



# UP IN SMOKE

Human rights and environmental impacts of export credits to coal. The case of South Africa.

**Report #99**

**SWED  
WATCH**

Swedwatch is an independent not-for-profit organisation that conducts in-depth research on the impacts of businesses on human rights and the environment. The aim of the organisation is to contribute towards reduced poverty and sustainable social and environmental development through research, encouraging best practice, knowledge-sharing and dialogue. Swedwatch has six member organisations: Afrikagrupperna, ACT Church of Sweden, Diakonia, Fair Action, Solidarity Sweden-Latin America, and the Swedish Society for Nature Conservation (SSNC). This report, which can be downloaded at [www.swedwatch.org](http://www.swedwatch.org), is authored by Swedwatch. The report has been conducted with support from SSNC and Afrikagrupperna.



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# Executive Summary

Coal is the most polluting energy source in the world and emissions from coal-fired power plants the single largest contributor to climate change. Still, despite the world's pledge in the Paris Agreement to avoid dangerous climate change, the current pace of phasing out of coal is broadly seen as “to little, too slow”.

South Africa, which struggles to meet its domestic energy needs, derives 90 percent of its electricity from coal. Still, despite the critical situation facing the world's climate, and the dire human rights and environmental impacts of coal burning, investments in renewable energy sources remain limited. Two new, large-scale coal-fired powerplants are being built and several new coal mines have been established. This situation has partly been financed and facilitated by foreign, state-backed export credits: loans, guarantees and/or insurance which enhance the ability of domestic companies to engage in export deals that involve considerable financial risk.

This report examines the role of state-controlled banks and export credit agencies (ECAs) in South Africa's coal industry and particularly reviews ECAs from Germany, Sweden and France, which have provided significant export credits South Africa's coal sector, thus contributing to upholding the coal industry in general and to locking the country into coal dependency for decades to come. Indirectly, they have also contributed to the adverse impacts on human rights in the country's heavily polluted districts where coal is mined and combusted to generate electricity. One estimate puts the number of coal-related deaths in South Africa's coal districts at over 2,000 annually.

Swedwatch findings from research in South Africa's Mpumalanga province, home to some of the world's most polluting coal-fired powerplants, found that human rights and environmental defenders, community members and health experts expressed grave concerns regarding the coal industry's effects on health, water and livelihoods. Impacts included respiratory disease, food security issues and decreased access to clean drinking water. It was also evident that women and girls were disproportionately affected by a range of impacts while also at risk of sexual exploitation.

South Africa is just one example of countries where export credits have supported coal-based energy. European export credits have also facilitated exports of machinery to the coal industry in for example Indonesia, Vietnam, Turkey, Egypt, Ukraine, India, Serbia and China.

However, there have been some positive developments. In 2015, France's ECA completely halted credits to the coal industry. Since then, steps have been taken by Sweden and Germany to reduce their support related to the coal sector; in 2019, the Swedish ECA declared it will end all export credits to exploration, extraction and transportation of coal by end-2020. Even so, the Swedish agency more than tripled its guarantees to the coal sector between 2019 and mid-2020, and Germany continues to allow export support to coal mining and coal-related infrastructure.

Swedwatch calls for concerted action by governments and business actors to act in alignment with the climate goals recognised in the Paris Agreement and the Sustain-

able Development Goals, and immediately cease all new export credits associated with coal projects via ECAs. They should also, in compliance with the United Nations Guiding Principles on Business and Human Rights, prevent and mitigate negative human rights impacts as they relate to projects supported by export credits.

European ECAs generally adhere to export guidelines from the Organisation for Economic Co-operation and Development (OECD). These do not completely prohibit support for coal-related exports and are not compliant with the Paris Agreement. However, individual OECD member countries are not prevented from imposing national restrictions that are stricter than OECD's guidelines. Now that France, Sweden and Germany have taken vital steps in this direction, they should actively push for other OECD member countries to follow suit.

The review of the ECAs in this report also makes clear that the lack of transparency in relation to export credits, guarantees, insurances and other means of export support is extensive. To address this concern, states should regulate their ECAs to disclose information on all high-risk projects to which they provide export credits, in particular those related to coal and fossil fuels.

ECAs and their governments also need to address the coal-power dependency that their export support has facilitated. In this process, the challenge for coal-dependent countries to phase out coal power must be recognized: a just transition from coal may be one of the biggest economic and social challenges facing South Africa and other coal-dependent nations in the coming decades. Although the ultimate responsibility of creating this transition rests with national governments, actors such as ECAs can play a positive role in the much-needed effort to shift finance flows from fossil fuels to renewable energy sources, and to contribute to a sustainable development for all.

In many countries, human rights and environmental challenges are already being compounded by the effects of climate change and risk worsening concerns related to health, food security, access to clean drinking water, and poverty. The same is true in South Africa, a country that has experienced warming at twice the global average, where coal power stations account for approximately half of the carbon emissions, and where the impacts of both climate change – including more extreme droughts and ensuing food and water shortages – and pollution are impacting those already most vulnerable.

## Recommendations

### *To EU member countries and their ECAs*

- Follow the example of France and immediately halt all new export credits for the coal industry – including coal mining, coal power and related upstream and downstream activities – in line with the targets in the Paris Agreement. By the same token, any existing contracts or agreements associated with fossil fuel projects should not be expanded.

- Identify means to shift finance flows to renewable energy sources and climate resilient technologies, in particular to South Africa and other fossil fuel dependent countries. Such export support should only be provided to projects that follow the highest international standards and best practice regarding assessing and mitigating all negative risks and impacts on human rights, the environment and climate.
- Ensure that their export credit agencies precondition all credits to export of products, such as mining machinery, by requiring gender sensitive human rights and environmental due diligence.
- Adopt regulations to ensure that all credits and transactions are transparently reported and made available to the public. The disclosure should not only include projects to be approved but also post approval. The export credit agencies should also, in their annual reports, clearly communicate and explain how their strategies and targets contribute to reaching the goals of the Paris Agreement.
- Actively promote legislation on mandatory human rights and environmental due diligence at EU-level (to be translated into national law) to ensure that companies conduct such due diligence processes on their operations, value chains and investments, especially within high-risk sectors and markets. The legislation should require that the due diligence processes are conducted with a gender perspective and that they include accountability measures.
- All EU countries with OECD membership should actively push for the OECD to align its Common Approaches with the climate goals recognized by the international community in the Paris Agreement. This should include recommendations to end the support for fossil fuels and to shift finance flows to renewables and climate resilient technologies.
- Align National Action Plans on Business and Human Rights to the language of the UNGPs and provide effective guidance to companies that apply for export support on how to address human rights risks and impacts to which they are linked or contribute to through customer or client relationships.

#### *To the OECD*

- Align the OECD Common Approaches with the climate goals recognised by the international community in the Paris Agreement, effectively recommending export credit agencies to align their activities to climate transitions scenarios compatible with a 1.5 C world. This should include recommendations to end the support for fossil fuels and to shift finance flows to renewables and climate resilient technologies.
- Align the OECD Sector Understanding on Export Credit for Coal-Fired Electricity Generation Projects (CFSU) with the goals of the Paris Agreement, effectively recommending export credit agencies to halt all new support for credits or guarantees related to coal mining, coal power generation and all upstream and downstream activities.

- Update the CFSU and the related policy documents to include in the scope of its application “coal-fired electricity generation projects”, all related upstream and downstream activities, services and equipment, coal mining for coal-fired electricity generation and components, equipment, materials and services directly required for coal mining. It should also include financial services to coal-fired electricity generation and coal mining.
- Urge all OECD members and their export credit agencies to be transparent about all trade that they support; to conduct independent monitoring reports; and to urge their export credit agencies to publish information about the end user of the exported equipment.

*To the South African government*

- Ensure a successful shift away from coal underpinned by a just transition that is planned, designed and implemented in an inclusive and gender sensitive manner.
- Enact policies or legislative measures to require actors in the coal sector to carry out ongoing gender sensitive human rights and environmental impact assessments that meet the highest international standards.
- Actively protect human rights that may be impacted as a result of mining, including implementing an adequate framework for land acquisition that is based on international standards on the right to land, adequate housing, water, livelihood, prohibition of forced evictions and best practice for resettlement processes.
- Protect women and girls from sexual exploitation in the coal mining areas and in other mining regions throughout South Africa. Ensure that medical treatment and psychosocial support are available to victims of sexual abuse and are tailored to young victims.
- Ensure that the labour inspectorate has sufficient resources and training to identify risks of sexual exploitation and other forms of harassment of women who informally and formally work with coal mining.
- Appoint an independent inquiry to understand the public health impacts of the coal industry including the number of premature deaths it causes each year in the country.
- Ensure that the department in the presidency responsible for women has sufficient resources to implement robust programs for women’s socio-economic empowerment and the promotion of gender equality in the coal districts.
- Collaborate with civil society to ensure that a South African National Action Plan on Business and Human Rights, aligned with the language of the UNGPs, is developed, and make sure it provides effective guidance to companies on how to address human rights risks and impacts.





Village near a coal-fired power plant and coal mine in Mpumalanga. Many community members suffer from respiratory diseases caused by dust from the mines and pollution from the power plants.

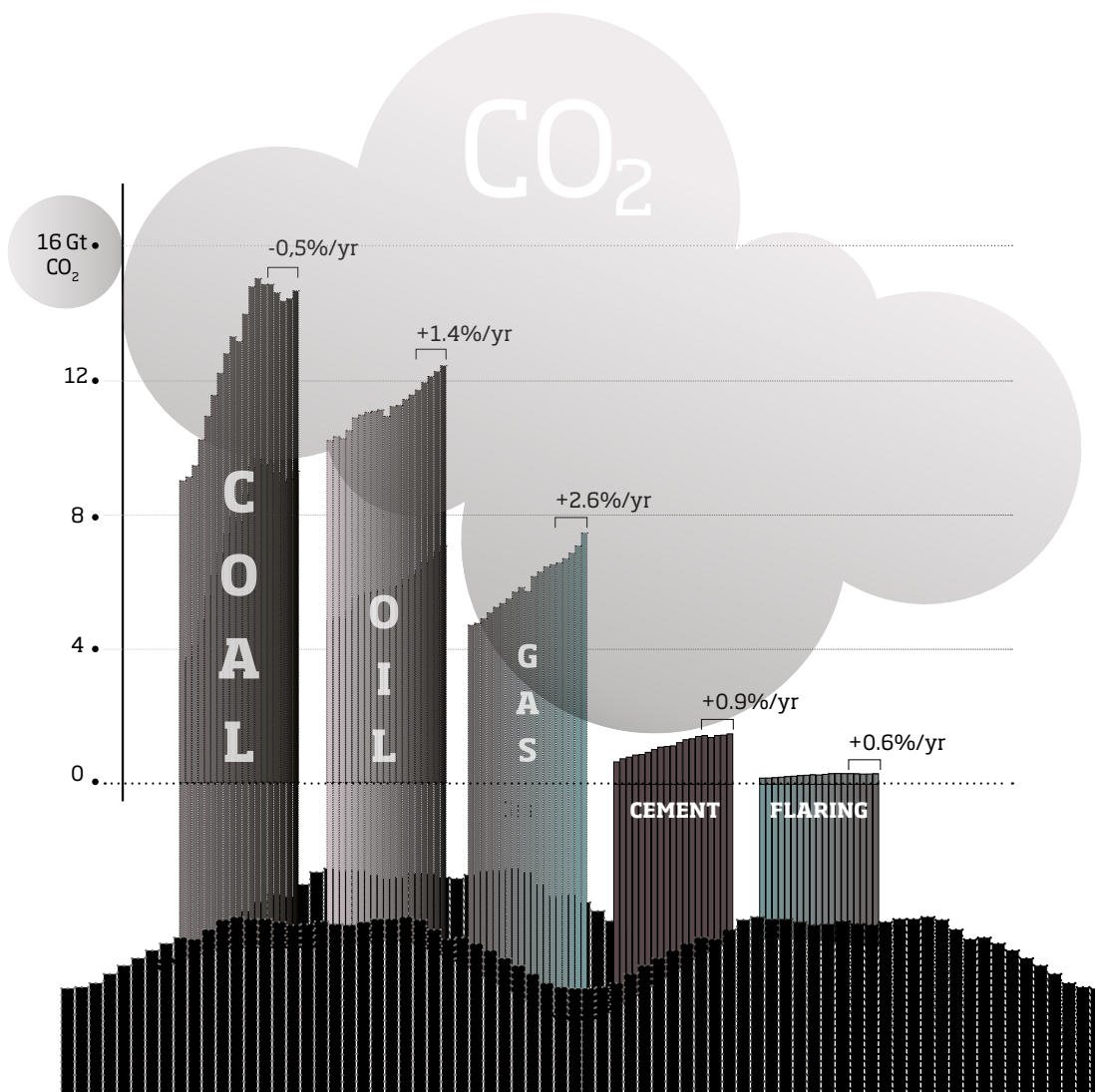




# 1. Introduction

For decades, coal has been a main source of electricity generation worldwide and it remains an important source of energy in many countries. Coal accounts for close to 40 percent of global electricity generation and for more than 40 percent of global energy-related carbon dioxide (CO<sub>2</sub>) emissions,<sup>1</sup> which in turn is a principal driver of climate change. Reducing the emissions of, for instance, coal power plants and ensuring a transfer to clean energy is therefore essential to curb climate change and central to the realisation of the United Nations 2030 Agenda for Sustainable Development and a prerequisite to reach the targets set out in the Paris Agreement on Climate Change,<sup>2</sup> the world's first near-global agreement designed to address climate change and its adverse impacts on people and the planet.

