



## REPORT



# Understanding South African Development Finance Institutions to promote accountability

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[gsbberthacentre.uct.ac.za](http://gsbberthacentre.uct.ac.za)

## List of Interviewees

Interviewee	Stakeholder type
Amy Giliam Thorp	Civil society
Civil society contributor 2 (name withheld)	Civil society
DFI contributor 1 (name withheld)	DFI
DFI contributor 2 (name withheld)	DFI
Fergus Turner	Independent expert
Gerald Njume	DFI
Glenda Baloyi	DFI
Leanne Govindsamy	Civil society
Marianne Buenaventura Goldman	Civil society
Mark van Wyk	Independent expert
Muhammed Sayed	DFI
Mundia Kabinga	Independent expert
Olivia Nkosi	DFI
Sandy Lowitt	Independent expert
Thomas Venon	Independent expert

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## List of Abbreviations

AfDB	African Development Bank
B-BBEE	Broad-based Black Economic Empowerment
BoD	Board of Directors
BoG	Board of Governors
BRICS	Brazil, Russia, India, China, South Africa
CSO	Civil Society Organisation
COVID - 19	Coronavirus disease 2019
DFI	Development Finance Institution

DBSA	Development Bank of Southern Africa
ECIC	Export Credit Insurance Corporation
EIA	Environmental Impact Assessment
ESS	Environmental and Social Safeguards
GHG	Green-house Gas
IBRD	International Bank for Reconstruction and Development
IDC	Industrial Development Corporation
IDFC	International Development Finance Club
JETP	Just Energy Transition Partnership
KPI	Key Performance Indicator
PCCC	Presidential Climate Commission
IMF	International Monetary Fund
MDB	Multilateral Development Bank
MSME	Micro, Small and Medium Enterprise
NDC	Nationally Determined Contribution
NDB	New Development Bank
PIC	Public Investment Corporation
SASOL	South African Coal, Oil and Gas Corporation
SDGs	United Nations Sustainable Development Goals
UN	United Nations



UNDP	United Nations Development Programme
WHO	World Health Organisation

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## Glossary

Term	Definition
Bankability	A project's readiness and attractiveness to receive repayable investment funding
Blended finance	The use of funding from public or philanthropic sources to encourage and increase private-sector investment in sustainable development
Capital market	Part of the financial system enabling investment fundraising through the buying and selling of financial instruments
Community	People living in a specific locality - here with a focus on those areas affected socially, environmentally, or economically by DFI operations
Concessional	Accepting more than one's fair share of risk, or accepting less than one's fair share of financial return, than would be expected
Debt	Capital provided with the obligation to repay it with interest in future
Equity	Capital provided in return for ownership/shareholding in the company
Geo-political	Borne of the interaction between location and international relations
Green bonds	Debt instrument established to raise money for environmental or climate related projects
Green economy	Approach to economic growth and development based on low carbon, resource efficient and socially inclusive principles
Innovative finance	Approach to funding enterprises and interventions that optimizes positive social, environmental, and financial impact. It uses all available financial and philanthropic tools to support the growth of enterprises, interventions, and entrepreneurs and, when the existing tools don't work, it creates new ones
International funder	A foreign, typically developed world, source of large scale, policy-motivated finance
Just Transition	Maximising social and economic opportunities of climate action whilst minimising and managing its challenges
Listed markets	A capital market involving the buying and selling of investment instruments on a formalised exchange e.g., a stock exchange
Low carbon	Causing or releasing only a small amount of carbon dioxide, or carbon equivalent GHG, into the atmosphere
Mezzanine	A hybrid form of financing that has features of both equity and debt

Nationally determined contributions	A national climate action plan to cut emissions and adapt to climate impacts under the Paris Agreement
Shareholder	An entity or individual that owns part of a project or enterprise
Social bond	Debt instrument established to raise money for social projects
Sovereign loan	Loan issued by or to a national government
Stranded assets	Financial assets expected to suffer early losses in value due to certain factors, for instance due to stronger climate action and regulations
Technical assistance	A non-investment activity that consists of advisory services, capacity building programs, and business linkages that help reduce the risks of a transaction and build the capacity of beneficiaries

## Executive Summary

The aim of this report is to understand the role of South African affiliated (i.e., wholly or partly owned) Development Finance Institutions (DFIs) in delivering the global climate agenda. This study defines DFIs as government supported finance providers that pursue economic and social development objectives. The term is used interchangeably with others used to describe institutions promoting the achievement of public mandates - such as public finance institutions, development banks, public development banks, policy banks, promotional banks, and public investment corporations.

Increased awareness of the role of DFIs in climate action is necessary given their substantial financing role towards development. Depending on their approach, DFIs can either drive positive climate action or worsen the climate crisis. This research offers a building block towards ensuring DFI accountability to contribute positively on climate matters.

To achieve this, it conducts a comprehensive review of literature on DFIs, offering comprehensive descriptions of who DFIs are, their history and their role in the context of the environment and climate. The study focuses its analyses on six financial institutions, based on their histories, profiles and positioning towards climate and the environment.

To complement the literature review, fifteen respondents comprising current/former DFI personnel and experts, and civil society representatives were interviewed. Interview insights have been integrated with literature review findings to offer actionable steps for DFIs, civil society and communities regarding DFIs role in climate action.

Globally, DFIs came to prominence after World War II to drive industrialisation and economic recovery. Following the conflict, DFIs promoted an approach to economic growth enabled by significant investment in fossil fuels, a major contributor to climate change. Locally, South African DFIs drove a political agenda serving the needs of the Apartheid government at the time. Today, the total number of DFIs in existence exceeds 500 institutions globally, a fifth of which are African DFIs.

Barring drastic changes in their approach, DFI fossil fuel investments will continue to negatively affect the environment and climate. Institutions express ambitions to support a transition to clean energy, however challenges including energy security, oil and gas reserves, project pipeline and risk perceptions are hindering the process.

Policy and governance matters surrounding DFIs are relevant to their climate engagements. There are multiple and sometimes competing international (e.g., Paris Agreement, UNSDGs) and local policy agendas (e.g., Just Transition, Broad-based Black Economic Empowerment) which DFIs apply and may complicate implementation against their development goals. Governance for DFIs involves the input of its shareholders and can extend to civil society and community interests seeking to promote DFI transparency and accountability. DFIs also sometimes also have non-regional shareholders who provide crucial funding support and can thus influence decision-making.

Diverse DFI institutional contexts and mandates create differences in institutional strategies and access to resources. This is expected to shape the pace and direction of individual institutions’ roles in supporting the climate agenda. Institutional profiles are provided for 6 DFIs: the African Development Bank (AfDB), Industrial Development Corporation (IDC), Public Investment Corporation (PIC), Development Bank of Southern Africa (DBSA), the Export Credit Insurance Corporation (ECIC) and the New Development Bank (NDB.)

The study integrates literature review findings and interview insights to investigate some of the key issues when considering the contributions of DFIs to climate action. Key consolidated findings from the study include:

- A lack of clear government position on climate action priority and policy is leading DFIs to respond to climate based on their own internal and international influences.
- DFIs are actively seeking climate finance and investment opportunities, and this is driven at multiple stakeholder levels. However, they remain in the process of developing capacity, tools and safeguards for climate impacts and risks.
- DFIs are not playing as significant a role in supporting promising high-risk, early-stage projects due to factors including limited capacity, bankability, and mandate.
- Limited recourse to government funding leaves DFIs highly reliant on private capital markets or their own, limited financial reserves.
- DFIs look to involve civil society as a resource to flag issues on specific investments, rather than have them play an active role in informing DFIs’ strategic decisions.
- Civil society sees its role as ensuring DFIs enact and faithfully implement environmentally and socially sound policies, act transparently, and are accountable.
- Civil society relies heavily on meaningful DFI engagement, which in the view of civil society at large, is not offered by DFIs.
- DFIs and civil society have differences of opinion on the approach to addressing matters including Just Transition, energy security and exploiting Africa’s gas and oil potential for economic growth.

The report makes the following recommendations for stakeholders:

DFIs	<ul style="list-style-type: none"> <li>● Assume greater climate <b>leadership</b> by investing and mobilising further capital for climate action initiatives</li> <li>● Interrogate <b>risk appetites and resourcing</b> to find opportunities to grow financing to green and climate projects</li> </ul>
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	<ul style="list-style-type: none"> <li>● Employ more <b>innovative finance</b> strategies to mobilise and disburse private capital efficiently</li> <li>● <b>Involve civil society and communities</b> meaningful to leverage their knowledge and expertise</li> </ul>
Advocacy groups	<ul style="list-style-type: none"> <li>● <b>Engage at multiple levels</b>, including with elected officials, government officials, DFIs and their commercial partners to grow momentum for climate funding</li> <li>● Invest in <b>knowledge building</b> to equip community advocates and to better partner/engage DFIs for change</li> <li>● Prioritise collaborative engagement but retain flexibility to employ more adversarial engagement e.g., <b>protest action</b> as a lever for securing accountability and change</li> </ul>

# 1.Introduction

The world is at an inflection point in its history. Humanity will suffer incomparable social and economic consequences unless society acts to avert the current trajectory of climate failure. The cost of the climate crisis is already apparent. Greenhouse gases, primarily caused by the burning of fossil fuels, have risen to unprecedented heights. Their release into the atmosphere causes global warming and melts polar ice, leading to rising sea levels and extreme weather conditions.

Climate change is introducing fundamental shifts to the environment and causing unprecedented loss of life and economic instability. Unchecked, it increases the risk of poor health outcomes due to intense heat waves, floods, droughts and greater risk of food and water borne diseases (Whitmee et al., 2015). More than 5 million extra deaths per year can be tied to abnormal temperatures primarily caused by climate change (Zhao et al., 2021).

Loss of human life and destruction of the natural environment aside, the current climate crisis also has dire economic consequences. It is estimated that the world will lose economic value close to \$178 trillion in the next 50 years due to climate change (Philip et al., 2022). This has the potential to worsen injustices such as inequality, poverty, and war.

Addressing climate change and moving towards a sustainable, low-carbon, future requires society to work together and be accountable at all levels. This study emerges against this backdrop with the aim of understanding the role of DFIs in delivering the global climate agenda.

DFIs are key actors in the global economy, especially with regards to directing large scale finance towards sustainable development projects. Governments establish DFIs to promote positive economic and development outcomes for the people they serve and planet they inhabit. However, DFIs are sometimes perceived to publicly signal a desire to invest in socially and environmentally sustainable projects whilst in fact enabling environmentally and socially damaging investments and practices. This points to a transparency issue.

**Ordinary people must thus be empowered to ultimately hold DFIs accountable for their actions, particularly those that threaten the climate and environment.** The findings of this study can be applied to strengthen knowledge and understanding of the inner workings, complexities and attitudes driving DFI engagement with climate action and the broader development agenda.

## 2.Approach

### 2.1 Research aims

This study aims to understand the role of DFIs in delivering the global climate agenda by:

- Conducting a comprehensive review of literature across multiple information sources.
- Synthesising the literature to demonstrate what DFIs are, their history and their role in the context of the environment.
- Analysing 6 financial institutions based on their own history and positioning towards the environment.

- Deriving research statements from the literature to better understand possible tensions preventing DFIs from meeting environmental expectations.
- Conducting semi-structured interviews with key stakeholders affiliated with DFIs, civil society, and communities to inform findings.
- Analysing results of the literature review and interviews to provide actionable steps for DFIs, civil society and communities to promote DFI accountability on climate change goals.

The report researches DFIs with a focus on key institutions wholly or partially owned by the South African government. Accordingly, the literature review first assesses the broader landscape and understanding of DFIs from a global context before focusing on regional and country considerations.

## 2.2 Search strategy

The search strategy for the literature review focused on relevant search terms including *development finance Institutions, public finance institutions, official development institutions, and development banks in conjunction with Africa, climate, environment, Just Transition, green, governance, investment, and history*. The search was conducted across a range of databases including Google Search Engine (Open-Web), Google Scholar, EbscoHost, Science Direct, Web of Science and Scopus.

The search focused on search results from 2016 – 2022, to offer a more recent perspective. Sources consulted comprised journal articles, industry reports, academic theses, news and opinion and summary proceedings of live events amongst others. The authors initially compiled a long list of relevant research articles and compiled a shortlist of articles based on a review of abstracts. The shortlist was then refined to remove duplicates and inaccessible literature. The 214 systematically sourced articles provided a foundation to begin the literature review, with additional sources then gathered through backward and forward citing methods to support the foundational literature. **Table 1** summarizes this process.

Table 1: Search Waterfall

Step	Action	Removed	Result
Step 1	Search phrase search	0	780
Step 2	System duplicate removal	83	697
	Limit search results to between 2016 - 2022	206	491
	Remove inaccessible results	76	415
	Manual duplicate removal	29	386
Step 3	Abstract review	172	<b>214</b>

## 2.3 Research statements

The literature review enabled derivation of 8 research statements highlighting some of tensions surrounding DFIs and their relationship to climate change. These are shown in **Table 2** below. The research statements guided the interview and analysis sections to interrogate these tensions and their importance to DFIs taking climate action.

Table 2: Summary of research statements



Statement	Research statements
1	DFIs are failing to shift towards a socially driven role due to their historical roles and investment activities
2	Multilateral DFIs have greater transparency than bilateral DFIs
3	Multilateral DFIs invest more in renewables than bilateral DFIs
4	DFI investments are heavily influenced by political stakeholders
5	DFIs are failing to invest in clean energy sectors due to pipeline and risk constraints
6	South African DFIs focus only on certain policy areas, driven by key stakeholder interests rather than public interests
7	Non-regional member states influence DFI investments at regional and national DFIs
8	Community and civil society engagement can lead to greater DFI accountability and transparency

## 3.Literature Review

### 3.1. Defining development finance institutions

There are varying definitions for development finance institutions (see Table 3) with some common themes across them. DFIs are broadly described as government-owned or supported institutions, providing finance to the private sector, focused on economic and social development, and targeted towards developing countries.

This study defines DFIs as government supported finance providers that pursue economic and social development objectives. This implies a broad lens on the concept, encompassing institutional structures such as credit agencies, international cooperation agencies, and mixed institutions (Além & Madeira, 2015). The term is used interchangeably with other terms used to describe institutions promoting the achievement of public mandates such as public finance institutions, development banks, public development banks, policy banks, promotional banks, and public investment corporations.

Table 3: DFI Definitions

Source	Definition
Organisation for Economic Co-operation and Development (OECD, n.d.)	“National and international development finance institutions (DFIs) are specialised development banks or subsidiaries set up to support private sector development in developing countries”

European Development Finance Institutions (EDFI, 2022)	“Development Finance Institutions (DFIs) are specialised development organisations that are usually majority owned by national governments. DFIs invest in private sector projects in low and middle-income countries to promote job creation and sustainable economic growth”
BrightAfrica (2022)	“DFIs are government-funded institutions that make investments into underserved geographies, sectors, and countries that would otherwise not attract significant capital”
Luna-Martinez et al. (2018)	“...any type of financial institution that a national government fully or partially owns or controls and has been given an explicit legal mandate to reach socio economic goals in a region, sector, or market segment.”
Romero and Van de Poel (2014)	“DFIs are government-controlled institutions that invest in private sector projects in developing countries.”
Fernández-Arias et al. (2020)	“We define development banks as government-owned financial institutions that have the objective of fostering economic or social development by financing activities with high social returns’
Xu et al. (2021a)	“... financial institutions initiated and steered by governments with the official mission to proactively orient their operations to pursue public policy objectives.”

DFIs are often categorised according to their ownership structure. Two broad categories, bilateral and multilateral DFIs, are recognised. Bilateral DFIs are established by the government of a single country to pursue public policy and development objectives. Multilateral DFIs are private sector arms set up by finance institutions of more than one country (Romero & Van de Poel, 2014). Multilateral DFIs can be categorised further into global, regional, and sub-regional institutions. Bilateral DFIs include national and subnational DFIs. **Table 4** provides definitions and examples for each category.

DFIs can differ greatly in terms of their overall objectives, challenges, and mandates depending on the geographies and development issues they were formed to serve (Além & Madeira, 2015). These differences extend to their financial instruments, partnerships, and project funding criteria.

Table 4: Types of DFIs

Type	Definition	Example
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Global	Owned by two or more countries from <b>different continents</b>	World Bank
Regional	Owned by two or more countries from the <b>same continent</b>	African Development Bank
Sub-Regional	Owned by two or more countries from the <b>same continent and continental -region</b>	Trade and Development Bank (East Africa)
National	Owned by the central government of <b>country</b>	Development Bank of Southern Africa (DBSA)
Sub-national	Owned by local or several <b>local governments</b>	Ithala Development Finance Corporation

DFIs play an integral role in directing private capital towards economic and social development and can draw on government support to raise capital at lower cost (Griffith-Jones et al., 2020). The ability to raise low-cost funds enables DFIs to invest in high-risk development projects that would otherwise not attract private sector investment.

DFIs initial investment into riskier projects can reduce the risk of taking on development-related investments for private investors, thus increasing funding flows into previously neglected projects or sectors (Griffith-Jones, 2016). DFIs are especially important in the context of development sectors (e.g., SME development and Green economy) that require long term funding to produce desired results (Além & Madeira, 2015).

DFIs address market failures by financing overlooked projects that have the potential to be profitable and provide positive social return. A positive consequence of DFIs' long-term view, is the opportunity for innovation, learning and knowledge accumulation that could not be delivered by the short-term, profit orientation of traditional investors. (Griffith-Jones, 2016).

In summary, DFIs are government supported financial institutions that exist to help development projects attract private capital, meet development mandates, and encourage innovation and knowledge accumulation. DFIs are either supported by a single government or by multiple governments across different countries.

## 3.2 History of DFIs

### 3.2.1 History of DFIs - Global

DFIs became especially prominent and grew rapidly (see Figure 1) following World War II (Eurodad, 2017; Musacchio et al., 2017.) Their historic approach to promoting economic growth contributed to the climate crisis playing out in modern society.

The growth of modern DFIs began with the establishment of the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD), also known as the World Bank. The agreement to establish these two institutions was completed at the United Nations Monetary and Financial Conference in 1944 (more commonly referred to as Bretton Woods Conference, after the area in which it was held). The Bretton Woods institutions were created to promote global cooperation and financial flows towards economic restoration and prosperity (International Monetary Fund [IMF], 2002).

Many countries also formed development banks to support their post-war recovery. This was especially true for developing countries, located in Asia, Africa, and Latin America, that wanted to industrialise after gaining independence (Xu et al., 2021a). DFIs are thus often described as key actors in industrialisation and the global economic shift from agriculture to manufacturing. **DFIs role in industrialisation is important because the shift towards an industrialised economy led to increased burning of fossil fuels and pollution.**

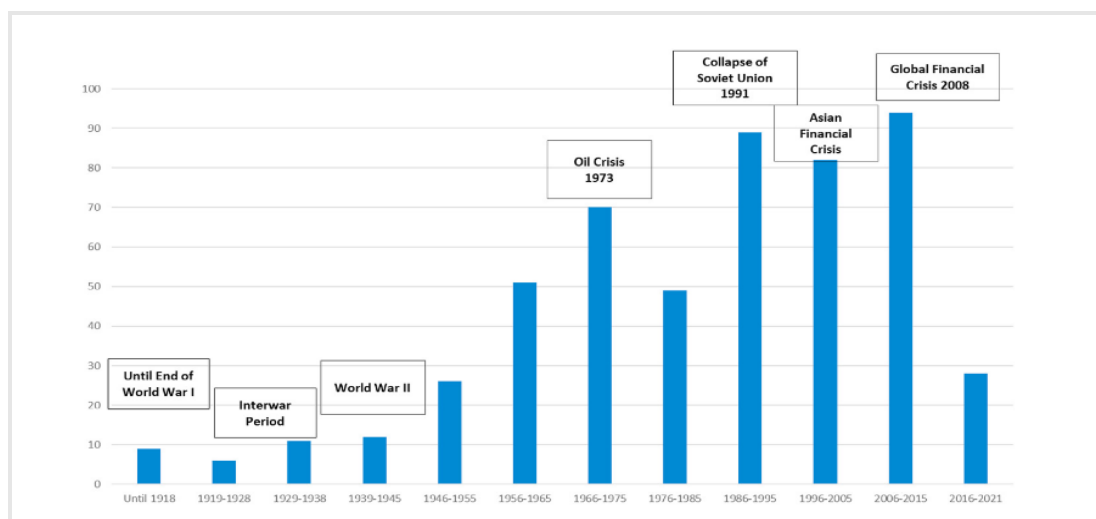


Figure 1: Global establishment of DFIs (Source: Xu et al., 2021a)

Tracking the evolution of DFIs in Figure 1, there is an observable decrease in DFI formation in the 1980s. This decline was due to the push for free market ideologies and privatisation, itself driven by the poor performance of DFIs. Their disappointing performance was largely linked to their public ownership, a feature that made them vulnerable to problems including corruption, inefficiency, and misallocation of resources (Eurodad, 2017). Some of these criticisms are still levelled at DFIs today, and perceived as fundamental to their modern approach (**see Box 1**)

