ESG History and Development in Financial Sector.

“Our commitment to sustainability is rooted in our belief in inclusivity and human dignity and addressing the urgent risks posed by climate change and particularly the emerging opportunities exploring the role that financing can play in supporting a Just Transition”

Punki Modise

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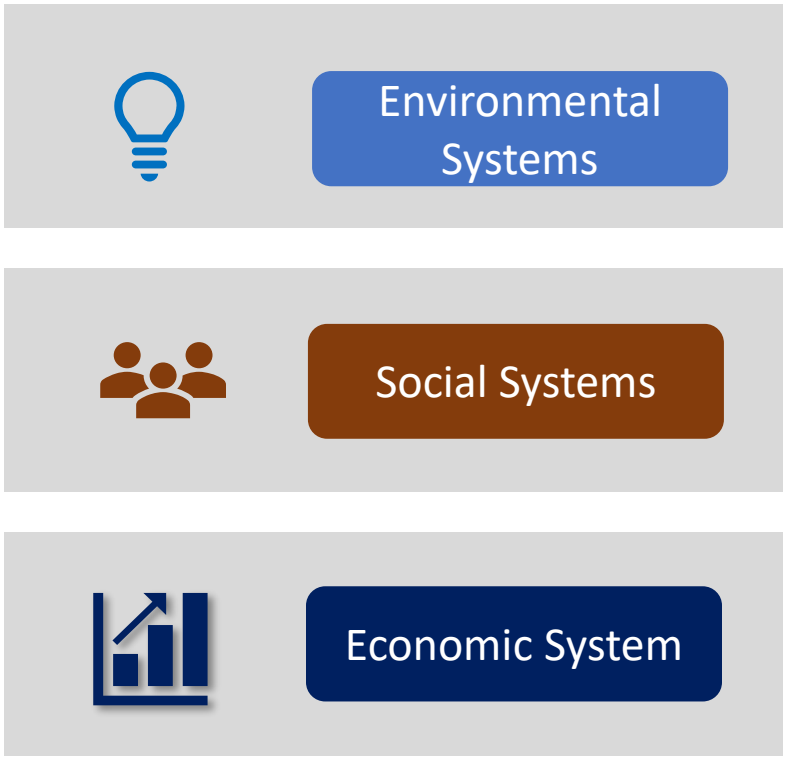
- **ESG Overview**

What Is ESG

ESG is used as a **framework to assess how a company manages risks and opportunities that shifting market & non-market condition create.** These shifts includes changes to:



Impact the entire landscape a company operates in.

X ESG is **not about values.**

√ ESG is about the ability to create & sustain long-term value in a rapidly changing world, and managing The risks & opportunities Associated with these changes

There is no universal categorization for ESG issues, and some **can be defined in different ways depending on the industry, company characteristics and the business model.**

The History and Evaluation of ESG

ESG is often used interchangeably with corporate social responsibility or corporate sustainability, however ESG **encompasses much more.**

1980s

Environment, Health And Safety(EHS)

Based on the development Of environmental & employee regulations

1990s

Sustainability

Focused on reducing Environmental impacts beyond legal requirement

2000-2010s

Corporate Social Responsibility (CSR)

Corporate philanthropy and Employee volunteerism Used to align social issues

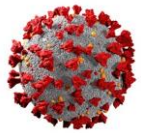
2020+

Environmental Social Governance (ESG)

Holistic concept related to competitive advantage and risk & reward management.

SUSTAINABLE DEVELOPMENT GOALS

UN SDGs are driving a global commitment to sustainability



COVID-19 has spurred economic upheaval and The Great Reset

me too. BLACK LIVES MATTER ShareAction»

Inequality is driving activism

TCFD PARIS AGREEMENT

Climate change is driving corporate strategy

Why is it Important?

ESG has a significant positive impact on **fundamental business issues** relevant to the long-term success of any company across industries.

ESG can enhance a company's **license to operate** making it easier to accomplish business objectives and respond to crisis scenarios with key stakeholder groups.

ESG helps identify **immediate & long-term risks**(e.g. Material and labor availability, evolving regulations)depending on the industry and business model.

Shifting market & non condition can expose **unmet needs for new products/services, unserved or underserved customer bases** and strategic relationships for addressing ESG issues.

ESG maturity is an indicator of a company's commitment to building a high performing, **purpose-driven workforce and inclusive culture.** Integrating ESG factors into valuation allows for greater insight into tangible factors: Culture, talent, recruitment & retention, operational excellence and risk, that **can improve investment outcomes.**

Example of ESG Major Incidents Globally.

