FINANCING AFRICA'S TRANSITION

A STRATEGIC HANDBOOK FOR DEVELOPMENT FINANCE INSTITUTIONS

VOLUME 1

Stellenbosch UNIVERSITY IYUNIVESITHI UNIVERSITEIT

CST Centre for Sustainability Transitions

Financing Africa's Transition: A Strategic Handbook for Africa's Development Finance Institutions (DFIs)

Contents

Abbreviations

AADFI – Association of African Development Finance Institutions

ACBF – African Capacity Building Foundation

ACCF – Africa Climate Change Fund

AESTAP – African Energy Transition Acceleration Platform

AfDB -African Development Bank

AFD – Agence Française de Développement

AfGIIB - African Green Infrastructure Investment Bank

AGF – African Guarantee Fund

AIF – Africa Infrastructure Fund

ALM – Asset-Liability Management

ASEA - African Securities Exchanges Association

ASR – African School of Regulation

ATI – African Training Institute

AUDA – African Union Development Agency

BNDE – Banque Nationale pour le Développement Économique (Senegal)

BOAD – Banque Ouest Africaine de Développement

CABRI – Collaborative Africa Budget Reform Initiative

CDG – Caisse de Dépôt et de Gestion (Morocco)

CDP – Cassa Depositi e Prestiti (Italy)

CFF – Climate Finance Facility

CIF – Climate Investment Funds

COVID – Coronavirus Disease

CPI – Climate Policy Initiative

CRGE – Climate-Resilient Green Economy

CSP – Concentrated Solar Power

CST – Centre for Sustainability Transitions

DBE – Development Bank of Ethiopia

DBN – Development Bank of Nigeria

DBSA – Development Bank of Southern Africa

DESA – Department of Economic and Social Affairs (UN)

DFI – Development Finance Institution

EGIP – Energy Governance Improvement Programme

EIB – European Investment Bank

ESG – Environmental, Social and Governance

ESS – Environmental and Social Safeguards

FiCS - Finance in Common Summit

GCA – Global Center on Adaptation

GCF – Green Climate Fund

GEF – Global Environment Facility

GIF – Global Infrastructure Facility

GIS – Geographic Information System

GIZ – Deutsche Gesellschaft für Internationale Zusammenarbeit

ICA – Infrastructure Consortium for Africa

ICD – Islamic Corporation for the Development of the Private Sector

IDFC – International Development Finance Club

IFC – International Finance Corporation

IMF – International Monetary Fund

ISO – International Organization for Standardization

KDC – Kenya Development Corporation

KNCPC – Kenya National Cleaner Production Centre

LDCF – Least Developed Countries Fund

NCCAP – National Climate Change Action Plan

NEPAD – New Partnership for Africa's Development

NGFS – Network for Greening the Financial System

OECD – Organisation for Economic Co-operation and Development

PIDA – Programme for Infrastructure Development in Africa

PPP – Public-Private Partnership

PPU – Project Preparation Unit

PSRS – Prudential Standards and Rating System

RBF – Results-Based Financing

RUFORUM - Regional Universities Forum for Capacity Building in Agriculture

SADC – Southern African Development Community

SDIP – Sustainable Development Investment Partnership

SEFA – Sustainable Energy Fund for Africa

SFDR – Sustainable Finance Disclosure Regulation

SME – Small and Medium Enterprises

TA – Technical Assistance

TCFD – Task Force on Climate-related Financial Disclosures

TDB – Trade and Development Bank

UCT – University of Cape Town

UN – United Nations

UNCDF – United Nations Capital Development Fund

UVS – Université Virtuelle du Sénégal

VCDA – Virtual Capacity Development Academy

Glossary of Terms

Adaptation – Actions that reduce vulnerability to actual or expected climate impacts.

Additionality – The specific development or climate benefit that would not occur without the DFI's involvement.

AFOLU – Agriculture, Forestry and Other Land Use; a major area for mitigation and adaptation finance.

Asset class – A grouping of financial instruments with similar risk/return features (e.g., loans, equity, guarantees).

Asset–Liability Management (ALM) – Practices to manage timing, currency and interest-rate mismatches between assets and liabilities.

Bankability – The degree to which a project meets lenders' requirements to secure finance.

Basel standards – Prudential rules for capital, liquidity and risk management used by regulated banks and many DFIs.

Blended finance – The strategic use of concessional/public capital to de-risk and mobilise private investment.

Board charter – A document setting out the board's mandate, roles, and responsibilities.

Bond: A fixed-income instrument issued by a government, DFI, or company.

- **Green/Social/Sustainability bonds:** Proceeds are earmarked for eligible environmental and/or social projects.
- **Sustainability-Linked Bonds (SLBs):** Proceeds can be for general purposes, but coupon or redemption terms vary with the issuer's performance against predefined sustainability KPIs and targets.