**Emissions by category from 2000 to 2018,**  
with growth rates indicated for the more recent period of 2013 to 2018



Source: Global Carbon Project

In addition to its contribution to global warming and climate change, combustion of coal also has serious negative local environmental and health impacts, including those related to smog and acid rain.<sup>3</sup> Coal mining and coal power generation is also the source of severe human rights concerns, as this report demonstrates, and women and children are in many cases disproportionately impacted. In many countries, existing human rights and environmental challenges are already being compounded by the effects of climate change and risk worsening concerns related to food security, access to clean drinking water, and poverty. The same is true in South Africa, a country that has experienced warming at twice the global average, where power stations powered by coal account for approximately half of South Africa's carbon emissions, and where the impacts of both climate change – including more extreme droughts and ensuing food and water shortages – and pollution are impacting those already most vulnerable.<sup>4</sup>

Although the need to phase out coal is widely agreed on across the scientific community and though pledges to do so have been made by world leaders,<sup>5</sup> progress remains slow. In spite of the commitments made under the Paris Agreement, overseas investments continue to support the maintenance and expansion of coal power in coal dependent nations. This support is partly facilitated by state-backed export credit agencies (ECAs) (See fact box). There are no exact figures on the volume of export credits directed towards the coal sector but according to estimates, G20 governments annually invest 28 billion USD in coal projects.<sup>6</sup> This support comes via public finance institutions including ECAs and is, according to the independent think tank Overseas Development Institute (ODI), mainly spent on coal projects located abroad.<sup>7</sup>

#### FACT

### Export credit agencies

Export credit agencies (ECAs) are state institutions or state backed companies that provide finance to companies and/or underwrite risks to facilitate overseas investments and sales. They provide loans, guarantees and insurance which enhance the ability of domestic companies to engage in international trade, supporting export deals that would otherwise involve considerable financial risk.

ECAs represent one of the world's largest sources of public financial support for corporate investments in developing countries, providing buyer credit guarantees to lending banks. Many large-scale infrastructure, agribusiness and natural resource projects would not be financed and realised without their backing.<sup>8</sup> ECAs also provide supply credit guarantees, covering the exporting companies for the risk of not getting paid.

Since 2007, the ECAs and state backed export banks of Germany, Sweden and France have been important financial actors for the South African coal sector by providing export credits and guarantees for machinery, know-how and equipment.<sup>9</sup>





Trains and conveyor belts used to supply the power plants with coal. In recent years road transport has taken over much of the coal transport in Mpumalanga.

Coal dependent countries struggling with a transition to more sustainable energy sources face a daunting challenge, particularly in those cases where the coal sector is a major employer and when the population's access to electricity remains dependent on coal. In these countries, labour rights movements have long emphasised the fundamental need of just transition, stressing that alternative livelihoods must be created for those who risk losing their jobs in the shift away from coal. The need for a just and gender-sensitive transition is evident in South Africa, where an estimated 120,000 workers are employed in the coal sector and where 90 percent of electricity<sup>10</sup> is generated from coal.

This report examines to what extent ECAs and one state backed export bank<sup>11</sup> from three European countries – German Euler Hermes Deutschland and KfW-IPEX; Swedish Export Credit Agency (EKN) and the Swedish Export Credit Corporation

(SEK); and French Bpifrance – have aligned their practices and policies to help fulfil the goals of the Paris Agreement in relation to the coal sector. The ECAs from these countries have all provided significant export credits to South Africa's coal sector.

This report further examines how their support to the coal sector has impacted local communities and the environment. Findings are based on Swedwatch's investigation in South Africa, home to two of the world's largest coal-fired power stations, Kusile and Medupi. The construction of these plants was highly dependent on export credits and guarantees, including from the ECAs from Germany and France.<sup>12</sup> Export guarantees from the Swedish ECA have for several years promoted exports of equipment for the South African coal mining industry. Swedwatch chose to focus on ECAs from these three countries and South Africa in order to provide findings that can be applied to the case in question, but also in order for the case to be used as an example in other areas.

The negative impacts of climate change will disproportionately hit people living in poverty.<sup>13</sup> As coal combustion is a driving factor behind climate change, and as ECAs continue to facilitate the coal sector in countries with high economic inequality rates, this report calls on states to urgently end all new export credits associated with coal projects via ECAs and other agencies. Instead, they should increase efforts to strengthen cooperative action on technology development and transfer for the benefit of coal-dependent countries to bring about a just transition to more sustainable energy sources. Doing so would be in line with states' commitments under the Paris Agreement and virtually all sustainable development goals of the 2030 Agenda, particularly SDG 13 (Climate Action). Failing to do so will be devastating for the future of the planet and its people.

#### FACT

### Why is coal problematic?

The combustion of the three main fossil fuels – coal, oil and natural gas – releases greenhouse gases into the atmosphere and increases levels of CO<sub>2</sub>, trapping heat and thereby contributing to global warming and climate change.<sup>14</sup> The combustion of these fuels accounts for two thirds of global greenhouse emissions and reached all time high levels in 2017, 2018 and 2019. Coal-fired power plants are the single largest contributor to climate change. Phasing out coal and other fossil fuels is a prerequisite to reach the main temperature goal of the Paris Agreement<sup>15</sup> in which 189 states pledged to keep the rise in global temperatures below 2 degrees, and to pursue efforts to limit the rise to 1.5 degrees.

Coal is a particularly polluting form of energy and contributes to premature mortality worldwide.<sup>16</sup> Globally, an estimated 4.5 million people died in 2018 because of air pollution from fossil fuels, including coal.<sup>17</sup>

Extraction and combustion of coal is also the source of direct and severe human rights concerns. Numerous reports document how workers in the coal sector endure harsh labour conditions, and how people living in the vicinity of coal mines and power plants are affected not only by severe pollution, but also by food insecurity, pollution of agricultural land and water, physical insecurity, sexual exploitation of women and other concerns that exacerbate already challenging socio-economic situations.<sup>18</sup>



# Methodology

The research for this report was undertaken in two phases during 2019 and 2020: as a desk study and through local research in Mpumalanga province, home to South Africa's most intensively mined coal district. The local research was conducted in collaboration with the environmental justice group Groundwork which has worked extensively in the region on coal related issues since 1999.

The desk study included research into the extent of export credits and guarantees provided by Germany, Sweden and France for the export of equipment to the South African coal industry between 2014 and 2019. The research was partly hindered by limited transparency regarding ECA guarantees and lending.

In November 2019, Swedwatch visited the vicinities of the coal-fired power plants in Mpumalanga province, including the Kusile power plant, and several communities affected by the coal industry in the area. Swedwatch did not gain access to coal mines during the local research but conducted interviews with former coalminers. Swedwatch also visited local schools and a health research centre.

In total 34 interviews were conducted with community members, medical doctors, environmental and women's rights defenders, researchers specialised in the coal sector, and representatives from the state-owned coal company Eskom. Most interviewed community members depend on the mining industry which was the subject of Swedwatch research. Due to a fear of reprisals, including loss of income, the identities of respondents are not provided.

## 2. South Africa's coal industry

Over 90 percent of the coal consumed on the African continent is produced in South Africa. Every year, the country produces over 250 million tons of coal.<sup>19</sup> The lion's share of its 1,600 coal mines and most of its coal-fired power plants are located in the northern provinces Limpopo and Mpumalanga.<sup>20</sup> The largest concentration of coal-fired power plants is in Mpumalanga's Highveld region and around the city of Emalahleni, formerly called Witbank.

South Africa is the world's fourth largest exporter of coal with a supply that is expected to last for at least another 50 years at the present production rate.<sup>21</sup> Just over half of the country's coal mining is carried out underground, and the rest is produced by open-cast methods.<sup>22</sup> Due to its reliance on coal, South Africa is the world's 14th largest emitter of greenhouse gases.<sup>23</sup> The power sector accounts for about 80 percent of the emissions and Eskom accounts for 42 percent of the nation's total greenhouse emissions.<sup>24</sup>

In addition, South Africa has 15 coal-fired power plants owned and managed by state-owned electricity company Eskom.<sup>25</sup> Many were built between 1960 and 1970 and lack modern purification technology.<sup>26</sup> The country also hosts several other heavily coal-dependent industries, including the steel industry and chemical plants which transform coal into liquid fuel.<sup>27</sup>

Emissions from these coal-dependent industries are sizeable. A 2019 Greenpeace study indicated that the coal intensive Mpumalanga province has registered some of the highest sulphur dioxide (SO<sub>2</sub>) levels areas in the world.<sup>28</sup> In addition, the coal industry contaminates local agricultural land, air and watercourses. Health problems and premature deaths caused by the pollution have been recorded by researchers and civil society organisations.<sup>29</sup>

South Africa's public electricity utility Eskom has 6.2 million direct customers and an annual capacity of 44,172 MW. By its own account, in 2017 to 2018 air pollution from 13 of its coal-fired power stations represented costs to public health of over a billion Euro a year and causing 333 premature deaths annually.<sup>30</sup> This estimate has been questioned by several South African environmental organisations. One study, commissioned by Groundworks and Healthcare Without Harm, found that around 2,000 people die prematurely each year in the coal districts, mainly in Mpumalanga province, due to pollution from the coal-fired power stations.<sup>31</sup>

In 2007, the then South African Minister of Environment, Forestry and Fisheries<sup>32</sup> declared over 31,000 km<sup>2</sup> of the Mpumalanga Highveld a "priority area" because of air quality that was "harmful to health and wellbeing".<sup>33</sup> Twelve years later, in 2019, there was no improvement of the air quality according to two South African environmental and community organisations who launched a legal case against the government.<sup>34</sup> The case was still being processed in mid-2020 by a court in Pretoria.

The court documents include several statements from international experts in environmental health, including a professor of occupational and environmental medicine at the University of Illinois who stated: "The high levels of air pollution in and around the Highveld Priority Area constitute an immediate and significant public health hazard that should be remedied to save lives and allow current and future generations of South Africans to live longer and healthier".<sup>35</sup>

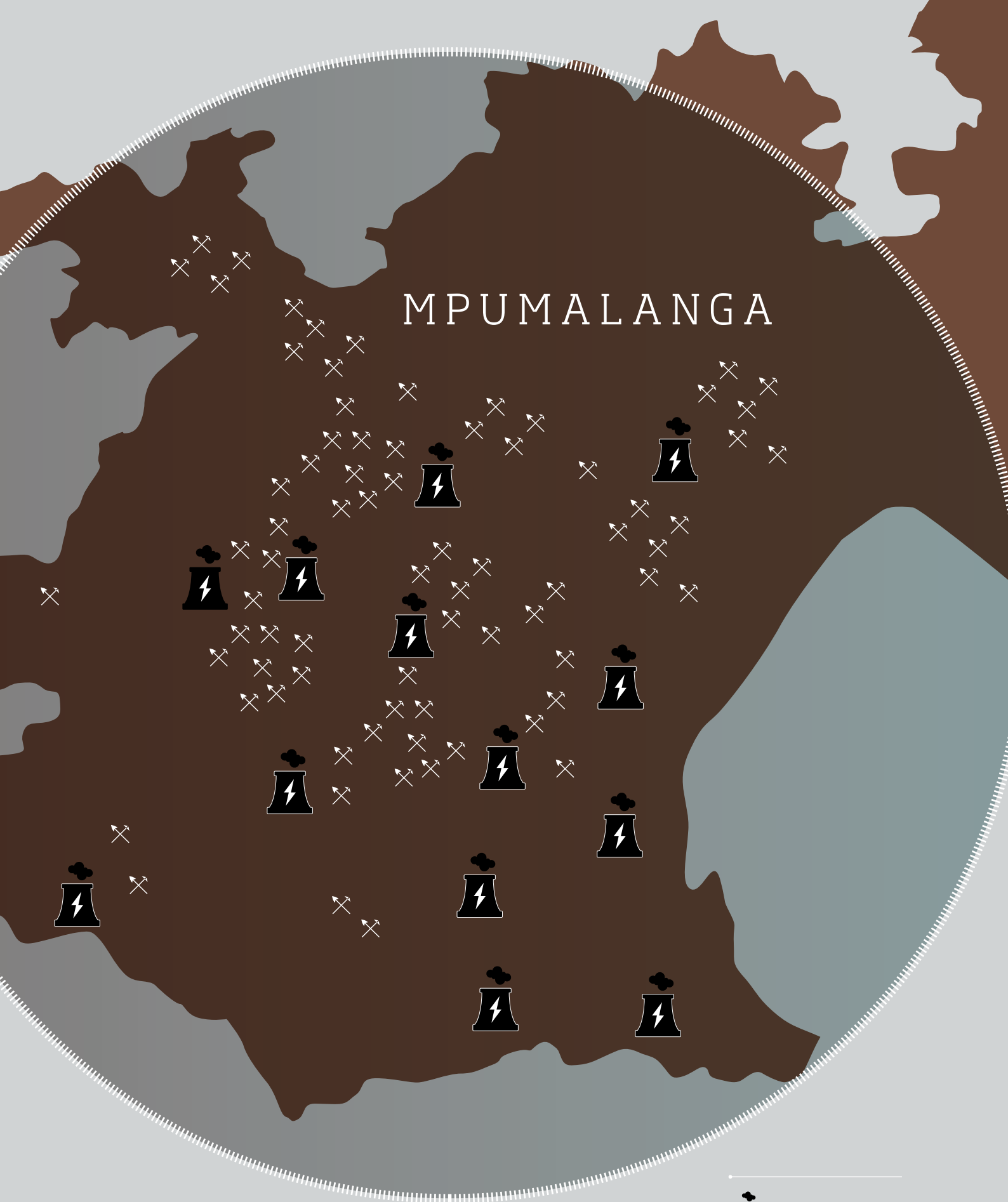
Despite the criticism and the obvious health concerns related to the country's coal industry, the South African government has often been criticized for not taking any significant steps to reduce the country's reliance on coal as its prime energy source.<sup>36</sup> The South African president has made statements proposing large investments in renewable energy but such investments have been limited. In 2019, the president maintained that "coal fired power plants will be a part of the South African energy mix even in the future".<sup>37</sup>

## The coal cluster of South Africa

South Africa is among the world's top five coal exporting nations with 50 years' worth of supplies at present production rates. It also has 15 coal-fired power plants owned and managed by state-owned electricity company Eskom. Most of the coal industry is located to Mpumalanga. Due to its heavy reliance on coal, South Africa is the world's 14th largest emitter of greenhouse gases. Its power sector accounts for about 80 percent of the emissions.