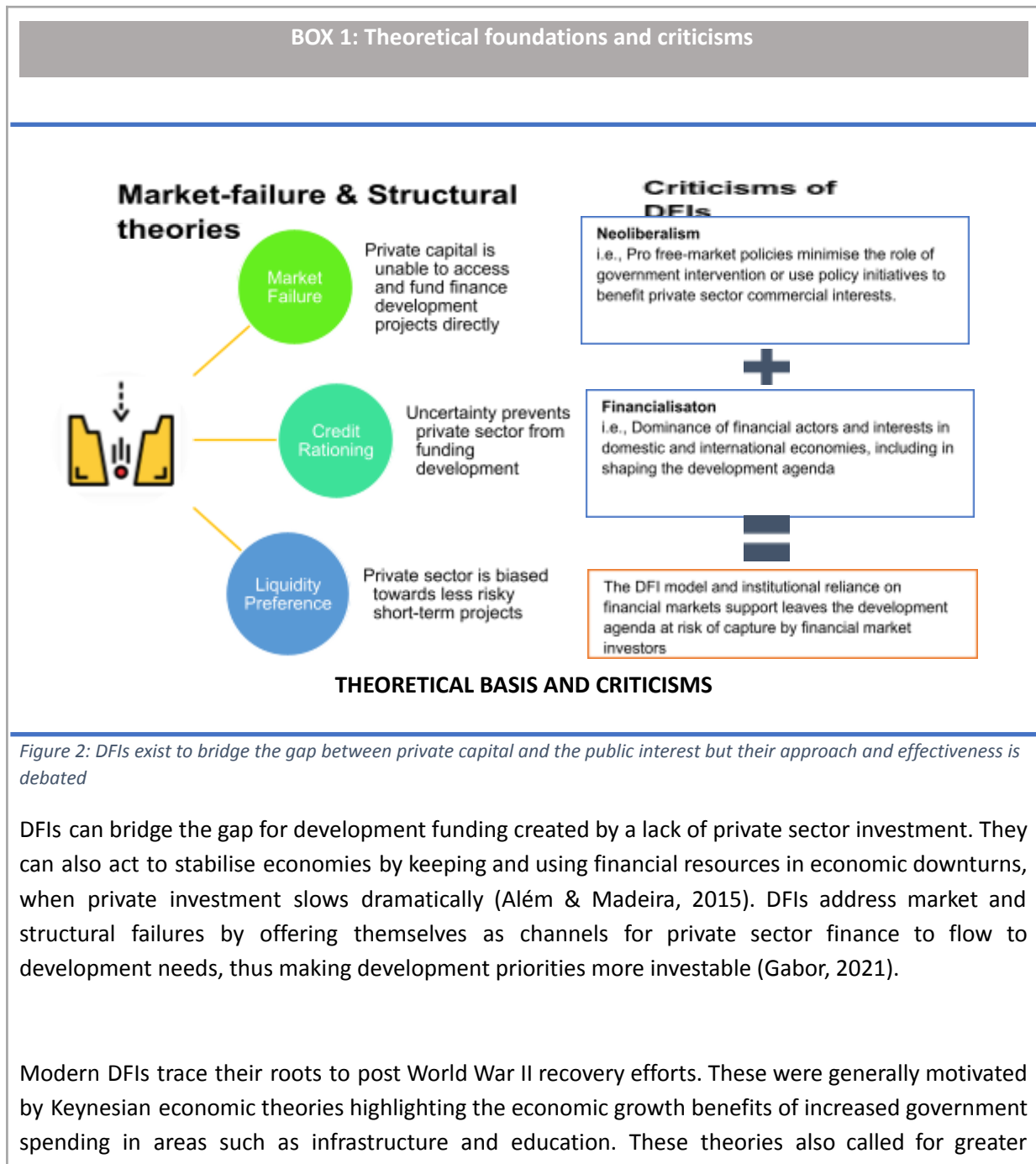
Following the collapse of the Soviet Union in 1991, many break-away states also established their own DFIs to promote economic growth (Xu et al., 2021a).

DFIs have historically played a significant role in enabling economic recovery. Brei and Schclarek (2013) show how private banks typically offer less funding during economic crises, whilst the reverse is true for DFIs. Following the 2008 financial crisis, multilateral DFI lending to developing countries increased by 72 percent (Griffith-Jones, 2016) and DFIs helped reduce funding constraints and stabilize the private sector (Além & Madeira, 2015).

Recently, DFI formation has increased, partly due to the pressing need to provide financing towards the 2030 Agenda for sustainable development. The agenda, captured in the United Nations'

Sustainable Development Goals (SDGs), covers multiple areas including economic growth, climate, health, education and reducing poverty. The framework was adopted by all United Nations (UN) members in 2015 (United Nations [UN], n.d.). It is currently estimated that \$3.7 trillion annually will be needed to achieve the SDGs by 2030 (OECD & United Nations Development Programme [UNDP], 2021).

Achieving the SDGs is impossible through isolated public or private sector efforts. Instead, both public and private sources must play an integral role in closing the finance gap. DFIs thus need to directly finance SDG projects but also mobilise private sector capital towards the goals.



international cooperation towards economic growth and recovery (Delikanli et al., 2018; Griffith-Jones, 2016).

A more recent, post-Keynesian view recognises the potential for DFIs to respond to **market failures**. It suggests that financial markets have structural problems that create uncertainty for financial capital providers. In this scenario, private capital may not flow to development priorities even where there are sufficient, financially attractive investments. Where uncertainty is present, capital suppliers are reluctant to invest in development projects as they are unable to determine which projects are riskier and are likely to generate investment losses. This is a structural issue rooted in the fact potential users and suppliers of financing don't understand the attractiveness investment opportunities equally (Stiglitz, 1989; Stiglitz & Weiss, 1981).

Another modern theory is **liquidity preference**, whereby a short-term profit focus on the part of investors may lead to a lack of finance for projects requiring long term funding. In this scenario DFIs also play a role by driving financial innovations that raise capital at short to medium term time frames whilst investing to support long term development needs (Ferraz et al., 2016).

DFIs can thus be effective in development sectors, such as climate action, which require significant levels of long-term capital but feature significant uncertainty that discourages private investment (Além et al., 2017; Attridge & Engen, 2019). However, their intended contributions also leave them roles to play areas other than direct provision of finance, including technical assistance provision, capacity-building, convening, and coordinating policy and standard setting e.g., on safeguard measures, governance and human rights (Delikanli et al., 2018).

However, **civil society organisations are increasingly concerned that development banks are pursuing neo-liberal and financialisation agendas that elevate private sector interests and weaken the role of public interests in finance for development** (Griffith-Jones, 2016).

**Neo-liberalism** is a free-market-focused movement emphasising the use of policy initiatives to benefit and promote private sector commercial activity. **Financialisation** on the other hand is observed where private commercial financing entities are dominant in the economy, including in determining and funding the development agenda.

Increasing emphasis on addressing private sector needs, including improving conditions for private investment into development issues, may happen at the cost of sustainable development outcomes (Jakupec & Kelly, 2015.) This may lower public sector influence on development priorities and reduce development projects to financial holdings that profit financial investors at the cost of societal interests (Bracking, 2016; Hildyard, 2016). The structure of influence in the DFI and climate political

economy (see Box 5) is raising the urgency of civil society concerns as the urgency for financing climate action increases.

### **3.2.2 History of DFIs - Local**

The context of South African DFIs needs to be examined through the lens of Apartheid, a legislative system in South Africa that implemented policies to segregate and oppress non-White South Africans.

The Apartheid era ran from 1948 into the early 1990s. However, racial segregation was practiced in South Africa before 1948, when the country was under British rule. It thus already influenced the practices of public institutions such as DFIs.

Three national DFIs were established in South Africa before the abolishment of Apartheid in the early 1990s. The first was the Land Bank in 1912. The institution aligned with political ideology of the time and worked to benefit white commercial farmers. Following the transition to democratic rule in 1994, its mandate shifted to supporting and funding emerging black farmers and enabling the country's land reform policy (Khadiagala, 2015).

The second DFI established in South Africa was the Industrial Development Corporation (IDC) in 1940. Initially the IDC was established to promote industrialisation and provide employment for poor white people (Mondi & Bardien, 2013). Shortly after its establishment, World War II started, forcing the IDC to focus on activities and projects to support the war effort. The institution then established the South African Coal, Oil and Gas Corporation (SASOL) and the Phosphate Development Corporation (Foskor).

During World War II the government prioritised funding for petrochemical, food processing, textile, and mineral beneficiation projects (Garikayi, 2019; Qhena, 2006). In South Africa, the end of World War II was closely followed by the start of Apartheid in 1948. The rest of the world then began implementing sanctions against South Africa due to Apartheid policies. The IDC continued to invest in the energy and mineral industries to reduce the effects of sanctions and global isolation on the Apartheid government.

After 1994, the IDCs mandate shifted to address the inequalities created under the Apartheid government and take advantage of the country's re-admission to the global economy. This was especially driven by aligning with Black Economic Empowerment (B-BBEE) policies and promoting exports and industrial development in the rest of Africa (Qhena, 2006).

The last DFI established before 1994 was the Development Bank of Southern Africa (DBSA). The DBSA was established in 1983. Its objective was to fund the 'homelands' and was the basis for uniting them. The 'homelands' consisted of South Africa and four independent homelands, the Transkei, Venda, Bophuthatswana, and Ciskei.

The DBSA was set up as part of a political strategy of segregation by the Apartheid government (Garikayi, 2019). Post-1994 the DBSA shifted its focus towards financing infrastructure. Since then, the DBSA has taken on a broader role, acting as an advisor and partner in promoting regional integration to eliminate poverty, inequality, and dependency (Garikayi, 2019; Khadiagala, 2015).

Post-Apartheid, the South African government has set-up at least 13 DFIs (Goga et al., 2019). However, close to 90% of all DFI SA funding is controlled by the Lank Bank, the IDC and the DBSA (Garikayi, 2019; Goga et al., 2019).

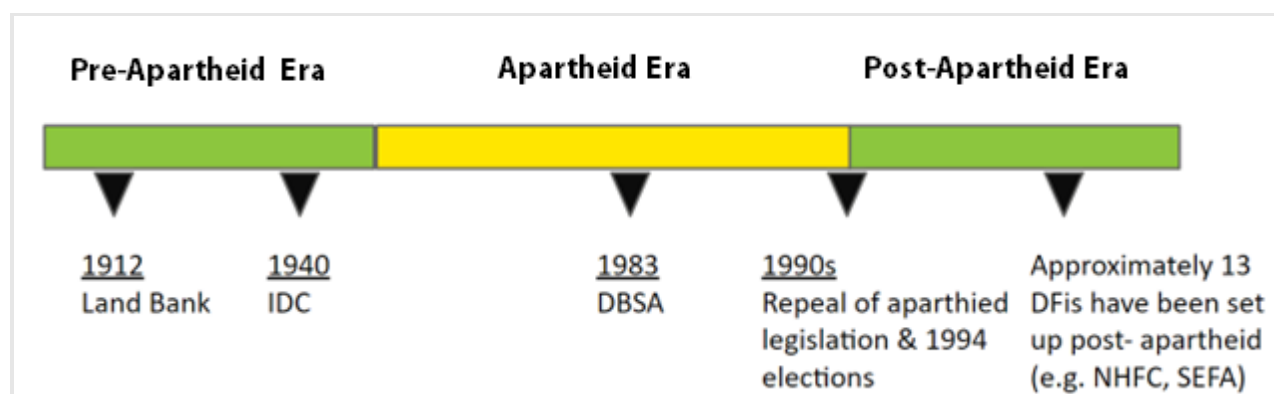


Figure 3: South African DFI timeline (Source: Authors)

The timeline of South African DFI formation is summarised in Figure 3. **Until 1994, the general South African DFI mandate was to fill the gap created by sanctions placed on the Apartheid government as a means for economic support and economic empowerment for the unjust regime.** DFIs were used to mobilise private sector funds that enabled the continuity of the Apartheid government.

DFIs' new mandate, since 1994, is to support projects that address unemployment, redistribution of income, private sector development, manufacturing sector growth as well as both market and government failure in finance.

Importantly, domestic DFIs need to align with the Black Economic Empowerment policy and finance projects that promote socio-economic transformation. It is yet unclear whether DFIs positively impact socio-economic transformation in South Africa and some commentators believe that post-Apartheid DFI policies need to be adjusted to better achieve financial inclusion (Barnard, 2016). Nonetheless, DFIs have a strong connection to the political economy and play important economic and social roles.

### 3.3 DFIs - Their political, economic, and social significance

The historic evolution of DFIs demonstrates their political, economic, and social relevance. Politically DFIs may act as instruments to serve politician's objectives or reward politically involved industrialists (Ades & Tella, 2012; Shleifer & Vishny, 1994). Economically, DFIs were formed to address market failures in financing entrepreneurial and industrial activity (de Aghion, 1999; Gerschenkron, 2015). Socially, DFIs intervene in capital markets to deliver positive social change by addressing specific social issues such as employment, energy dependency and housing (Shirley, 1989). **Table 5** summarises each role and its significance to the market.

Table 5: Roles of DFIs

	Political	Economic	Social



<b>Summary of role</b>	DFIs are a tool for politicians to further their political agendas	DFIs are used to finance projects that will promote economic growth	DFIs are intended to prioritise social concerns - financing projects contributing to positive social impacts
<b>Significance</b>	<p>Broadly speaking, DFIs fulfilling a political role often misallocate funds to:</p> <ul style="list-style-type: none"> <li>• Large organisations not needing capital</li> <li>• Unproductive organisations</li> <li>• Failing organisations</li> </ul>	<ul style="list-style-type: none"> <li>• Addresses market failure by investing in riskier projects</li> <li>• Provides coordination across important economic actors</li> <li>• Invests in latent capabilities (e.g., knowledge, information, innovation) with the potential to create positive spill overs leading to economic growth</li> <li>• Supports economic stability (especially through counter-cyclical investment support)</li> </ul>	<ul style="list-style-type: none"> <li>• Investments flows to regions and customers that are not profitable to the private sector</li> <li>• Supports social initiatives such as employment creation</li> <li>• Investments to environmentally friendly projects to promote social well-being</li> </ul>

DFIs do not fulfil their political, economic, or social roles in isolation. Often the DFI will act out a combination of these roles or apply a certain role according to its context. For example, after World War II it was clear that economic recovery was the priority for DFIs. They prioritised projects with strong links to economic growth, hence the heavy reliance on industrialisation at the expense of the environment.

South Africa is a good example for DFIs' political role. During Apartheid, DFIs were set up to maintain and support the Apartheid regime, where white-owned organisations received preferential treatment and funding.

The social role is one that recently gained attention due to vast social inequalities and environmental concerns in the 20<sup>th</sup> century. The global realisation that current economic practices are not sustainable has led many DFIs to move towards performing more of a social role.

The tension between the three roles DFIs play at a country and global level is an interesting lens on DFIs and their contributions to climate change. Their historical roles have the potential to prevent

DFIs shifting towards newer functions. For example, there is an urgent need for DFIs to take on a social driven role . However, there is a risk DFIs are burdened with political interests, economic priorities and historical investments to the extent they cannot shift towards a socially driven role.

**R1:** *DFIs are failing to shift towards a socially driven role due to their historic roles and investment activities.*

### 3.4 The landscape of DFIs

The most comprehensive DFI landscape mapping attempt to date was completed by Xu et al. (2021b). They suggest five qualifying criteria for DFIs. The first being that the DFI needs to be a standalone entity. The second is that it needs to deploy financial instruments as its main product or service. The third is that it needs to be able to finance itself beyond government grants. The fourth is that its official mandate needs to focus on implementing public policy. The last qualifying criteria is that DFIs need to be steered by government.

Applying these criteria, they identified 527 DFIs globally (8.92% multinational, 21.06% subnational, 70.02% national). 106 (20.11%) of these are in Africa. A further breakdown of DFIs in Africa is offered in Figure 3.

A total of 5 ‘world’ banks were identified where member states come from different regions (e.g., World Bank, New Development Bank). Figure 3 shows that Africa has a gross deficiency in subnational DFIs. Although Africa represents 30% of the world’s countries, it does not have an adequate amount of DFIs to serve these countries' development needs.

Out of the 527 DFIs analysed, 449 (85%) had data on asset size. The 449 banks have total assets amounting to US\$18.7 trillion. DFIs feature significant concentration, with close to 70% of all DFI assets globally owned by the 10 largest DFIs (Gallagher & Kring, 2017; Xu et al., 2021b).

In Africa, total assets sit at around \$190 billion or 1% of the global total. Like global patterns, close to 80% of African DFI assets are owned by the top 10 Africa DFIs. In terms of mandate 35% of DFIs follow a general mandate, 28% devote financing to Micro, Small and Medium Enterprises (MSMEs) and the remainder address areas such as housing and infrastructure.

It is clear, Africa is behind the rest of the world in terms of the number of DFIs owned and the financial resources its DFIs control.

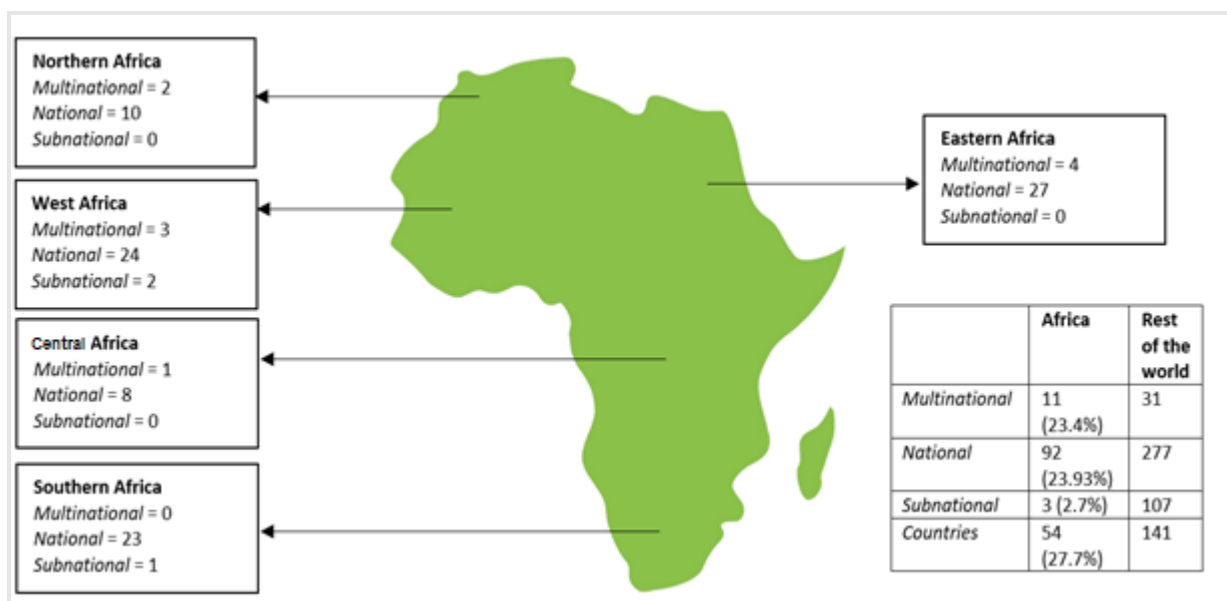


Figure 4: Africa DFI Landscape

### 3.5 DFIs and the environment

#### 3.5.1 Past and current role in climate change

There are calls for development banks to shift their investments to promote the world's transition to a Green economy (Wright et al., 2018; Xu & Gallagher, 2017). This call is driven by two landmark global agreements; the 2030 SDG Agenda and the Paris Agreement. The Paris Agreement, also adopted in 2015, aims to limit the temperature increase caused by global warming to 1.5 degrees Celsius compared to pre-industrial levels.

However, there are concerns that DFIs are inadequately answering this call to action. Many development banks continue to emphasise and invest in fossil fuel projects (Griffith-Jones, 2016). When questioned, DFIs argue that fossil fuels provide energy security and efficiency and are necessary to aid the world's poorest nations (Bábosik, 2019; Ferris, 2021).

G20 nations (a global forum of countries addressing issues related to the international economy) generate 79% of the world's greenhouse gases. Its members, including South Africa, committed to reducing greenhouse emissions but continue to significantly fund activities such as the extraction and burning of coal which is the most dangerous fuel for the climate (Karaev et al., 2020).

According to non-profit organisation Oil Change International, between 2013 and 2019, G20 nations invested \$180.2bn in energy financing in Africa and the Middle East. Of that total, \$29.9bn went to clean energy projects, while \$122.5bn went to fossil fuels. These results are presented in Figure 4. It is worth highlighting that coal investments are decreasing but at the same time this funding is being redirected towards oil and gas rather than renewable clean energy sources (Ferris, 2021).

As seen in Figure 6, at a bilateral level, investments continue to flow to fossil fuels. However, positive change is evident at a multilateral level suggesting that DFIs can and are willing to play a leading environmental role. According to Figure 7, since 2015 (coinciding with the introduction of the SDGs and Paris agreement), Multilateral Development Banks (MDB) have prioritised clean energy finance.

This highlights an interesting divergence and encourages comparison of bilateral to multilaterals to explore why bilaterals continue supporting fossil fuels whilst their larger peers shift to renewables.

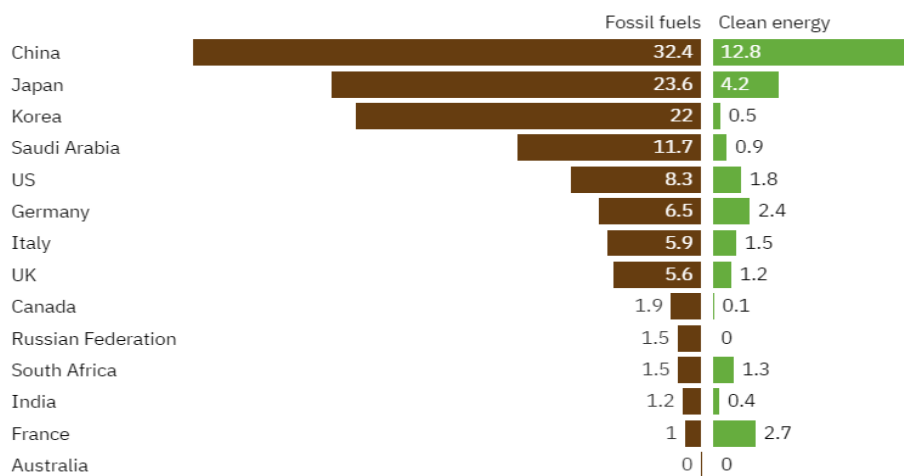
**R2:** Multilateral DFIs have greater transparency than bilateral DFIs

**R3:** Multilateral DFIs invest more in renewables than bilateral DFIs

Transparency appears to be a likely explanation (Ferris, 2021) as multilaterals, due to their international presence and nature, are under more pressure to deliver on climate goals.

