to re-invest in future businesses

INTEGRATED REPORTING

Industrial Development Corporation

ABOUT **INTEGRATED REPORTING**

Industrial Development Corporation

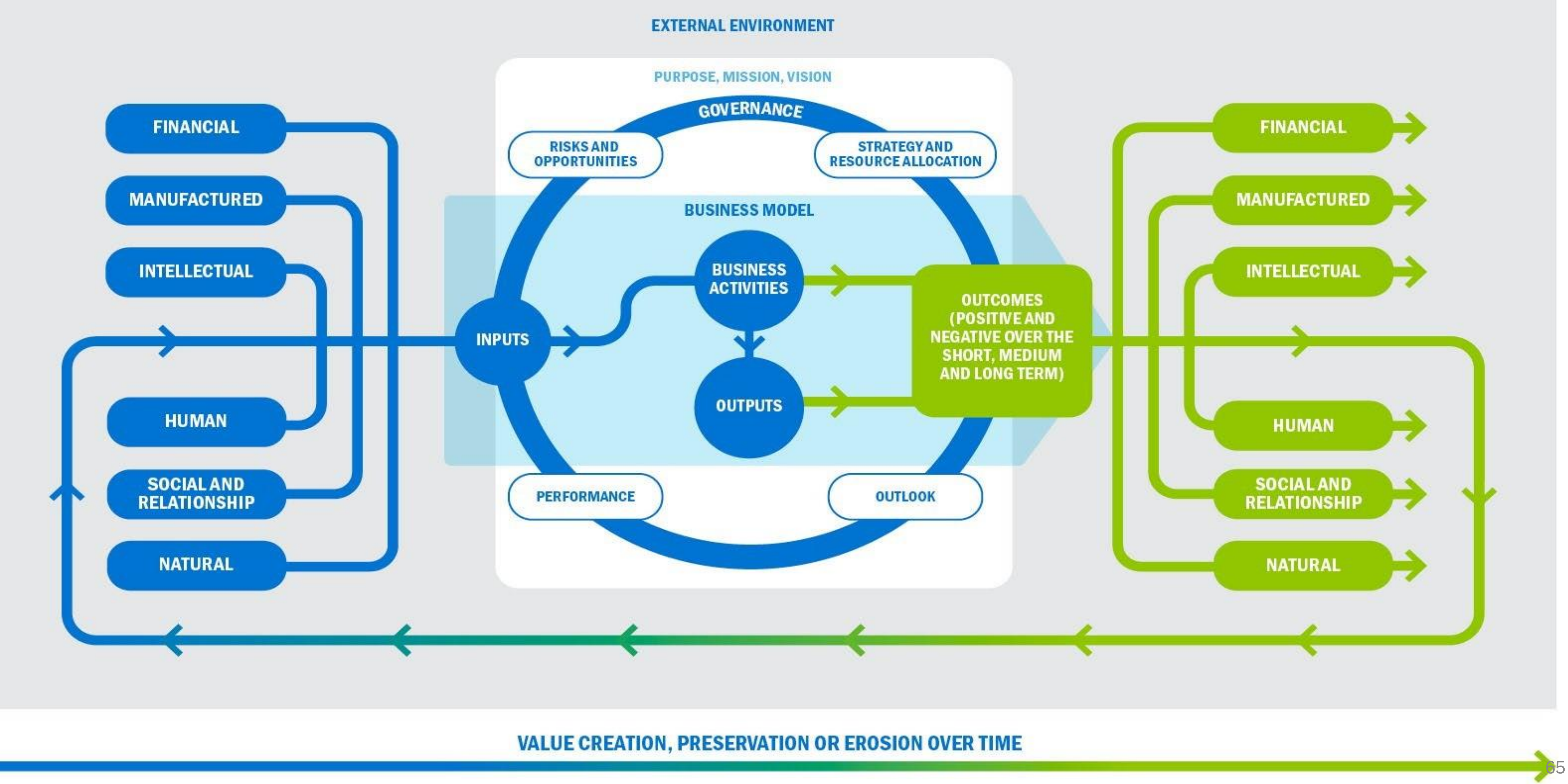
Your partner in development finance

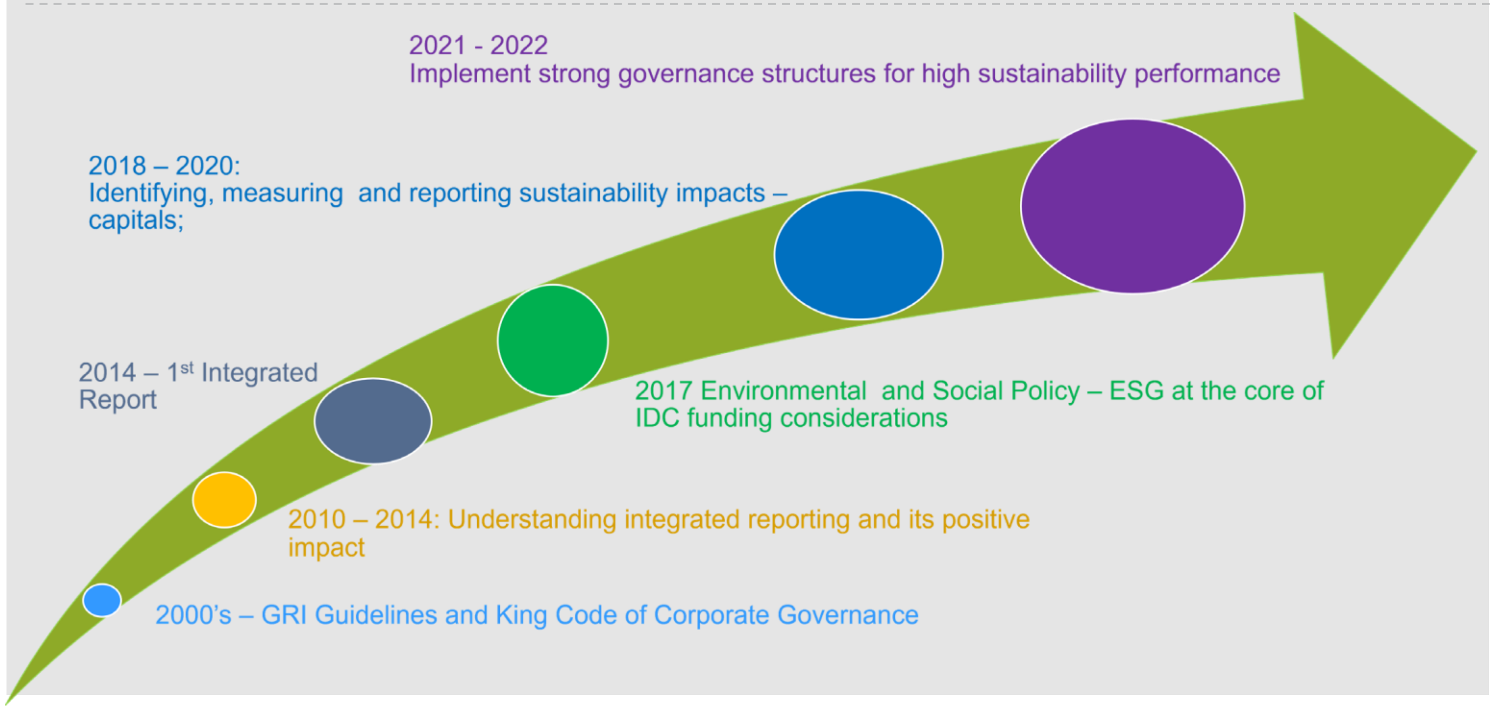
- It brings together **material information about an organisation's strategy, governance, performance** and prospects in a way that reflects the commercial, social and environmental context within which it operates
- It provides **clear and concise articulation of a company's value creation** story which is useful and relevant to all stakeholders
- Not just reporting; Integrated Reporting encompasses Integrated Thinking - *"It is as much about how companies do business and how they create value over the short, medium and long term as it is about how this value story is reported"*
- Benefits associated with Integrated Reporting - both within an organisation and from an external perspective:
  - Encouraging your organisation to think in an integrated way
  - Clearer articulation of strategy and business model
  - A single report that is easy to access, clear and concise
  - Creating value for stakeholders through identification and measurement of non-financial factors
  - Linking of non-financial performance more directly to the business
  - Better identification of risk and opportunities
  - Improved internal processes leading to a better understanding of the business and improved decision making process