Many of the country's coal-fired power plants were built in the 1960s and lack modern purification technology. South Africa also hosts several other heavily coal-dependent industries, including the steel industry and chemical plants which transform coal into liquid fuel.





-  Power Station
-  Coal Mining

## Medupi and Kusile – the establishment of two new power plants

Since 2007, Eskom has been constructing two new large-scale coal-fired power plants, Medupi and Kusile, partly financed by the World Bank Group and the African Development Bank.<sup>38</sup> The plants were meant to meet rising energy demand and enable Eskom to replace some of the older, less efficient, plants in Mpumalanga. But so far, the new power stations have not performed as planned and only a few older malfunctioning plants have been replaced.<sup>39</sup>

The new power plants have also been unable to back up older plants with additional capacity and provide a buffer for the older units. This has caused repeated power shortages in the country.<sup>40</sup> The delayed completion of the two plants is said to be due to cost overruns, technical problems, poor administration as well as corruption.<sup>41</sup> Eskom has also experienced severe financial problems with a debt of 19.73 billion Euro, and has stated it is in need of significant financial support to avoid a debt crisis<sup>42</sup> (See factbox: Power shortages and Eskom's insolvency, page 20).

Furthermore, the establishment of Medupi and Kusile has from the start raised concerns among community representatives and environmental groups over pollution of air and water, health problems, involuntary resettlement and for contributing to climate change. Affected people have also claimed that the power plants threaten their cultural heritage rights and negatively impact their livelihoods as the construction destroys grave sites and limits residents' access to traditional medicinal plants.<sup>43</sup>

## South Africa's phasing out of coal

According to South Africa's National Electricity Plan, called the Integrated Resource Plan, from 2019, steps will be taken to reduce the role of coal in the future.<sup>44</sup> The plan aims to decommission over 35 GW<sup>45</sup> (of 42 GW currently operating) of coal-fired power capacity from Eskom by 2050.

Implementing the Integrated Resource Plan will enable South Africa to achieve its current national climate pledge, or Nationally Determined Contribution, under the Paris Agreement. However, the independent research initiative The Climate Action Tracker rates South Africa's climate pledge as "highly insufficient". The commitments are not at all consistent with the aim of the Paris Agreement to keep a global temperature rise this century well below 2°C and pursue efforts to limit the increase to 1.5°C. If all government targets were in this range, warming would reach between 3°C and 4°C.<sup>46</sup>

According to the plan, coal "will continue to play a significant role in electricity generation in South Africa in the foreseeable future as it is the largest base of the installed generation capacity and it makes up the largest share of energy generated".<sup>47</sup> The South African government does not explicitly refer to an "exit from coal" in the 2019 plan and sees a long term future for the energy source.<sup>48</sup> Nonetheless, a shift away from coal dependency is on the agenda and is likely to be one of the biggest challenges for the nation in the coming years.<sup>49</sup>





Construction of the Kusile power station, one of the biggest in the world, started in 2008. It was expected to be in full operation in 2018 but the budget has been overspent and it is unclear when it will be fully operational.

## South Africa's energy sector: Obstacles to change

In 2017 Eskom said it would close down five of its oldest coal-fired power plants and replace them with renewables.<sup>50</sup> This triggered a strong reaction from the country's trade unions and a debate about how changes in South Africa's energy system may affect workers and communities.<sup>51</sup> The South African coal mining sector employs around 82,000 workers<sup>52</sup> in 1,600 coal mines.<sup>53</sup> In addition, Eskom employs nearly 50,000 people,<sup>54</sup> primarily in coal-fired power stations and related infrastructure.

The Mpumalanga province and the whole South African nation are heavily dependent on the coal industry economically and socially. Apart from regular mining activities and the production of electricity, other coal-related employment in the sector has increased significantly in recent years.<sup>55</sup>

According to a study by the Stockholm Environment Institute (SEI) the coal sector "has been woven into South Africa's political economy for decades through the creation of jobs, the accumulation of wealth in foreign companies and, more recently, in

local corporations; linkage to politically powerful trade unions; corruption scandals; and the enabling of an electricity supply sector based on cheap fuel inputs.”<sup>56</sup>

The unemployment rate in Mpumalanga is among the highest in South Africa reaching 43.9 percent in 2019.<sup>57</sup> Therefore jobs, and job losses, are particularly sensitive both politically and socially. This may be one of the reasons for the historically strong political support for the coal industry within the ruling party ANC, as well in the powerful trade union, the Congress of South African Trade Unions (COSATU).

At the same time there is growing political resistance to coal in the country, both among civil society, trade unions and in the ANC party. Over the years, there have been many attempts to form so called red-green alliances between mainly unions and environmental justice groups. However, these alliances have at times been characterized by tensions, where on the one hand the labour movement has emphasised that a just transition must not entail any job losses, while the environmental movement has pushed for the closure of coal mines and coal-fired power stations.<sup>58</sup>

There remains a lack of clarity from the South African government on how to handle the coal sector and the demands for a shift to renewable energy sources.<sup>59</sup>

#### FACT

### **Power shortages and Eskom's insolvency**

South Africa's predominantly coal-based production of electricity lacks the capacity to meet the country's energy needs. It is unstable and plagued by repeated power cuts and load shedding, affecting the country's economic and social life. The urgent need to resolve the situation is an ongoing challenge for the present ANC government and has caused extensive political debate.<sup>60</sup>

Still, so far investments in alternative sources have been few. While coal power produces 227 terawatt-hours (TWh), renewables only produce 16 TWh a year.<sup>61</sup>

The situation is aggravated by the economic difficulties of the state-owned power company Eskom. At present the company's debt is about 21 billion EUR, more than twice as much as the country spent on national health care in 2018 and 2019.<sup>62</sup> To be able to make new investments in alternative energy sources, much greater financing is needed.

Since 2008, Eskom has borrowed more than 2.83 billion Euro<sup>63</sup> from private and public banks.<sup>64</sup> A large share of those loans were approved by the World Bank and the African Development Bank. Several European banks and ECAs have also issued loans in order to facilitate the export of equipment for the South African coal industry from European suppliers.

## Just transition

For countries depending on fossil fuels as important sources of energy, employment and export revenue, moving away from polluting fossil fuels to cleaner and renewable energy sources can be a cumbersome and costly transition. A transition can also be politically and socio-economically challenging as it is associated with risks regarding unemployment.

Recognising these challenges, the Paris Agreement points to the need for a “just transition” of the workforce,<sup>65</sup> meaning that shifts must take into consideration current workforces, for example those employed within the coal sector. It also stresses the need to create decent work and new quality jobs for those who lose their employment in the transformation to more sustainable energy.<sup>66</sup>

The need for a just transition is particularly evident in a country such as South Africa, where more than 120,000<sup>67</sup> are employed in the coal sector, and where a transition away from coal is bound to cause unemployment, increased poverty and social unrest if not carefully mediated with rightsholders, trade unions, and companies.

Transitions away from fossil fuels are not only technical, economic and social processes, but also deeply gendered.<sup>68</sup> Experts have for example found that particular needs of women and girls are often neglected when new energy infrastructure projects are developed,<sup>69</sup> and that they are at risk of being left behind and excluded from energy transition benefits.<sup>70</sup>

## Just transition in South Africa

Because of the sizeable investments already made in the South African coal sector, the financial difficulties of Eskom, and the large number of workers depending on jobs in the sector, a just transition from coal may be one of the biggest challenges for the nation in the coming decades.<sup>71</sup>

According to one Cape Town based analyst,<sup>72</sup> there is not yet a full commitment within the ANC government to start this transition. The analyst pointed out that although several policy papers have been published, the government is not yet united.<sup>73</sup>

*“There are some policy documents talking about a just transition but there is no full political commitment yet. Critically, there is no co-ordinated policy and regulatory framework and there is no plan for reskilling the workforce in place”.<sup>74</sup>*

There is also a considerable risk that a quick transition to renewables would cause significant social tensions in the country’s main coal province, Mpumalanga. A local environmental rights defender, interviewed by Swedwatch, stresses that the transition needs to be an inclusive process to avoid political unrest:









Many people rely on the coal industry for their income. A transition to renewable energy sources will be a major challenge for the South African government as well as for families depending on the industry for their livelihoods.



*“People are depending on the coal for their livelihood. We cannot let Eskom lose income or go bankrupt. We can’t take people off the grid and we cannot let the transition create unemployment. We have to start this process with a dialogue, people need to understand why this has to happen”, he said.*

*“A phase-out in the next five-years seems out of the picture. However, in the longer-run, I believe the economics of energy, and issues with Eskom’s management, will take over political resistance... Since Eskom is retiring some of the older coal-fired power stations over the coming years... The total amount of coal in the electricity system should actually start dropping away”.<sup>75</sup>*

There are signs of an increasing awareness of climate change among banks and other financiers in South Africa. Several finance institutions, including the major South African banks, have declared they will not continue to finance coal-fired power plants and coal mines due to the climate and environmental impacts.

The South African president also made a statement at the UN Climate Action Summit in 2019 proposing large investments in renewables and a just transition “leaving no-one behind”.<sup>76</sup> He referred to a “plan for workforce reskilling and job absorption, social protection and livelihood creation, investing in new green sectors.”

### 3. Swedwatch’s investigation in South Africa’s coal district

The towns of eMalahleni and Middelburg in Mpumalanga province are surrounded by 12 coal-fired power plants and hundreds of coal mines. The coal-based industries in this area includes major infrastructure to enable the transport and processing of coal and other materials needed for the industry. The coal mines in Mpumalanga, many of them open pit mines, produce 83 percent of South Africa’s total production of coal.<sup>77</sup> The coal industry is the largest employer in the area and considered the most important sector for job creation.<sup>78</sup>

The centre of Mpumalanga’s coal industry is the eastern Highveld, a fertile and well-irrigated part of South Africa. Several major rivers have their sources in this critical food producing region. However the mining and burning of coal has devastated the environment in this part of the Highveld over the last century, according to a report by the South African environmental justice and development group Groundwork.<sup>79</sup> According to the group, underground and open cast coal mining has damaged the region’s water cycles and, alongside coal burning, covered the land in coal dust. Groundwater and rivers have also been contaminated by acid mine drainage, rendering whole catchment areas into wastelands.<sup>80</sup>

## Impacts on health

A Greenpeace study has found that the levels of deadly sulphur dioxide (SO<sub>2</sub>) and nitrogen dioxide (NO<sub>2</sub>) pollution in Mpumalanga province are among the world's highest, making it a global hotspot for pollution.<sup>81</sup> These chemical compounds are released during the burning of coal and other fossil fuels and are known to have a range of harmful effects on the lungs, including coughing and wheezing, respiratory infections, reduced lung function, and asthma attacks.<sup>82</sup> Only one site on earth has a higher concentration of SO<sub>2</sub> (the Norilsk Nickel smelter complex in Russia), according to Greenpeace.<sup>83</sup>

Throughout Swedwatch's interviews in Mpumalanga's coal area, interviewees raised concerns about health impacts from air pollution. The most frequent problems described by residents in communities in the coal district were long-term respiratory diseases such as asthma, bronchitis and sinusitis. Children's health was said to be particularly affected. Interviewees said this has a knock-on effect on the children's schoolwork and ability to play and exercise. As most local residents depend on the mining industry for their livelihoods, most are unable to move elsewhere and provide a healthier environment for their children.

Health services are free in South Africa but many clinics in Mpumalanga are understaffed and underfunded, according to interviewees. In several communities visited by Swedwatch, residents explained that they cannot afford to pay for medication which is not covered by the state. Some must borrow money to afford treatments for themselves and for their children.

A woman in the Vukani settlement, close to an open pit coal mine, blamed the mining company for her son's illness: *"When my son was six months old, he got asthma. To understand if it was because of the air here I took him to my mother who lives far away from here. Then he wasn't sick for six months. But when we came back, he immediately fell ill again."*<sup>84</sup>

Swedwatch interviewed a medical doctor with extensive experience of general practice in Mpumalanga and other parts of South Africa.<sup>85</sup> He said that anecdotal evidence shows that the frequency of respiratory diseases is much higher in the areas where people inhale coal dust on a daily basis. The situation eventually leads to an increased frequency of cancer, heart attacks and embolisms.