Capability (institutional) – The systems, skills and processes required to deliver the mandate.

Capital adequacy – The extent to which capital buffers cover risks on the balance sheet.

Catalytic capital – Financing structured to crowd in other investors at scale.

Concessional finance – Below-market, flexible capital (e.g., longer tenors, grace periods) used to enable marginal or high-risk projects.

Country platform – A government-led coordination mechanism aligning finance with national priorities.

Credit enhancement – Features that improve a borrower's or instrument's risk/return profile (e.g., guarantees, subordination, collateral).

De-risking – Instruments and structures that reduce or transfer risk (e.g., guarantees, subordinated tranches).

Debt sustainability – The borrower's capacity to service debt without major adjustment or default.

Development Finance Institution (DFI) – A publicly owned or backed institution with a development mandate, using market-based instruments.

Disclosure (climate/ESG) – Reporting of material environmental, social and governance risks and performance.

Diversification (funding/portfolio) – Spreading sources of finance or exposures to reduce concentration risk.

Environmental and Social Impact Assessment (ESIA) – A process to identify and manage potential environmental and social impacts of a project.

Environmental and Social Management System (ESMS) – Policies, procedures and tools to implement safeguards across the project cycle.

Environmental, Social and Governance (ESG) – Standards and processes to manage non-financial risks and impacts.

Equity – Ownership capital bearing residual risk and return.

Exposure limit – A cap on risk concentration by sector, counterparty, geography or instrument.

Financial additionality – Provision of funding terms or instruments unavailable in the market.

Financial readiness – The DFI's ability to mobilise, price, structure and manage climate-aligned finance prudently.

Frontier markets – Smaller, less liquid markets with elevated risk and limited capital access.

Gender mainstreaming – Systematic integration of gender considerations in strategies, operations and results.

General partner (GP)/Limited partner (LP) – Roles in fund structures; GP manages the fund, LPs provide capital.

Guarantee – A promise to compensate a lender/investor if a borrower defaults, partially or fully.

Impact bond (social/development) – Outcome-linked instrument where returns depend on verified results.

Impact investor – An investor seeking measurable social and/or environmental impact alongside financial return.

Inclusion (financial/social) – Equitable access to finance, services and opportunities, especially for underserved groups.

Independent Power Producer (IPP) – A non-utility company that generates electricity for sale, typically via a PPA.

Investment committee (IC) – Governance body that approves transactions and sets risk parameters.

Just Transition (JT) – A fair, inclusive shift to a low-carbon, climate-resilient economy that safeguards jobs, livelihoods and social equity.

Key performance indicator (KPI) – A metric used to monitor performance against objectives.

Leverage ratio – Measure of debt relative to equity or assets.

Liquidity coverage – The ability to meet short-term obligations from liquid assets.

Localisation – Developing local supply chains, skills and ownership to deepen domestic value capture.

Mitigation – Actions that reduce or avoid greenhouse gas emissions.

Monitoring, Evaluation and Learning (MEL) – Systematic tracking of outputs, outcomes and lessons.

Nature-based solutions (NbS) – Actions that protect, manage or restore ecosystems to address societal challenges.

Non-performing loan (NPL) – A loan with overdue payments beyond a defined threshold.

Offtaker – The buyer of a project's output (e.g., electricity utility under a power purchase agreement).

Origination – Sourcing and shaping potential transactions before appraisal.

Outcome – A change attributable (in part) to an intervention, beyond immediate outputs.

Paris alignment – Ensuring strategies, portfolios and operations are consistent with the Paris Agreement goals.

Pipeline (project) – A set of prospects at various stages toward bankability and approval.

Power Purchase Agreement (PPA) – A long-term contract for the sale of electricity between a generator and a buyer.

Project Preparation Unit (PPU) – Internal hub leading feasibility, structuring and due diligence to build an investment-ready pipeline.

Prudential limits – Risk caps and thresholds imposed by policy or regulation.

Public Development Bank (PDB) – Another term for DFI, highlighting public ownership/control.

Public–Private Partnership (PPP) – A structured collaboration where public and private actors share risk, responsibility and reward.

Resilience – The capacity of systems, communities or assets to withstand and recover from shocks and stresses.

Results Framework & KPIs – A hierarchy of objectives, indicators, baselines and targets for performance tracking.

Results-based financing (RBF) – Disbursements tied to verified outputs or outcomes.

Risk appetite – The amount and type of risk an institution is willing to take.

Risk premium – Extra return required by investors to compensate for risk.

Safeguards (E&S) – Policies and procedures to prevent, minimise and remedy harm in operations and projects.

Scorecard – ESG & Climate Risk Integration – Robust safeguards and climate-risk analysis embedded across the project cycle.

Scorecard – Financial Readiness – Sound capital, policies and funding to mobilise and manage climate-aligned finance.