INTEGRATED REPORTING IN THE PUBLIC SECTOR

- Over the last two decades, there has been **a growing social and regulatory drive for organizations' in the private and public to provide performance reporting**
- The **first version of the GRI Guidelines (G1) was published in 2000** – providing the first global framework for sustainability reporting
- The pressure for sustainability reporting has **from all stakeholder groups - government, society, funders, business partners and customers** – due to increased appreciation to manage resources in a responsible ad sustainable manner
- **Public sector entities**, **are too expected to provide services and manage resources sustainably**
- **Integrated Reporting has cemented triple bottom line reporting** – measuring and reporting financial, social and environmental impact – profit, people and the planet
- In addition, it reinforced **stakeholder inclusivity – shareholders & government, are not the only stakeholders whose voices count – employees, customers, communities and other** material groups impacted by an entity's operations need to be included in all considerations

INTEGRATED REPORTING IS ABOUT HOW COMPANIES OPERATE & CREATE VALUE OVER THE SHORT, MEDIUM AND LONG TERM





IDC'S INTEGRATED REPORTING JOURNEY

- The IDC **embraced integrated reporting in 2014** when we issued our first integrated report
- Before this, the King **Code of Corporate Governance and the GRI guidelines informed how IDC reported** annually
- Since then, **IDC has worked on improving its management and communication around sustainability issues & showcasing how it creates value for all stakeholders**
- NB., as a self-funding entity, whose **funding model counts on borrowing in domestic and international markets**, IDC needs to explain to all our stakeholders:
  - its strategies
  - operational model
  - governance, and
  - performance against the five capitals of sustainability - natural, human, social, manufactured and financial
  - the positive and negative impact of our operations

IDC **ENVIRONMENTAL AND SOCIAL POLICY**

Industrial Development Corporation

Your partner in development finance

- **In 2017, the Corporation published its Environmental and Social policy** that places environmental, social and governance (ESG) practices at the core of what we do
- The **policy is aligned with IDC's commitment to good corporate citizenship and sustainable and responsible socio-economic development**; also aligned with principles of the South African Constitution and relevant legislation that protect the environment and the wellbeing of people whilst promoting sustainable development
- **ESG considerations are integrated into IDC's due diligence and post-monitoring processes** to assist clients in complying with applicable legal requirements and governance best practices through the investment cycle
- **IDC confirmed its commitment to investing in industrial activities that implement environmental protection measures, implement occupational health and safety protection measures, avoid negative impacts on communities, and promote the sustainable use of natural resources**

•IDC adopted principles to promote environmental and social protection in all its investments and activities:

1. All activities must be **environmentally and socially responsible**
2. All **investments shall comply with national legislation and international environmental protection conventions**
3. All **investments must have respect for local communities and indigenous people**
4. **Investee companies must create favourable working conditions** that are not harmful to employee health and well-being
5. **Investee companies shall develop and implement environmental management systems** in line with international best practices.

IDC STANDING **COMMITMENT TO THE PROMOTION OF ENVIRONMENTAL AND SOCIAL SUSTAINABILITY**

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- The IDC promotes sustainability by taking a proactive and innovative approach to promoting projects and initiatives designed to deliver environmental and social benefits.

- This includes:

  - **Supporting climate change mitigation and adaptation measures** by investing in best practice climate change adaptation and mitigation initiatives.

  - **Identifying and promoting projects in environmental priority areas**, such as but not limited to air quality priority areas, with environmental and social benefits.

  - Facilitating **capacity building for clients** to **assist them with developing and implementing their environmental and social management programmes** to improve performance.