*"There is no way people can protect themselves from the air. The air is as bad inside the houses as it is outside. They have no choice; they have to work and live here."*<sup>86</sup>

The dust from the coal mines also penetrates soil and water. The dust contains a considerable amount of mercury which makes its way into the human nervous system through food and water. This affects human reproduction and lowers the IQ of children, according to the medical doctor. Overall, the toxic environment has a severe socio-economic impact in the coal districts as health problems affect people's ability to work, he told Swedwatch.

## Relocations and impacts on livelihood and housing

The large-scale mining operations in the Mpumalanga coal district have expanded for many years and, consequently, whole communities have been moved elsewhere. Several of the relocated communities visited by Swedwatch are situated next to open pit mines or near coal-fired power plants. Some families live in brick or concrete houses while others are housed in self-made shacks constructed by cheap building material such as corrugated sheet or used wood. Most of the roads in the relocation area are in poor condition, turning muddy and impassable after rainfall. Some houses, lacking proper foundations, are flooded during the rainy season and many families lack sewage systems and clean water at home.

According to Swedwatch interviewees, the most common reason for the relocations has been the expansion of operations by national and international mining companies. The different relocation processes have tended to involve affected community members being invited to meet with the mining companies, and receiving promises of new housing, electricity, work and economic compensation.

Interviewees who have undergone a relocation process explained to Swedwatch that many people feel misled by the mining companies, as they did not receive economic compensation, electricity or access to water as promised in agreements. Some received a proper contract from the mining company, but others were not provided with any written documentation.

Interviewees also stated that the mining companies have never responded to complaints after relocations. In some cases, mines have changed ownership and the new owner has refused to acknowledge contracts or agreements made in connection to the relocation. In other cases, the agreements have simply been neglected by the mining company. Many relocated residents state they are unsatisfied with how the process has been managed by the mining companies but feel that there is nothing they can do.

Several relocated families interviewed by Swedwatch face economic difficulties since being moved. Some stated that they were offered jobs by the mining company before the resettlement but in the end, they did not obtain employment, or the contract ended shortly after. As a result, they now face financial difficulties. A 68-year-old woman compared her life before the move, saying that *"We had a much better life at the farm. We had animals and farming. When we moved, we had to sell all the animals. In this place we must pay for everything: water, rent and electricity. It's expensive and my pension does not last. I have five children to support. We are forced to work with recycling to survive."*<sup>87</sup>

One relocated mine worker living in a brick house near a power plant described the problems with his new location. *"They load the coal behind the houses here. When the wind blows it makes a lot of dust. My uncle is not well. He is coughing a lot. We think it has to do with the dust and the exhaust from the power plant."*<sup>88</sup>

The same mine worker also raised concerns about access to water. There was a water container near his house, but the mining company did not fill it up weekly as had been agreed before the move, he explained.



Several households have been relocated in Mpumalanga due to expanding coal mines and construction of new power stations. Some of the new housing remains very close to mining and combustion sites.

To compensate for the lack of electricity, resettled families are sometimes offered hard coal by the mining companies for heating and indoor cooking. Burning coal indoors adds to the families' exposure to polluted air.

Several relocation areas visited by Swedwatch were also highly affected by blasting from nearby coal mines. Residents told Swedwatch that the mining companies refused to give them a schedule for the planned detonations. Sometimes the explosions go off in the middle of the night, waking up children and damaging the houses, the interviewees explained. Cracks in walls and ceilings were pointed out to Swedwatch. Some residents have tried to obtain compensation for the damage from the mining companies but without success. Others have been offered a bag of cement to fix the damage themselves.

A woman in a coal mining village described the situation: *"They do not warn us before they start the blasting. When they blast there is a black smoke we must inhale and there are cracks in the walls of the houses. TV sets fall from the wall and are damaged. Everything is shaking when they are blasting. One day there will be a serious accident."*<sup>89</sup>





Many communities use low quality coal from nearby coalmines for heating and cooking. The combustion is hazardous and contributes to the already unhealthy environment. One estimate puts the number of coal-related deaths in South Africa's coal districts at over 2,000 annually.



Many coalminers are forced to retire early due to various diseases caused by inhaling coal dust. As the social safety net is weak, they rely on their families for support. Coal is a particularly polluting form of energy and contributes to premature mortality worldwide.



In addition to the many concerns related to relocations, breaches of cultural rights were raised in the interviews. For many South Africans, family graves have an important cultural value and symbolise their connections to ancestors. An elderly woman explained to Swedwatch that the mining company destroyed her family graves when excavating the coal mine.

## Impact on water and soil

South Africa is a semi-arid country and increasing water demand is an urgent challenge across the country. The situation is expected to worsen with the predicted impacts from climate change. Water stress in most of Mpumalanga province is categorized as “severe”.<sup>90</sup> According to projections, South Africa’s plans to expand power generation through coal-fired power plants will likely require water transfers from other areas, as the plants are located in areas where water supplies for coal mining and power generation are insufficient.<sup>91</sup>

Concerns related to water were raised throughout Swedwatch’s interviews, and two main points were recurring: water supply and water quality. Residents in the coal districts described how the coal-fired power station use large quantities of water, and that the residents therefore experience a general water shortage. Secondly, the water quality was said to be impacted by drainage from coal mines. Several interviewees mentioned that they do not have enough money to buy clean drinking water and that the delivery of fresh water to their neighbourhood is irregular. One elderly woman, who used to live near a coal mine, said that her livestock had died from drinking contaminated water which also made several family members ill.

Coal mining has also had a harmful impact on some of the major rivers in the Mpumalanga Highveld region, according to an environmental researcher at University of the Witwatersrand, Johannesburg, interviewed by Swedwatch:

*“The water scarcity is getting worse by preserving the best water for the coal fired electricity. At the same time the coal mines happen to be situated poorly in terms of our rivers. Where the rivers start, there is a coal field. This pollutes more than 70 percent of the water in the rivers.”<sup>92</sup>*

Studies have shown that coal mining activities in the region have a negative impact on water quality in Mpumalanga’s most important rivers which have been linked to mining activities.<sup>93</sup> For example the Olifants river, one of the country’s most important water sources, was found to have high concentrations of sulphates and TDS (total dissolved solids).<sup>94</sup>

The expansion of the mining industry has also radically reduced the available farmland. Open pit coal mines cover a considerable part of the landscape and are difficult to rehabilitate into farmland after a mine has been closed. This becomes a problem since parts of the area have been traditionally used for producing maize, the national staple.<sup>95</sup>

According to an expert on environmental justice and researcher at University of the Witwatersrand, *“Every piece of cropland taken out from the Highveld is a threat to the national food security.”*<sup>96</sup>

Furthermore, the researcher claimed that much of the soil in the Highveld area is contaminated by acid mine drainage and unsuitable for farming. This is consequently a further threat to food security. To date, more than 6,000 mines have been abandoned in South Africa, with damage from acidic water requiring an estimated 30bn South African rand (ZAR) in clean-up costs nationwide.<sup>97</sup>

Swedwatch learned during interviews with residents that many families that used to farm for household consumption are now unable to do so due to the polluted soil, and they do not have money to buy food to substitute the crops they used to grow.

## Impacts on women

According to Swedwatch’s interviews with South African gender and extractives alliance Womin and Greater Phola Ogies Women’s Forum, a community-based organization in Mpumalanga, women are particularly exposed to the negative impacts of the coal industry. When coal mines are expanded and small-scale farmers are subsequently relocated to new settlements, a major burden falls on women to provide for the family under the new, and more challenging, circumstances.

In most rural South African communities, women are the main caregivers for their families. Their roles include taking responsibility for securing water, firewood and food – goods that used to be free before their relocation, but which must now be bought. Those who cannot afford to pay must walk long distances to fetch clean water from public wells and firewood from the bush. Bearing these responsibilities, women suffer disproportionately when the coal industry affects the quality of water sources and reduces agricultural land to pave way for mines.

With the ever-diminishing access to farmland in the coal districts, women are forced to look for alternative sources of income. At the same time there are very few job opportunities for women in the coal industry. Some manage to start small scale business, while others are forced into commercialised sexual exploitation or temporary relations with men in exchange for money, also known as transactional sex. According to one member of the organisation Womin, selling sex as a means of survival becomes a more common source of income for women who have been relocated.

In 2016, a report by the Dutch NGO Both Ends on community impacts from the coal sector in Mpumalanga found that that young women and girls increasingly engaged in sex work to earn an income in the area.<sup>98</sup> Mpumalanga is ranked second among the country provinces in terms of HIV prevalence, with a rate of 15.4 percent.<sup>99</sup>

According to Greater Phola Ogies Women’s Forum, male migrant mining workers often purchase sex or engage in transactional sex when their families live elsewhere. This situation has led to a high degree of teenage pregnancies in the region.





A woman and her child in the Vukani settlement in Mpumalanga. The most frequent problem described by residents in communities was long-term respiratory diseases such as asthma, bronchitis and sinusitis. Children's health is particularly affected.





*"We can call it prostitution, but the women do not call it that themselves. They have no choice, there is no way they can support themselves and it becomes a problem when the woman gets pregnant and no one wants to support the child. This also leads to a high degree of HIV", one representative from the group said.*

The highly gendered nature of the mining industry, and its negative impact on women, has been highlighted by several studies and recognised by international bodies including the World Bank.<sup>100</sup> Its research shows that migrant mining workers are more likely to be HIV positive, and women with a migrant mining worker partner are more likely to become infected. The study also shows that miners are less likely to abstain or use condoms, and female partners of miners are more likely to engage in extramarital sex.<sup>101</sup>

Increased attention on the impact on women in mining areas has led to some positive action from major mining companies, such as creating health programs for mining workers and local communities,<sup>102</sup> but it is unclear to what extent they have led to concrete results.

Swedwatch was told that many young women are abandoned by the father of the child once they get pregnant and struggle to support themselves and the baby. Women interviewed by Swedwatch said that assistance for young pregnant women from the local government in Mpumalanga is limited.<sup>103</sup> One member of Greater Phola Ogies Women's Forum commented on attempts to force men to pay allowances:

*"There is a court for this. A lot of young women line up there but without getting anything. They are forced to live on social grants, but it is not enough money to survive."*

Another hazardous way women in the mining districts earn money is by collecting coal in abandoned coal mines. Part of the work is heavy, and the women often need to ask men for assistance. In doing so, women are sometimes forced into sexual acts by the men, so called sextortion, according to Womin.<sup>104</sup> Although the work is dangerous and heavy, many women lack alternative ways to support themselves or their children. Some are forced to bring their young children to the work site.<sup>105</sup> Injuries and deaths have been reported from accidents in the abandoned coal mines where women collect coal in Mpumalanga.<sup>106</sup>

Other problems in the communities that were raised during Swedwatch's interviews include the high rate of unemployment and lack of alternative livelihoods.<sup>107</sup> The two women's rights organisations pointed to an increase in single parent households, mainly run by women, as a result. Many women also face problems when family members fall ill because of the pollution from coal mines and coal-fired power stations. As women in the area are generally expected to care for family members and the household, this increases their work load and risk reducing household incomes.

Women's rights organisations have arranged protests against the conditions faced by women in the coal districts of Mpumalanga. On some occasions, women have been harassed and arrested for participating in these public protests.<sup>108</sup>



## 4. What should Export Credit Agencies do? Guiding frameworks and standards

In this section Swedwatch presents an overview of international standards that ECAs should adhere to, in order to ensure respect for the environment and human rights in the business operations they facilitate by providing export credits for coal power and mining.

### *The UN Guiding Principles on Business and Human Rights (UNGPs)*

The UNGPs elaborate on all states' duty to protect the human rights of their citizens and outline how all business enterprises – regardless of national legislation – should respect human rights in all of their operations. As a minimum requirement, all rights under the International Bill of Human Rights and the International Labour Organization's (ILO) core conventions should be respected.

The responsibility of states, and state agencies, to protect against negative human rights impacts from third parties, also applies when a state gives support such as export credits and guarantees.<sup>109</sup> In this case support to certain activities could result in an indirect support to human rights harm in the location where business activities take place.

According to Principle 4 of the UNGPs, state agencies, such as ECAs and guarantee agencies, put themselves at risk if they do not consider the potential adverse impacts on human rights of beneficiary enterprises. This risk could be reputational, financial, political and add to the human rights challenges faced by the recipient state.<sup>110</sup> In addition, state agencies are also subject to the responsibility for enterprises to respect human rights, as established by UNGP Principle 11 which states that enterprises “should avoid infringing on the human rights of others and should address adverse human rights impacts with which they are involved”. In line with Principle 12 they should also seek “to prevent or mitigate adverse human rights impacts that are directly linked to their operations, products or services by their business relationships, even if they have not contributed to those impacts.”<sup>111</sup>

Given these risks, states should encourage and, where appropriate, require human rights due diligence (HRDD) by the agencies themselves and by those business enterprises or projects receiving the support.

The UNGPs build on existing laws and serve as the most comprehensive and globally recognised framework on business and human rights. The principles apply to all states and business enterprises, regardless of ownership and state that companies are responsible for protecting human rights regardless of how well the state fulfils its duties. The principles, especially the key concept of HRDD have been incorporated into various other frameworks, including the OECD Guidelines for Multinational Enterprises, which apply to all companies based in OECD member states and adhering countries.