Scorecard – Governance & Strategy – Clear mandate, board oversight and strategy aligned with national priorities and climate goals.

Scorecard – Project Preparation Systems – Processes and units that turn concepts into bankable, policy-aligned projects.

Scorecard – Technical & Human Capacity – Skills, tools and staffing to originate, appraise and deliver.

Sovereign risk – The risk that a government borrower will default or change terms adversely.

Stakeholder engagement – Meaningful, inclusive processes to involve affected and interested parties.

Subordination – A tranche or claim ranked below others in priority of repayment.

Taxonomy (green/sustainable) – A classification system that defines which activities qualify as environmentally or socially sustainable.

Tenor – The time to maturity of a financial instrument.

Theory of Change (ToC) – An explicit logic linking activities to outputs, outcomes and impacts.

Ticket size – The amount committed to a single investment or project.

Transmission & Distribution (T&D) – Grid infrastructure that transports electricity from generators to consumers.

Value-for-money (VfM) – The optimal balance of economy, efficiency, effectiveness and equity.

Viability Gap Funding (VGF) – Public or concessional funds that make socially valuable but commercially marginal projects feasible.

Working capital – Short-term financing to fund day-to-day operations.

Zero-carbon/Net zero – Achieving a balance between emitted and removed greenhouse gases, with deep absolute reductions.

Acknowledgements

The Centre for Sustainability Transitions (CST) gratefully acknowledges the collaboration and strategic input of the Association of African Development Finance Institutions (AADFI) in the development of this handbook. AADFI's longstanding commitment to strengthening the institutional capacity of African DFIs has been instrumental in shaping the approach and tools presented in this guide. The AADFI and CST partnership has provided valuable insights into the needs, challenges, and opportunities facing DFIs across the continent in the pursuit of climate-resilient development.

This handbook has also been informed by the shared knowledge and practical experiences of DFIs across Africa, and by the policy frameworks, toolkits, and capacity-building programmes developed by leading regional and international institutions. We extend our appreciation to the African Development Bank (AfDB), International Finance Corporation (IFC), Green Climate Fund (GCF), Global Environment Facility (GEF), Climate Investment Funds (CIF), OECD, GIZ, and various agencies within the United Nations system, whose work has helped shape the concepts and practical tools captured in this handbook.

We offer special thanks to the Finance in Common (FiCS) initiative, which has played a pivotal role in promoting collaboration, standard-setting, and Paris-aligned finance among public development banks globally. Its efforts to strengthen joint declarations, peer learning, and harmonised reporting have proven invaluable to the work presented in this handbook.

Foreword

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The urgency of the climate crisis is no longer abstract. It is materialising in the form of erratic weather patterns, deepening inequality, vulnerable infrastructure, and constrained fiscal capacity, especially across Africa. Yet within this complexity lies an opportunity to reimagine and rebuild development pathways that are both climate resilient and socially inclusive.

DFIs in Africa are uniquely positioned to play a catalytic role in enabling this transition. With mandates to finance public-interest infrastructure and mobilize private capital for development, DFIs operate at the intersection of state priorities, community needs, and global climate ambitions. Realising this potential is not automatic. It requires more than vision, it calls for institutional readiness: strong governance, climate-integrated project pipelines, and access to concessional and blended finance.

This handbook responds to that institutional need. It offers a practical framework for strengthening African DFIs through diagnostic tools, peer learning, and strategic collaboration. Drawing on years of research, stakeholder engagement, and applied insights from across the continent, it is designed to support DFI executives, policymakers, technical experts, and funding partners in advancing climate-aligned development.

Importantly, the handbook is not prescriptive. It recognises the diversity of African DFIs, whether national and subnational, sector-focused and multi-mandate, established and emerging. Instead, it offers adaptable tools that enable each institution to define its own pathway towards readiness and resilience.

We are deeply grateful to all those who contributed to this work, including the Association of Development Finance Institutions (AADFIs), and the many DFIs across Africa that continue to lead by example. This handbook is a step toward a shared vision of an Africa where development finance institutions are equipped and empowered to drive just, inclusive, and climate-resilient development.

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Message from the Author

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Africa's development finance institutions sit at a pivotal intersection of public purpose and financial discipline. They are expected to mobilise long-term capital for infrastructure, enterprise development, and basic services, while also responding to the escalating realities of climate risk, constrained fiscal space, and widening inequality. This Guideline Handbook was developed in response to that moment: to offer a practical, Africa-rooted resource that supports DFIs to strengthen institutional capacity, build climate-aligned pipelines, and mobilise finance for climate resilience and a just transition.

The handbook is intentionally practical. Alongside the conceptual framing and case-based insights, it provides tools that can be used by boards, executives, investment teams, and shareholders to diagnose readiness, identify priority reforms, and track progress over time. It is designed to support different institutional realities, whether a small sector-focused DFI seeking to professionalise core systems, or a larger institution pursuing accreditation, diversification of funding sources, and deeper alignment with national climate priorities.