## G20 governments prioritise fossil fuels over renewables in developing nations

Total public finance sent by G20 governments\* to countries in Africa and the Middle East, 2013–19 (\$bn)



\*No payments are recorded from Argentina, Mexico, Indonesia, Brazil, Turkey or the EU. Energy payments that do not fall under either category are omitted.

Source: Oil Change International

ENERGY MONITOR

Figure 5: G20 energy investments by country

## G20 governments have increased their fossil fuel investment in developing nations

Breakdown of G20 government energy financing in African and Middle Eastern countries, 2013–19 (%)

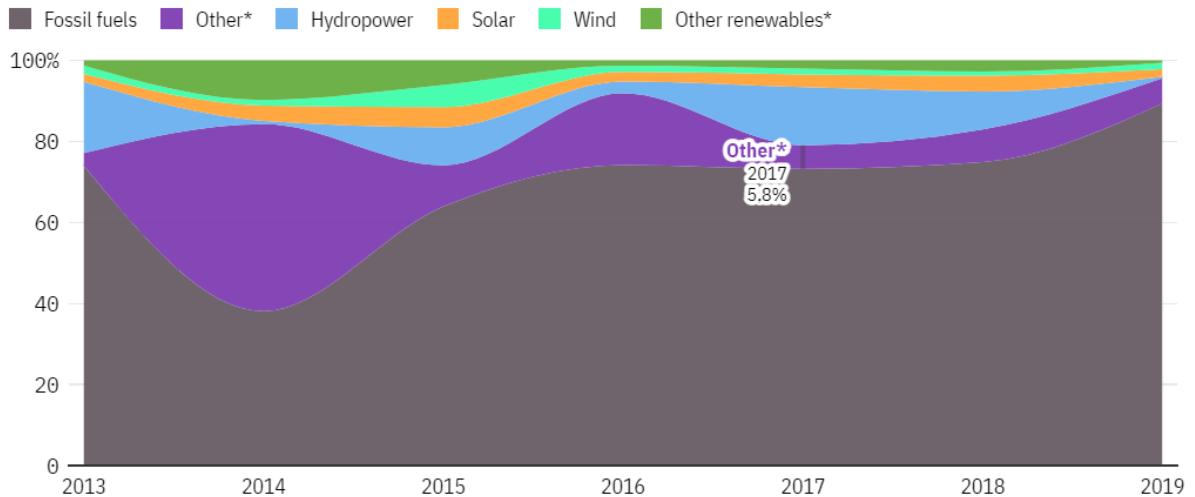


Figure 6: G20 energy investments trends

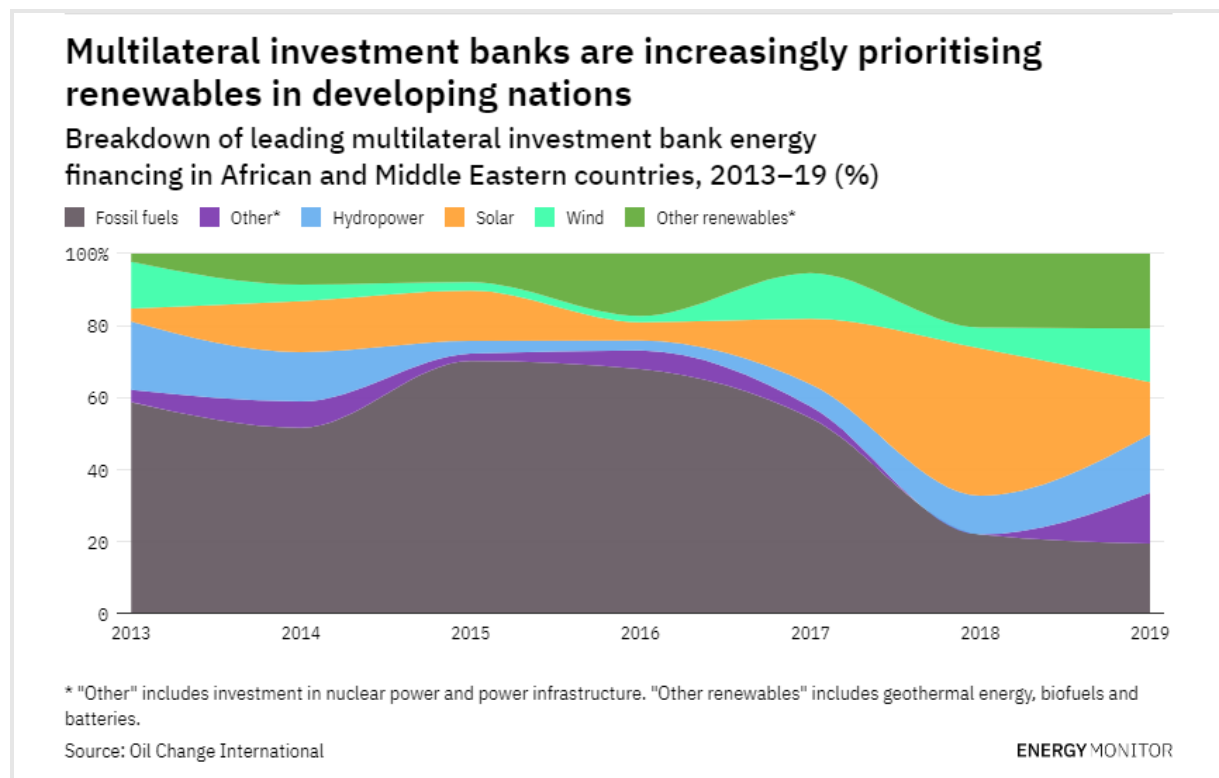


Figure 7: Multilateral energy investments

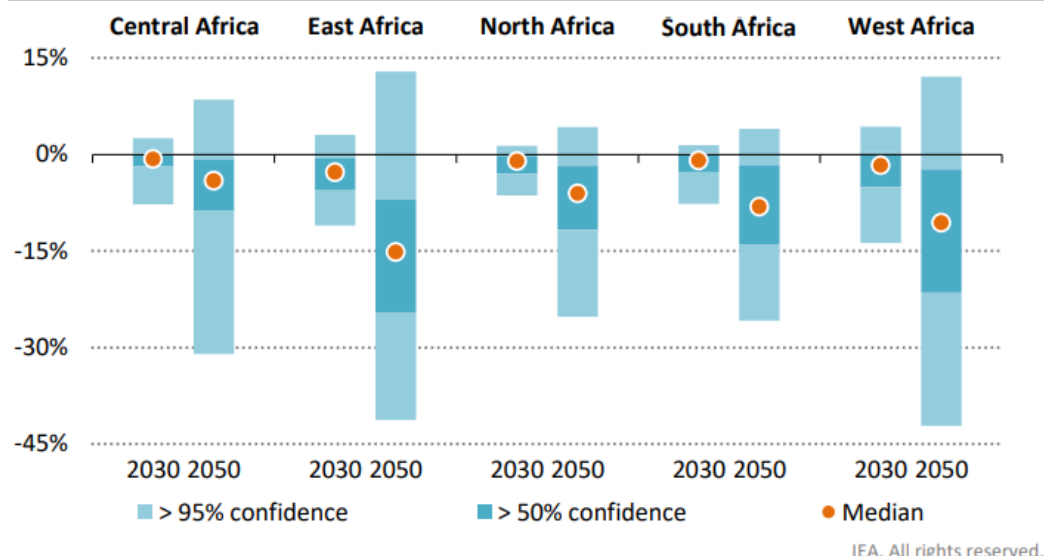
Climate adaptation and mitigation are key funding priorities for South Africa and the rest of the continent (see Box 2). Growing the necessary investment from DFIs, for instance to promote clean energy investment, can be a key enabler to meeting these needs.

## BOX 2: Key priorities and gaps for South African climate action

Climate change is expected to dramatically impact life by 2050 under a projected warming scenario of 2.4 degrees Celsius. Africa is the second-most vulnerable region in the world and demonstrates the lowest climate readiness (African Development Bank [AfDB], 2022a). The frequency of days featuring life threatening temperatures (above 40 degrees Celsius) is expected to rise by 10-140 days per year depending on the severity of climate change and locale. Many parts of the continent will be plagued by more frequent occurrences of extreme flooding and drought and rendered uninhabitable (Intergovernmental Panel on Climate Change [IPCC], 2022b).

Climate change is also projected to introduce negative effects including lowering the productivity of major staple foods and cash crops, worsening health contributors including access to drinking water, and reducing economic resilience and social stability (Sono et al., 2021). Globally the effects of climate change have been shown to affect all socio-economic dimensions, including reducing economic growth over time (more severely in poorer countries) and reducing agricultural output and employment in vulnerable sectors (Shayegh et al., 2021).

South Africa is one of the more climate resilient Sub-Saharan Africa geographies when considered along the dimensions of social, economic, infrastructure, environment, and institutions. Nonetheless the country demonstrates lower readiness to prepare and respond to the effects of increasing temperatures (Sono et al., 2021). South Africa faces transition risk (much of which has already been incurred) of more than US\$120 billion in present value terms between 2013 and 2035. Much of this relates to current economic contributors such as coal exports, which will become less competitive as the global community works towards delivering its objectives under the Paris Agreement (Huxham et al., 2019). Although other countries in the region have greater urgency for climate investment for both mitigation and adaptation, there remains a need for strategic investment in pursuit of SA's climate objectives.



### Climate impacts on GDP per capita in Africa (2030 & 2050)

Figure 8: The 2 degrees Celsius warming scenario by 2050 is projected to reduce median GDP per Capita by 4-15%

**Both climate mitigation and adaptation are established policy priorities for South Africa.** Adaptation is the process of adjusting to the current and future effects of climate change. Mitigation makes the effects of climate change less severe by preventing or reducing emissions into the atmosphere. These concepts are of equal importance; however, the bulk of climate funding currently addresses mitigation projects (Mckenna, 2022). South Africa's National Development Plan addresses both themes (South African National Treasury, 2021) and the recent Just Transition Framework and Climate Change Bill capture the emerging national policy and regulatory response to these priorities (Table 6.)

Despite these policies, **funding flow estimates indicate a significant lack of funding for adaptation projects, with mitigation funding over 10 times larger than adaptation related flows** (Atteridge, 2021; Cassim et al., 2021). There are also signs that local stakeholders, such as the DBSA, are not sufficiently oriented towards supporting adaptation efforts (Schaeffer et al., 2015).

The AfDB (2016) believes that Africa needs to scale up energy access while gradually transitioning to allow for a low-carbon economy. The continent holds close to 8% of world's proven oil and gas reserves and nearly 30% of the world's gas and oil discoveries since 2015 were in sub-Saharan Africa (AfDB, 2016). Coupled with low access to energy on the continent, pursuing fossil fuels in the short to medium term is attractive to African countries.

There is a need to consider the need for access to electricity across Africa in the near term (almost unavoidably) with some degree of fossil fuel powered generation involved. However, credible

long-term efforts to invest in and expand renewable energy sources are necessary to ensure Africa's continued growth and competitiveness.

South Africa is ranked 16<sup>th</sup> in the world for greenhouse gas emissions and 1<sup>st</sup> on the African continent for carbon emissions (Ritchie et al., 2020). Over 80% of South Africa's energy is generated by coal-fired power stations. Eskom is South Africa's main producer of electricity and supplies approximately 95% of South Africa's electricity needs (GreenCape, 2021). The corporation is 100% state-owned and relies heavily on government support.

Many DFIs such as the DBSA, IDC and NDB have funded Eskom's fossil fuelled power generation over the years. However, DFIs indicate that priority will be given to decommissioning and repurposing Eskom's coal-fired power stations by financing new technologies and decarbonisation (Creamer, 2022; Squazzin, 2021).

Although, DFIs state their intentions to help move South Africa to a low carbon-economy, some external stakeholders doubt this is truly happening. Historically, DFI 's climate finance spending has been muted.

South Africa needs annual investment of R596 billion per annum from 2015-2030 to reach its greenhouse gas emission reduction target. Between 2017 and 2018 only R62.2 billion was contributed. DFIs contributed R6 billion, less than 10% of total investments (Lowitt, 2021). Between 2016-2018, compared to 2013 – 2015, South Africa also cut public finance to clean energy by \$163 million while coal financing increased by \$95 million (Tucker et al., 2020).

Government influence plays a key role in perpetuating such fossil fuel exploitation and many African countries still see fossil fuels as a part of their medium-term energy mix (**see Box 3.**)

### BOX 3: Energy security and transition finance

Africa is an energy poor continent despite having significant energy resources. 18% of the world's population is based on the continent yet it accounts for less than 6% of global energy access. South Africa is one of its most industrialised countries and accounts for 16% of African energy consumption. 600 million Africans lack access to electricity and access to clean, affordable energy and the continent is struggling to keep pace with the needs of the growing population (International Energy Agency [IEA], 2022).

The COVID-19 crisis and commodity market impacts of the war in Ukraine has worsened matters, stretching existing sources of public finance for energy security. Many African nations rely on food and fuel exports to meet part of their energy requirements, both of which have been impacted by the recent War in Ukraine. Further, the economic impact of and response to the COVID-19 pandemic has stretched the financial resources of African states, including their ability to raise funding cheaply in international capital markets.

Africa's access to energy capital markets was low even before the pandemic. Despite its sizable share of the global population, the continent only received less than 3% of clean energy financing between 2010-2020, and less than 5% of overall climate funding. Access to these limited resources is also uneven across the continent, South Africa accounts for nearly 40% of energy funding and together, 10 African nations account for 90% of energy financing provided to the continent (IEA, 2022).



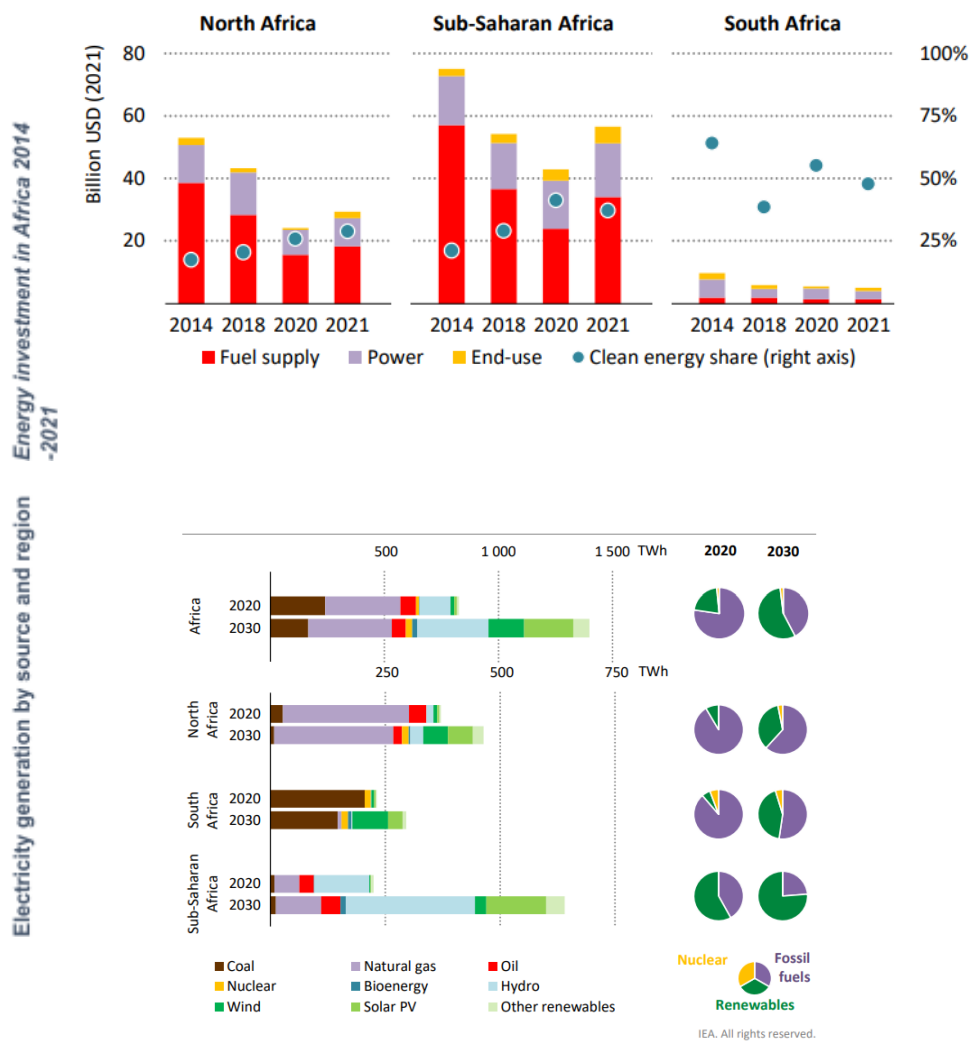


Figure 9: Clean energy investment trends and projected energy mix transition to meet Africa's energy related development goals

How Africa scales up energy, transport, and urban infrastructure to bridge existing gaps and meet the needs of a growing population stands to either set the continent on a high emissions trajectory or contribute to achieving global climate goals (Ijjasz-Vasquez & Ordu, 2022). Globally, international, and multilateral funders are reducing their funding for fossil fuels and applying pressure to discontinue dirty fuel initiatives, notably coal based projects. Although African policymakers recognise the continent's significant renewable energy potential, they assert equity considerations mean the continent should not be forced into a decarbonisation pathway that hampers its ability to industrialise and meet its future energy security goals. The basis of this perspective is that Africa has contributed less than 3% of historic emissions and needs to balance its energy mix between renewable and non-renewable sources in the short term, whilst building towards a green energy future in the long term. Sources such as natural gas, of which the continent has significant reserves, could be cost effectively exploited as part of the short-term energy mix (AfDB, 2022c).

Regardless of the eventual pathway to developing its infrastructure and delivering the clean energy transition, meeting Africa's energy-related development goals will demand significant capital. The need is estimated as at least a doubling of total energy funding over the decade leading up to 2026-2030 and a sixfold increase in clean

energy investment. Much of this funding needs to be attracted from the private sector as governments on the continent have inadequate funding (IEA, 2022).

South Africa is illustrative of the continent's broader energy stance. The nation is the world's fourth largest coal exporter and over 80% of its current energy needs are met by coal. Its coal intensity makes it the world's 12<sup>th</sup> largest emitter of CO<sub>2</sub> (Lunan & Martinez, 2022) The country's NDC and net-zero by 2050 pledges, coupled with persistent energy shortages with its coal generation, are accelerating its energy transition. The country's treaty commitments mean a major part of existing generation capacity will need to be retired in the decades ahead, however coal is likely to remain a significant contributor to energy generation in coming years. South Africa is also one of several states that expect to increase the share of natural gas in their energy mix (IEA, 2022).

As private and commercial banks move away from fossil fuels, DFIs are pressured by government to pick up fossil fuel related investments (Climate Investment Funds [CIF], 2020). For instance, Eskom is currently experiencing financial and operational problems and challenges meeting customer demand. However, as the corporation supplies 95% of South Africa's electricity, DFIs are obliged to seriously consider funding for the organisation.

Another reason, proposed for the lack of investment into clean energy is a lack of bankable projects (CIF, 2020). DFIs are interested in renewable energy investment but there are not enough projects that are at an investable stage (**see Box 4.**) Related is the balance of risk and return as DFIs, although supported by the government, need to operate on a commercially sustainable basis. This limits their ability to invest in the higher risk segment most green projects are classified (Lowitt, 2021).