## **Human rights due diligence (HRDD)**

### **– UN GUIDING PRINCIPLE 17<sup>112</sup>**

In order to identify, prevent, mitigate and account for how they address their adverse human rights impacts, business enterprises should carry out HRDD. The process should include assessing actual and potential human rights impacts, integrating and acting upon the findings, tracking responses, and communicating how impacts are addressed. HRDD should:

- Cover adverse human rights impacts that the business enterprise may cause or contribute to through its own activities, or which may be directly linked to its operations, products or services by its business relationships,
- Vary in complexity with the size of the business enterprise, the risk of severe human rights impacts, and the nature and context of its operations;
- Be ongoing, recognising that the human rights risks may change over time as the business enterprise's operations and operating context evolve.

The focus of HRDD is on identifying and addressing the relevant impact on human rights, i.e., that which is connected to the enterprise's own activities and to its business relationships. The OECD Due Diligence Guidance for Responsible Business Conduct provides practical guidance around HRDD and stresses the need for tailoring approaches for specific risks and taking into account how these risks affect different groups, such as applying a gender perspective.<sup>113</sup> This entails analysing how real or potential adverse impacts may differ for or be specific to women, girls, men, and boys. It is particularly important to be aware of gender issues and women's human rights in situations where women and girls may be disproportionately impacted, such as in conflict and post-conflict areas.

## *The Paris Agreement*

The Paris Agreement (2015) sets out a global framework to avoid dangerous climate change. To achieve this, the agreement has three overarching goals:

- To hold global warming well below a 2° C increase from pre-industrial level and pursue a target of 1.5 °C;
- To redirect financial flows towards low-carbon and climate-resilient investments;
- To increase the resilience of both societies and business to climate change impacts.

The agreement has been ratified by 189 of its 197 state parties, including the three EU member states to which the ECAs examined in this study belong. The implementation of the climate goals underpinning the agreement calls for swift action by states, regulators, companies, the financial sector and civil society to counteract climate change.

It is the first global climate agreement that defines a clear role for the financial sector in contributing to climate change mitigation and adaptation. As one of its three long-term goals, the 189 states are committed to “making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.”<sup>114</sup> This goal recognises the importance of looking at all finance—public and private, domestic and international—and ensuring it supports (and does not undermine) the transition to net-zero greenhouse gas emissions and a climate-resilient world. This includes financing by state controlled ECAs.

### *The 2030 Agenda and the Sustainable Development Goals*

States and the business sector have a critical role in contributing to the achievement of the Sustainable Development Goals (SDGs) which seek to end poverty and hunger, respect the human rights of all, achieve gender equality and the empowerment of all women and girls, and ensure the lasting protection of the planet and its natural resources.<sup>115</sup> The goals are integrated and indivisible and balance the three dimensions of sustainable development: economic, social and environmental.

Through well-adjusted policies aligned with the SDGs and human rights law, export credits can represent a concrete possibility to contribute to the 2030 Agenda and the SDGs, and “promote the development, transfer, dissemination and diffusion of environmentally sound technologies to developing countries on favourable terms”, as outlined in target 17.7 of SDG 17.

The SDGs can also play an important role in contributing to a just transition away from coal and to new investments in renewable energy sources. Two goals are particularly clear in this regard. SDG 7 focuses on “ensuring access to affordable, reliable, sustainable and modern energy for all” and aims for a transformation “towards sustainable and resilient societies”. Focusing on actions to combat climate change, SDG 13 calls for an implementation of the commitments undertaken at the UNFCCC and to “integrate climate change measures into national policies, strategies and planning.”

Export credits can also undermine the fulfilment of the SDGs. As this report shows, export credits associated with the South African coal industry have contributed to – and still contribute to – negative impacts on a range of SDGs in addition to goals 7 and 13, most notably SDG 3 (Good Health and Well-Being for People), 5 (Gender Equality), and 6 (Clean Water and Sanitation).

### *OECD Common Approaches*

From Swedwatch’s dialogue with ECAs within the EU, it is clear that the guideline most referred to is the OECD’s “Common Approaches” (Recommendation of the Council on Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence).<sup>116</sup>

Launched in 2012, the OECD Common Approaches are now applicable to 33 member states and their ECAs, including Germany, France and Sweden.<sup>117</sup> The framework



mentions human rights in the context of the UNGPs and notes that state-supported export credits could lead to forced labour, child labour and life-threatening occupational health and safety situations.<sup>118</sup>

In a 2016 revision, the Common Approaches states that ECAs should screen all their applications regarding long-term credits (more than two years) from exporting companies to determine if there is a likelihood of severe project-related human rights impacts.<sup>119</sup> ECAs are also recommended to assess the potential environmental and/or social risk in applications relating to all existing operations for which their share is equal to, or above, 10 million SDR<sup>120</sup> (approximately 8-10 million Euro). In screening an application, ECAs should place the project into category A, B or C based on varying levels of environmental and social review, including environmental and social impact assessments, with Category A including the most impactful projects. If there is a high likelihood of severe risk of negative impact, the project may need to be completed with a human right's due diligence.

However, the Common Approaches have been criticised for being too weak. The UN Working Group on Business and Human Rights notes for example that specific methods for human right due diligence “are left to the discretion of the individual export credit agencies” and there is no binding recommendation for transparency from the OECD.<sup>121</sup>

The UN Working Group also point out that the due diligence approaches are only applicable to large scale export projects, approximately 100-120 million Skr, supported by the ECAs. They exclude short term credits, working capital and support for bonds and transactions.<sup>122</sup> This means that many high-risk projects will never be scrutinized, or reported, by the ECAs.

There is nothing in the OECD Common Approaches forcing ECAs to classify exports for the coal industry as a category A-project for climate reasons. The only guidance on climate related impacts are some general statements on climate change and preventing environmental pollution for contributing to “sustainable development”. However, there is nothing in the OECD Common Approaches about ECAs aligning with the Paris Agreement, which reaffirms the commitment of (most) developed countries to support the efforts of developing countries to build clean, climate-resilient futures.<sup>123</sup>

### *The OECD Sector Understanding*

In 2017, the OECD launched a specific recommendation on coal-fired electric generation projects called The Coal-Fired Electricity Generation Sector Understanding (CFSU).<sup>124</sup> The CFSU does not explicitly recommend but encourages both exporters and buyers to move away from “old technology” in the coal industry<sup>125</sup>. While it does not recommend an end to the financing of coal power, it proposes that ECAs move away from low efficiency toward high efficiency technologies and remove support for “large super and sub-critical coal-fired power plants.”<sup>126</sup>

The CSFU still allows ECAs to support smaller coal-fired power plants, plants in developing countries and plants with a so called “operational carbon capture and



South Africa is heavily dependent on coal for electricity, heating and fuel. About 90 percent of electricity is generated from coal and there are relatively few investments in renewable energy.

storage”. The guideline includes coal-fired power stations, but not other parts of the supply chain for the power plants and their generation of electricity. The CSFU does not cover coal mining, transportation of coal and coal-related infrastructure or production plants transforming hard coal into fuel, thus substantially not restricting support for activities which happen upstream and downstream of coal-fired power generation.<sup>127</sup>

Only coal mines directly “integrated” with a coal-fired power plant are covered by the CSFU. Consequently, a privately owned coal mine, selling its products to a power plant nearby, would be exempted, as would the export of trucks for transporting the coal.

### *The Equator Principles*

The Equator Principles (EP), originally launched in 2003, is a risk management framework adopted by 105 financial institutions in 38 countries.<sup>128</sup> The principles apply globally in all industrial sectors. As financiers and advisors, the members work in partnership with its clients to identify, assess and manage environmental and social



Kusile power station, is expected to become the world's largest coal-fired power plant upon completion and will generate 4,800MW of power once fully operational.

risks and impacts. Two of the financial institutions in this study, Swedish SEK and German KfW-IPEX, are members of the Equator Principles.

The members of EP (called EPFI) have committed to contribute to the SDGs in that projects that they finance should avoid impacting negatively on ecosystems, communities, and climate.<sup>129</sup> They are also committed to respect human rights in line with the UNGPs by carrying out HRDD and to support the objectives in the Paris Agreement, and “recognise that EPFIs have a role to play in improving the availability of climate-related information, such as recommendations of the Task Force on Climate-related Financial Disclosures”. The 105 members have agreed not to provide project finance or project-related corporate loans to projects which do not comply with the relevant EP requirements.

Annually the members are required to report to the secretariat of the EP about all the risk projects they are involved in. The submitted information is then published on the website of the EP for two years.<sup>130</sup> The clients of the EP members are also required to report publicly on an annual basis about human rights and climate change risks and impacts.

The members of the EP are responsible for the content they report to the secretariat. The secretariat does not have a mandate to validate, scrutinise or challenge the report. It is down to the EP members to certify that they have presented accurate information.<sup>131</sup>



## 5. The role of European Export Credit Agencies in the South African coal industry

Despite commitments to the SDGs and the Paris Agreement, the generation of coal power increased globally by three percent in 2018 and crossed for the first time the 10,000 TWh mark. Growth was mainly in Asia, particularly in China and India, while generation fell in several western countries, including in the United States and in Europe. In 2019 the use of coal power slightly decreased but it remains the largest source of power, accounting for 36 percent of overall generation.<sup>132</sup>

EU countries have been scaling down their domestic electricity generation by coal power in recent decades and were early to adopt the new OECD policy to reduce export credits for coal power. In 2015, the EU endorsed the Sector Understanding (CSFU) in order to align its export credits with the Paris Agreement. In a press statement, the EU called this “an important EU contribution for the COP21 negotiations on climate change [..]. It marks a further step in work ongoing since 2012 in aligning export credit policies with climate change objectives”.<sup>133</sup>

The launch of the OECD’s CSFU has not stopped its member states from approving billions of dollars for coal projects, and several OECD countries have continued to provide export credits to finance and facilitate new coal power in low- and middle-income countries, including in South Africa.<sup>134</sup>

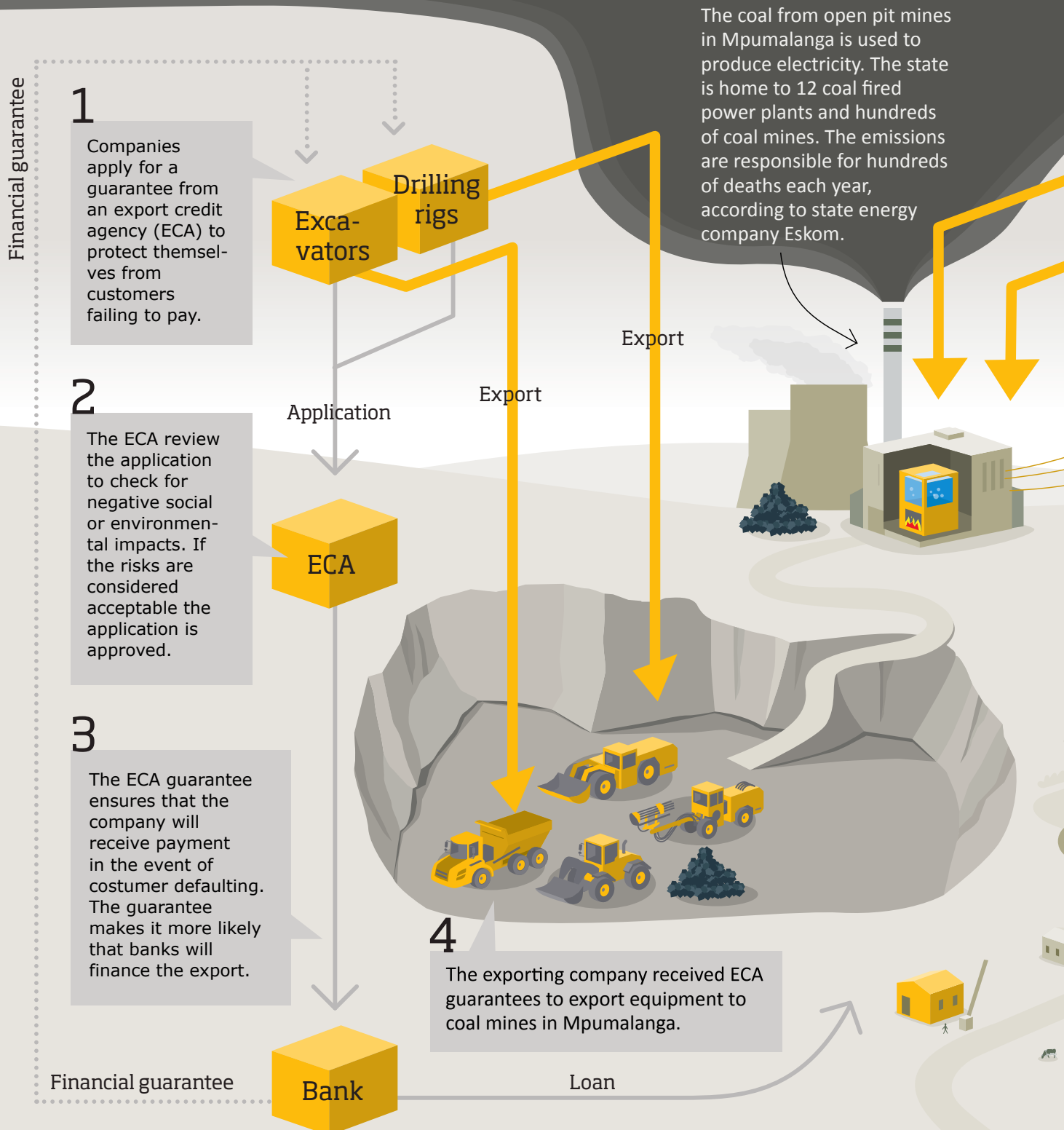
The following section focuses on the practices of three European countries’ ECAs and state backed export banks – the German, Swedish and French – and the extent to which they have provided support to the coal industry by granting export credits for sales to South Africa. This form of support continued after the EU’s endorsement of the CSFU. The German, Swedish and French ECAs, and the German KfW-IPEX bank have long provided support for the export of equipment to the coal industry world-wide, and have been the most significant European suppliers to South Africa, according to publicly available sources.<sup>135</sup>