This publication should be read as a living resource. It does not prescribe a single pathway, because African DFIs operate in diverse regulatory environments, balance different mandates, and face varied capacity constraints. Instead, it aims to strengthen strategic clarity, improve governance and risk management, deepen ESG and climate integration, and accelerate project preparation and partnership building, so that DFIs can reliably translate national plans into investable, implementable programmes.

My hope is that this handbook is used not only as a reference document, but as a working guide that supports peer learning, honest self-assessment, and practical action. If it helps DFIs to unlock more concessional and blended finance, strengthen internal systems, and deliver measurable development and climate outcomes with integrity, then it will have achieved its purpose.

With appreciation to all who contributed to the thinking and practice reflected in these pages, and with an open invitation for ongoing feedback and shared learning.

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Disclaimer

This Handbook is intended as a general resource to support African DFIs in strengthening their institutional capacity for climate finance readiness. The content reflects insights from research, case studies, expert interviews, and peer-reviewed frameworks conducted and compiled by the CST and its partners. While every effort has been made to ensure the accuracy and relevance of the information presented, the handbook does not constitute legal, financial, or investment advice.

The inclusion of tools, examples, case study snapshots, and recommendations is for illustrative purposes only and does not imply endorsement or applicability in all contexts.
Users of this handbook are encouraged to adapt its contents to their own operational, regulatory, and country-specific circumstances. CST, its affiliates, and contributing organisations shall not be held liable for any decisions or actions taken based on the material herein.

To protect confidentiality and focus on broader institutional lessons, the organisations in these anonymised case studies are not named.

Executive Summary

This Handbook for Strengthening African DFIs for Climate-Resilient Development was developed in recognition of the growing demand for practical tools and shared frameworks that can support DFIs on this journey The twin imperatives of accelerating development and responding to the escalating impacts of climate change demand bold, coordinated action across all sectors of society. DFIs are uniquely positioned to respond to this challenge. With their public mandates, proximity to national priorities, and growing track record in infrastructure and enterprise finance, DFIs shape a development model that is suited to the African context, adapted and nuanced to respond to regional and country differences.

The handbook and its diagnostic framework adopt a dynamic approach, providing a structured method to assess institutional readiness, unlock climate finance, and strengthen internal systems in line with national development goals and global climate commitments. Crucially, this dynamic orientation is designed to surface and navigate the interplay between the two aims above, which may at times diverge, so that DFIs can iteratively reconcile priorities in practice.

It also presents a practical Investment Readiness Scorecard and a comprehensive directory of capacity-building partners to support implementation.

The handbook is not intended to be prescriptive; it recognises the diversity of DFI mandates, governance structures, and operating environments across the continent.
It is a flexible, living resource, designed for sharing and to be refined through shared learning and members' contributions. It supports institution-specific reform journeys, whether to improve internal systems, prepare for accreditation, strengthen partnerships, or deepen alignment with national climate strategies.

This handbook is the product of a collaborative effort, led by the Centre for Sustainability Transitions (CST) at Stellenbosch University, in close partnership with the AADFI and other regional and international allies. It is offered as a contribution to the ongoing work of building stronger, more responsive DFIs that are essential to realising Africa's vision for sustainable, climate-resilient development.

Objectives of the Guideline Handbook

- To provide a structured, Africa-focused framework for assessing institutional readiness for climate finance.
- To equip DFIs with practical tools to strengthen governance, strategy, technical capacity, and project preparation systems.
- To support DFIs in aligning their operations with global standards.
- To promote shared learning and benchmarking through the Investment Readiness Scorecard.
- To catalyse partnerships, capacity-building, and spark policy dialogue that enhances the role of DFIs in financing Africa's Just Transition.

Roadmap of the Handbook

This handbook is organised into seven interconnected chapters:

- *Chapter 1* introduces the core features, historical evolution, and typologies of African DFIs, highlighting their strategic importance in financing inclusive, climate-resilient development. It explores how DFIs are aligning their mandates with global agendas, including the SDGs, the Paris Agreement, and Agenda 2063.
- *Chapter 2* presents four in-depth case studies drawn from African DFIs, offering grounded insights into how these institutions are adopting innovative approaches to mobilise climate finance, enhance governance, and improve institutional performance. Each case illustrates successes, challenges, and lessons learned that can inform adaptation, replication, and reform efforts across the continent. To ensure analytical focus and encourage open reflection, the names of the countries and DFIs have been anonymised.
- *Chapter 3* outlines the dimensions of institutional capacity and climate readiness. It also identifies common barriers such as undercapitalisation, policy misalignment, and weak risk management systems.
- *Chapter 4* introduces the DFI Investment Readiness Scorecard, which is a practical, Africa-focused diagnostic tool designed to help DFIs assess their capacity and track institutional progress. The chapter explains how to apply the tool, interpret results, and integrate findings into strategic planning processes. It also includes a readiness scale and a fictional example to illustrate how the tool can guide reform.
- *Chapter 5* presents strategies to strengthen DFI capacity in areas where institutional gaps are most pronounced. It emphasises the importance of human capital investment, digital monitoring and evaluation systems, dedicated project preparation units, and innovative resource mobilisation instruments such as blended finance, guarantees, and performance-based grants.
- *Chapter 6* explores opportunities to scale DFI readiness through peer learning, structured collaboration, and global engagement. It examines how African DFIs can leverage regional platforms like AADFI, AUDA-NEPAD, and AfGIIB, as well as global initiatives such as the Finance in Common Summit (FiCS) and the International Development Finance Club (IDFC). It also identifies key research gaps related to gender-responsive finance, subnational DFIs, and digital infrastructure for climate tracking.
- *Chapter 7* offers a curated directory of regional and international partners that can support DFI reform and finance mobilisation. It includes DFIs, multilateral funds, technical agencies, and capacity-building platforms that provide advisory services, technical assistance, and co-financing to African DFIs.

Drawing on the concept of tilting the playing field (Mazzucato, 2016), the handbook advances a more strategic vision of development finance, one that moves beyond passive market correction and instead positions DFIs to actively shape markets and direct investment toward transformative societal objectives.

Chapter 1: The Role and Relevance of African DFIs

1.01. What Are DFIs?

DFIs, also referred to as Public Development Banks (PDBs), are financial entities that are wholly or partially owned by governments and have an explicit public mandate. Their core role is to finance investments that contribute to national or regional development objectives, especially in areas that are underserved by commercial markets, such as renewable energy, infrastructure, SME development, housing, and agriculture.

1.02. Core Features

DFIs are distinct from commercial banks and aid agencies in both structure and purpose. According to the FiCS criteria, a financial institution qualifies as a PDB if it meets five foundational conditions. These features highlight the hybrid nature of DFIs; they are public-purpose financial entities that aim to deliver developmental impact while maintaining financial discipline:

Comparison Dimension	Development Finance Institution (DFI)	Commercial Bank
Mandate	Public mandate to finance development and climate goals	Profit-driven, focused on shareholder returns
Instruments	Loans, equity, guarantees (reflow-seeking)	Loans, deposits, and retail financial services
Risk Appetite	Higher tolerance for developmental risk	Low tolerance, prioritises creditworthy clients
Ownership Structure	Wholly or partially state-owned	Privately owned or publicly listed
Developmental Impact	Measures success by socio-economic and environmental outcomes	Measures success by financial profitability

1. Independent legal status with its own governance, staffing, and financial reporting, distinct from government programmes or special-purpose vehicles.
2. Use of reflow-seeking instruments, such as loans, equity, and guarantees, rather than non-repayable grants, enabling financial sustainability.
3. Diversified funding sources, reflecting DFIs' strategic position between public and private stakeholders: they can mobilise capital from the state, domestic non-bank financial institutions (NBFIs), international financial institutions, peer DFIs, capital markets, and private-sector funds, beyond periodic government budget transfers.
4. A proactive public policy mandate focused on financing underserved sectors and advancing national development priorities, while intentionally bridging public private interests to crowd in investment and align policy outcomes with commercial participation.
5. Government has strategic influence, typically through ownership, board participation, or public guarantees that align investments with policy goals without compromising operational independence.
6. Project packaging and commercialisation capacity: DFIs play a lead role in structuring and de-risking near-bankable projects into investable products, positioning them attractively to investment partners through syndication, blended finance, and other market-compatible structures.

1.03. Brief History of Development Finance Institutions in Africa

DFIs in Africa have their roots in the post-colonial era, when newly independent states sought to accelerate industrialisation, infrastructure development, and socio-economic transformation. Inspired by successful models in Europe and Asia, African governments began establishing state-

owned financial institutions in the 1950s and 1960s to fill market gaps and support national development objectives.

The first wave of DFIs in Africa emerged during the 1960s and 1970s with a strong emphasis on import substitution, state-led industrialisation, and the expansion of basic infrastructure. These institutions were often supported by bilateral and multilateral partners such as the World Bank and the African Development Bank (AfDB), the latter of which was founded in 1964 to promote sustainable economic development and social progress across the continent (AfDB History).

During the 1980s and 1990s, many African DFIs faced serious setbacks. Structural Adjustment Programmes (SAPs) imposed by the World Bank resulted in the downsizing or closure of several state-owned banks. A wave of liberalisation saw commercial financial markets opened up, while DFIs were criticised for inefficiency, political interference, and unsustainable lending practices. According to the United Nations Conference on Trade and Development (UNCTAD), this period led to a decline in public investment and the weakening of national financial institutions (UNCTAD, 2001).