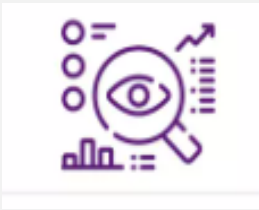
Some high-profile examples of financially material ESG incidents, **which influenced greater client demand for transparency and regulator demand for ESG to be recognized as fiduciary duty**, Include:

BP (2010)

BP's US Deepwater Horizon Oil Spill where BP received $53.8Bln fines, clean-up cost and local reparations

Volkswagen (2015)

The company was charges £27.4Bln in penalties for rigging 11 million diesel vehicles to pass emission tests.



Cambridge Analytica (2018)

Analytica harvested the personal data of 87 million Facebook users, resulting in FB losing billion in market value

ESG Regulatory Landscape: Tanzania

Regulatory Landscape: Tanzania

Dec 2021

DSE issued directive for all listed companies to report on non-financial performance.

Dec 2022

Deadline for banks to submit internal roadmaps for development of climate-related financial risks management policies, procedures and frameworks

Aug 2023

Capital Markets And Securities(CMSA)issued a draft guideline on Corporate And Subnational Sustainability Bonds. This requirement enhance development of sustainability corporate and subnational bonds in Tanzania.

Oct 2022

The Bank of Tanzania issued directive for banks and financial service institutions to embark on ESG journey. The Climate Related Financial Risk Management 2022 guideline.

June 2023

The Minister of Minerals(Minister)published the mining(Corporate Social Responsibilities)Regulation 2023 via Government Notice No.409 of 2023.The regulation provides guideline to Mineral right holders on the implementation of section 105 of the Mining Act, Cap 123 pf the Laws of Tanzania(Act).

Jan 2024

IFRS® Sustainability disclosure Standards are effective from 1st January 2024,supported by transition options. It is up to local jurisdiction to decide how and when they will adopt the standards.

- Governance
- Risk Strategy and appetite
- Risk Management enablers
- Tools and Application
- Evaluation of effectiveness

Bank of Tanzania - Guidelines on Climate-related Financial Risks Management, 2022

Governance Structure and Oversight	A bank or financial institution shall establish robust governance arrangements to enable effective identification, management, monitoring and reporting of the climate-related financial risks that could materialize over different time horizons. ***Responsibilities of board and senior management***
Internal Control Framework	A bank or financial institution shall put in place an adequate and appropriate ***internal control framework, across the three lines of defence,*** to ensure sound, comprehensive and effective identification, measurement, monitoring, mitigation and management of material climate-related financial risks.
Risk Management Process	A bank or financial institution shall ***identify, measure, monitor and manage all climate-related financial risks*** that could materially impair its financial condition, including capital and liquidity positions.
Scenario Analysis and Stress Testing	Determine the ***size and potential impact of climate-related financial risks*** and to assess the resilience and vulnerabilities of the business model to such events.
Reporting & Disclosure	A bank or financial institution shall ***disclose, at least on an annual basis***, in its annual reports, information on climate-related financial risks it is exposed to, the potential impact of material risks and its approach to manage these risks.
Capacity Building	Ensure relevant ***capacity development and training programs on climate-related financial risks***. Ensure that staff have sufficient awareness and understanding to identify potential climate-related financial risks through periodic training and capacity development.

- Climate Related Risk

Climate Related Risks

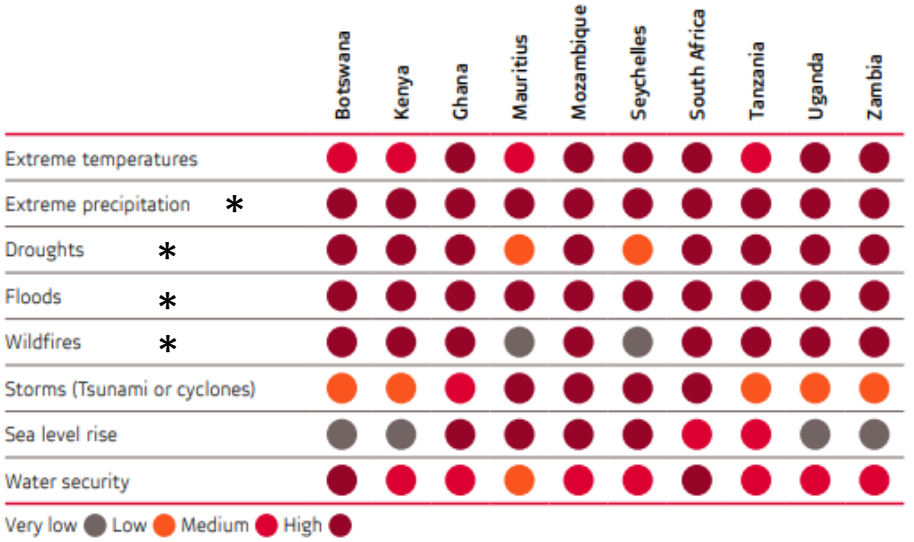
Sector lending categorised by climate-risk type and level