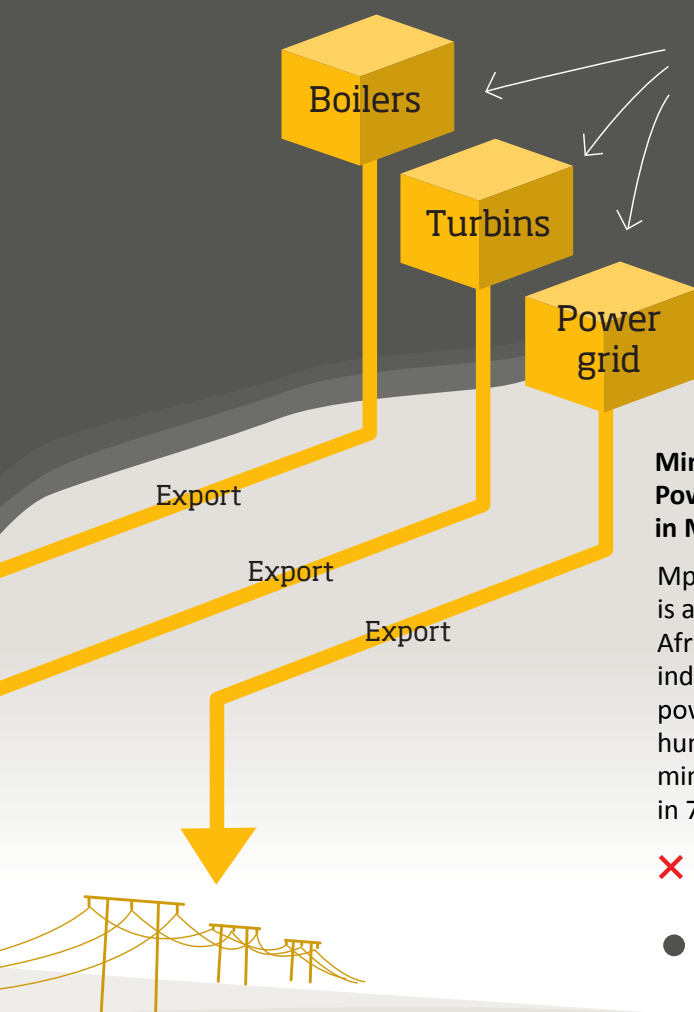
The comparison of export credits from the three EU countries was hampered by limited access to information from the ECAs. Some information was published on their websites but far from all transactions are made public. Therefore, Swedwatch has not been able to obtain a comprehensive account of their export credits to South Africa.

### Germany

Germany is in the process of phasing out its domestic coal power and has invested billions of euros in the shift to renewable energy. The country’s first national climate law, passed in 2019, includes the aim to become greenhouse gas neutral by 2050 and sector specific reduction targets for 2030. However, the targets only account for emissions within Germany’s borders (territorial emissions); hence emissions taking place in other countries due to German exports are not included.

# Export credits to South Africa



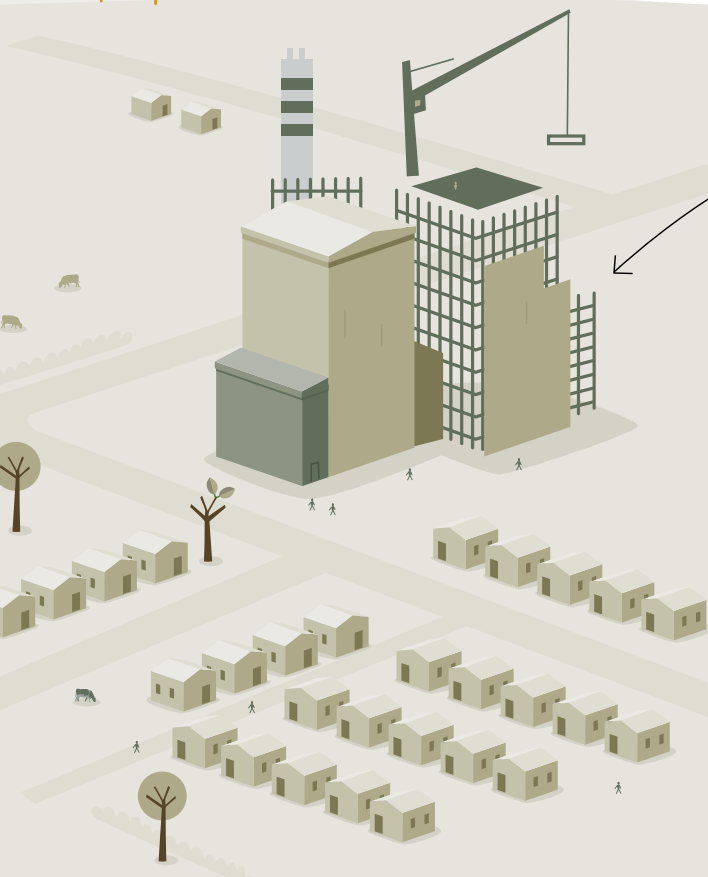
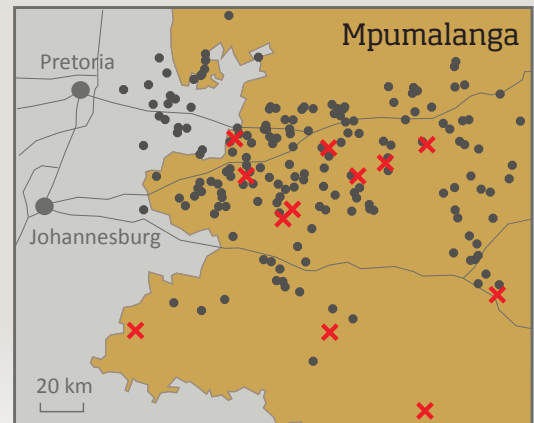


Several international companies received export credits and guarantees to sell equipment and know how for the Kusile coal power station. The estimated lifetime for the powerplant is 50 years.

### Mines and Powerplants in Mpumalanga

Mpumalanga state is a hub for South Africa's coal industry. 12 coal power stations and hundreds of coal mines are situated in 76,495 km<sup>2</sup> area.

- ✕ Operating coal fired power plants
- Coal mines



### Kusile power plant

Kusile coal fired power plant has been under construction since 2007. The start date for its full commercial operation has been changed numerous times due to technical issues and labour disputes. According to the latest estimation it will be completed 2022. The power plant is expected to emit 36.8 million tonnes of CO<sub>2</sub> per year.

### New settlements

The expanding coal industry has led to forced relocations of many communities. Many of the new settlements are close to open pit coal mines or power plants and suffer from polluted air, water and soil.



## The German ECA

The German ECA Euler Hermes Deutschland (hereafter referred to as “Euler Hermes”) provides exporting companies with guarantees for payments and financing, while the export financing bank KfW-IPEX provides long-term funding for export-related transactions.

Founded in 1917, Euler Hermes Deutschland is a private company with a mandate to handle export credit guarantees on behalf of the German government<sup>136</sup>. Its main objective is to promote foreign trade by improving conditions and reducing risks for export companies while protecting German export companies against payment defaults caused by economic and political factors. The aim is also to secure and generate employment opportunities in Germany. When a company applies for export credits, Euler Hermes evaluates the required documentation. Decisions on principles and policies, as well as major applications, are made in an inter-ministerial committee.<sup>137,138</sup>

According to its own CSR commitment, the ECA aims at reducing its environmental footprint as well as helping to “combat poverty, social exclusion and public health issues”. The assessment of environmental, social, and human rights issues is based on national and international standards, mainly the OECD Common Approaches and the CSFU.<sup>139</sup>

Euler Hermes does not classify smaller guarantees (less than 15 million Euro) in A, B and C<sup>140</sup> projects as recommended for larger export deals in the OECD’s Common Approaches. Instead, the German ECA applies its own review process for such projects to identify potential environmental, social or human rights risks. If there are any indications that a transaction involves serious risks, it will be subject to a risk assessment irrespective of the credit period and the contract value involved.<sup>141</sup>

According to Euler Hermes, all A-classified projects are published on the organisation’s website.<sup>142</sup> As required by the Common Approaches, an Environmental and Social Impact Assessment Report or an equivalent document is disclosed at least 30 days before final commitment for all category A projects.

According to Euler Hermes, in July 2020 it adopted new government restrictions regarding fossil fuel projects with particularly critical climate implications. The new restrictions state that transactions related to the construction of new, or capacity expansion of existing, coal-fired power plants “are now excluded from ECA support”. The new restrictions do not apply to mining or infrastructure facilities. The ECA however claims it is planning to develop this policy.<sup>143</sup>

The KfW bank was initially founded after the Second World War as a part of the Marshall Plan for the reconstruction of Germany<sup>144</sup>. KfW-IPEX- bank, an independent subsidiary of KfW, is one of Germany’s most important financiers of large infrastructure projects abroad.<sup>145</sup> KfW-IPEX is not an ECA but is responsible for export and project finance for Germany and other EU countries.

In June 2019, KfW bank announced that it will end international support related to the coal industry. According to the new guidelines it will stop financing “prospection, exploration and mining of coal” as well as infrastructure used for coal such as power plants, heating stations and cogeneration facilities which are coal-fired and associated stub (electricity transmission) lines.<sup>146</sup>

Exceptions are allowed for investments in countries with an “ambitious national climate protection policy”. In some cases, it can also co-finance coal fired heating stations in developing countries after an assessment. According to KfW-IPEX the bank has not financed any coal projects for many years.<sup>147</sup>

## *Credits to South Africa*

The German ECA has been a major contributor to the expansion of coal power in South Africa, notably for the construction of the Medupi and Kusile power plant in 2007.<sup>148</sup> Most export credits were granted to the German company Hitachi Power Europe supplying Eskom with boilers. Hitachi was accompanied by 18 other German companies in the construction of the plants, some of them subcontracted by Hitachi.<sup>149</sup>

According to the German government, an audit including an examination of human rights aspects was conducted ahead of the decision to support the two power plants. It found that the project met with World Bank standards for sustainability in the “Pollution Prevention and Abatement Handbook”.<sup>150</sup> This claim has however been debated by several civil society organisations and in the German parliament.<sup>151</sup> Both South African and international NGOs have reported that the due diligence process found several risks, including risks associated with resettlement, water shortages and air and water pollution.<sup>152</sup>

The German government has maintained that the decision followed all applicable regulations and agreements at the time, including the OECD Common Approaches.<sup>153</sup> According to a statement in the German Parliament the government was not aware of the severe human rights impacts from the construction of Medupi later presented by the Inspection Panel of the World bank in 2011.<sup>154</sup>

## *Germany's export credits for coal 2014-2019*

The last registered guarantee for the coal industry on the publicly available database of Euler Hermes, is dated 2013.<sup>155</sup> However, Swedwatch's research shows that export credits worth 433.7 million Euro for coal mining and coal power were approved after that date. This discrepancy is due to restrictions which Euler Hermes applies to public disclosures of information. According to the German ECA it discloses category A projects 30 days before the final commitment but only with the consent of the applicant. A second type of disclosure will be made after the final commitment but only if the exporter has given its consent.<sup>156</sup>

Projects that do not fall under one of the above-mentioned categories are not disclosed, and category A projects in general are only disclosed before final commitment. In some cases, disclosure and final commitment do not occur in the same year, according to Euler Hermes.

To obtain more information on Germany's promotion of the coal industry, Swedwatch asked a German member of parliament to raise questions on export credits for coal to the German government. The information Swedwatch received confirmed that Germany continued to finance the coal industry abroad, at least until the end of 2019. According to a list compiled by the German government, Euler Hermes guarantees for export of equipment to the coal industry were issued for 17 different countries in Asia, Africa and Europe (see box on page 46). Among others, the guarantees helped finance the coal industry in Russia, Ukraine, India, China, Turkey and Vietnam.<sup>157</sup> This makes Germany the EU's most significant facilitator of the coal industry and coal investments

since 2014,<sup>158</sup> although the country's export transactions in the coal-related sector have been decreasing.<sup>159</sup> This is potentially due to lower demand for export credits from German companies, or to new internal guidelines for coal power adopted by the German government in early 2015. These revised the financing criteria for international funding for coal-related projects and included regulations on climate mitigation and clean technologies. New projects must also be subjected to an environmental and social audit.<sup>160</sup>

## German export credits for coal 2014-2019

Year	Countries of destination	Number of applications for (grant) cover	Accumulation of volume of (grant) covers in million Euros
2014	India, Macedonia, South Korea, Russia, Greece, Ukraine	9	68,8
2015	Ukraine, Russia, Egypt, Iraq, Ethiopia	5	27,9
2016	Russia, Vietnam, Serbia, Australia, Egypt, China, Greece	9	123,4
2017	Russia, Vietnam, Turkey	10	183,4
2018	Macedonia, Bosnia-Herzegovina	2	0,9
2019 (until 30-09-2019)	Russia, Mongolia	5	29,3
<b>Total 2014-2019</b>			<b>433,7</b>

Source: German government, 29 October 2019

In contrast, the investment bank KfW-Ipex states that it has not approved any new credits for the coal industry in recent years.<sup>161</sup> The reason given is the German government's updating of sectoral guidelines on coal power in December 2014 and KfW's so-called "Exclusion list", published in 2019.<sup>162</sup>

In July 2020 the German Federal Government decided on more stringent restrictions on projects with particular climate implications, specifically support for new and existing coal-fired power plants.<sup>163</sup> The policy does not apply to mining or infrastructure facilities where supplies and services can still be supported.<sup>164</sup>

In spite of these encouraging steps, the export guarantees provided by the German ECA – as well as export promotion by KfW-IPEX prior to 2014 – to South Africa still have an impact on environment, climate, and human rights and have contributed to locking the country into a long-lasting coal dependency.