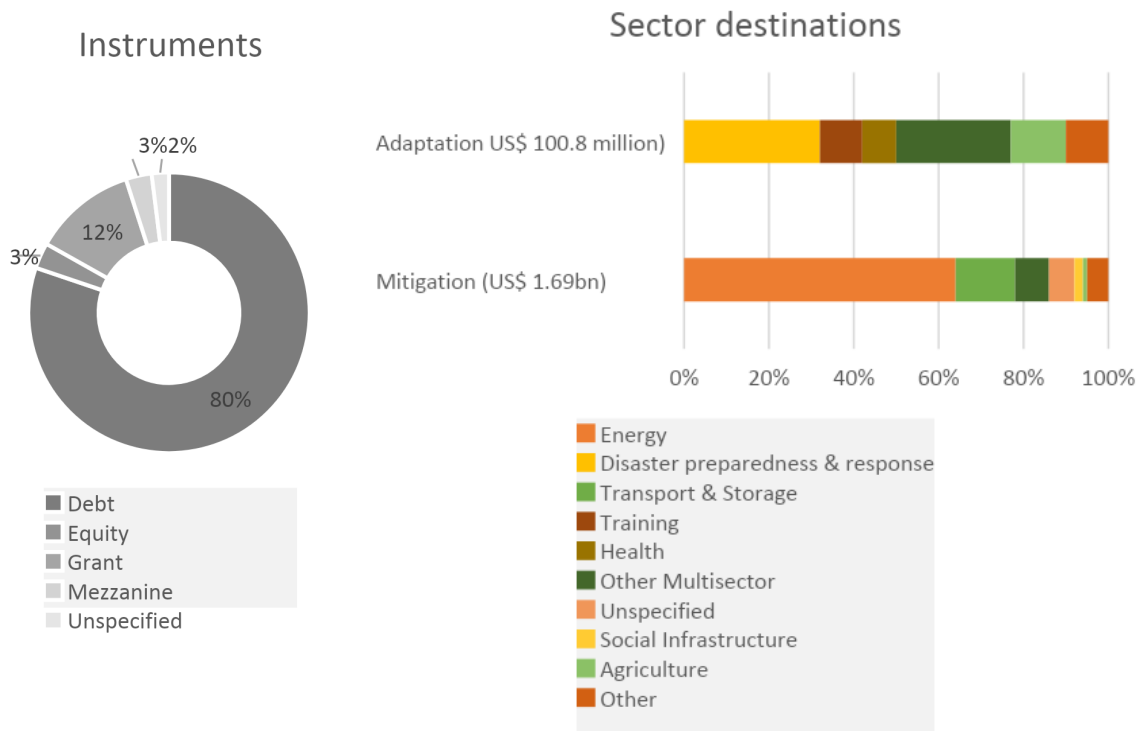
**R4:** *DFI investments are heavily influenced by political stakeholders*

**R5:** *DFIs are failing to invest in clean energy sectors due to pipeline and risk constraints*

#### BOX 4: Green project bankability and investor demand

Achieving a low-carbon transition introduces a need to transform energy, transport and logistics, and other infrastructure systems. These large-scale needs demand a variety of financing tools, including equity, sovereign loans, blended finance, and technical assistance. Access to suitable investment opportunities is also increasingly in focus and a lack of bankable projects is one factor reducing uptake of climate financing opportunities (Prasad et al., 2022). National and international banks and investors frequently state that a shortage of bankable projects, rather than the availability of capital, is the limiting factor (CIF, 2020).

Large investors are often required to ensure funded projects or enterprises meet minimum investment criteria, especially with respect to financial risk and return. Funding gaps occur where projects do not meet investability standards or the cost of enabling projects to meet such standards is too high. DFIs engage in investment through their lending, and thus face the same limitations.



### Climate funding trends in South Africa - 2014 to 2018

Figure 10: Climate flows to South Africa (2014 - 2018) by instrument and utilisation (Source: Atteridge, 2021)

Gaps remain in the availability of bankable climate projects, especially in climate adaptation. Addressable opportunities are often small, fragmented, and early stage in nature. Significant costs for project preparation or due diligence for large scale infrastructure projects also hampers their progress to an investable stage (CIF, 2020). Existing climate flows have limited scope to address less bankable projects. Between 2014-2018, 84% of global climate funding targeted at climate activities in South Africa was structured as debt or mezzanine finance, 3% as equity and 12% as grants (Atteridge, 2021).

South African DFIs are expected to operate on a strongly commercial basis and have limited recourse to their own or government funding to finance less financially attractive projects. Recent credit shocks and a higher level of public debt limit government's contribution, whilst traditional capital market demands do not support sub-commercial investments. Hence even relatively concessional DFI funding can be perceived as too expensive by potential clients. DBSA's Green Fund, for example, offers opportunities for municipalities and their enterprise networks to access climate-aligned loans. Its funds are derived from concessional government sources, however eligible borrowers report its rates remain unaffordable (Keen et al., 2022; DBSA, 2022)

Most development investment funding is available in bulk and requires financially attractive investment opportunities that can both support large amounts of investment and have relatively lower risk of underperformance. Unfortunately, SA DFIs lack the ability to fund promising climate projects that don't meet this profile without additional support.

## 3.6 Policy and governance

### 3.6.1 Policy

DFI mandates and roles are influenced by context and the political economy. Therefore, it is important to assess DFI investment activity through the lens of policy and international agreements.

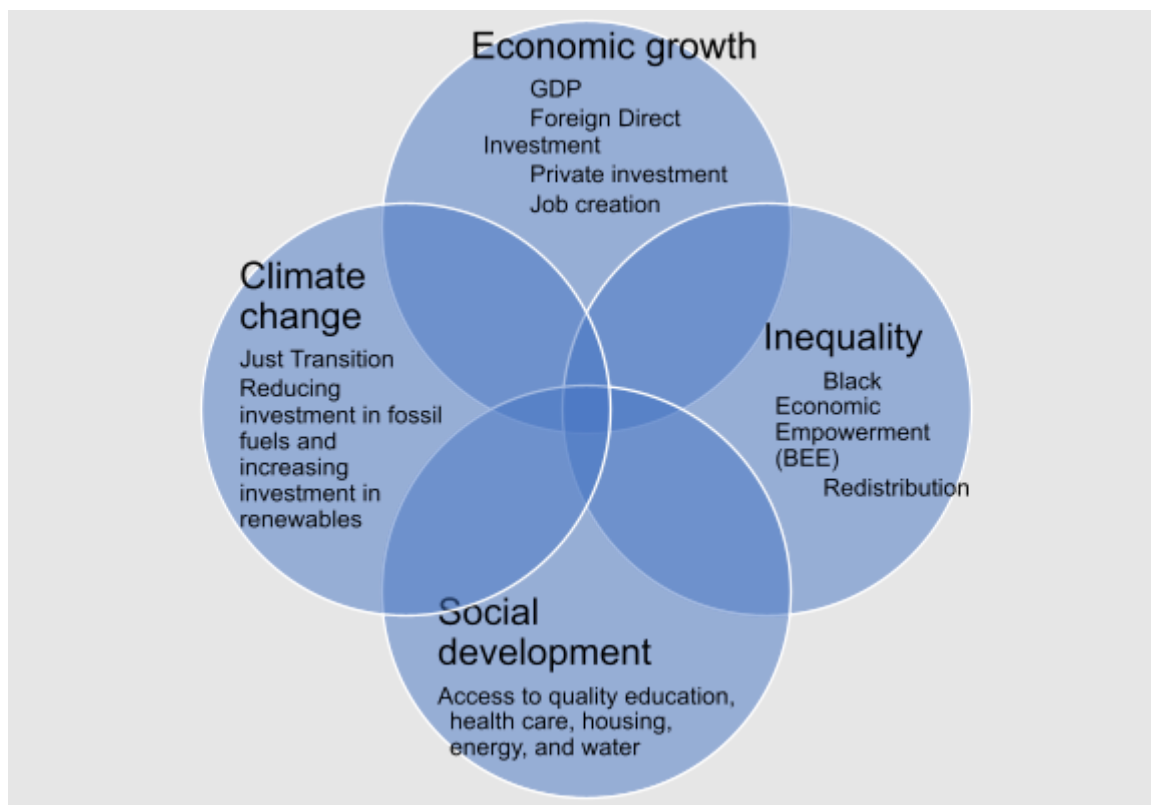


Figure 11: South African DFI policy focus

A summary of these policies and agreements are provided in **Table 6**. Post-Apartheid, South Africa implemented many policies intended to address the divide between the rich (the first economy) and the marginalised (the second economy) (Khadiagala, 2015). The first policy introduced was the Reconstruction and Development Programme (RDP) and others closely followed. Each policy looked to address gaps left by its predecessors and promote economic growth while uplifting those living in poverty (particularly due to Apartheid.) DFIs have tried to walk the line between investing in the second economy, searching for social transformation, and investing in the first economy to drive economic growth and returns.

Table 6: Key policies and agreements affecting DFIs

Policy/Agreements	Year	Focus area
Reconstruction and Development Programme (RDP)	1994	Education, healthcare, housing, and other social amenities to the majority

Growth, Employment and Redistribution Programme (GEAR)	1996	Five-year plan to improve economic development, broaden employment, redistribute income, and create opportunities for the poor
Kyoto Protocol	1997	Extended the United Nations Framework Convention on Climate Change committing industrialised economies to limit and reduce greenhouse gas emissions
Accelerated and Shared Growth Initiative for South Africa (ASGISA)	2006	Public expenditure to develop small business and broad-based empowerment, intended to reduce unemployment and poverty while increasing GDP
New Growth Path (NGP)	2010	Job creation, equitable growth
The Green Economy Accord	2011	South African climate change response policies
National Climate Change Response White Paper	2011	
National Strategy for Sustainable Development	2011	
National Development Plan (NDP)	2012	Eliminate poverty and reduce inequality by 2030, sustainable economy ambitions
2030 SDG Agenda	2015	Achieving shared peace and prosperity through 17 sustainable development goals
Paris Agreement	2015	Countries agreed to cut greenhouse gas emissions with a view to 'holding the increase in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels'.
Just Energy Transition Partnership (JETP)	2021	Partnership between the governments of South Africa, France, Germany, the United Kingdom, and the United States, along with the European Union (EU) to assist with South Africa decarbonisation efforts
Presidential Climate Commission (PPC)	2020	Support the Just Transition delivery in South Africa

Just Transition Framework	2022	Framework to be used as planning tool for government and social partners to achieve a Just Transition in South Africa
Climate Change Bill	2022	Legislation to support South Africa’s climate change response and a Just Transition to a low-carbon and climate-resilient economy and society

DFIs aid public policy implementation. It is therefore **important policies and mandates are clear so DFIs can effectively align their investments and operations.**

There are four key policy areas South African DFIs need to address: economic growth, inequality, climate change and social development. Regardless of their mandates, DFIs must invariably **also factor in the influence of political economy** to shape their operations (see Box 5.)

#### BOX 5: Political economy of DFIs and their climate finance contributions

The use of influence or power is central to understanding climate finance. Traditional concepts of power often locate it with specific actors in economic and political institutions and distinguish elitist (concentrated) or pluralist (distributed between a group) structures. Decision-making for climate finance is distributed and involves stakeholders from the public, private and civil society spaces (Dube, 2022).

There are key boundaries in the fraternity of DFIs that create notable patterns of influence. Developed economies such as the US and UK tend to dominate decision-making at leading Bretton-Woods institutions such as the World Bank. The growth of other development banks was thus driven in part by a desire for other nations to have more influence in development matters and gain greater flexibility and responsiveness in accessing financing (Delikanli et al., 2018).

Many development banks that evolve in this manner face access to funding challenges that mean they must continue to heed external geo-political interests. The African Development Bank (AfDB) was founded, at the dawn of African independence, with the goal of reducing (potentially undermining) Western influences on its members. Its membership was restricted to membership states for the first 18 years for this reason. However, the limited capital available from African states made it difficult for the AfDB to raise funding in international financing markets. In the 1970s, the institution thus decided to open its membership externally, allowing members external to the continent to participate and hold up to 50% of the voting power. By 1992 external, minority interests wielded the greater share of influence due to their superior capabilities to provide additional funding to the bank on request (Delikanli et al., 2018).

#### HIERARCHY OF INFLUENCES FOR SUB-REGIONAL SCALE DFIS



*Figure 12: Funding relationships are front of mind for most local and regional scale DFIs*

The New Development Bank (est. 2014) and Asian Infrastructure Investment Bank (est. 2015) have emerged as upstarts at the multilateral level. Established by BRICS (Brazil, Russia, India, China, and South Africa) bloc countries, these institutions are seen to have developed due to emerging economies' frustration with the dominance of developed world nations at Bretton Woods institutions (Delikanli et al., 2018). Although funded by emerging market countries, this **new generation of banks also has ambitions to raise finance in international capital markets where international geo-political influences hold sway**. Notably, the NDB faced some concerns regarding Russia's influential role and its impact on the NDB's fundraising capabilities. This was due to sanctions imposed on the country after the outbreak of the Ukraine conflict (New Development Bank [NDB], 2022b).

National DFIs often have low profitability and face pressures on sustainability (see Box 7) making them more dependent on relationships with regional bilateral and multilateral institutions. National banks have historically benefited from these relationships, with their larger peers supporting efforts to develop capacity, governance, and access to international markets. However national DFIs find the dominance of multilaterals and Organisation for Economic Co-operation and Development (OECD) DFIs in gatekeeping access to international finance a challenge, with significant administrative requirements and slow disbursement (Griffith-Jones et al., 2020).

As a key audience for DFI fundraising, **capital market stakeholders yield considerable influence**. These actors, including investors and credit rating agencies amongst others, have influence as they control DFI access to funding for development and climate financing objectives (Cahill et al., 2018; Peck & Whiteside, 2016). During recent global financial crises some commentators observed the needs of developing countries appeared secondary to the political and ideological interests of private investors (Jakupec & Kelly, 2015).

Other private interests may also play a role in shaping priorities around DFI actions and climate finance. There are suggestions that climate action in South Africa, especially with relation to the energy transition, is subject to lobbying from actors with a vested interest in the present fossil-fuel intensive paradigm. DFIs must thus contend with these and other political influences (CIF, 2020)

**Civil society organisations have a stake in climate and development matters, including an important role to play in advocacy and policy inputs. However, they don't match the influence that capital market stakeholders** can exert due to an informational disadvantage and lower financial capabilities. DFIs, especially smaller scale institutions, place a premium on raising and deploying capital quickly with minimal cost and administrative burdens. This can mean inclusiveness and transparency to civil society and other external stakeholders is secondary to the operational imperatives of raising and investing capital (Dube, 2022).

Climate change is a relatively new policy area for South African DFIs. However, DFIs can no longer invest without careful consideration of the environmental implications. Doing so would have negative ramifications elsewhere. For example, international partners may reduce country investment in response (impacting on economic growth). Another example is that the investment may worsen environmental conditions in the medium to long term, causing food shortages and flooding due extreme weather conditions bring with it social and economic difficulties.

**South African DFIs have a difficult task in balancing different policy areas and priorities.** However, as depicted in Figure 7, each policy area is not mutually exclusive. Ideally, South African DFIs need to focus their investments on projects that connect all four policy areas. Frameworks to enable coordination of green sector investment are emerging (see Table 6 and Box 6). However, it is possible that DFIs are focusing on certain policy areas based on vested interests or political influence.

*R6: South African DFIs focus only on certain policy areas, driven by key personnel interests rather than public interests*

#### BOX 6: Evolution of green financing standards

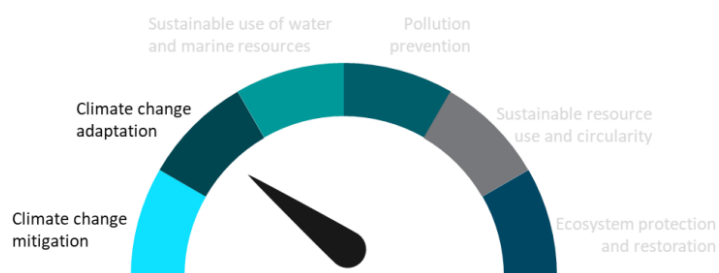
Climate policy and classification ambiguity can discourage climate investment (Prasad et al., 2022) **Standard setting bodies and policymakers across the globe are strengthening green regulation and standards** to promote both investment and compliance. The EU, UK, China, Malaysia, and Japan are amongst countries that have developed and implement green finance taxonomies in recent years (Gondjian & Merle, 2021).

The EU Green Taxonomy (European Union, n.d.) is increasingly in focus for financial institutions seeking to market green investments to EU or global investors. Introduced in 2020, it identifies economic activities and environmental criteria that enable investments to attract a 'green' label and supports the EU's ambitions to achieve climate neutrality by 2050. Eliminating uncertainty amongst investors on what qualifies as green investment is expected to be one of its key contributions. Financial product providers and large and listed companies will be required to disclose the share of investments or revenue and expenditure that complies with the framework (Abnett & Jessop, 2022).

**South Africa launched its Green Finance Taxonomy (GFT)** in April 2022. The framework frames financing needs based on SA's socio-economic profile and was developed in consultation with domestic financial institutions including local DFIs (notably the DBSA and IDC) and included a public consultation phase. The taxonomy provides a voluntary tool to describe and assess the climate mitigation and adaptation contributions of environmentally sustainable commercial activities. It establishes the minimum criteria necessary for such initiatives to be labelled as green or environmentally friendly (South African National Treasury, 2022).

The **GFT is expected to determine how local financial institutions, including DFIs frame their climate contributions and activities locally.** Alignment is necessary as DFIs may seek to raise funding in international financial markets. The GFT is currently applied on a voluntary basis to improve climate related disclosure and transparency of implementing institutions. However, there are indications financial regulators including the South African Reserve Bank (SARB) or Financial Sector Conduct Authority (FSCA) will build on insights from the framework's design and implementation to guide future regulations addressing green and climate risks or ensuring accurate disclosure for green investment. The SARB has already issued initial communication to local banks and insurers signalling its intent to factor climate risks into its regular monitoring (South African Reserve Bank [SARB], 2022).



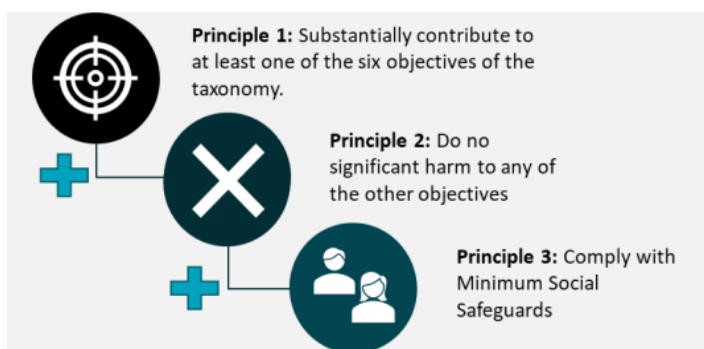


### Climate impact areas

\*greyed areas to be implemented in future revisions

### Qualifying sectors

- Agriculture, forestry, fisheries & land use
- Construction
- Enabling activities, system resilience & innovation
- Energy
- ICT
- Industry
- Social resilience



### Qualifying principles for each activity

- Substantial contributions consider both direct contributions to climate objectives and indirect effects/contributions
- All three principles must be upheld to qualify

### Pre-defined, contributing activities

- Renewable generation, transmission, storage, and distribution
- Energy efficiency improvements
- Clean and climate-neutral mobility
- Using sustainably sourced renewable materials
- Carbon capture utilisation & storage technologies
- Strengthening land carbon sinks e.g., forest restoration
- Energy decarbonisation infrastructure
- Facilitation of any of the preceding

Figure 13: A Green Taxonomy – Sectors and Contribution levels

## 3.6.2 Governance

Governance describes implementation practices that promote integrity, transparency, and accountability. Governance sets out the relationships between shareholders, the board,

management, and stakeholders (OECD, 2015). A clear theme in literature is that **DFIs need good governance practices to operate effectively.**

Governance provides guidelines on how DFI objectives are achieved, and performance measured. The usual, formal governance structure for DFIs is a three-tiered structure. The top tier typically consists of a Board of Governors (BoG), the next a Board of Directors (BoD), and the last tier is the management team. The BoG and BoD consists of shareholder representatives. This is normally the minister or representative of the finance or development ministry or a representative from the central bank.

The BoG oversees the BoD and fulfils functions related to issues such as membership, capital, cooperation agreements, approving strategies, financial statements, and reserves. The BoD oversees management and ensures the implementation of BoG strategies by approving financial activities. Finally, the management team handles daily operations (Delikanli et al., 2018). In regional DFIs, the shareholding often consists of regional and non-regional member states.

The regional member states are often the borrowers whereas the non-regional member states are lenders. This dynamic between capital receiver and capital contributor has the potential to influence how regional DFIs operate. The size of the member country's economy and thus its ability to contribute significant capital often informs its shareholding and influence on decisions. **In the majority of DFIs, the voting power and influence then lies the developed countries. Even if regional members have the majority in terms of votes, there is still significant influence from the non-regional members who hold the purse strings.**

It is sometimes argued that national DFIs, due to their government control, may show a lack of discipline, lend recklessly, or use funding to drive political agendas (Attridge et al., 2021). Thus having some power located outside regional member states can prove beneficial in promoting greater financial and lending discipline (Delikanli et al., 2018).

There is a clear tension in the literature surrounding DFI control. Regional DFIs have elements of independent influence, whereby non-regional members guide financial decisions. However, this still brings into question whether regional members have a say in how capital is being allocated in their own countries. **This arrangement of power shifts political influence from developing countries to developed countries.**

At a national DFI level, the country has more of a say over its capital allocation with less independent influence. But this structure may also introduce problems, as national political agendas may be pursued without any independent accountability. National DFIs may also lend with the help of, or alongside regional DFIs. Such reliance may instead skew DFI investments to regional rather than national goals. **This complexity in governance relations highlights the need for clear transparency and accountability in DFIs.**

At a multilateral level it has been argued, especially with reference to the World Bank, there is a lack of accountability when it comes to lending. This leads to environmental and human rights abuses and offers limited legal remedy for affected communities (Mirza, 2018).

DFIs seem to dedicate limited resources and effort towards accountability and transparency measures. Accountability and transparency measures are voluntary, and while many DFIs have implemented them, enforcement gaps often present. Social and environmental safeguard implementation can prove reactionary /ad-hoc and leave little room for participation from civil society and communities.

**R7:** Non-regional member states influence DFI investments at regional and national DFIs.

**R8:** Community and civil society engagement can lead to greater DFI accountability and transparency

## 4. DFI institutional analysis

### 4.1 Assessing impact readiness

DFIs are challenged with delivering a commercial funding model (enabled by a minimal amount of government support) with the goal of mobilising other funding towards public needs.