Physical risk	
	• Agriculture • Energy • Real estate.
Transition risk	
High	• Agriculture – intensive livestock grazing • Coal mining and power generation • Iron and steel manufacturing • Petrochemicals • Cement or concrete manufacturing.
Moderately high	• Oil and gas extraction and refining • Gas power generation • Manufacturing of metals • Low-efficiency commercial real estate • Air and road transport and logistics.
Moderate	• Oil and gas retail infrastructure • Agriculture – high-emission crops • Iron and metal ores • Low-efficiency residential real estate • Sea transport and logistics • Entertainment and leisure.
Moderately low	• Agriculture – fishing • Rare and precious metal ores • Electricity transmission and grid operation • Quarrying • Manufacture of electronics • Financial services • Technology.
Low	• Agriculture – forestry and low emissions crops • Renewable energy • Electric vehicles • Construction excluding cement and concrete • Health care • High-efficiency real estate/green buildings.

Source: UN Environment Programme Finance Initiative.

Physical Risk

- Physical risks emanating from climate change can either be event-driven (acute), resulting from the increased frequency and severity of extreme weather events (such as cyclones, droughts, floods, heatwaves and fires, landslides etc.)
- longer term (chronic), emanating from shifts in precipitation and temperature and increased variability in weather patterns (such as rising temperatures and sea levels, ocean acidification etc.)
- Acute physical risk is predominantly a short-term concern, whereas chronic risks are experienced over the medium or longer term.
- Short term refers to zero to five years, while medium term is five to 10 years, and long term is considered more than 10 years



Source: Thinkhazard tool developed by Global Facility for Disaster Reduction and Recovery (GFDRR).

Transition Risk

Transition risks refer to those associated with transitioning to a lower-carbon economy.

Four types of transition risks are identified:

- **Policy and legal risks**: Risks associated with evolving policy and legal requirements and obligations at international, national, and local government level
- **Technology risks**: Risks associated with technologies to deliver a low-carbon emission economy
- **Market risks**: Risks associated with market shifts towards low-carbon products and services
- **Reputational risks**: Risks associated with growing expectations for responsible conduct from stakeholders, including investors, lenders, and customers

Indicative transition risks and opportunities in high-risk sectors

Sectors	Risks	Opportunities
Real estate	Low	Medium
Agriculture	Low	Medium
Manufacturing	Medium	High
Mining	High	High
Transport	Medium	Medium
Construction	Low	Low
Energy	High	High
Oil and gas	High	High
Water	Low	Low

Transition to achieve Carbon Neutrality: Net Zero Emission by 2050 #ParisAgreement2015