Trucks from several European manufacturers are used for the transportation of coal between mines and coal-fired power stations. The Swedish export credit agency has facilitated several coal-related exports to Mpumalanga.

## Sweden

Sweden aims for a target of net zero emissions of greenhouse gases by 2045 at the latest.<sup>165</sup> This target accounts for emissions within Sweden, hence emissions taking place in other countries due to Swedish exports are not included. In addition, the government also launched an export strategy in 2015 which reiterated Sweden's aspiration "to have the world's most ambitious environment and climate policy".<sup>166</sup> According to the strategy, "the transition to a green economy through the streamlining of resources and a circular economy, sustainable consumption and production, environmental technologies and innovations presents opportunities for businesses to develop at the same time as the impact on the environment and climate is reduced".<sup>167</sup>

In its updated Trade and Investment strategy from December 2019, the Swedish government stated that the Swedish export credit system should be adjusted so as to be aligned with the Paris Agreement and to not create coal dependency lock-ins. This includes a halt of Swedish export credits to investments in prospecting and extraction of fossil fuels, by the end of 2022 at the latest.<sup>168</sup>

## The Swedish ECA

The Swedish export credit system is divided into two separate entities. The Swedish Export Credit Agency (Exportkreditnämnden, EKN) provides exporting companies with guarantees for payments and financing, while the Swedish Export Credit Corporation (SEK), a state owned company limited by shares and a credit market corporation, provides funding for Swedish export-related transactions on “commercial and sustainable terms”. The general mission of the Swedish export credit system is to support Swedish exports by strengthening the competitiveness of Swedish enterprises.<sup>169</sup>

EKN receives its annual instruction from the minister of trade. According to the Swedish Action Plan for Business and Human Rights, EKN has been “instructed in its appropriation directions to pursue continuous development of its work on human rights, working conditions, the environment, corruption and internet freedom, based on OECD recommendations in these areas (‘Common Approaches’ and ‘Bribery and Officially Supported Export Credits’).<sup>170</sup> EKN also has instructions to ensure that, and inform how, its activities comply with the OECD Guidelines for Multinational Enterprises, the principles of the UN Global Compact and the UNGPs.

SEK adheres to the Swedish Corporate Governance Code and the Swedish Government Owner Policy, in governing its business activities. The tasks of the chairman of the board of directors conform to the Swedish Companies Act and the Board of Directors’ rules of procedure. The Ministry of Enterprise and Innovation is responsible for managing SEK.<sup>171</sup> However the direction of operations is decided on by the Swedish parliament.<sup>172</sup> The owner instructions state that SEK shall “promote compliance with international guidelines within the area of sustainable business relating to the environment, anti-corruption, human rights, labour conditions and business ethics”.<sup>173</sup>

## Credits to South Africa

According to EKN, it has since 2014 issued 32 guarantees for export of equipment for the coal sector world-wide to a value of 1.931 billion Skr.<sup>174</sup> Out of these, 23 guarantees covered equipment to the coal industry in South Africa to a worth of 659 million Skr.<sup>175</sup> The guarantees were granted to two companies; Epiroc, a subsidiary of Atlas Copco, and Volvo Construction Equipment (Volvo CE), part of Volvo Group.<sup>176</sup> According to Swedwatch’s understanding, the guarantees covered equipment such as loaders, trucks, haulers and drill rigs.<sup>177</sup> According to EKN, the agency is prevented from disclosing the names of buyers of Swedish equipment and how the equipment is used in the South African mining industry due to the Public Access to Information and Secrecy Act.

During Swedwatch’s visit to the Mpumalanga coal district in South Africa, it was apparent that machines from Volvo CE were used in several coal mines. When asked by Swedwatch, neither Volvo CE nor Epiroc were willing to disclose which of their export deals that had been insured against the risk of non-payment by export credits guarantees from EKN. However, there is a possibility that some of this exported equipment has been sold in South Africa with the support of Swedish export credits and guarantees.

Babcock SA is the main retail dealer for Volvo CE in South Africa. One of its customers is the mining consultant Lomeza Mining Service, whose business is in contract mining in the opencast coal mining industry. As per its own account, the company is the owner of at least 18 Volvo CE machines and has the capacity to extract two million tonnes of coal a month.<sup>178</sup>

According to an article published by a South African trade journal, Lomeza's Volvo CE equipment has been used in the Leeuwpan coal mine in Mpumalanga.<sup>179</sup> This large open pit mine is operated by the South African company Exxaro. The mine produces 3.65 million tonnes of thermal coal annually for export and for the South African power supplier Eskom.

### *EKN's coal policy*

In July 2018, EKN adopted an internal policy for coal power guarantees which states that the agency will not support coal-fired power plants or new industrial projects involving coal-fired power plants.<sup>180</sup> However, the agency made two exceptions:

1. For countries with the lowest per capita incomes, the so-called International Development Association (IDA) countries.
2. For coal-fired power plants with so called carbon capture and storage (CCS) or other technology reducing emissions to correlative levels.

This policy was based on different details and wordings in the OECD Sector Understanding on coal power (CSFU). In addition to these exceptions, EKN approved guarantees for export of equipment for coal mines in cases where they were not directly connected with a coal-fired power plant.<sup>181</sup>

In interviews with Swedwatch, EKN stated that it finds the CSFU difficult to interpret and that the agency has asked both the OECD secretariat and other ECAs for advice in several cases. However, EKN has not found the answers to those queries to be fully coherent and therefore clarified its own interpretation of the sector understanding first in 2018 and then in 2020.<sup>182</sup>

In accordance with OECD recommendations, EKN has not approved any guarantees for coal fired power plants since July 2015,<sup>183</sup> and has rejected some applications for guarantees relating to coal mines associated with coal-fired power plants.<sup>184</sup> However, EKN has approved most applications for export credit guarantees for equipment to coal mines that are not an integral part of a coal-fired power plant, although the mines were selling all their coal to the power plants.

According to EKN, it has been aware of this discrepancy but until February 2020, when it adopted a new policy, it followed the same regulations as ECAs from other OECD countries<sup>185</sup> in order to not create a disadvantage for Swedish companies. EKN argues that there is a need to update both the CSFU and the Common Approaches. The recommendations must be clear to facilitate a coherent interpretation among ECAs. EKN also believes there must be a risk-based approach that considers human rights violations and negative impacts on the environment. The climate issue must also be incorporated to bring recommendations in alignment with the Paris Agreement.





Two men loading a coal lorry.  
The coal industry in South  
Africa is estimated to employ  
120,000 persons.





EKN has taken steps to improve its own routines when considering guarantees for coal mining; since 2018, it labels all projects involving coal as risk projects (A-projects), even the smaller ones under 15 million Euro.<sup>186</sup> Such applications may still be approved until December 31, 2020 as per EKN's sustainability policy but require a higher level of transparency as EKN publishes aggregated information on all category A transactions.

Prior to 2019 there were no direct instructions from the Swedish government to EKN to align with the Paris Agreement, or to halt all new export credits for coal.<sup>187</sup> The first time the Paris Agreement was officially mentioned in this regard was in the updated trade and investment strategy, published in December 2019.<sup>188</sup> The strategy also stated that export credits should be aligned with the Paris Agreement to avoid locking countries in fossil fuel dependency. EKN and SEK were also assigned to review how the Swedish and international export credit system can contribute to decreasing emissions of greenhouse gases. The two agencies within the Swedish export credit system were also requested to describe how the review will affect the competitive strength of Swedish companies.<sup>189</sup>

According to the strategy, the Swedish export credit system "shall be more transparent", and credits for investments in exploration and extraction of fossil fuels should cease no later than 31 December 2022. In February 2020, EKN updated its sustainability policy, committing not to issue any more guarantees for coal mining after 31 December 2020, a decision that also entails transportation of coal between coal mines and power plants.<sup>190</sup>

Despite the ambitious climate policies of the Swedish government, and the encouraging objective to end exports for the coal industry, Swedwatch's research found that EKN has more than tripled its approved export credit guarantees for coal from 2019 to mid-2020 (see box on page 53). The largest guaranteed volume went to Indonesia with a total value of 1.2 billion Skr. Of the new guarantees 231 million Skr were issued to exports where the end-user is active in the South African coal industry.

### *The Swedish Export Credit Corporation*

According to the Swedish Export Credit Corporation, SEK, lending for coal-fired power is not permitted. However SEK complies with the same OECD guidelines as EKN and has made similar interpretations of the constraints. It could therefore according to the present definition provide credit to certain equipment for coal power infrastructure, for example trucks transporting coal to power plants or power grids for coal-fired power plants as this would not be considered "coal power".<sup>191</sup>

SEK's annual gross lending to fossil fuels (coal, oil and gas) should, according to SEK's risk framework, be less than five percent of its total lending, approximately 13 billion Skr.<sup>192</sup> During 2018, gross lending to fossil fuel production was less than one percent, or about 2.6 billion Skr.<sup>193</sup>



## Swedish export credit guarantees for coal 2014-2020

Date	Exporting company	Million Skr	Country of destination
2016	Volvo CE	12	South Africa
2016	Volvo CE	35	South Africa
2016	Volvo CE	33	South Africa
2017	Epiroc	12	South Africa
2017	Volvo CE	30	South Africa
2018	Epiroc	8	Mongolia
2018	Epiroc	7	South Africa
2018	Epiroc	6	South Africa
2018	Terex	33	Indonesia
2018	Volvo CE	82	South Africa
2018	Volvo CE	59	South Africa
2018	Volvo CE	35	South Africa
2018	Volvo CE	33	South Africa
2018	Volvo CE	25	South Africa
2018	Volvo CE	18	South Africa
2018	Volvo CE	15	South Africa
2018	Volvo CE	13	South Africa
2018	Volvo CE	13	South Africa
2019-Jan	Volvo CE	80	South Africa
2019-Feb	Epiroc	18	South Africa
2019-Mar	Volvo CE	23	South Africa
2019-Mar	Volvo CE	78	South Africa
2019-Mar	Epiroc	5	Mongolia
2019-May	Epiroc	9	South Africa
2019-June	Not disclosed	214	Indonesia
2019-Oct	Epiroc	11	South Africa
2019-Oct	Epiroc	12	South Africa
2019-Oct	Scania	745	Indonesia
2019-Nov	Epiroc	3	Mongolia
2020-Jan	Epiroc	3	Mongolia
2020-Mars	Not disclosed	190	Indonesia
2020-Mars	Not disclosed	71	Indonesia
<b>Totalt 2014-2020</b>		<b>1 931</b>	
To South Africa		<b>659</b>	
To Indonesia		<b>1 253</b>	
To Mongolia		<b>19</b>	

Source: EKN<sup>194</sup>



Retailer of Volvo Construction Equipment in Middelburg Mpumalanga. Many Volvo machines sold to South Africa received export credits from the Swedish export credit agency, EKN.

In May 2020 SEK communicated that it, like EKN, had changed its policy on coal infrastructure, stating that “as a step in the alignment to the Paris Agreement and the government’s intention in the export strategy and ambition of being a positive force in the transition to a fossil free world, SEK will not finance exploration and extraction of coal after December 2020”.<sup>195</sup>

## Transparency

As a public company limited by shares, the business operations of SEK are not subject to freedom of information laws in Sweden.<sup>196</sup> All information about its clients and involvement in specific projects is kept confidential and there is no way to verify if SEK has been financing high risk transactions. SEK only publishes a brief aggregated figure for the exposure of carbon assets in its annual report,<sup>197</sup> therefore it is not possible to identify the type of project that was supported, country of destination, or the potential risks involved.

According to SEK the limited amount of published information is due to bank secrecy.<sup>198</sup> In its annual report<sup>199</sup> SEK writes that it takes an active part in the development of extended transparency in the banking sector concerning sustainability issues and that it adheres to international guidelines for transparency in its lending. The Equator Principles is one such set of guidelines.<sup>200</sup> In fact, the Equator Principles advocate a relatively high level of transparency. For example, when it comes to project-related corporate loans, the Equator Principles recommends its members to report on:

- Sector (i.e. Mining, Infrastructure, Oil and Gas, Power, Others)
- Region (i.e. Americas, Europe Middle East and Africa, Asia Pacific)
- Country Designation (i.e. Designated Country or Non-Designated Country)
- Whether an independent review has been carried out and for data for project finance transactions and project-related corporate loans to be shown separately.<sup>201</sup>

As in the case of EKN, SEK was requested in 2019, as part of the government's updated export strategy, to review how the Swedish export credit system can contribute to reducing emissions of greenhouse gases. SEK officials state that there are long term loan agreements in fossil fuel industries that cannot be stopped before 2022 due to legal reasons. This means that existing agreements will continue to apply after 2022. Only new loan agreements can be incorporated in a future strategy.