BUSINESS MODEL

INPUTS

FINANCIAL CAPITAL
- R147 billion in assets
- Dividends and capital profits from equity investments
- Interest and capital repayments from loans provided
- Borrowings
- Funds leveraged from other funders.

SOCIAL CAPITAL
- 16 transactions for clients in the social and solidarity economy
- Network of entrepreneurs, clients and project partners
- Strong government ties
- Other funders and development partners
- Social enterprise and special intervention programmes.

NATURAL CAPITAL
- The IDC provides funding to businesses that potentially have a large environmental impact. To mitigate this risk, it upholds strict environmental standards
- Renewable energy portfolio and investment in energy-efficiency technologies.

HUMAN CAPITAL
- 804 employees (2019/20: 838)
- Development-focused approach
- Diverse workforce of competent and skilled professionals.

INTELLECTUAL CAPITAL
- High level of industry knowledge and experience
- Project development and deal-making experience
- Macroeconomic and industry-specific research.

MANUFACTURED CAPITAL
- 13 regional and nine satellite offices across the country
- Information technology (IT) infrastructure and systems.

ACTIVITIES

PROVIDING FUNDING FOR INDUSTRIAL DEVELOPMENT
- Assessing the viability of business plans
- Providing funding to potentially viable businesses
- Developing and funding industrial projects
- Sourcing partners for industrial projects.

SUPPORTING FUNDING ACTIVITIES
- Investing in, attracting, developing and retaining, and rewarding employees
- Providing a safe work environment conducive to constructive contributions
- Instilling a culture of responsible leadership
- Transforming the workplace through employment equity.

CORPORATE SUPPORT ACTIVITIES
- Maintaining and investing in managing finances
- IT systems and data
- Continuous improvement of processes
- Maintaining good governance
- Complying with laws and regulations
- Managing risks and marketing the business.

SUPPORTING INDUSTRY DEVELOPMENT
- Providing non-financial support to entrepreneurs
- Developing and managing specialised funding products to address specific development outcomes
- Undertaking industry and economic research
- Participating in government, private sector industry and economic development initiatives.

SUPPORTING HUMAN CAPITAL
- Sourcing and managing loans and other funds at the lowest possible cost to pass the benefits onto clients
- Managing the portfolio of loans and investments to ensure that payments, interest and dividends are collected and mature investments exited.

MANAGING ENVIRONMENTAL IMPACT
- Assessing the potential impact of businesses funded and mitigating risks
- Monitoring the carbon emissions and environmental policies of subsidiaries and major investment beneficiaries
- Promoting investments in the green economy and providing funding that reduces companies' environmental impact
- Reducing environmental impact through recycling and reducing energy and water efficiency.

KEY RISKS
- Impact of Covid-19 on IDC business
- Macroeconomic conditions and developments
- Job creation
- Electricity supply
- Funding risk
- Sector concentration and listed share portfolio volatility
- Developmental finance support to fellow state-owned companies
- Performance of significant investments
- Credit and investment risk
- Winning organisational culture
- Expectations of the IDC's impact not aligned to its available resources
- Climate risk.

OUTPUTS

FUNDING PROVIDED
R5.6 billion committed
(2019/20: R10.2 billion)

R6.3 billion disbursed
(2019/20: R12.4 billion)

R42 million approved for Corporate Social Investment (CSI) – (2019/20: R46.6 million) and

R74 million for funding social enterprises, special interventions and trusts (2019/20: R62.1 million)

OTHER DEVELOPMENT ACTIVITIES
- Industrial research (digital media landscape; pumps and valves industry; regional rice value chain; clothing, textiles, footwear and leather sector performance; integration of services in South African manufacturing; boatbuilding industry; agricultural machinery and equipment value chain; big data landscape; additive manufacturing landscape)
- Participation in industry masterplans
- Support to the South African Investment Conference
- Management of special funding schemes
- Green Paper on Social Enterprises
- Hosting of specialised units to support policy implementation – Infrastructure South Africa Technical Task Team and the Department of Trade, Industry and Competition (the dtic) Special Economic Zone Project Management Unit.