According to the DBSA, good national DFIs should be adept at financing development initiatives and play enabling roles in the industrial and economic development of their countries. A hallmark of exceptional DFIs is their ability to serve as catalysts, providing game changing interventions for the betterment of their stakeholders (Gumede et al., 2011). **Their ability to deliver on their intended political, economic and development impact (including green) objectives is influenced by elements of their internal and external contexts (see Box 7.)**

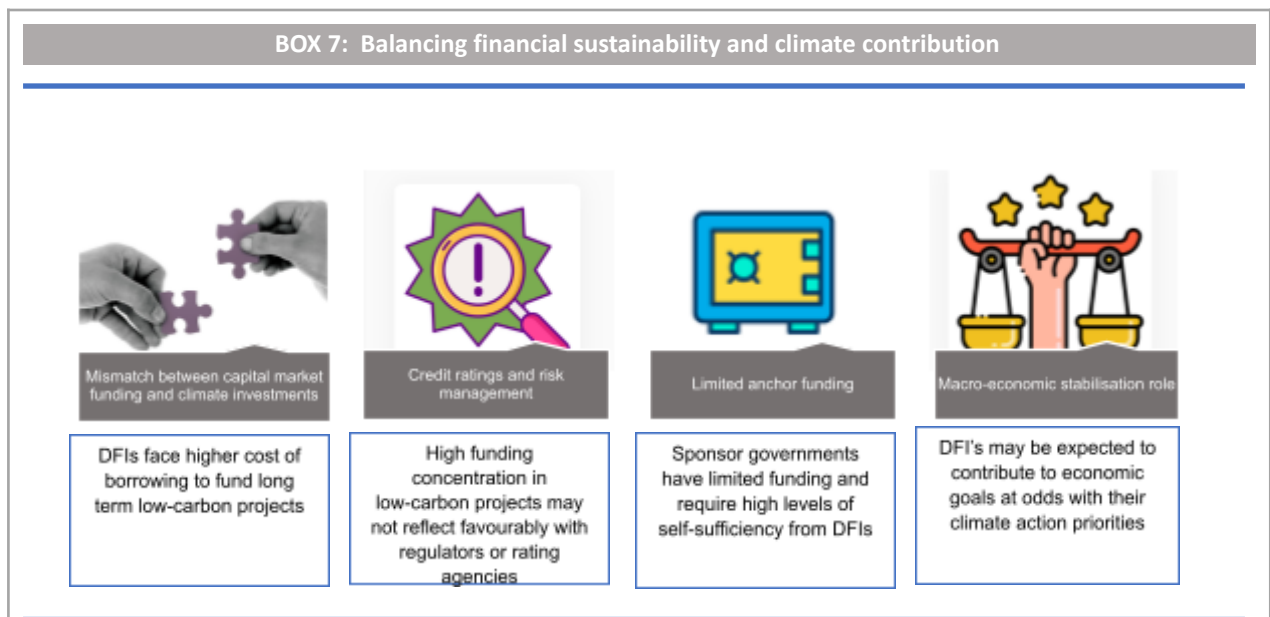


Figure 14: Key challenges for development banks when combining sustainability and climate goals

DFIs from the Global South are making progress with low carbon finance. However, they face issues including under-developed policy environments, limited project preparation capacity, underdeveloped or difficult channels for partnering with multilaterals, and limited access to local and international capital markets (Xu & Gallagher, 2017). National DFIs starting to address climate and Just Transition grapple with raising investment to support these activities. They must also contend with maintaining credit quality, being good stewards of government's

anchor funding and preserving their ability to support to broader economic growth/recovery and stabilisation objectives.

#### *Capital market expectations*

Development banks aim to use their government support to attract third party funding to apply towards development investments. Most of this funding is raised by borrowing in international and domestic capital markets. The low carbon investments DFIs make are typically long term and feature limited historical performance track records. However, **investors in capital markets favour proven investments that perform well in the short-medium term. This mismatch can raise the cost of debt raised by DFIs to support low carbon activities.** Costs of financing can also be prohibitive when focusing on funding small businesses or projects (Monasterolo et al., 2022).

#### *Credit ratings and risk management*

DFIs' credit ratings enable them to raise capital in financial markets at lower rates. Following the 2009 financial crisis credit rating agencies have adopted an increasingly conservative view on DFIs – including evaluating development banks using similar assessment criteria as commercial banks. **The risk of suffering penalties to credit ratings discourages ambitious green financing activity**, hampering DFIs' contribution to climate action (Xu & Gallagher, 2017). Although DFIs are often not legally required to comply with financial regulation, the desire to raise finance in capital markets often encourages them to.

Basel III is an international regulatory standard applied to determine the sufficiency of financial reserves of commercial banks and sets financial standards they must adhere to (BIS, 2022). To enable capital raising, the DBSA voluntarily uses Basel III risk metrics as part of its risk management policy (Development Bank of Southern Africa [DBSA], 2021). Meanwhile the ECA is affected by the extent to which clients or partners such as banks are impacted (Export Credit Insurance Corporation of South Africa. [ECIC], 2013). The effect of these regulations lowers risk appetite (Prinsloo & Shipalana, 2018).

#### *Shareholder support*

The degree of government commitment to sustainable development influences how effectively DFIs approach and engage with sustainable finance. Most state owned DFIs have modest performance track records. Hence, they are forced to prioritise continued solvency, good credit ratings and flexibility to adapt to changing market conditions (Nyikos & Kondor, 2022). Growing the effectiveness of national institutions often requires governments to provide a sufficient base-level of funding and enable DFIs to raise more funding towards economic transformation and sustainable development goals (Griffith-Jones, 2022). Although the National Development provides SA a well-developed strategic development framework, **government's financial resources are limited. This makes it crucial for its DFIs being able to operate self-sufficiently.**

#### *Macro-economic contributions*

Emerging market development banks are asked to play roles outside of the realm of sustainable financing, potentially including supporting international relations and economic stability (Zhang, 2022) or bridging

investment gaps in areas under-financed by the private sector (Lee, 2017). One area these trade-offs have proved harmful is the increasing pressure from states for DFIs to step in when private commercial banks decrease support for fossil fuel-related investments (CIF, 2020). However, **climate risks are relevant to safeguarding broader economic growth and resilience. Accordingly, there is reasonable expectation that green opportunities may be specifically targeted as part of broader economic strategies** (Monasterolo et al., 2022). Should this be the case in South Africa, the economic stabilisation and climate action roles of local DFIs will increasingly coincide.

Traditional institutional design considerations such as prudent operational and financial management, good governance, performance evaluation and accountability are fundamental to DFI effectiveness (Luna-Martinez, 2017).

Given their development objectives and ultimate accountability to the public interest, assessments of DFIs must also consider their approach to Environmental and Social Safeguards (ESS.) These are the “rules or institutions that help ensure that investments meet minimum social, environmental, and governance standards and the transparency provided by institution with respect to their development impact objectives. Transparency on impact measurement processes and results has been a challenge for DFIs, at times due to conflicting commercial and impact priorities or incentives (Boiardi & Stout, 2021; Larsen & Ballesteros, 2013).

Thorne and du Toit (2009) developed a framework describing six key influences that impact on the efficacy of development financing institutions. **The factors considered include an enabling environment, mandate, regulation and supervision, governance and management, financial sustainability, and performance assessment.**

This study adapts this framework towards an assessment framework (**Table 7**) that describes the nature and operations of institutions and the key factors thought to affect their mandate effectiveness. Available information and disclosures do not enable a detailed assessment of individual institutions based on this criteria. However, this framework informed questions posed to stakeholders in semi-structured interviews and is partially reflected in institutional profiles for the 6 focal SA DFIs.

*Table 7: DFI assessment framework*

Component	Description
C1. Enabling ecosystem	<p><b>Summary</b></p> <p>Enabling or neutral socio-economic environment</p> <p><b>Sub-criteria</b></p> <ul style="list-style-type: none"> <li>● Macro-economic stability – its general influence on investment risks</li> <li>● Institutional task environment - access to critical partners, resources, skills, degree of competition etc.</li> <li>● Political exposure - potential contestation by political actors</li> </ul>

<p>C2. Appropriate and robust guiding frameworks</p>	<p><b>Summary</b></p> <p>Clearly defined institutional mandate and policy or regulatory obligations</p> <p><b>Sub-criteria</b></p> <ul style="list-style-type: none"> <li>● Policies: clear policy directives, especially regarding priority functions, such as the economic and developmental effects to be delivered</li> <li>● Mandate: clearly defined scope and objectives and coherent role relative to complementary initiatives or institutions</li> <li>● Regulations: clear regulatory parameters, especially around financial supervision requirements</li> </ul>
<p>C3. Effective governance and strategy</p>	<p><b>Summary</b></p> <p>Strategic, well-functioning boards with positive shareholder supports</p> <p><b>Sub-criteria</b></p> <ul style="list-style-type: none"> <li>● Positive shareholder/member relationships</li> <li>● Board qualification and independence</li> <li>● Responsive approach to strategy formulation and implementation</li> </ul>
<p>C4. Strong operational capabilities</p>	<p><b>Summary</b></p> <p>Suitable leadership, staffing, organisational structure, and funding instruments</p> <p><b>Sub-criteria</b></p> <ul style="list-style-type: none"> <li>● Well-resourced and capacitated leadership and staff in relation to mandate</li> <li>● Relevant incentives towards institutional goals</li> <li>● Capacity and flexibility to respond to evolving needs</li> </ul>
<p>C5. Capital access and adequacy</p>	<p><b>Summary</b></p> <p>Ability to raise large scale funding at appropriate cost and consistent with applicable financial risk-budgets</p> <p><b>Sub-criteria</b></p> <ul style="list-style-type: none"> <li>● Quality of access to local and international capital markets</li> <li>● Cost of capital</li> <li>● Regulatory requirements on maintaining sufficient financial reserves</li> </ul>
<p>C6. Funding opportunities</p>	<p><b>Summary</b></p> <p>Access to a pipeline of purpose-consistent funding opportunities</p>

	<p><b>Sub-criteria</b></p> <ul style="list-style-type: none"> <li>• Number of addressable opportunities</li> <li>• Average funding requirement of addressable opportunities</li> <li>• Average expected return on investment</li> </ul>
C7. Learning and accountability orientation	<p><b>Summary</b></p> <p>Commitment and implementation of accountability measures, including efforts to enable transparency on processes, funding and results, and avenues for consultation with key stakeholders</p> <p><b>Sub-criteria</b></p> <ul style="list-style-type: none"> <li>• Policies and mechanisms for shareholder/capital provider disclosures and accountability</li> <li>• Policies and mechanisms for community access to information and engagement</li> <li>• Policies and capacity for safeguarding</li> <li>• Commitment and mechanisms for impact measurement and management</li> </ul>

## 4.2 Development Bank of Southern Africa (DBSA)

The DBSA focuses on infrastructure projects, notably in electricity generation, social infrastructure, and transport. The organisation ascribes to multiple climate related frameworks and sustainable development agreements.

One of its notable products is its climate finance facility, delivered with support from the Green Climate Fund (GCF). This lending facility is the first in Africa and adopts a blended finance approach that looks to direct private capital towards climate initiatives. The DBSA is also involved in other initiatives such as The Green Fund, green bonds, and the Renewable Energy Independent Power Producers Programme (REIPPP).

### [Appendix A - DBSA worksheet information]

The organisation has suffered setbacks in its ability to access traditional capital market opportunities in recent years, leading it to identify green fundraising as a mitigating funding source. This need plays a role in DBSA's strong messaging on supporting Just Transition and establishing practices and safeguards to ensure the protection of the environment. The organisation is driving strategic engagement with other institutions on Just Transition (**see Box 8**) and has also recently completed a 'Green deep dive' to assess the climate footprint of its portfolio. The results of this carbon assessment are yet to be made public.

Despite these developments, its current funding realities remain influential. Close to half of DBSA's historic funding activity has been in energy. Hence, although appearing to be engaged in transitioning South Africa to a low carbon economy, the DBSA does not preclude future investments

into fossil fuels or disclose what portion of the portfolio is invested in fossil fuels or renewable energy.

A lack of potential for low carbon investment opportunities does not appear to be DBSA's primary constraint. Indeed, the DBSA has raised over \$900m in green funding over the past decade and recently reiterated the significant opportunity for green energy finance in Africa (Manthata & Spire, 2022).

However, it is unclear how rapidly the DBSA can scale up the green portion of its portfolio to a scale approaching the elimination of fossil fuels from its holdings. As the DBSA seeks firmer standing in the green finance ecosystem, it may be pressured to do so whilst holding close to its carbon-intensive assets, if only to ensure it retains its financial stability in an uncertain credit environment.

It is likely to be up to the government and green funders to encourage the DBSA to strengthen its decarbonisation efforts. An encouraging sign for this effect was the GCF leadership's successful request for the DBSA to commit to a [net zero objective](#) by 2050 if its GCF accreditation was to be renewed.

#### BOX 8: Securing institutional change towards Just Transition

In South Africa, the IDC, DBSA and National Empowerment Fund (NEF) have established the DFI Just Transition Task Team. A sub-initiative of this work is the CEO's forum, which comprises executives from represented DFIs and is tasked with supporting technical work streams towards shaping their operational and leadership contributions on the topic. The forum is open to South African public funds, DFIs and fund managers. The institutions recognise that decarbonising the country's economic structure requires fundamental and deep transformation of its economic base. This in turn requires decarbonising and repurposing coal fired power stations, upgrading and extending the power grid, and acceleration of renewable energy projects amongst other efforts.

The DFIs also recognise the social aspects of delivering the Just Transition will require skills development for youth and access to funding enabling entrepreneurs to play a meaningful role in growing green sectors. Through the initiative, they aim to strategically locate and execute their role in funding the Just Transition (DBSA et al., 2022).



#### Existing Just Transition Projects

- Eskom de-carbonisation
- Small Independent Power Producer (IPP) Fund
- Embedded Generation Investment Programme
- Green Hydrogen
- Green Transport
- Battery Storage
- Direct capture





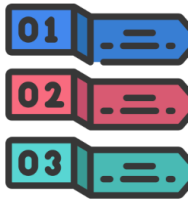
 <p><b>Collaboration with other DFIs</b></p>	<ul style="list-style-type: none"> <li>● Collaboration on green hydrogen and transport projects</li> <li>● Research on DFI pathways for achieving Just Transition and net-zero</li> <li>● Innovative financing opportunities to de-risk projects</li> <li>● Partnerships to unlock 3<sup>rd</sup> party public/private concessional and grant capital for affordable SMME funding</li> <li>● Explore carbon market opportunities</li> <li>● Project development informed by Just Transition principles</li> <li>● Promote sustainable industrialisation based on Just Transition needs</li> <li>● Utilise impact measurement tools to assess Just Transition progress</li> <li>● Train project development and deal teams to incorporate Just Transition lens into projects and transactions</li> </ul>
 <p><b>Provide thought leadership</b></p>	<ul style="list-style-type: none"> <li>● Shape understanding of roles and approaches to Just Transition, financing the Just Transition and sustainable industrialisation</li> <li>● Areas including industrial policies, embedding climate impact into investment decision-making, developing climate risk aware risk mitigation tools, economic modelling climate risks and engagements with government and other stakeholders</li> </ul>
 <p><b>Medium term (2–3-year priorities) for Just Transition</b></p>	<ul style="list-style-type: none"> <li>● Reduce portfolio carbon intensity</li> <li>● Influence sustainable infrastructure policy</li> <li>● Support industrial diversification and development of Just Transition plans</li> <li>● Mobilise additional capital</li> <li>● Support ecosystem product development for Just Transition</li> <li>● Promote inclusivity and social justice on the transition</li> <li>● Support the (just) social transition</li> <li>● Support the country’s path to net zero</li> </ul>

Figure 15: South African DFIs - CEO forum Just Transition strategy

The CEO forum’s climate action objectives centre on transforming the existing economic and industrial base and developing institutional and governance infrastructure to enable DFI Just Transition contributions. This approach

is expected to involve investment and expansion of renewable energy capacity, decommissioning, and repurposing existing thermal generation capacity, and developing new green value chain opportunities. Green value chain efforts are especially intended to create related capacity building and opportunities development for youth and small businesses (DBSA et al., 2022).

The DFIs intend to deliver the Just Transition strategy through a combination of internal and external efforts. Internally, climate impacts are to be increasingly factored into project preparation and investment decision-making, including better integration into ESG impact analysis and due diligence, improving carbon disclosure, and benchmarking, and offering financial and non-financial support. There is also a commitment to reduce their portfolio carbon intensity within the first 2-3 years of the initiative. These efforts will be paired with internal governance, skills, and instrument/process development efforts to operationally embed the strategy. External partnerships will promote access to expertise and capital to support these efforts.

### 4.3 Public Investment Corporation (PIC)

The Public Investment Corporation (PIC) is an investment management firm wholly owned by the South African government, and one of the largest investment managers in Africa. The corporation invests locally but also across Africa and internationally. The PIC is an important actor in the financial markets, and more broadly, development finance. The fund manager professes a dual mandate to generate financial returns and invest in development outcomes. Although not traditionally seen as a DFI, part of its mandate considers development objectives and outcomes. Historically, it has engaged in investments linked to various development areas, including some that are carbon intensive.

#### [Appendix A - PIC worksheet information]

The PIC's business model hinges on securing large investment mandates from government clients and using investment fees to fund its operations. The organisation claims alignment with the UN SDGs, environmental, social and governance (ESG) frameworks and other risk mitigation procedures. Although acknowledging climate risk and the need to integrate it into their risk management frameworks, to date, this is not part of their core risk assessments.

The PIC cites client confidentiality as a limiting factor for its ability to provide full disclosure of investments, including those in carbon intensive sectors. Recently the PIC refused to engage with Just Share, a South African shareholder activist group, to assess their climate-related risk management efforts (Theunissen, 2021). Nonetheless, it highlights its commitment to ESG assessments and incorporating this into its investment processes.

It is apparent that the adoption of ESG frameworks alone does not guarantee sufficient action to address historically damaging investments into fossil fuels or completely mitigate future environmental harms (see Box 9). As example, the PIC, is a major investor in SASOL, and has made multiple investments into Eskom. Those two companies alone account for more than 50% of South Africa's greenhouse gas emissions (Abdinor, 2019).

## BOX 9: ESG investing and climate action

ESG investing has entered the mainstream, with global investments projected to exceed US\$44 trillion in 2022 and grow to over US\$50 trillion by 2025. Of this, US\$4 trillion is ESG debt and projected to expand to at least US\$15 trillion by 2025. Increased investor demand for ESG products and the influence of regulatory frameworks, including the EU taxonomy, are serving as catalysts (Bloomberg, 2022).

Most of the DFIs profiled for this study mention climate as one of the ESG considerations treated in their investment appraisal and due diligence processes. However, there is limited disclosure on the decision-making boundaries determining when potential investments are declined on ESG grounds or how net climate effects are measured and managed. **The utility of ESG approaches for climate action in these institutions will remain sub-optimal unless they incorporate robust greenhouse gas (GHG) accounting methodologies and integrate results into regular reporting and investment decision-making processes.**

Central to the criticism of harnessing ESG to support environmental and climate objectives is the risk of green washing, the misrepresentation of green contributions for marketing benefit.

Other practical issues in applying ESG for climate include insufficient data to effectively incorporate or assess positive and negative climate impacts in investments and a lack of comparability of ESG criteria and rating methodologies (OECD, 2021). For these reasons there is the perception that ESG reporting, overall, and with special consideration for climate matters, is at best imperfect and at worst a significantly flawed assessment of contributions to climate change (Keen et al., 2022)

DFIs primarily focus on un-listed investments, especially in the provision of private debt and sovereign loans. ESG assessments in private investment markets rely on direct engagement. By comparison listed investments are facilitated by third-party ratings agencies. Many ESG assessments tend to be highly tailored to the investee and require proactive engagement and contextual analysis by the investor (European Leveraged Finance Association [ELFA], 2021).

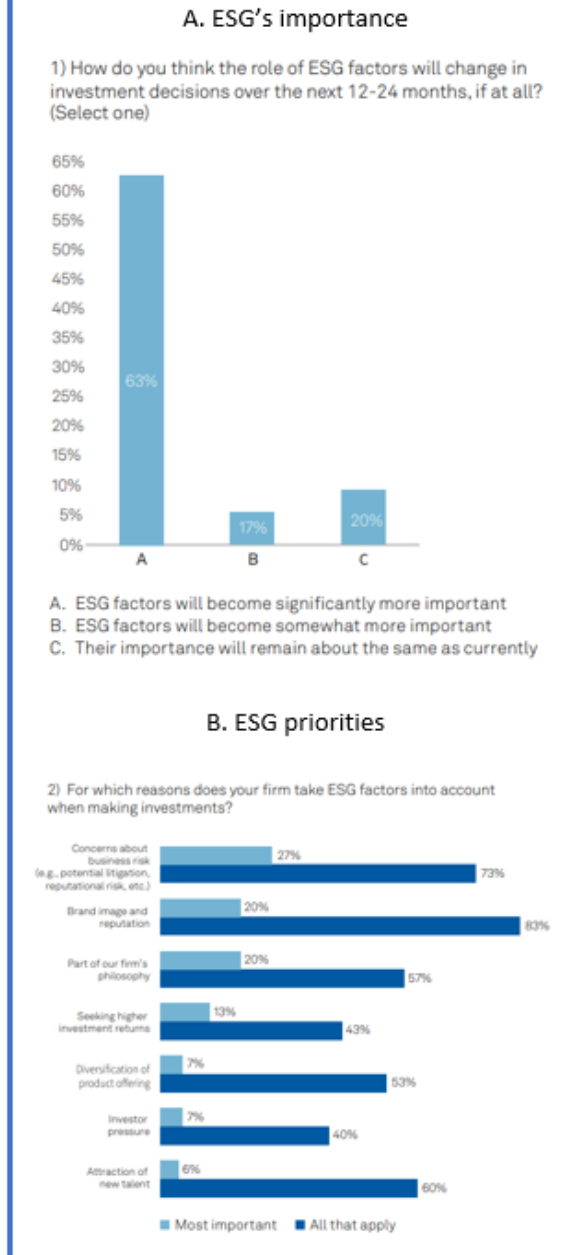


Figure 6: ESG Perspectives from a Private Market Investor (2021)

Investors are further reliant on the level of ESG monitoring and disclosure the investee is equipped to provide, failing which additional due diligence and ongoing monitoring costs are incurred. These considerations may discourage detailed ESG monitoring and focus investors on larger investment opportunities. These investments reduce the burden on investors by enabling monitoring to concentrate on a limited number of investees or those with better reporting capabilities.