SEK was not able to answer Swedwatch's questions regarding loans for exports destined for South Africa's coal industry infrastructure, including trucks or electrical equipment, citing bank secrecy. According to Sweden's updated export strategy, the Swedish export credit system will become more transparent. However, it does not specify what that will entail. In an interview with Swedwatch, SEK officials said it will be difficult to publish any additional in-depth information on operations due to the bank secrecy it complies with.<sup>202</sup>

As part of the review of the Swedish export credit system in September 2020, SEK and EKN recommended the government to increase transparency, to the furthest extent possible, with respect to bank secrecy.<sup>203</sup>

## France

The official French ECA Bpifrance Assurance Export (Bpifrance)<sup>204</sup> provides guarantees and insurance for exporters and banks, and awards buyer credits to support French businesses abroad.<sup>205</sup>

Historically, France has been a significant backer of exports to South Africa's coal-fired power industry.

In 2019 the French parliament adopted a law on energy and climate which includes the goal of attaining carbon neutrality by 2050. Later the same year, France adopted a new budget law stating that export credits for coal, shale oil and gas and routine flaring are officially banned.<sup>206</sup> The legislation also stated that the government should submit a report to the French parliament with proposals including a plan to end



export credits for the exploration and exploitation of new oil and gas fields, as well as environmental performance standards and measures to boost support for renewables.

The new laws made France the first major European exporter of equipment for coal power to unilaterally ban export credits for fossil fuels. The decision, originally made in 2014, just before the country was going to host the COP 21 summit on climate change,<sup>207</sup> was a sharp reversal for France since the ECA had guaranteed more than 2.5 billion USD for coal projects over the period 2007-2014.<sup>208</sup> One of the major beneficiaries of French ECA support has been the turbine maker Alstom which has exported equipment to the South African power plants Medupi and Kusile.

According to a spokesperson for Bpifrance, there has been no financing of coal power equipment since 2015.<sup>209</sup>

The decision to end support related to the coal industry formalized an existing practice, according to Bpifrance. The French government has also sought to form a coalition within the EU to change the OECD's CSFU in 2020.<sup>210</sup> Bpifrance said that the French government has approached other states to convince them to make a similar decision.

France is also seeking more restrictions in the CSFU framework of future OECD Arrangement discussions.

French environmental groups have welcomed the new legislation on coal and other fossil fuels but argue that there is still a lack of transparency.<sup>211</sup> Although Bpifrance publishes A, B and C projects according to OECD guidelines, environmental group Friends of the Earth France has claimed that it is not possible to comprehensively check export deals and that not all support is made public, citing the example of a controversial gas project linked to human rights abuses in Yemen.<sup>212</sup>

## Swedwatch's observations of the German, Swedish and French ECAs

### *Germany*

Of the three export credit systems reviewed in this study, Germany was, through its significant export credits, the largest financial backer of new coal industry between the years 2014-2019. Even though export credits from the ECA Euler Hermes have decreased in recent years, they remain substantial. Unlike France and the United Kingdom, Germany has not yet prohibited export credits for the coal industry. Swedwatch finds it promising that Euler Hermes and KfW-IPEX have adopted new policies to prevent negative impacts from coal power and coal mining, and Germany's July 2020 decision to restrict support to coal-fired power stations is encouraging. However, unlike France and the United Kingdom, Germany has not yet imposed a total ban for export guarantees for the coal industry as it still allows guarantees for equipment for coal mining and other related infrastructure. Although Germany has not provided export credits in relation to coal in South Africa during the period in focus

for this report, its previous export promotion to the country has contributed to locking the country in to a long-term coal dependency.

The German transparency policy may be in line with the OECD Common Approaches, but Swedwatch recommends that Euler Hermes and KfW-IPEX publish all category A-projects, including those below 15 million Euro, regardless of the exporter's consent. This is the practice of many comparable ECAs and should not inhibit the competitiveness of German companies. For instance, the Canadian ECA, Export Development Canada (EDC), discloses updated transaction tables as well as aggregated reports.<sup>213</sup>

KfW-Ipex bank uses an even more restrictive disclosure policy than Euler Hermes. There is no publicly accessible database of financed projects due to bank confidentiality.<sup>214</sup> This practice makes it impossible for civil society to determine if the policies and guidelines are followed. There are several ways in which KfW-IPEX bank can make more information public and provide more detail without jeopardizing business secrecy, for example by publishing transaction tables and aggregated information.

Swedwatch calls for a transfer plan in which all new coal and other fossil fuel related exports credits by Euler Hermes and KfW-IPEX are halted. The transfer plan should contain an assessment on how to best shift export support by the German export credit entities to renewable energy sources and climate resilient technologies, in particular to South Africa and other fossil fuel dependent countries. Swedwatch notes that efforts have already been undertaken in this regard, but encourages the German ECA and export bank to increase such efforts. Importantly, such export support should only be provided to exports that follow the highest international standards and best practice regarding assessing and mitigating all negative impacts on human rights, the environment and climate.

## *Sweden*

In December 2019, the Swedish government stated that it will end all export credits for fossil fuels no later than 31 December 2022. Both EKN and SEK have since stated that they will cease credits to coal already by the end of 2020.

In September 2020 EKN and SEK submitted their review to the government on how to contribute to sustainable energy and sharply reduced greenhouse gas emissions.<sup>215</sup> The review presented eight recommendations for how the Swedish and international export credit system can contribute to a transition and reduced emissions of greenhouse gases, in alignment with the Paris Agreement.

Although these are welcome commitments, Swedwatch calls for an immediate and complete halt of all new coal and other fossil fuel related exports by EKN and SEK. This should be conducted in a responsible way that ensures it does not lead to any negative social or environmental impact in the importing country. Doing so would be in line with Sweden's ambitious climate commitments, its commitment to the Paris Agreement and to the SDGs. EKN more than tripled its guarantees for export to coal mines in 2019 and mid-2020 compared to the two previous years; an increase that

will arguably make it more difficult for recipient countries including Indonesia, Mongolia, and South Africa to end their coal dependency and the human rights impacts that come with it.

In light of this, Swedwatch also calls on the Swedish government to urgently implement a transfer plan that establishes how to best shift export support to renewable energy sources and climate resilient technologies, in particular to South Africa and other fossil fuel dependent countries. As already stated, such export support should only be provided to export deals that follow the highest international standards and best practice regarding assessing and mitigating all negative impacts on human rights, the environment and climate.

Swedwatch notes several concerns in relation to the decision to halt export credits and guarantees, including that it remains unclear whether all types of coal related export deals and activities will be covered or not. It is also uncertain whether all types of credits will be ended by the deadline. For example, according to SEK, credits that have already been granted cannot be terminated with immediate effect. Another point of concern is the level of external insight that will be provided after the end of 2020, which will affect the possibility for external actors to assess EKN's and SEK's compliance with the new policy.

In relation to EKN, Swedwatch welcomes its stated intention to work in the OECD and other fora to review the CSFU and Common Approaches.

Swedwatch also concludes that there are several ways that EKN can and should improve its transparency. Primarily, it should publish all information about category A-classed transactions on its website. This information should include recipient country, name of exporting company, date of transaction and the amount of the credit or the guarantee. This level of transparency should be a precondition for buyers and borrowers to receive state backed support. It is troublesome that neither civil society nor the media have access to the information on the operations of this agency, and it conflicts with Sweden's long tradition of transparency and principles on access to information.

With the current structure of SEK, the state-owned enterprise has limited possibilities to make such information public. The Swedish government should therefore urgently explore how the conflict of interest between bank secrecy on the one hand, and the need for increased transparency on the other, can be solved. This hindrance for increased transparency is also noted by EKN and SEK in their review from September 2020.

Furthermore, SEK should, like EKN, clearly define which exports should not be financed in order to avoid supporting the coal industry, for example credits for power grids or trucks used for transporting coal. Swedwatch's research shows that SEK's approach to this so far is unclear.

SEK's risk framework applies a limit for its financial support to fossil fuels of no more than five percent of its total investments. Swedwatch calls on the Swedish govern-





Duvha coal power station near Witbank, constructed in 1975, is one of many old power plants, lacking modern cleaning equipment, and operated by the state-owned power company Eskom.

ment to adopt a zero target for fossil fuel investments – for both SEK and EKN – to align with the Swedish government’s pledge to have the world’s most ambitious environment and climate policy as well as the Paris Agreement.

## *France*

France was the first country in this study to introduce a ban for all export credits for coal, and it has not provided any credits or guarantees for the coal industry since 2015. The decision was important not only for its potential to reduce CO<sub>2</sub> emissions but also in terms of positively influencing other ECAs. As such, it can act as a catalyst for negotiations within the OECD on updating the Common Approaches and the CSFU.

However, its support to coal power has been extensive in the past, especially to South Africa. As with the German and Swedish ECAs, Bpifrance should increase its transparency and publish information on the export credits that it approves in order to enable investigations of the business deals they support. Swedwatch also urges Bpifrance to become a European leader in ending all credits for other fossil fuels.

## 6. Conclusion

There is a growing awareness among European governments and ECAs of the inherent social, environmental and climate risks and impacts caused by export credits for the coal industry. Such investments lock countries into coal dependency for decades to come and contribute to severe impacts on human rights and the environment in already vulnerable communities, as well as to climate change – which is expected to exacerbate existing human rights risks and impacts. Environmental movements have for decades advocated for an end to the use of fossil fuels, and it is positive that several governments have at last started to adapt their trade and export policies to the goals in the Paris Agreement.

The overview of the ECAs in this report demonstrates a substantial lack of transparency in relation to export credits, guarantees, insurance and other means of export support. The reasons for this secrecy may not always be justifiable. Currently it is up to every ECA to scrutinize the environmental and social effects of their export credits. This hinders oversight by external actors and represents an obstacle for accountability in an area that is highly relevant for human rights as well as environmental and climate change mitigation. To address transparency concerns, states should regulate their ECAs so that they disclose information on all high-risk projects to which they provide export credits, starting with those related to fossil fuels.

Swedwatch's research in Mpumalanga's coal area raised concerns about the negative impact from the coal industry on the wellbeing of local communities. Interviewees declared that the industry polluted the air, water and land. Unless the nation's coal industry is replaced with more sustainable and renewable energy sources, the well-documented pollution will continue to impact women, girls, men and boys negatively, and severely threaten their health and other human rights.

South Africa already experiences challenges related to the effects of climate change. Given the extent of the country's coal production, a successful shift away from coal will also have a positive impact on global efforts to mitigate climate change.

With its persistently high unemployment rates, reaching over 30 percent in the first quarter of 2020,<sup>216</sup> South Africa needs to generate employment opportunities. Leaving coal behind will undoubtedly impact tens of thousands of families who are dependent on it as a means of income. A shift from coal must therefore, as numerous experts prior to this report have already argued, be carried out in a just, controlled and gender sensitive manner in a process where rights holders, civil society groups, trade unions and other stakeholders are an integral part of the dialogue. One of the main objectives must be to find alternative employment opportunities and facilitate the necessary reskilling of the workforce.

To ensure that a transition away from fossil fuel does not produce gender-related impacts that perpetuate inequalities and social injustice, plans for a just tran-

sition should as a minimum: ensure effective involvement and consultation of women and girls from local communities as well as civil society groups and cooperatives in all levels of decision-making; ensure equal access to benefits for women, girls, men and boys in all areas of the energy value chain; and be designed to alleviate rather than add to women's and girls' paid and unpaid workload.<sup>217</sup> Although the ultimate responsibility of creating a just transition in this case rests with the South African government, other actors – such as ECAs – can play a positive role by shifting finance flows to renewable energy sources.

As one of the first countries to halt all credits to the coal industry, France has set a new standard for the rest of the world to follow. Sweden's decision to do so by the end of 2022 is highly commendable.<sup>218</sup> However, Sweden has since its 2015 announcement “to have the world's most ambitious environment and climate policy” provided over 1.9 billion Skr (approximately 170 million Euro) for the export of equipment by Swedish companies to the coal sector in other countries.

Although things are gradually moving in the right direction, it remains clear that German, Swedish and French export credits – through their respective ECAs and state backed export banks – to South Africa's coal industry have contributed to deferring an urgently needed transition to renewable energy sources. These ECAs should now actively work towards rectifying the unsustainable situation to which they have contributed; a situation that still affects millions of vulnerable people and has undermined the future of the next generation of South Africans.

It is crucial that states, ECAs, and state backed export banks begin to thoroughly assess how export credits facilitate or hinder the achievement of the SDGs. Financing of exports and business activities deemed to hinder the achievement of the SDGs should be restricted, while export investments which can drive progress and generate the means to implement the SDGs should be encouraged, in accordance with SDG 17 (Partnerships for the Goals). By doing so, states can live up to the commitments that they endorsed in the Paris Agreement; failing to do so will significantly undermine the fulfilment of the SDGs long beyond 2030.



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