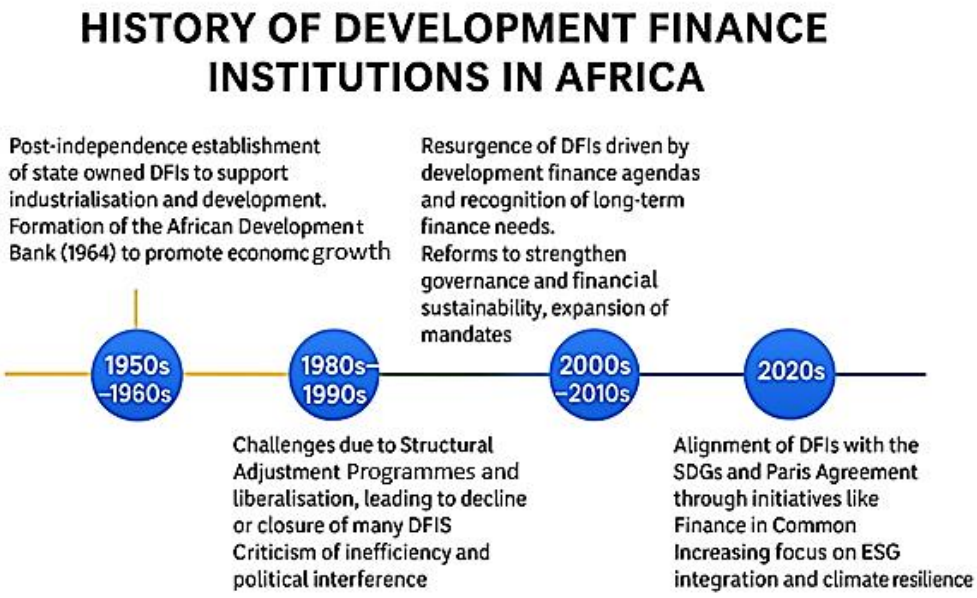
The early 2000s marked a resurgence of DFIs in Africa, driven by renewed interest in state-led development, global recognition of the importance of long-term finance, and the rise of new regional and sub-regional development banks. The Monterrey Consensus (2002) and the Addis Ababa Action Agenda (2015) reaffirmed the critical role of DFIs in mobilising finance for sustainable development (UN Financing for Development).

The African Union's Agenda 2063 and the Sustainable Development Goals (SDGs) further emphasised the need for robust public financial institutions. In response, many African governments undertook DFI reforms to improve governance, expand mandates, and enhance financial sustainability. Regional networks like the AADFI, established in 1975, played a pivotal role in promoting standards, peer learning, and technical assistance across the continent (AADFI).

The 2020 launch of the FICS initiative marked a new chapter for DFIs globally, including in Africa, with an emphasis on aligning investment portfolios with the Paris Agreement and SDGs. African DFIs have increasingly joined this global platform, reaffirming their importance in financing climate-resilient, inclusive, and sustainable development.

Today, African DFIs are evolving into hybrid institutions that balance public mandates with financial viability and integrate ESG frameworks. They are also partnering with international investors and domestic financial institutions to close infrastructure and climate-finance gaps.

As Africa accelerates it's Just Transition, these institutions remain key actors in shaping a more resilient and equitable financial architecture.



1.04. Relevance to Africa's Development Pathway

Africa accounts for over 100 DFIs, nearly 20% of all PDBs globally, though these institutions collectively represent only 1.9% of global DFI assets (Finance in Common, 2024). Despite this small footprint in global terms, African DFIs play an outsized role in:

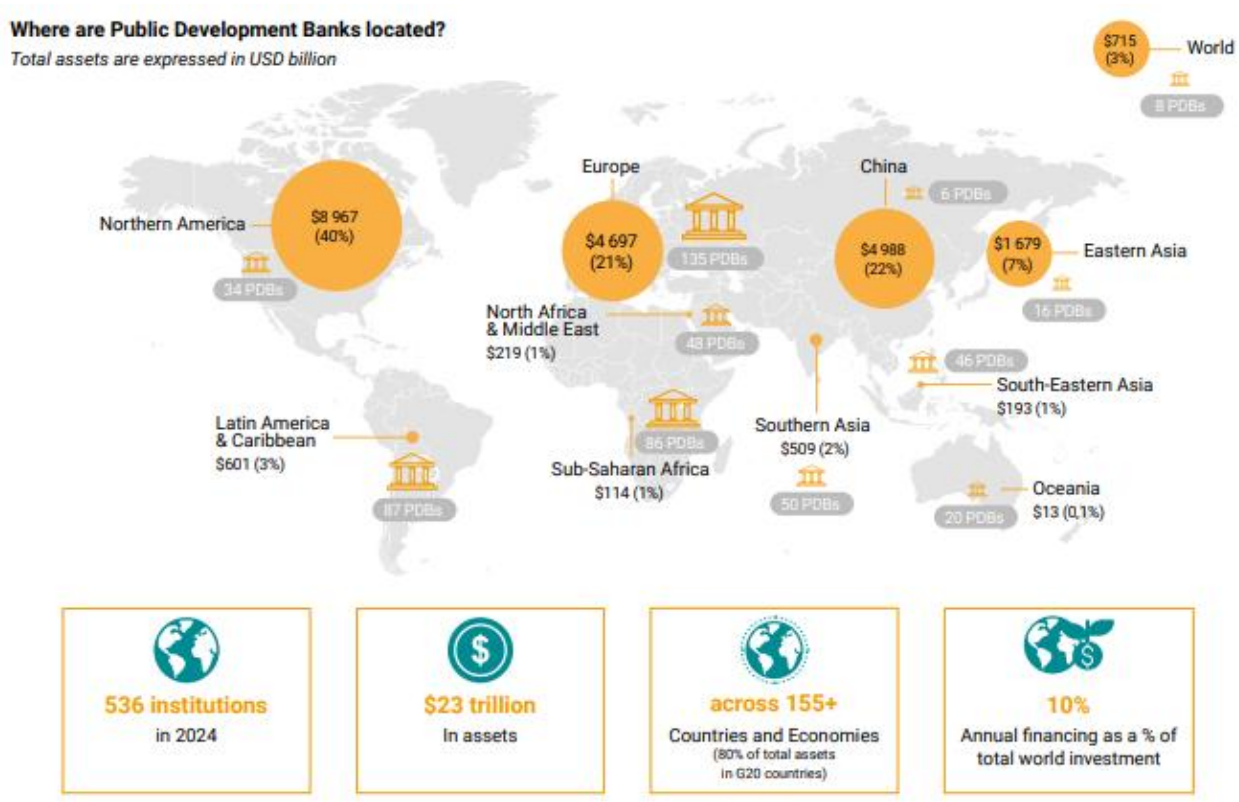


Figure 1: Source: Finance in Common - Reference Book (2024)

- Financing renewable energy, SMEs, and rural infrastructure
- Supporting national climate and development plans

- Acting as trusted intermediaries for donor and green finance
- De-risking projects and attracting private capital to high-impact sectors

Data from the FiCS Reference Book indicates that African DFIs showed notable resilience in the post-COVID period, recording higher average return on assets than their European peers (FICS, 2024). This performance reflects prudent risk management, tighter cost control, and selective portfolio growth under difficult macroeconomic conditions. It also suggests that African DFIs can weather shocks while sustaining development impact, provided balance sheet strength and asset quality are actively managed.

Building on this foundation requires targeted capacity strengthening across core functions. Governance improvements should clarify mandates, enhance board effectiveness, and align incentives with climate and development outcomes. Technical know-how needs to deepen in climate risk assessment, project preparation, and ESG integration, so that pipelines include bankable, climate-aligned projects across mitigation and adaptation. Financial management enhancements should cover ALM, and liquidity policies suited to long-tenor infrastructure, robust credit and NPL workout frameworks, and the use of blended finance, guarantees, and local-currency instruments to crowd in private and domestic institutional capital.

With these capabilities in place, African DFIs can position themselves as pivotal actors in Africa's Just Transition and in the global sustainability agenda. Concretely, they can translate national climate strategies into investable project pipelines, standardise disclosure and impact measurement in line with Paris and SDG frameworks, and scale instruments such as green, social and sustainability-linked bonds, results-based finance, and risk-sharing facilities. Strengthened institutions will be better able to mobilise concessional resources, de-risk early-stage projects, and catalyse larger volumes of commercial finance while ensuring that social inclusion and resilience remain at the centre of investment decisions.

Governance Best Practices and International Benchmarks

To realise this potential, DFIs must also meet international governance and performance standards. The OECD's Guidelines on Corporate Governance of State-Owned Enterprises recommends that DFIs should have clear mandates, independent and skilled boards, and operational autonomy insulated from short-term political pressures. Past waves of national development bank failures, particularly in the 1980s, were often due to political interference, mission drift, and unsustainable financial practices.

A clear and legally embedded mandate, combined with strong oversight and a qualified management team, is essential for achieving development impact while preserving financial solvency. The best-performing DFIs globally maintain this balance, delivering impact while meeting financial performance benchmarks, often under the supervision of national regulators and international partners. DFIs that operate within strong governance frameworks are more likely to access global capital markets, attract concessional climate finance, and earn the confidence of private-sector co-financiers. They should, however, go further where local conditions warrant it, adopting additional performance and governance standards tailored to context.