Despite these limitations, DFIs are often seen as leading voices on ESG matters and a positive influence on those they provide funding to (Adolfsson & Åström, 2016). Overcoming these challenges is important for aligning and extending capital flows aligned with enabling long term climate objectives and low-carbon economy transition.

Improving policies that promote comparability of ESG approaches and strengthening the availability of frameworks and tools to guide disclosure, valuations, and scenario analysis is required (OECD, 2021). Ensuring adequate transparency and rigour in implementation and reporting will also require sufficient political will from DFI shareholders and management alike, especially where application may present trade-offs for other financial or policy objectives.

The three ESG dimensions are not always afforded equal importance. At the PIC, when engaging with investees on ESG, the environment was the least frequent engagement area at 16%. Engagements were more skewed towards governance (39%) and social matters (27%). Although the PIC highlights its commitment to impact investing, whereby one invests to secure both financial and socio-environmental return, less than 3% of their portfolio is dedicated to this type of investing.

The PIC is clearly an important financial actor in South Africa and its funding has tremendous influence. More can be done to improve its holdings transparency, especially in relation to its climate impact and supportive actions. The PIC's clients, notably the Government Employees Pension Fund (GEPE) are likely to play the most influential role in encouraging it to regularly make climate impact disclosures and strengthen its accountability to the general public.

#### **4.4 New Development Bank (NDB)**

The New Development Bank (NDB) is a multilateral DFI formed by BRICS member states with emphasis on funding infrastructure and sustainable development projects. The NDB strategically aligns with the SDGs and applies an ESG framework in deciding and implementing its investments. Its policy frameworks include measures to assess and evaluate investment alignment with environmental objectives.

The NDB has only existed since 2015 and features strong credit ratings and standards in governance, procurement, and social responsibility. In 2016, the NDB was the first DFI to issue a green bond in China's Inter-Bank Bond Market. The NDB also issued the first ever SDG bond following the United Nations Development Programme (UNDP) SDG Impact Standards (NDB, 2022a). The institution has allocated over US\$ 5 billion to South African projects since establishment (NDB, 2022c).

### **[Appendix A - NDB worksheet information]**

Civil society has questioned the NDB's basic, project-level transparency (Kweitel et al., 2016). It has been suggested that the NDB has struggled to deliver on its funding objectives because of political turmoil in and between member countries (Andreoni, 2019). The NDB also funded the paving of the Trans Amazonian highway which environmentalists consider an enabler for the deforestation of the world's largest tropical rainforest. Individually, the member countries, relative to their emerging market peers, have high greenhouse gas emissions and often engage in environmentally damaging practices such as deforestation.

Overall, the NDB appears to be seeking compliance in terms of meeting international climate commitments and demonstrating adequate practices in promoting transparency and accountability. As a more recently established DFI, the NDB is free from issues related to past fossil fuel investments and narratives around industrialisation.

The NDB aims to further scale up its influence on the global stage by doubling its financial footprint, growing linkages to other DFIs, and admitting new members. However, to date, the key influence of its heavily industrialised members, including China and Russia, may have a negative effect on its environmental activities and disclosures.

To date, the bank has been most active in Chinese and international capital markets. Following the Ukraine crisis, the influential role Russia plays in its governance may impact the NDB's access to global capital markets. This outcome may deepen its reliance on Chinese funding, a development with potential to reduce appetite for climate disclosure and de-carbonisation efforts.

## **4.5 Industrial Development Corporation (IDC)**

The IDC's core focus areas are industrial development, transformation, and job creation. The institution works towards these goals through investments into heavily industrialised sectors including coal mining, primary steel production and cement manufacturing. The IDC motivates its support for these industries in relation to their expected contributions to the aims of the National Development Plan (NDP) and Industrial Development Action Plan (IPAP).

### **[Appendix A - IDC worksheet information]**

The IDC claims compliance and alignment with ESG standards and the SDGs and emphasises a commitment to enabling the Just Energy Transition. Its Environmental and Social Policy framework also establishes a commitment to invest in climate change mitigation and adaptation measures. However, it does not publicly disclose its formal policies related to climate change, nor does it take a strong position against fossil fuel investments (CER, 2020). An example is their recent investment in coal company MC mining (CER, 2021).

The reasons for IDC's reluctance to exit or reduce investment in the fossil fuel industry are evident. The coal industry supports approximately 92 000 jobs alone in South Africa (ESI, 2021). The IDC was also a top financier in the fossil fuel industry from 2011-2016 (Warmerdam & Van Rosefn, 2016).

Allied to these interests, the IDC recorded financial losses in 2020 and 2021. As a self-financing DFI the IDC has an interest in their fossil fuel investments succeeding, or at least being sustainable.

A key question facing an institution such as the IDC is how it can advance industrial development whilst accelerating the transition from carbon intensive industries. Africa's limited historic contribution to fossil fuels, combined with a desire to ensure short term energy access for economic growth, may encourage the IDC to advance its green agenda at a lesser, less transparent pace.

#### **4.6 Export Credit Insurance Corporation (ECIC)**

The Export Credit Insurance Corporation (ECIC) insures South African exporters. Whilst the ECIC does not invest like traditional DFIs, its role enables exporters to engage in international trade and access funding more easily from banks and other financial institutions. The ECIC seeks to provide insurance to organisations that are aligned with national policy objectives such as inclusive economic growth, job creation and competitiveness in global markets.

##### **[Appendix A - ECIC worksheet information]**

Export credit agencies (ECAs) are cited as some of the most significant climate stragglers amongst financial institutions and often appear at odds with their government's policy stance. ECAs from G20 countries provided \$40.1 billion annually to support fossil fuel activities between 2016 and 2018, compared with only \$2.9 billion for clean energy (Saiyid, 2021.) At least part of the challenge is unclear or inadequate mandates provided to ECAs by governments, enabling them to pursue carbon intensive investments even as mainline policies advocate for phasing out fossil fuel investment. Another perspective provides that ECA's may be reluctant to phase down as they often commit to fulfilling obligations on projects negotiated years in advance, some of which are tied to international relations and obligations (White, 2020).

The ECIC does not currently claim alignment with climate related frameworks such as the Paris Agreement or the SDGs. There also appears to be limited consideration of climate impact by the ECIC in its financing operations.

The institution has approved \$800 million insurance cover for the Mozambique Liquefied Natural Gas (LNG) Project which is expected to increase Mozambican greenhouse gas emissions by 10% (350.org et al. 2021). Also in Mozambique, the ECIC supported and provided \$400 million towards a coal transportation project in 2017 (Bloom, 2019).

The ECICs biggest investment sector is power and electricity. It states "ECIC currently has no exposure in the renewable energy sector, however, the Corporation frequently receives inquiries in the sector." (ECIC, 2021). Therefore, nearly all of the ECIC's energy projects are linked to fossil fuels. The ECIC's statement implies that although renewable alternatives are being presented to the ECIC, they are not choosing to support these projects. It is not clear what the reasons for non-support are, speaking to a need for improved transparency around project selection criteria.

## 4.7 African Development Bank (AfDB)

The African Development Bank (AfDB) aims to reduce poverty in member states by promoting sustainable economic development. The institution has allocated an average of UA 166 million (approximately US\$221 million) to South Africa annually over the last decade (AfDB, 2022b)

The bank has been vocal about its intention to end financing for new coal-based projects (Okon, 2022). This led it to implement a new strategic framework in 2021 and amend its Energy Sector Policy (AfDB, 2022b). The AfDB has also committed to multiple frameworks and agreements on addressing climate change.

Although seemingly bold steps, the AfDB has also made clear it intends to continue investing in oil and gas even as it explores the energy transition. The AfDB has taken this stance as it argues Africa still needs to address its energy poverty, and fossil fuels remain fundamental to the continent's short to medium term energy stability.

### [Appendix A - AfDB worksheet information]

Civil society is calling for the AfDB to commit to 100% renewable energy (green-economy, n.d.) and offer greater transparency and disclosure as the bank does not appear to provide significant levels of public information on its investments. However, according to Publish What You Fund, the global campaigner for aid and development transparency, the AfDB is still one of the most transparent DFIs in the world comparatively (AfDB, 2022c).

The AfDB has made several recent steps to invest in renewable energy in Africa. In February 2022, it approved up to \$164 million to be invested in renewable energy through the Leveraging Energy Access Finance Framework.

Overall, the AfDB appears to be making positive progress towards climate action but is perceived to have even more room for improvement in both the extent of its effort and quality of disclosure. Future debate on its role is like to emphasise its stance towards oil and gas, and whether its energy security and economic growth objectives would be better supported by a much stronger bias towards renewables.

## 4.8 Summary - Institutional analysis

Findings across the 6 institutions further embolden some of the low-carbon finance tensions that surfaced in the preceding literature review.

**DFIs can vary significantly in terms of their mandates, resources, and even operational models.** These differences are evident even when focusing on the 6 institutions profiled, many of which have unique sector focuses or structures (e.g., the ECIC providing export insurance, PIC is managing public sector funding.) **Appreciating these differences is pre-requisite for effectively engaging different institutions.**

Nonetheless, resistance or delay in DFIs adapting their current investment practices to align with climate imperatives appears to be a commonality. There is also a common tension where DFIs

perceive trade-offs in promoting their self-sustainability or in pursuing goals such as economic growth and poverty reduction at the expense of the environment. Such tension is, energy security motives aside, a likely contributor to DFIs reluctance altogether exclude fossil fuels.

The analysis demonstrates that **national institutions such as the IDC, PIC and ECIC do not presently provide sufficient transparency and disclosure to support public accountability for their climate contributions**. Except for the DBSA, these institutions also do not engage or pursue climate frameworks and safeguards to the same extent as multilaterals. National DFIs also appeared to prioritise local policy objectives and mandates, perhaps speaking to the influence of local government and the political economy on DFI investments.

DFIs are at a crucial inflection point. Institutions have scope to improve their sustainable investment practices as the world moves to combat climate change. However, this is only possible by identifying and applying effective levers encouraging them to grow their climate action effectiveness.

## 5. Analysis and Discussion

The following section analyses findings from the literature review in conjunction with insights from interviews. Interviews were conducted with the intention of testing formulated research statements (**Table 2**) and gaining further insights into the effectiveness criteria (**Table 7**).

### 5.1 Political economy of climate engagement by DFIs

#### 5.1.1 Gaps in government climate leadership and policy direction

The presence of effective and robust guiding frameworks (i.e., **C2 in Table 7**) is an important enabler for DFIs. Although South African DFIs appear to innovatively seek out opportunities related to fulfilling their mandate; inconsistent signalling of government's climate policy directions and commitment is still a dis-enabler.

DFI insiders, experts and advocacy stakeholders all highlight the importance of national support for climate action and institutions seek to align their funding efforts with national climate policies. In the absence of clear government policy positions and related investment plans, institutions are likely to avoid taking strong or principled positions on issues such as investment in fossil fuels and approach climate action less consistently. The benefit of a clear government policy stance also extends to the broader environment DFIs operate in by removing policy uncertainty amongst capital providers and enterprises.

Although South Africa is a signatory to the Paris Agreement, stakeholders across the consulted spectrum believe government is still finding its feet in this area. Efforts such as the Just Transition Framework and Climate Change Bill (**see Table 6**) are welcomed but are still considered emergent with implementation specifics not sufficiently defined. The perceived maturity of these frameworks, coupled with government's at times inconsistent messaging on its commitment to concrete action, creates uncertainty for DFIs seeking to align their operations.

Some interviewees expressed fundamental doubt that government can provide the necessary policy leadership in time. Instead, they believe DFIs themselves should take proactive steps in accordance



with the right to a safe environment and its protection for current and future generations (Cooper, 2019).

Commercial incentives and other stakeholder pressure to engage with climate action mean DFIs are still pressured to engage with climate action and investments. However, **there is less climate action impetus originating from the government, and its shareholder representative, than may be expected given South Africa's treaty commitments. Assuming this continues to be the case, the pace and consistency with which climate objectives are pursued by DFIs is likely to be uneven, with climate funding excellence demonstrated on specific projects or financing facilities, as opposed to being well embedded across the entire scope of DFI operations.**

### 5.1.2 Private market and international community influences

In the absence of government policy leadership, interviews suggest DFIs are looking to integrate climate action within existing mandates. As discussed in the preceding section, such efforts are likely to be driven in the context of specific projects or sections of DFI portfolios that offer greater flexibility and less risk to their overall financial stability. Capital access and adequacy (**element C5 in Table 7**) and the role of funders other than the shareholder government(s), are especially influential in these efforts.

At multilateral institutions, where resources are more abundant and single-government dominance is lower, climate impetus is from executive leadership's interpretation of development needs and trajectories. National DFIs engagement with climate is encouraged by recognition that climate change could negatively affect their investment performance or reduce viable project pipeline. Addressing the issue also offers national institutions new opportunities for accessing international sources of climate finance.

The implication of **climate considerations being most directly driven by the source of funding leaves scope for climate goals to be unevenly enforced within DFIs, depending on whether the ultimate capital source has provided a clear mandate to do so.** Uneven enforcement dilutes DFIs overall contributions towards climate actions and their effectiveness as a force for change.

For some interviewees, it is seen as unrealistic to expect South African DFIs to take a whole-of-institution approach to embedding climate action, as none are explicitly designated as green banks. Inherent to this is the expectation that they must adhere to their written mandates unless shareholders specifically instruct otherwise. Thus, climate action will be mostly commercial opportunities (i.e., the 'carrot'), as opposed to restrictions (the 'stick'), driven, and balanced with ideas of the fair developmental space African nations should be granted as a least historic polluter.

One possible drawback of this situation is that **issues that are a high priority for South Africa (e.g. adaptation financing) but are not well aligned with DFIs' external funding sources will receive limited support.**

### 5.1.3 Internal impetus for climate action

Suitable operational capabilities within DFIs (**C4 in Table 7**) are another prerequisite for their development effectiveness. **Individuals working in DFIs are not opposed to climate-friendly investment and are in fact likely to possess a strong interest in incorporating climate action.** Most

institutions have had sufficient time to form an in-principle acceptance of the need for climate action and its relevance to the DFI business model. What DFIs are still grappling with is the appropriate breadth and depth of climate integration within their mandates and across operations.

DFI insiders are alive to the fact that shareholders may expect them to contribute to potentially contradictory efforts such as grid stabilization for existing fossil fuel-based generations even as they pursue clean energy investment. They may also be expected to manage these competing priorities in the short term even as they build the basis for contributing to SA's NDC commitments in the medium-long term.

There is optimism that their institutions can make valuable contributions to SA's climate ambitions in the extended term. However, these efforts are being driven in a policy context that could be more enabling (see Section 5.1.1.) The **recognition is that actions now will inform what effects DFI investments are having over the next decade or two, which creates an urgency for strong efforts to shift from business as usual**, especially in scaling clean energy investment and Just Transition finance.

Overall, operational personnel are well engaged with matters such as supporting climate action or facilitating institutional transparency to the public. **However, making quality investments tends to be the priority and DFIs may be under-resourced relative to some of the external expectations on climate and transparency.**

## 5.2 DFI adjustments to climate action

DFIs must establish suitable strategies and operational capabilities (**C3 and C4 in Table 7**) to optimise their climate contributions. However, approaching a decade on from adoption of the Paris Agreement, many institutions are still grappling with implementation of climate matters into policies, operations, and funding allocation.

In principle, most DFIs have established policies to integrate ESG in investment decisions and implement safeguarding measures in funded projects. However, their execution is often imperfect. Increased urgency for climate action at a global level following the introduction of the Paris Agreement in 2015 raised new imperatives for DFIs and is surfacing existing gaps.

### 5.2.1 Developing effective climate practice exceeds baseline ESG & SDGs competencies

There is broad acceptance that the SDGs provide an overarching framework for the development mandate of institutions. However, the **SDGs do not offer a grounded approach to guide DFI activities and deployment, especially where there are perceived needs for local policy frameworks and realities to inform activities.** Specific strategies addressing matters like climate action, job creation, or economic growth are required.

Perceptions of the value and meaningfulness of existing ESG and safeguarding practices varied between interviewees. Industry insiders see ESG competence as a framework they can integrate climate objectives onto. This includes embedding climate in investment due diligence and making it the basis of engagement efforts that encourage investees to adopt sustainable practices. External stakeholders are likely to question this logic however, pointing to documented deficiencies in ESG

approaches, especially with regards to a lack of comparability in metrics and reporting (across years and between institutions.)

Interviewees external to DFIs are concerned that **ESG or safeguard criteria and policies are applied unevenly and actions in other, non-climate focused parts of the portfolio act counter to progress made on specific projects.** This concern appears legitimate and has basis in both philosophies and readiness for implementing ESG amongst the DFIs.

External stakeholders also criticise the limited or absent disclosure on the specific ESG criteria that constitute grounds to reject or cancel an investment project.

### **5.2.2 Why the application of ESG at DFIs diverges from expectation**

SA DFIs approach climate as either as a sectoral goal for specific, ring-fenced climate facilities or as a risk affecting the financial performance of projects.

Using the first perspective, climate contributions, such as mitigation or adaptation benefits, are a major focus when investment committees decide how to spend earmarked climate funds. However, DFI projects with limited climate benefit (or the potential to actively impair climate objectives) would not be excluded if the funds are not specifically earmarked for climate uses.

In the latter case, climate risks may be factored, but primarily from the lens of understanding the risk of stranded assets and potential impacts on financial performance. **The attitude of pursuing climate objectives as a priority across all their financing activities is not yet established amongst DFIs.** Should this way of thinking become commonplace, DFIs will then be challenged with reconciling climate objectives in relation to other strategic focuses, notably commercial sustainability.

DFIs are also uncertain of the potential to reliably monitor and manage climate considerations at a scale commensurate with their full portfolio. Some DFI-affiliated interviewees were concerned that wholesale application of climate criteria may narrow the universe of suitable investment opportunities. Others remarked on their own and investees limited capabilities to collect relevant monitoring data cost effectively, in terms of the additional personnel and resource burden to consider and manage climate factors at scale. Such **operational concerns must be anticipated when advocating for DFIs to strengthen their climate contributions.**

### **5.2.3 A need for institutional climate policies**

Operationalising climate action also requires DFIs to build familiarity and embed climate at deal level or in ESG criteria. Although some institutions began piloting and building capabilities for climate finance and safeguarding at before 2015, many are still formalizing policy frameworks and integrating climate considerations into investment decision-making and portfolio level monitoring.

For instance, the DBSA is only more recently introducing a policy that will establish sector level guidance on Just Transition, scale the portion of its portfolio dedicated to climate investment and extend the collection of carbon footprint data. It will also introduce a development results framework featuring climate indicators.

Establishing **internal policies and embedding KPIs is a necessary, if insufficient, measure to embed climate in DFI investment decision-making. However, in most cases, these policies are absent or remain emergent.**

#### 5.2.4 Re-thinking operational resources and capacity

Developing and implementing institutional policies introduces personnel requirements for framework development, portfolio analysis, compliance, and project evaluations.

For most institutions, these duties fall on existing personnel responsible for ESG and implementing safeguarding policies. Others may appoint dedicated staff with climate science or finance expertise to perform these roles. In either case, **institutions must decide how critical it is to divert time and resources to embed climate in operations.**

Some DFIs are attempting to accelerate skills acquisition and framework development by collaborating with others e.g., to develop climate impact measurement tools and explore integration of climate risk into investment decision making. National DFIs are likely to engage peers or collectives such as the IDFC for inspiration on how to develop their own frameworks.

#### 5.2.5 Enacting safeguards

Project level safeguard measures provide a key operationalisation opportunity for climate and social protections during implementation. DFIs attempt to link routine assessment of social and environmental effects to financing agreements and ensure that sufficient resources are in place to implement them. Once finalized, safeguard plans can thus be practically and legally enforced by institutions.

Given limited resources, many of these assessments are delegated to independent consultants or implementers for in depth analysis and compliance. However, **delegating monitoring responsibilities is seen as a potentially limiting factor in DFIs' ability to rapidly identify and rectify issues in the post-investment period.**

#### 5.2.6. Learning and accountability

There is unmistakable momentum amongst DFIs to strengthen their climate finance and vigilance capabilities. Institutions routinely reference the importance of understanding community perspectives on investments to assess and manage ESG risks. However, the trend appears primarily inward looking, with **less focus on transparency and accountability for stakeholders such as civil society.**

**Civil society actions are pushing DFIs to be more transparent, even if on a more incremental basis than advocacy stakeholders would prefer.** One civil society advocate remarked that these effects can take time to materialise, commenting that the Bretton Woods institutions appear more effective as they “had more time, to develop their policies and frameworks and [due to] the pressure that’s been put upon them by civil society and the general public, they have become more transparent”. Another remarked on a more immediate result achieved, relating that a DFI “made information that was previously unavailable on their website...available after we had said, look, it's not here - we can't access your policies.”