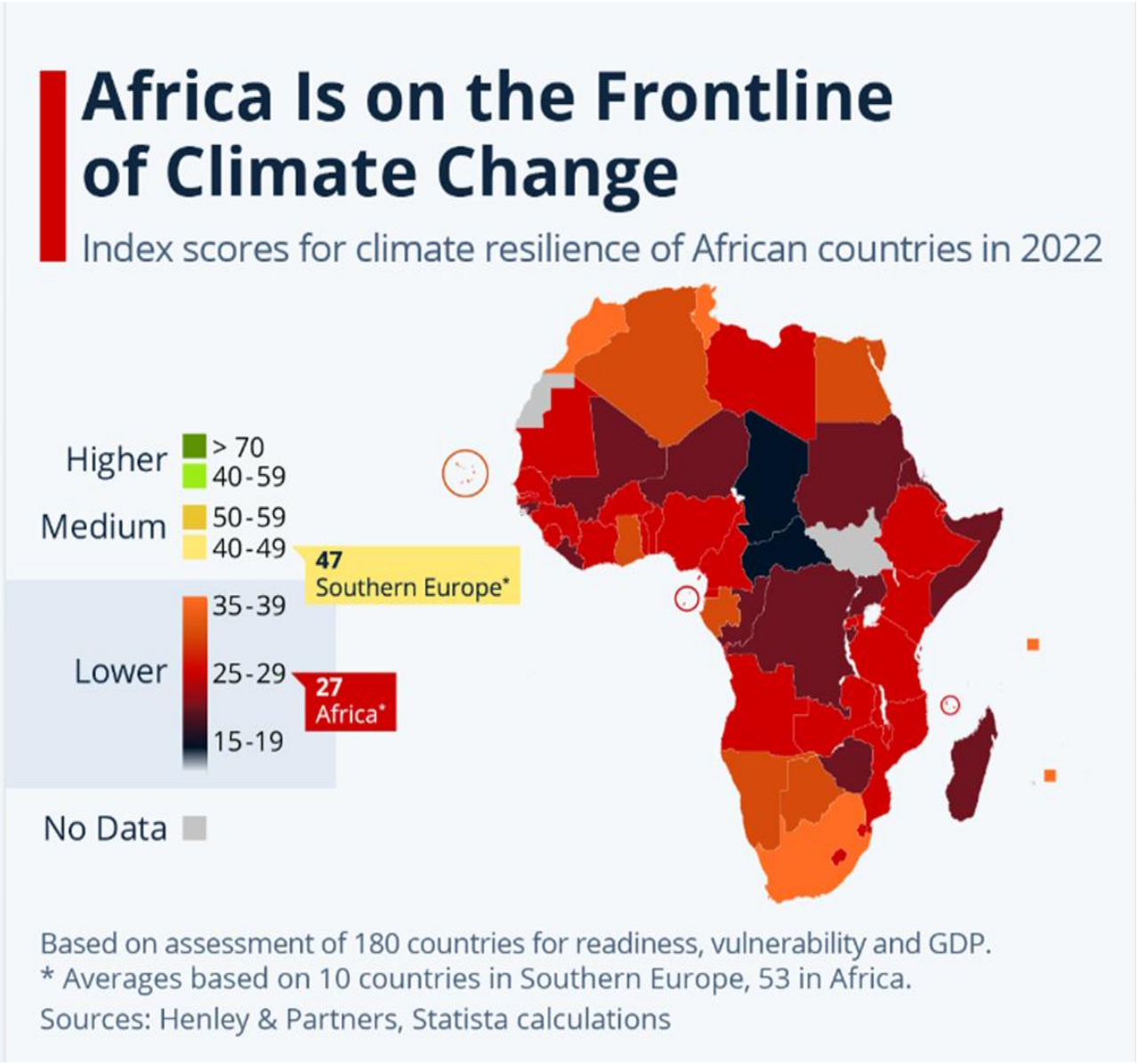
World Economic Forum Global Risk Report– January 2023.

The ***top six risks*** **- Climate change adaptation and mitigation, Natural disasters and extreme weather events, biodiversity loss, large scale involuntary migration, natural resource crises** facing the world over the coming decade are all linked to climate change impact.

"The combination of the weight of scientific evidence and the dynamics of the financial system suggest that, ***in the fullness of time, climate change will threaten financial resilience and longer-term prosperity****"*