OUTCOMES

COMMUNITY DEVELOPMENT
647 direct jobs direct jobs created
5 389 individuals benefitting from social enterprise and special intervention programmes (2019/20: 2 850).

EMPLOYEES
85 employees benefitting from staff bursary programme (2019/20: 153)
88% black employees (2019/20: 87%)
55.5% female employees (2019/20: 54.8%)
R1.0 billion for staff salaries and benefits (2019/20: R1 billion).

ENVIRONMENTAL FOOTPRINT
Scope 1 and 2 emissions intensity per employee for IDC at **6.1 tCO^2e** (2019/20: 7.7 tCO^2e).

TRANSFORMATION
R1.3 billion funding committed for black-owned companies (2020: R4.8 billion) with R3.0 billion for Black Industrialists (2019/20: R5.1 billion)
An additional **R2.6 billion** for black-empowered companies (2019/20: R 2.8 billion)
R599 million of funding committed for women-empowered companies (2019/20: R3.3 billion)
R92 million funding committed for youth-empowered companies (2019/20: R768 million)
Level 1 Broad-Based Black Economic Empowerment (B-BBEE) rating for IDC (2019/20: Level 2).

JOB CREATION
Funding committed expected to create and save **13 354** jobs (2019/20: 20 152).

TRADE-OFFS
- Funding for capital-intensive vs labour-intensive industries
- Leveraging more funding from the private sector vs increasing the IDC's share of funding for projects
- Prioritising high levels of funding approvals and disbursements vs partnering for growth and sustainable development
- Focusing on project development vs transactions with short-term outcomes
- Supporting transactions that create new jobs vs assisting companies in distress and saving jobs
- Taking more risk vs reducing impairments
- Maximising short-term impact vs ensuring long-term financial sustainability
- Increasing industrial development vs negative environmental impacts

GOVERNANCE
Good corporate governance is integral to a sustainable business. The IDC has always endeavoured to implement sound governance practices aligned with best practices. This is also a requirement for funded companies.

The IDC's corporate governance structures are designed to ensure that the Board and executive management exercise their fiduciary duties effectively and efficiently in a fair and transparent manner.

BENEFITS OF INTEGRATED REPORTING FOR THE IDC

Industrial Development Corporation

Your partner in development finance

Integrated Reporting has, provided an opportunity for us to explain

How we operate

The competing objectives we must balance in rendering service as a development funding institution

Access to green finance - secure project finance for projects in support of a new economy (Renewable Energy, Alternative Fuel Sources Development and Green transport technologies).

Earn our ‘Social Licence to Operate’ – we are demonstrating our contribution towards tackling key problems economic social and environmental problems

IDC INTEGRATED REPORTING JOURNEY

Industrial Development Corporation
Your partner in development finance

2021 - 2022
Implement strong governance structures for high sustainability performance

- Sustainable Development Governance Framework(Approved in March 2022)
- Sustainable Development Process approach

2018 – 2020:
Identifying, measuring and reporting sustainability impacts – capitals;

2017 Environmental and Social Policy – ESG at the core of IDC funding considerations

2014 – 1st Integrated Report

2010 – 2014: Understanding integrated reporting and its positive impact

2000's – GRI Guidelines and King Code of Corporate Governance

IDC'S SUSTAINABLE DEVELOPMENT PROCESS APPROACH

IDC
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IDC 's Strategic Initiative
•Increase the IDCs role in reducing South Africa's Carbon intensity and implement IDC's Sustainability Framework
•Principles to guide Investments in the Rest of the Continent (reflected in the Responsible Investment Policy, supporting policies and statements)

Alignment

South Africa's Net Zero Target and NDCs in the Rest of the Continent
•Nationally determined contributions (NDC) Country Net Zero by 2050
•Presidential Climate Commission (PCC) Just Transition Framework

Initiatives

Implementation of **Sustainability Action Plan**

Strategic Initiatives
- Initiatives on the ***Circular Economy& Green economy***
  - ***Social & Economic Inclusion*** Initiatives (Ownership Models)
  - ***Development Score Card*** and Reporting Reviewed
  - Role of the ***Corporate Secretariat*** defined from an ESG and sustainability perspective
  - IDC ***Coal & Gas House Views*** followed by a broader fossil fuel house view
  - ***Investments in Renewable Energy***, Green Hydrogen Action Plan
  - IDC's Electric vehicle strategy
  - IDC's role in battery value chain
  - IDC's role in the Just Transition