Interviews with individuals familiar with DFIs underscored efforts at all levels, including developing internal policies for integrating climate into deal-making or gathering information on portfolio carbon intensity. However, **DFI insiders admit actual disclosure and transparency actions and information sharing is less than ideal.** Contributing motives for this situation include:

- **Securing more time to mature processes and systems:** Institutions are likely to see their climate policies, systems and procedures as works in progress. Insiders refer to ongoing work to develop or refine systems and measurement capabilities that is yet to be formally ratified and adopted by leadership, a prerequisite for transparency actions.
- **Sheltering from criticism and political controversy:** Partly in relation to the previous point, some DFI-affiliated and expert interviewees fear the resulting scrutiny and criticism that may emerge should they extend transparency on the current maturity and depth of climate efforts. These considerations are rooted in efforts to further mature their climate practices. They are also motivated by a desire to avoid ‘raising their heads above the parapet’ and thus being drawn into unwanted political controversy.
- **Cost-benefit of increased engagement:** Some DFIs believe civil society and community engagement at portfolio level will redirect personnel time from execution or delay deal execution. Engagement with other DFIs carries less of this stigma and is thus likelier to occur. In either case, engagement and transparency efforts are prioritized when a specific mandate and resources are provisioned from the outset (e.g., through earmarked funding from a bilateral institution or donors) to do so.
- **Safeguarding commercial confidentiality:** Some institutions express a need to take a conservative approach to disclosure in alignment with the general provisions of the investment and funding agreements they enter. This is claimed for reasons including safeguarding client confidentiality and avoiding the leakage of privileged and intellectual property information.

Private investors more readily enter and grow areas where there are learnings and demonstrated track record from others. **Limited disclosure by DFIs may thus reduce their private investment mobilisation effectiveness.**

## 5.3 The role of commercial considerations

Internal decision-making often centres on the interaction between the demands of governance structures and the capital raising and allocation opportunities available to DFI executives (**C3, C5 and C6 in Table 7.**)

### 5.3.1 Funding opportunities

SA DFIs consider suitable pipeline (i.e., projects meeting their investment size, investment readiness and risk/return ambitions) as a potential challenge to scaling their climate contribution. The volume of funds disbursed, and commercial sustainability are key KPIs for SA DFIs, and both require access to a reliable flow of suitable investment opportunities.

Pipeline considerations, including potential narrowing of the investment universe and bankability, are areas of uncertainty. Policy uncertainty in key investment sectors is also a contributor and affects access to suitable pipeline e.g., government support for renewable energy producers to sell power back to the grid.

Some specific challenges identified in relation to pipeline are:

- **Maintaining attractive investment universe:** DFIs mandates focus them on searching for opportunities within specific sectors (e.g., social infrastructure) and apply certain

instruments (primarily debt). Adding climate criteria to these requirements (e.g., only Paris Agreement aligned opportunities) *further* narrows suitable pipeline.

- **Competition for available opportunities:** Local DFIs face potential competition for climate investments, including from private sources of capital (e.g., private debt funds) and international funders. Larger opportunities may attract funding from multilaterals or developed world bilateral institutions.
- **Limited project preparation and due diligence capabilities:** Institutions are still developing the necessary competencies (see Section 5.2.4.)
- **Project preparation and bankability:** DFIs dedicate less resources to preparing projects for investment from the ground up, and instead prefer to engage with projects already prepared to receive investment funding. Limited access to their own project preparation funding (which enables DFIs to offer grant funding or non-financial support towards building investment readiness) is a constraint for institutions.


### 5.3.2 Access to capital and ensuring sustainable operations



DFIs can theoretically enable resource mobilization and redirect large scale capital to development issues. In some cases, DFIs directly use government funding to fulfil their core business activities. More commonly however, this funding is merely used to anchor fundraising from private investors or international development funders.

Due to limited availability of government funds, SA DFIs rely on private investment capital and must thus pay strong attention to its preferences. DFIs must also be able to sustain themselves without resorting to SA government funding support. This makes them unlikely to support less commercially attractive development initiatives **(see Table 8.)**

Institutions have limited recourse to government funding and the government has limited available funding. The example of Landbank (National Council of Provinces Finance, 2020), which suffered financial distress and was not afforded a meaningful government bailout, is often cited as a cautionary tale. Any significant concessional financing may require a reduction of profit margins with knock on effects on the sustainability of DFIs.

Table 8: DFI funding effect on investment

<i>Where DFIs access their funding drives how they seek to use it</i>	
 <p><b>Incoming fundraising</b></p>	<p><b>Capital markets</b></p> <ul style="list-style-type: none"> <li>● DFI borrowing in local and international capital markets has become more expensive in recent years, mirroring general economic trends</li> <li>● Borrowing in foreign currency from international sources also introduces unwelcome foreign exchange risks to DFIs</li> </ul> <p><b>International funders</b></p>

<p>channels</p>	<ul style="list-style-type: none"> <li>• Despite its glaring inequalities, South Africa is increasingly treated as a middle-income country with lower priority for international funding</li> <li>• However, international interest in climate finance is still strong and climate focused credit lines from bilateral and multilateral funders are an attractive funding source</li> </ul>
 <p>Building funding portfolio</p>	<p><b>Deciding own risk exposure</b></p> <ul style="list-style-type: none"> <li>• Most DFI fundraising activity in capital markets is in the form of debt, which rewards DFIs for demonstrating higher creditworthiness</li> <li>• DFI creditworthiness is often tied to the credit ratings of their shareholders - and SA's creditworthiness has suffered</li> <li>• DFIs are prioritizing being able to demonstrate their own sustainability and profitable operations to maintain favourable access to capital markets</li> <li>• Ensuring consistent, sustainable operations focuses DFIs on making lower risk investments</li> </ul> <p><b>Deciding minimum return requirements</b></p> <ul style="list-style-type: none"> <li>• DFIs must offer finance to projects at rates that factor in their own cost of finance, operational cost of disbursement, and a profit margin to compensate the risks they face in development sectors</li> <li>• DFIs may thus set financing rates just below those available from more traditional funders e.g., banks</li> <li>• Projects that require concessional finance, grants, or technical assistance to realize, or those that have smaller finance requirements, may be unattractive in relation to a DFIs costs to take them on</li> <li>• DFIs that want to take on more concessional or nascent projects may need to cross-subsidize by charging higher financing rates on other projects or raising grant funding</li> </ul>
 <p>Aligning funding disbursements to risk/return needs</p>	<p><b>Funding deployment</b></p> <ul style="list-style-type: none"> <li>• Developmentally important areas that offer smaller scale funding opportunities (e.g., small business finance), are considered higher risk (e.g., funding to municipalities), or may require significant project preparation support (e.g., climate adaptation) experience lower than optimal funding access from DFIs</li> <li>• Incorporation of climate impacts and other development criteria into investment decisions varies depending on where the funding is sourced</li> </ul>

	<ul style="list-style-type: none"> <li>• DFIs then bias towards larger scale opportunities in less climate focused or friendly areas to ensure they can efficiently meet disbursement targets (i.e., at lower average cost per deal)</li> </ul> <p><b>Financial Innovation</b></p> <ul style="list-style-type: none"> <li>• New funding instruments that can raise additional capital for DFIs, such as Green Bonds or Social Bonds benefit from the existence of an existing pipeline of projects that can be packaged for offer to financial markets</li> <li>• New financing mechanisms targeted at climate matters must address the pipeline question first, and thus grow less rapidly than ideal</li> </ul>
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Fundraising and deployment monopolise DFIs’ attention. Accordingly, private sector funding mobilization and finding compelling investment projects takes primacy, and local community, and civil society engagement happens more at implementation as opposed to investment level.

Ultimately, DFIs are ‘running a business with a development agenda attached.’ They prioritize commercially attractive opportunities enabling them to meet their cost of capital and more readily repay their own funding sources. Strategic funders can offer resources that encourage DFIs to further support project preparation or higher risk/lower return opportunities. However, such strategic funding sources remain a smaller portion of DFI resourcing.

**5.3.3 Effective governance and strategy**

Despite challenges reconciling capital access and adequacy with scaling deployments in some high impact opportunity areas (e.g., climate adaptation and small business finance), there are signs DFIs are seeking to strengthen their commitments in such areas. Interviews demonstrated increased openness or active sourcing of climate related opportunities and partnerships across DFIs.

Interviewees identified a broad range of influences, including government, internal governance structures, private interest, and international governments, seen to be acting or potentially relevant to the strategy formulation and governance of DFIs (e.g., Table 9).

Table 9: Governance influences

	<i>Governance and Strategy influences</i>			
	South African government	DFI Board and executive committees	Private lobbies	Developed country governments



Why	Sector policies create or reduce barriers to investment, the mandate prescribed to DFIs informs sector or issue-based composition of portfolio	Establish the strategic boundaries, or rules of the game, that guide operational efforts	Risk of vested influence shaping investment decisions e.g., concerns related to SA's State Capture controversies	Direct influence through bilateral funding arrangements and potential indirect influence by guiding market regulations in international capital markets
How	<ul style="list-style-type: none"> <li>• Determines broad areas DFIs address</li> <li>• Offers or alleviates policy barriers to investment</li> </ul>	<ul style="list-style-type: none"> <li>• Sets operating policy parameters</li> <li>• Determines which investments are funded</li> </ul>	<ul style="list-style-type: none"> <li>• Potential to influence choices at project decision level</li> </ul>	<ul style="list-style-type: none"> <li>• Incentivise DFI investment in certain areas</li> <li>• Offer governance support</li> <li>• Inform global best practices</li> </ul>

National and board level policies appear to mostly influence DFI operations in establishing the general environmental and internal boundaries, or rules of the game, that must guide DFI efforts to drive commercial performance. Developed world governments are seen to exert significant influence on local and regional strategies by virtue of the resources they can offer. There is also concern amongst some stakeholders that DFIs are not immune to some of the pressures from private sector vested interests, especially considering some of the governance and undue influence crises observed in the public sector in recent years.

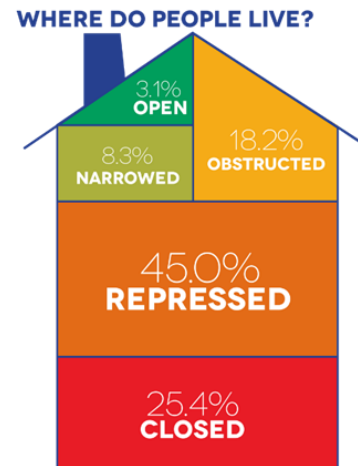
## 5.4 Civil society lens

Civil society is an important, if at times underestimated lever for positive change (**see Box 10.**) Most DFIs are open to engagement with civil society, and individuals close to DFIs believe this is of high importance. However, civil society's experience of DFI engagement is one of shallow interaction. **DFIs are perceived to engage as a 'tick-box' exercise, a practice this study refers to as inclusion washing.**

### BOX 10: Civil society challenges

Civil society comprises non-governmental and non-profit organisations that help generate public awareness and advocate for positive change around shared priorities such as human capital, climate change, transparency, and accountability. Examples of civil society organizations include non-governmental organizations, community-based organizations, coalitions, foundations and non-profits, labour unions, professional associations, charitable groups, and faith-based organizations (World Bank, 2022). Civil society is increasingly playing a critical role in holding organisations and governments accountable for their climate impact.

Historically, DFIs have operated without much oversight and accountability, particularly from civil society. The urgency of climate change and its potential to adversely affect human life means development financing should be climate friendly. Civil society organisations are working towards this by demanding DFIs be more transparent and accountable regarding their financing practices. However, civil society in general faces many challenges.



BASED ON WORLD BANK POPULATION DATA 2020



### REGIONAL BREAKDOWNS

	Open	Narrowed	Obstructed	Repressed	Closed
Africa	2	4	13	24	6
Americas	10	9	9	5	2
Asia and Pacific	8	7	10	11	4
Europe and Central Asia	19	21	6	4	4
Middle East and North Africa	0	0	4	6	9

Figure 17: Civic space summary Source: CIVICUS (2022a)

One key challenge faced by CSOs is a shrinking civic space. It is estimated that only 3.1% of the world's population lives in a country that allows CSOs to operate freely and effectively (CIVICUS, 2022a). South Africa

was recently downgraded from 'narrowed' civic space to 'obstructed.' This is a part of a wider trend of civil society being overlooked, especially in Africa (CIVICUS, 2021).

Climate Change is affecting the communities civil society represents. However, COP27, a climate summit aimed at addressing global climate change problems, was held in Egypt - a country with a closed civic space. This highlights the struggles of civil society to have a voice on climate change issues. Governments and businesses are not sufficiently acting to bring down greenhouse gas emissions, which are still increasing (IPCC, 2022a). However, even with the resistance, civil society is playing an important role in putting pressure on government and business to take positive climate action.

*"But for civil society, despair is not an option. It is keeping up the pressure by all means possible, from lobbying, legal action, and engagement with corporate shareholders, to participation in global forums and mass street protest, disruption, and non-violent civil disobedience. The enormity of the challenge demands simultaneous action on all fronts."* (CIVICUS, 2022b, p.36)

Some of the results of these pressures have been improved environmental standards (e.g. New Global Diversity Framework), court action (e.g. a Dutch court ruling Shell needs to cut its emissions by 45% by 2030), shareholder action (e.g. Chevron's shareholders voted against the board recommendation in favour of a proposal to reduce all of its emissions) and harmful projects being abandoned due to grassroots protest action (CIVICUS, 2022b). **Civil society can thus play an important role in protecting people and the environment.**

#### 5.4.1 DFIs perspectives of civil society

DFIs view civil society as advocates and support for local communities, particularly by highlighting activities expected to affect localities negatively or flout relevant laws and regulation. Civil society also plays a role in advising on resettlement or compensation for communities.

DFIs often play a role in capacitating civil society to support local communities. Some provide civil society with financial support and technical assistance. Civil society engagement is sometimes treated as part of the DFIs public participation process e.g., inviting civil society to comment on DFI policy and reports. Engagement appears primarily focused on creating awareness and building civil society capacity to engage with DFIs.

#### **DFIs believe that civil society are most practically involved at the project implementation stage.**

Institutions typically conduct relatively surface-level engagement with civil society at a deal sourcing or strategic portfolio level. This limits civil society's ability to influence which projects DFIs finance.

DFIs consider civil society and community input an asset during the project due diligence process, where engagement can help identify and mitigate potential risks in implementation. However, across their financing value chain, **DFIs primarily seek to accommodate civil society rather than have them play an active role in informing strategic decisions.**

#### 5.4.2 Civil society perspectives of DFIs

The overarching expectations of civil society are for DFIs to commit to a fossil fuel finance exclusion policy, have a timeline of when they will stop financing fossil fuels, and finance climate action in a way that does not perpetuate any damage or inequalities.

Civil society wants DFIs to be transparent about their investments and implement safeguards to ensure they do not adversely affect the environment or community. Civil society is also calling for DFIs to establish effective and independent accountability and grievance mechanisms.

Civil society sees its role as ensuring DFIs have environmentally and socially sound policies, are implementing their policies, being transparent, and are held accountable. To fulfil these roles civil society relies heavily on meaningful DFI engagement.

However, from a civil society perspective, DFI engagements offer a multitude of frustrations, offering insight into institutions learning and accountability orientation (**C7 in Table 7, see Table 10 for institutional level impressions**). Some of the issues raised are:

- Short timelines to comment on policies
- No feedback on initial comments offered before final policies launch
- DFIs avoiding disagreement and difficult topics
- Recommendations not being incorporated into policies
- Lack of consultative process
- Lack of initiative from DFIs to engage with civil society
- Nonresponse to emails or meeting requests
- Lack of collaborative approach in determining engagement/meeting agendas

Civil society is seeking meaningful engagements with DFIs to achieve behavioural change in institutional activities. As direct engagement can prove ineffective, civil society looks to use different “pressure points” involving various tactics, networks, and resources to initiate change.

Table 10: DFI institution engagement and disclosure practices

	Summary of civil society engagement views	Information disclosure views
<b>AfDB</b>	<ul style="list-style-type: none"> <li>● Responsive</li> <li>● More established engagement procedures and processes</li> <li>● Has dedicated personnel for leading engagement with civil society</li> <li>● Unclear grievance processes and lack of enforcement and redress</li> <li>● Has a civil society framework and committee in place</li> </ul>	<ul style="list-style-type: none"> <li>● Average</li> </ul>
<b>DBSA</b>	<ul style="list-style-type: none"> <li>● Responsive</li> <li>● A challenge to get meetings</li> </ul>	<ul style="list-style-type: none"> <li>● Average</li> </ul>

	<ul style="list-style-type: none"> <li>● Limited follow through on civil society input</li> <li>● Conducted some civil society workshops</li> <li>● Sometimes offers meaningful engagements</li> </ul>	
<b>ECIC</b>	<ul style="list-style-type: none"> <li>● A challenge to get meetings</li> <li>● Limited follow through on civil society input</li> </ul>	<ul style="list-style-type: none"> <li>● Limited disclosure</li> <li>● Potentially conservative on intellectual property and confidentiality approach</li> </ul>
<b>IDC</b>	<ul style="list-style-type: none"> <li>● Responsive</li> <li>● A challenge to get meetings</li> <li>● Limited follow through on civil society input</li> <li>● Follow up responses don't address issues</li> <li>● Less considered on their climate commitments and engagements</li> </ul>	<ul style="list-style-type: none"> <li>● Add information to their website on request</li> </ul>
<b>PIC</b>	<ul style="list-style-type: none"> <li>● No information provided on engagements</li> </ul>	<ul style="list-style-type: none"> <li>● Limited disclosure</li> </ul>
<b>NDB</b>	<ul style="list-style-type: none"> <li>● Uncertain on its approach to civil society engagements</li> <li>● Limited clarity on safeguards, due diligence, monitoring and protection criteria</li> <li>● No follow through on recommendations</li> <li>● Limited consultation process</li> </ul>	<ul style="list-style-type: none"> <li>● Limited disclosure</li> <li>● No information on project selection criteria</li> </ul>

Civil society considers relationships at all levels key to achieving its advocacy goals. It is thus also seeking to engage with DFI shareholders as a path to influencing institutional strategies. Similarly, it is engaging with members of parliament to encourage and develop their oversight role as elected representatives.

Community awareness building or training and the introduction of tracking mechanisms to monitor financial flows are added pressure points for civil society. For instance, the Climate Reality Project implements such a tracking mechanism to monitor GCF investments in the Philippines. Some of the more aggressive pressure points that civil society may pursue are protest action and litigation.

**Civil society recognises DFIs are one aspect of a complex system of actors, and they must include them as one of multiple points of action to bring about change.**

#### **5.4.3 The role of civil society in the context of communities**

Civil society is often seen to be acting on behalf of the community. Communities are those directly affected by the projects that receive investment from DFIs. Communities stand to either benefit from the project (e.g., job opportunities) or be negatively impacted by the project (e.g., displacement, environmental impacts). However, **many communities are unaware that DFIs fund projects or how to lodge complaints about potentially harms from DFI-funded projects. This is where civil society fills the gap.** Civil society can educate community members, including on environmental aspects, and provide resources (expertise such as litigation or procedural processors) to hold DFIs accountable.

Communities surface important risks and considerations that could not be identified otherwise. Continuing engagement in project implementation and monitoring is also important to quickly flag issues. If DFIs do not involve community and civil society early in the project, they run the risk of litigation down line from a community rights perspective. **Even though communities are seen as important, interviewees suggest that there has been limited engagement with local communities, even when they lodge protests.**

One tool used by DFIs when engaging with communities is the Environmental Impact Assessment (EIA). The EIA assessments tend to be resource intensive and are performed over several weeks. Some South African DFIs do not publicly release EIA findings which civil society cites as demonstrating a lack of transparency and openness to accountability.

Higher levels of engagement and community involvement are believed to enable better quality investment returns. Deep inclusion at the scale of these DFIs may not be practical (i.e., DFIs can't bring a whole community to the discussion table) but there is an expectation they will at least support good information dissemination and transparency and establish channels to better sense and respond to the concerns and needs of communities and their advocates.

### **5.5 Reconciling civil society, experts and DFI views on Just Transition, fossil fuels and energy stabilisation**

Across the DFI funding landscape there are three key areas of debate that are informing and moderating DFI and civil society engagements: these are a Just Transition, fossil fuels and energy stabilisation. The undertone of these debates also includes energy security. These concerns and related findings are discussed further in this section.

#### **5.5.1 Is a Just Transition possible?**

**Most South African DFIs are open to eventually stopping fossil fuel (notably coal) funding.** However, they consider the transition complex, particularly in relation to its employment and energy security effects. Certain DFIs will therefore only consider investment into projects if there is a clear transition plan to clean energy that protects jobs.

DFI consensus is that the **transition is urgent but must occur on a timeframe that ensures social and economic justice**. DFIs are grappling with how quickly a transition can be achieved. Some experts interviewed also believe that a Just Transition, without trade-offs in either the social or environmental domain, is not possible.

Civil society and expert interviewees agreed climate change poses greater threat to livelihoods and social wellbeing than potential fossil fuel job losses. Given the urgency for decarbonisation, some expert interviewees commented that not everyone can be adequately consulted or compensated for the transition. Thus, champions such as government may need to consult with a smaller, yet diverse, group of stakeholder representatives to lessen the risk of unjust actions.

Some stakeholders are more optimistic on the practicality and speed of achieving a Just Transition. One civil society interviewee argued that the necessary technology and finance exist, particularly to compensate job losses in fossil fuel sectors by creating new opportunities in green sectors such as electric vehicles and green hydrogen.

**Broadly, all stakeholders support the concept of Just Transition. However, there are different views on what Just Transition looks like and how it should be implemented.**

### **5.5.2 Are oil and gas an acceptable transition fuels?**

Another key debate is whether Africa and DFIs should invest in so-called ‘cleaner’ fossil fuels such as oil and gas. Africa has untapped oil and gas resources that can provide energy to help industrialise the continent. Many of the profiled DFIs believe oil and gas have a role in enabling economic development for Africa and ensuring short to medium energy security for its people.