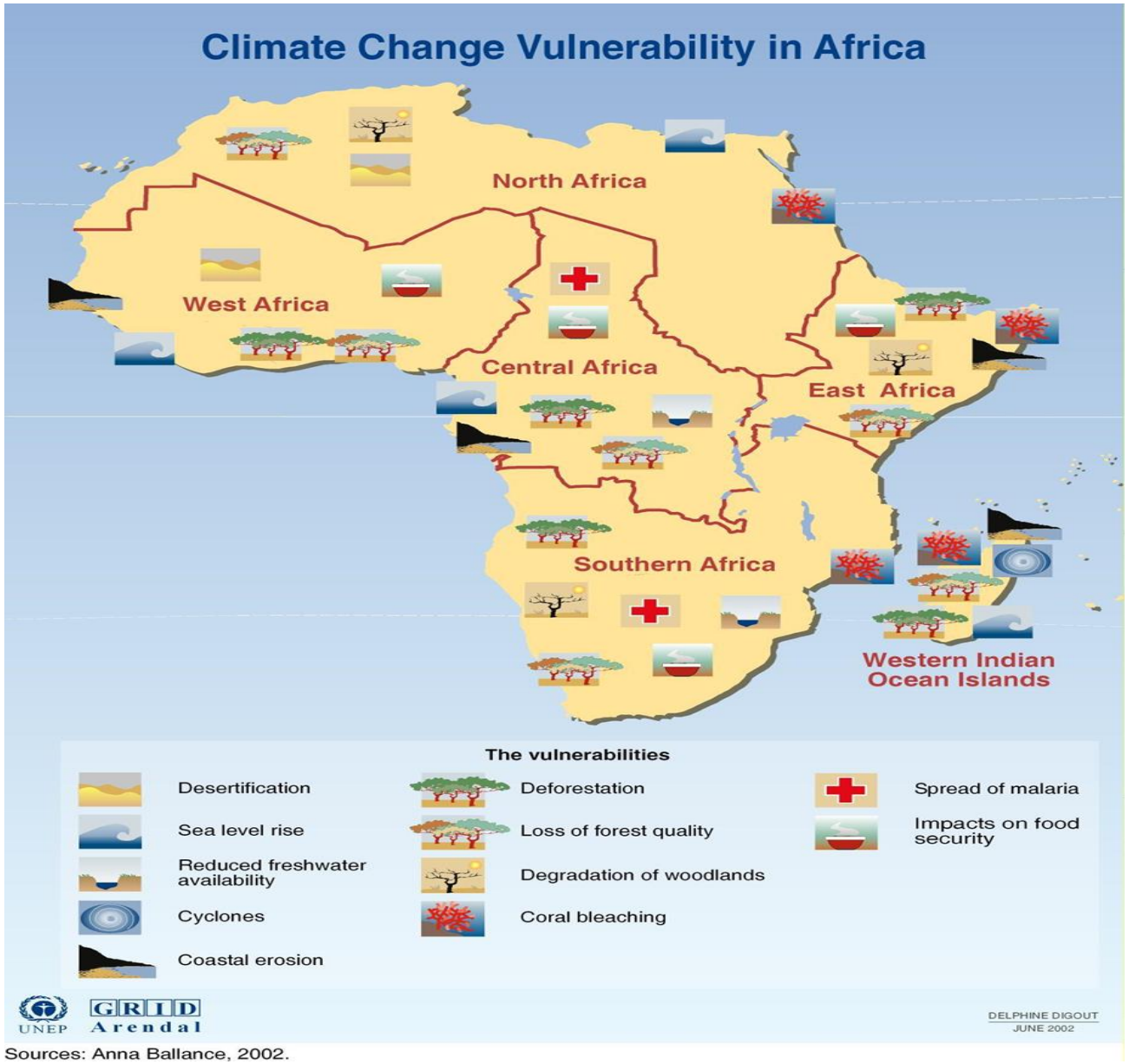
U.K. central bank's Governor Mark Carney

Climate Adaptive Capacity



Based on an assessment of local impacts and countries' adaptive capacities, the Henley & Partners index gives an average climate resilience score of 27 for the continent as a whole - a particularly low level compared to the rest of the world.

Facts About How Climate Change Is Hitting Africa Hardest



Sources: Anna Ballance, 2002.

The climate crisis is code red for humanity, but especially so for the African continent.

These extreme events are happening right now as a direct result of climate change and they're threatening all areas of life across Africa.

Although climate change is affecting the whole continent, it's not affecting all regions in the same way.

Tanzania Climate impact metrics

30-35%

Conditional emission reduction target by 2030

The highest emissions reduction target included in the country's latest (2021)Tanzania National Determined Contribution (NDC).

0.31%

Share of Global GHG emissions

Tanzania is ranked World's 46th emitter, with a total share of 0.31% based on data from Climate Watch - World Resource Institute

#145

Climate Vulnerability Index Ranking

Tanzania is the 45th most vulnerable country and the 153rd most ready country. It has both a great need for investment and innovations to improve readiness and a great urgency for action.

A higher number means a higher vulnerability to climate change Based on the ND-Gain index (2022)

Climate Project

Increased Incidence of Dry Spells/Droughts & Increased Heat Wave Duration

Increased/More Frequent Precipitation

Sea Level Rise

Increased Temperature

Key Climate Impacts

Agriculture

Ecosystems

Energy & Infrastructure

Human Health

Water Resources

Conclusion

Our commitment to sustainability and climate action is unwavering, and we will continue to hold ourselves to strong accountability, reporting, and governance standards.


Thank
you