Key Milestones/Deliverables

Deliverables defined in Sustainability Action Plan

IDC Responsible Investment Policy under Review

IDC's Environment and Social Policy/Gu under Review

IDC Just Transition Framework under Development

IDC Sustainability Strategy to be developed

Sustainability Bond Framework Drafted & yet to be Approved

Interim Statement on Net Zero

Processes/Integration

Integration of Development Score Card & reviewed to focus on Impact Investing Principles

ESG Risk Framework & Sustainability Outcomes Defined & integration Process

Disclosures & Integrated Reporting (PRI, TCFD, Impact Principles, JSE Disclosure Principles)

Integration through Systems, Procedures & Policies (Due Diligence, Credit Risk etc.)

Strategic Memberships & Stakeholder Engagement

Green Climate Fund Accreditation & Other Climate Finance Funds & Instruments

Partnerships:
UNEP FI, UNGC, Energy Council, PCCC, DFI CEO Forum on Just Transition,
DFI Roundtable on Fossil Fuels, NBI, ICMA, all spheres of Government etc.

Supported by IDC Investment Policy and LTSP
(Aligned to a Just Transition Pathway for South Africa & Rest of the Continent)

THANK YOU.

www.idc.co.za

IDC

Industrial Development Corporation

Republic of Kenya

PSASB
PUBLIC SECTOR ACCOUNTING STANDARDS BOARD (KENYA)

PAFA Sustainability Week

Collaborating for a Resilient Future

CAPITAL MARKETS AUTHORITY
Promoting the Integrity and Growth of the Capital Markets

COLLABORATION FOR A RESILIENT FUTURE

SUSTAINABILIT Y

CO-EXISTENCE

Risk Managers

Response to Stimuli of Actors All Around

Connectedness, diffusion and interplay between parties

Value of ESG Reporting

- Measurement of ESG parameters will lead to improved performance
- Better return on equity as investors/Consumers reward those who care about ESG issues.
- Improvement Standards of measurement will emerge
- Ultimately, acculturation of ESG approaches and reporting

Where are we in Kenya?

- The 2016 Code of Corporate Governance Practices for Issuers of Securities to the Public – encourages IR – which should follow a change in thinking.
- Nairobi Securities Exchange issued ESG Disclosure Guidance Manual, 2021 for listed companies..
- In 2021, the Central Bank of Kenya issued the Guidance on Climate-Related Risk Management - banks to consider financial risks posed by climate change.
- A number of organizations, both listed and unlisted, have adopted sustainability reporting, going beyond their traditional reporting which was focused on historical financial information .
- Growing traction. Some issuers issue sustainability reports, others integrated reports while others have provisions on ESG in their annual reports.
- Remains largely voluntary for corporates.
- Mwongozo – Code of Governance for State Corporations 2015 is mandatory. Chapter 7 asks the Board to pay attention to sustainability but is short of prescribing monitoring and reporting mechanisms.

Challenges

- Still regarded as an elite affair of the large market players
- Varying frameworks and standards used to prepare sustainability reports.
- Minimal internal technical capacity to support companies prepare the sustainability reports
- Considered expensive affair requiring consultants
- Various Regulators pursuing limited sector specific requirements

Way Forward in Public sector

- Public Sector Accounting Standards Board under the National Treasury is mandated to set financial reporting standards for the Kenya public Sector.
- A decision was taken to collaborate with and adopt IPSASB standards as they evolve.
- Currently actively contributing to comments on various exposure drafts by IPSASB and International Sustainability Standards Board (**ISSB**).
- Recognition that Sustainability Reporting is a young discipline – Need to:-
  - ✓ Adopt international standards and
  - ✓ Build capacity, before
  - ✓ Mandating Sustainability reporting as a public sector requirement

Q&A