One DFI interviewee said that gas will play an important role in Africa's energy mix for the next 50 to 100 years. This narrative is also advanced by some European Union leaders who believe gas is key transition fuel for Africa (Ainger, 2022). **DFIs appear more willing to communicate commitments to cease investment in coal, but less readily offer similar assurances on oil and gas.**

**Some civil society interviewees disagree with the emphasis on oil and gas for transition. The overarching argument is that natural gas projects offer a ‘false solution’ that is expensive to implement and potentially threatens more livelihoods than it will create.** Much of the gas and oil may also be exported outside the continent, which is seen as lessening the pace of Africa's own transition to support energy needs outside the continent.

Another argument advanced against natural gas relates to its cost-effectiveness versus renewables. Developing gas infrastructure can take several years, requires heavy capital investment, and may incur litigation and compensation costs. Gas also carries the threat of methane leaks which are 80% more powerful than CO<sub>2</sub> emissions (Materson, 2022). Thus, its detractors believe gas is not an answer to short term energy needs and increases the risk of stranded assets and harms to people and the environment.

There are strongly held perspectives on either side of this divide. However, there is **little evidence that DFIs and civil society are engaging meaningfully to reconcile these different views and determine a way forward.**

### 5.5.3 Energy stabilisation - a case for fossil fuel investment

Maintenance required on the country’s aging coal power infrastructure is causing frequent power rationing. Although important for South Africa to transition away from coal, it is still the predominant means of generation and necessary to assure energy supply as SA develops its renewable energy sector.

DFIs and civil society agree that commissioning and funding new coal power is unwise and contrary to meeting South Africa’s climate and Just Transition goals. However, DFIs still have significant coal exposure (**see Box 11.**) Thus, institutions appear to be seeking a ‘balanced’ approach, with investments made to maintain current fossil fuel generation until clean energy sources can effectively substitute.

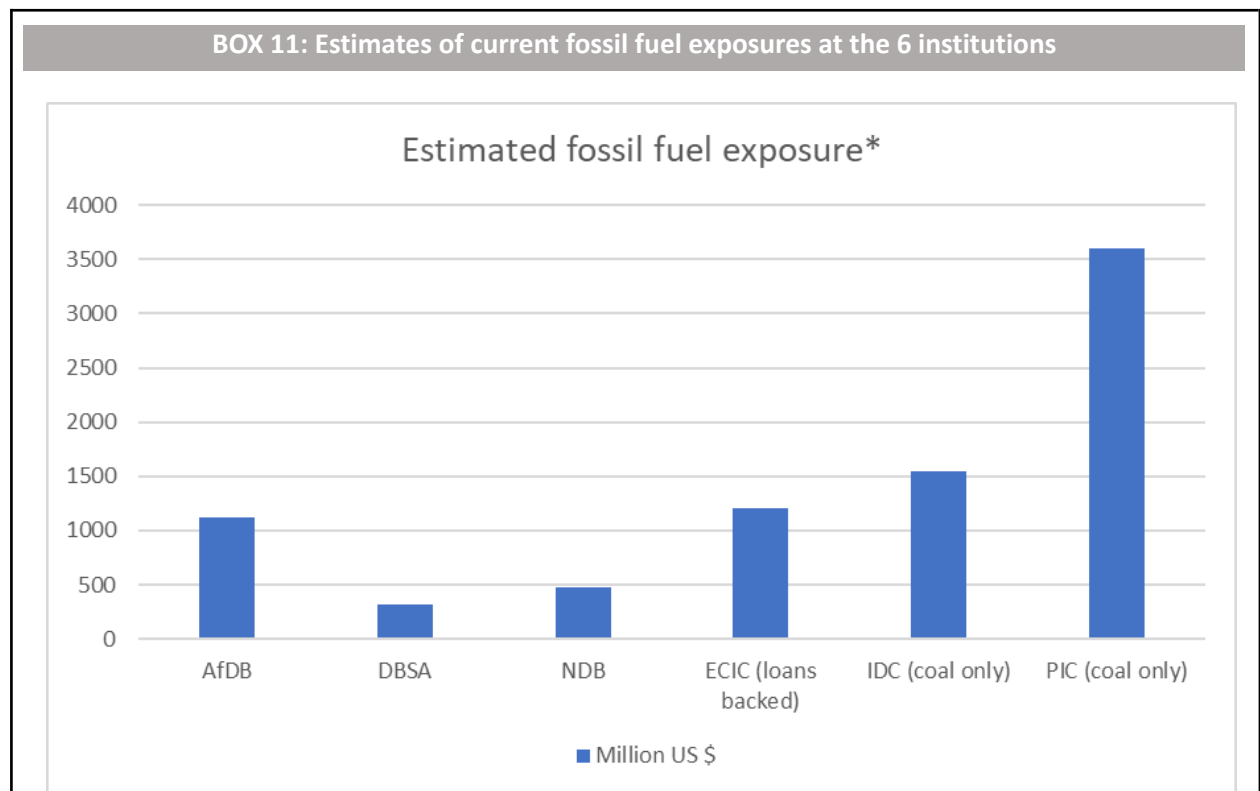


Figure 18: Estimated fossil fuel exposure by institution

\*AfDB, DBSA, NDB and ECIC between 2016-2021 (Geuskens & Butijin, 2022), IDC, PIC as of November 2021 (coalexit, n.d.-a), (coalexit, n.d.-b)

The IDC and PIC have the greatest fossil fuel exposure amongst the 6 DFIs. Figures indicated for the IDC and PIC are only for coal exposure, whereas the other institutions include all fossil fuels. Therefore, the IDC’s and PIC’s fossil fuel exposure is likely higher and their degree of coal exposure especially noteworthy.

The IDC holds US\$1.5 billion in two major coal companies, Sasol Ltd and BHP Group Ltd (coalexit, n.d.-a). The PIC has shareholding amounting to US\$3.6 billion spread across 6 coal companies. It has more than double the



exposure to fossil fuels of the IDC, making it comfortably the biggest financier of fossil fuels among the financial institutions profiled. The PIC has shareholding in Sasol Ltd, BHP Group Ltd, Exxaro Resources Ltd, Thungela resources Ltd, Grindrod Ltd and Resource Generation Ltd (Resgen) (coalexit, n.d.-b).

Between 2016 and 2021 the ECIC backed fossil fuel projects worth US\$1.2 billion. US\$800 million of this funded Total Liquified Natural Gas (LNG) projects in Mozambique (Ndlovu & Ngobese, 2020). The Mozambique Liquified Natural Gas could increase greenhouse gases in Mozambique by 14% (JA! & Friends of the Earth Mozambique [FOE], 2020).

The DBSA and AfDB have also committed US\$120 and US\$400 million respectively to the Mozambique LNG project (banktrack, 2022). The African Development Bank was the biggest financier of fossil fuel projects in Africa between 2016 and 2021, with the World Bank coming in second (Geuskens & Butijin, 2022). The AfDB has also financed the Malicounda Oil-Fired power plant in Senegal. A plant that will generate 108 000 tonnes of CO<sub>2</sub>-equivalent per year (Engineering & Environment Services [EES], 2018). The majority of the NDBs finance towards fossil fuels was in 2019 where it provided a US\$476 million loan to Eskom for the Medupi power station in South Africa to partly finance sulphur dioxide emission reduction (NDB, n.d.).

#### 5.5.4 Summary of key debates surrounding DFI investments

**Table 11** summarises some of the preceding debates regarding Just Transition, energy security and energy stabilisation.

*Table 11: Summary of DFI debates moderating civil society engagements*

	Summary statement	Assumes	For	Against
<b>Just Transition</b>	A Just Transition is complex process that requires an extended time frame to truly be just	<ul style="list-style-type: none"> <li>• Technology</li> <li>• Finance</li> <li>• Capabilities</li> <li>• Convening tools</li> <li>• Implementable framework</li> </ul>	<ul style="list-style-type: none"> <li>• Protects jobs</li> <li>• Protects the economy</li> <li>• Ensures inclusion</li> <li>• Job replacement</li> </ul>	<ul style="list-style-type: none"> <li>• Distraction to decarbonisation efforts</li> <li>• Insufficient time to deliver</li> <li>• Creating false expectations</li> </ul>
<b>Energy security</b>	Africa's priority should be energy security	<ul style="list-style-type: none"> <li>• Energy resources are not being exported</li> </ul>	<ul style="list-style-type: none"> <li>• Africa only contributes around 5% of global emissions</li> <li>• Africa needs energy to</li> </ul>	<ul style="list-style-type: none"> <li>• Politically motivated argument to push fossil fuel agendas</li> <li>• Hindering de-carbonisation</li> </ul>

			<p>industrialize and grow the economy</p> <ul style="list-style-type: none"> <li>● Africa struggles from extreme energy poverty</li> <li>● Africa needs to be energy sovereign</li> </ul>	<p>ion efforts</p> <ul style="list-style-type: none"> <li>● Prioritising economic growth in a climate friendly manner will help address energy poverty</li> </ul>
<b>Oil and gas</b>	Oil and gas should be considered a transition fuel		<ul style="list-style-type: none"> <li>● Africa needs to benefit from its natural resources</li> <li>● Will support energy security</li> <li>● Technology can reduce gas emissions</li> </ul>	<ul style="list-style-type: none"> <li>● Not being used to serve Africa energy needs</li> <li>● Creates fossil fuel dependency</li> <li>● Expensive Long-term solution</li> </ul>

## 5.6 Research Statements

**Table 12** reviews and provides assessments of insights from the interviews in support or contradiction of the initial research statements.

*Table 12: Summary of findings related to research statements*

Statement	Research statement	Key Findings	Result
<b>1</b>	DFIs are failing to shift towards a social -environmental role due to their historical roles and investment activities.	<ul style="list-style-type: none"> <li>● Historically DFIs were very focused on implementing government agendas. This is still true today however, the private sector, civil society and international community have changed and influenced how DFIs operate</li> <li>● Most DFIs are implementing</li> </ul>	<ul style="list-style-type: none"> <li>● DFIs are shifting towards a more social -environmental role</li> <li>● There is no comprehensive evidence to suggest that their historical roles and investment activities are impeding</li> </ul>

		environmental frameworks and monitoring – with contested quality of implementation	this shift
2	Multilateral DFIs have greater transparency than bilateral DFIs	<ul style="list-style-type: none"> <li>• Multilateral DFIs have standardised processes and better engagement than the bilateral DFIs</li> <li>• The Bretton Woods institutions have had more time to develop their policies and frameworks and experience more public pressure</li> </ul>	<ul style="list-style-type: none"> <li>• In general, this statement appears to be true</li> <li>• However, such transparency appears to be a factor of how long they have been in operation and level of civil society engagement</li> </ul>
3	Multilateral DFIs invest more in renewables than bilateral DFIs	<ul style="list-style-type: none"> <li>• There is a lot of competition for large renewable projects on the continent</li> <li>• Bilateral struggle to compete with multilaterals</li> </ul>	<ul style="list-style-type: none"> <li>• The literature review showed that multilaterals are investing more into renewables than bilaterals</li> <li>• It was suggested this may be linked to international climate pressures</li> <li>• Another possible factor from the findings is that bilaterals are not able to compete with multilaterals when looking to fund the big renewable projects</li> <li>• Hence, they are left to search for smaller, riskier projects</li> </ul>
4	DFI investments are heavily influenced by political stakeholders	<ul style="list-style-type: none"> <li>• DFI are set up for certain developmental and political agendas</li> <li>• Political leadership and ideologies affect DFI investments, albeit on a</li> </ul>	<ul style="list-style-type: none"> <li>• The findings show that DFIs are influenced by political stakeholders</li> <li>• DFIs rely on government for high level strategic</li> </ul>

		consolidated portfolio level (as opposed to facility or project level)	direction, or at the least to not present barriers to DFI activities
5	DFIs are failing to invest in clean energy sectors due to pipeline and risk constraints	<ul style="list-style-type: none"> <li>• There is a strong supply of renewable energy projects</li> <li>• Green projects are growing rapidly</li> <li>• There are some good quality investments</li> <li>• Renewable energy projects in the developing stage are too risky</li> </ul>	<ul style="list-style-type: none"> <li>• Findings indicate that the pipeline for renewable energy projects is healthy</li> <li>• However, certain projects that are in the developing stage may be too risky</li> </ul>
6	South African DFIs focus only on certain policy areas, driven by key DFI personnel interests rather than public interests	<ul style="list-style-type: none"> <li>• Strategic impetus is significantly influenced by key personnel which is potentially problematic or limiting</li> <li>• Sometimes contradicting positions and political indecision in government</li> </ul>	<ul style="list-style-type: none"> <li>• Limited consensus on policy implementation approach to climate</li> <li>• Evidence of key personnel being influential in driving some strategic directions</li> <li>• However key personnel influences may be positive at DFIs, and steer them towards greater climate action</li> </ul>
7	Non-regional member states influence DFI investments at regional and national DFIs.	<ul style="list-style-type: none"> <li>• Non-regional members have significant influence on national DFIs as they can offer needed capital</li> <li>• Often national DFI will get funding from regional DFI who may dictate the use of that capital</li> </ul>	<ul style="list-style-type: none"> <li>• This statement appears to be true as significant funding, and thus ability to be competitive, comes from non-regional member states or international DFIs</li> <li>• Without these non-regional members' funds, access to capital may be difficult - compromising DFI</li> </ul>

			sustainability
8	Community and civil society engagement can lead to greater DFI accountability and transparency	<ul style="list-style-type: none"> <li>• Transparency differs based on the level of civil society engagement</li> </ul>	<ul style="list-style-type: none"> <li>• Community and civil society engagement is leading to more transparency by DFIs</li> <li>• However no clear evidence emerged that DFI accountability is improving</li> </ul>

## 6. Recommendations and conclusion

Throughout the study, all interviewees emphasised the value of civil society and community members as stakeholders. From one perspective, external engagement by DFIs improves transparency, accountability, and hence good governance. It also generates valuable market intelligence for judging future investment performance. Conversely, failure to integrate civil society and community views increase social risks that can affect the developmental and financial performance of DFI investments.

These considerations notwithstanding, **more is required to effectively connect DFIs and civil society around areas of mutual interest, climate action included.** Recommendations are developed with consideration for literature review and interview findings and apply to DFIs and advocacy organisations or individuals.

### 6.1 Recommendations for DFIs

#### 6.1.1 Embrace a leadership role on climate finance

DFI investments play a key role in country and regional development. DFIs should thus be at the forefront in taking a visionary approach to their investments and supporting under-funded, high impact opportunities.

DFIs appear constrained by the lack of consistent government signalling on the priority for climate change. However, they can leverage this position to lead discourse and engagement on climate action, demonstrating to government and other stakeholders the potential for climate projects and the Green economy.

Actions:

- Pro-actively seek and unlock access to financial and non-financial resources to enable the pursuit of beneficial climate investments
- Engage with government and other stakeholders to accelerate policy development and the mobilisation and allocation of climate finance

### **6.1.2 Interrogate and extend risk-appetite**

Innovation entails risk but is pre-requisite for change. DFIs need to refocus on their development mandate and reconsider how they balance it relative to financial and sustainability goals. Findings from the research and interviews highlight potential conservatism amongst DFIs when considering opportunities in new markets, potentially using up less of their risk budget than optimal.

In other areas, DFIs may excessively reduce risk-taking to maintain a specific credit rating. However, raised borrowing costs at a slightly lower credit rating could be justified in relation to the additional development impact produced by slightly riskier, higher impact opportunities. DFIs should increase introspection and dialogue around their risk budgets and continuously ensure they are driving the right balance between sustainability and development additionality.

Actions:

- Regularly re-evaluate and calibrate risk-taking assumptions to maximise development additionality
- Engage with peers including international DFIs, insurers, commercial banks to identify emerging strategies for managing climate risks and expanding lending for the Green economy.

### **6.1.3 Establish or extend innovative financing partnerships**

DFIs cite constraints including bankability, unsuitable risk and return features and access to pipeline as climate finance constraints. Many of these can be eased through innovative finance partnerships with stakeholders including local and international donors, and other development finance institutions.

For instance, a lack of project preparation funding to promote bankable projects may be overcome by establishing new project preparation facilities or increasing funding to existing ones. Alternatively, DFIs could engage their international peers to co-invest, allowing stronger institutions to absorb some of the risks local DFIs are unable to shoulder.

Actions:

- Invest with the intention to be catalytic
- Explore innovative finance and blended finance tools
- Broaden funding partnerships to reduce business model sustainability constraints

### **6.1.4 Involve community and civil society**

DfI mandates for development and economic growth ensure common ground with community interests, a basis for productive engagement. Better civil society and community engagement can unlock invaluable knowledge, expertise, and localised insight for DFIs.

Meaningful interaction with civil society requires regularly scheduled spaces for interaction, with both DFIs and civil society able to raise and discuss matters of interest or concern. It also requires commitment to pursue adequate resolution of issues and offer timely feedback and rationale for final outcomes or decisions. Meaningful interaction further needs scope for sometimes robust but good faith interactions on matters such as projects, grievance mechanisms, and access to information procedure (Oxfam 2021). Both civil society and DFIs must engage constructively to create a conducive space for this to happen.

Actions:

- Meaningfully and regularly engage civil society at strategic and project levels
- Embrace transparency and accountability, including by ensuring project information and grievance processes are easily accessible
- Internally promote the perspective of civil society and community as a resource to drive positive change
- Dedicate more resource towards civil society and community engagements

## 6.2 Recommendations for Advocacy

### 6.2.1 Foster positive relationships at multiple points in the DFI's network

DFIs are subject to many influences, including civil servants, elected officials, local community, international community, private sector, non-regional members and shareholders. Civil society stakeholders can optimally engage institutions by also engaging across DFIs' circle of influence. This ensures consistent messaging to each DFI across its various lines of accountability, formal or otherwise.

Parliamentary representatives for instance, can play a major role in enabling climate action if suitably activated. Based on the recommendations of parliamentary capacity development platform Agora (2017), civil society can explore avenues to access the benefits of parliamentary involvement in areas including:

- **Promoting legislation towards better developed climate policy and investment frameworks:** for instance, by embedding national targets for mitigation and adaptation, signalling legislative commitment to international sources of funding, or acting to remove red tape to investment in sectors such as renewable energy.
- **Encouraging responsible choices by requesting climate impact assessment studies:** reviewing existing legislation for opportunities to ensure better climate alignment in major legislative proposals.
- **Using their influence to bring in other expert or civil society inputs and perspectives:** enabling others to use elected representative's platforms to advocate for change, thus amplify messaging on climate action.
- **Exercising oversight:** using opportunities such as question times, field visits and committee hearings (including with DFI shareholder representatives) to monitor projects and ensure climate accountability

Relationship building can open new doors and opportunities for advocacy. Interview insights suggest the value of effective, personal interactions between DFI and civil society representatives as an enabler for change. Establishing such relationships fosters the sense of collaboration and trust necessary to encourage transparency and accountability.

Actions:

- Build meaningful relationships with multiple DFI stakeholders e.g., by setting informal meetings to listen and understand DFIs' concerns and constraints and inviting DFI representatives to events and trainings
- Build trust and a collaborative mindset

### **6.2.2 Support knowledge building**

Civil society networks can offer knowledge to equip individuals for advocacy and assist DFIs in realising change. Interviewees expressed that individuals at community level often lack awareness about DFIs and their role in local projects. Expanding awareness of the role and the contribution of DFIs on climate and other developmental issues builds individuals' agency for change.

Action points:

- Create knowledge on DFIs and climate change for community and individuals
- Create knowledge for DFIs (e.g., localised perspectives on social and environmental risks/opportunities, climate data and trends), and grow their perception of its value, to improve engagement

### **6.2.3 Education**

Establishing avenues for people in local communities to easily access and share knowledge on DFIs, and how their activities affect them, is important for change. This can range from short promotional materials to formal workshops and training. These measures will necessitate complementary engagement and resourcing from DFIs to ensure activated community structures can subsequently engage on matters of concern.

Action points:

- Radio shows
- Social media
- Media releases
- Information sessions and townhalls
- Webinars
- Formal training
- Workshops



#### 6.2.4 Protest action

Climate change is urgent and climate action advocates are concerned their efforts frequently go unheeded. Interviews highlighted that non-adversarial interaction is the preference for both DFIs and civil society. Civil society prefers DFIs bring them into their confidence as allies that can help ideate and drive positive change on development priorities. However, this is not always possible – in which case civil society may need to use other levers.

This report has highlighted some of the challenges faced by civil society in bringing these issues to DFIs. **If DFIs continue to take a position of avoidance there are indications that protest, or other adversarial actions would prove a potent tool for driving meaningful engagement.** However civil society organisations must take due care to determine when conciliatory means have been exhausted, and if the expected effectiveness of the adversarial actions justifies any long-term implications for the relationship with the DFI.

### 6.3 Conclusion

The aim of this study was to understand the role of public DFIs in delivering the global climate agenda. DFIs were key promoters of the historic industrialization and fossil fuel exploitation that caused the current climate crisis. Examined through a justice lens, the DFI fraternity also contributed to the onset of the climate crisis in South Africa by embedding social inequalities. It is thus obligated to contribute to securing South Africa's and the World's net zero future.

The findings highlight issues that may be hindering DFIs from delivering the global climate agenda. These encompass matters including policy, mandate, capital restrictions, shareholders, political influence, energy security, implementing Just Transition, oil and gas, and operational capabilities. Growing advocacy stakeholders' familiarity with these considerations can enable them to shape more effective strategies for engaging with DFIs on climate action.

# Appendix A

[See separate document]

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