Aligning with Global Development Agendas

Many DFIs are moving from high-level commitments to concrete practice. They are designing **ESG-compliant financing instruments** such as green, social and sustainability bonds, sustainability-

linked bonds and loans, transition credit lines, and results-based facilities. These instruments are backed by clear use-of-proceeds or KPI frameworks, external reviews or second-party opinions, and regular impact reporting aligned to ICMA principles or similar standards.

On the **risk side**, DFIs are **integrating climate risk into core portfolio processes**. Typical steps include adopting climate and nature risk policies, screening projects against taxonomies, embedding TCFD or ISSB-style disclosures, estimating financed emissions with PCAF methods, and running NGFS-based scenario analysis and stress tests to inform pricing, risk appetite and capital allocation. Many are also expanding adaptation lending and adding social safeguards and Just Transition criteria to credit assessment.

To accelerate learning and coherence, DFIs are **participating in global networks** such as **Finance in Common (FiCS)** and the **International Development Finance Club (IDFC)**, as well as technical platforms and working groups on portfolio alignment, impact measurement and blended-finance standards. These collaborations help harmonise methodologies, crowd in private capital, and translate national climate strategies into bankable pipelines.

The AfDB, DBSA, and others have taken active roles in these forums, demonstrating the relevance of African DFIs to global development and climate finance architecture.

Key areas of alignment include:

- ESG Integration: DFIs are embedding ESG standards into their lending operations, ensuring responsible and sustainable investment practices.
- Climate Risk Assessment: Incorporating climate risk into investment decision-making processes to enhance resilience and sustainability.
- Compliance with International Frameworks: Adhering to standards such as the IFC Performance Standards, OECD Guidelines on State-Owned Enterprises (SOEs), and the Task Force on Climate-related Financial Disclosures (TCFD).
- Participation in Global Platforms: Engaging in international forums like the FiCS, the International Development Finance Club (IDFC), and the UN Financing for Development (FfD) process to contribute to policy dialogues and funding coordination mechanisms.

1.05. Examples of African DFIs

African DFIs are diverse in mandate, size, and influence, but each plays a vital role in unlocking investment, addressing development bottlenecks, and promoting just and climate-resilient transitions. Below are four illustrative examples drawn from different levels of the DFI ecosystem, national, regional, and multilateral.

1. Banque Nationale pour le Développement Économique (BNDE), Senegal

Established in 2011, BNDE focuses on promoting inclusive economic growth in Senegal, particularly by supporting small and medium-sized enterprises (SMEs) and infrastructure investment. Its sectoral focus—including agro-industry, health, renewable energy, and tourism—supports alignment with SDG 8 (Decent Work and Economic Growth), SDG 9 (Industry, Innovation and Infrastructure), and SDG 7 (Affordable and Clean Energy).

In August 2024, the DBSA approved a EUR 70 million on-lending sovereign loan to the Government of Senegal to support the construction of 45 Open Digital Spaces (ENOs) under the Virtual University of Senegal (UVS) expansion project. DBSA describes the initiative as supporting

equitable access to higher education and strengthening ICT-enabled education, aligned with Senegal's Emerging Senegal Plan (PSE) and the African Union's Digital Transformative Strategy 2020–2030. This initiative aligns with SDG 4 (Quality Education) and supports digital inclusion goals outlined in Agenda 2063.

BNDE also received a €12 million Islamic finance facility in 2021 from the Islamic Corporation for the Development of the Private Sector (ICD), targeting financial inclusion in underserved populations and aligning with SDG 10 (Reduced Inequalities). Its active participation in AADFI capacity-building surveys further demonstrates its commitment to the Paris Agreement's objective of enhancing institutional readiness for climate finance.

2. Kenya Development Corporation (KDC), Kenya

Formed in 2020 through the consolidation of several legacy entities, KDC is Kenya's national DFI supporting strategic sectors under Kenya Vision 2030 and the National Climate Change Action Plan (NCCAP). Its priority investments in geothermal and wind energy contribute to the country's Nationally Determined Contributions (NDCs), aligning directly with the Paris Agreement.

KDC's collaboration with the Kenya National Cleaner Production Centre (KNCPC) helps identify and support bankable, climate-aligned projects that meet ESG standards—further aligning with SDG 13 (Climate Action) and SDG 17 (Partnerships for the Goals). During the 2024 AADFI Annual Workshop, KDC was featured as a host institution, affirming its regional leadership.

3. Development Bank of Southern Africa (DBSA), South Africa

The DBSA is a regional DFI that finances key infrastructure across the Southern African Development Community (SADC). Its investments in energy, water, ICT, and transport directly advance multiple global priorities, including SDG 6 (Clean Water and Sanitation), SDG 7 (Affordable and Clean Energy), and SDG 9 (Industry, Innovation and Infrastructure).

Through the Climate Finance Facility (CFF), DBSA pioneered the "green bank" model in emerging markets with support from the Green Climate Fund (GCF). The CFF helps operationalise Article 2.1(c) of the Paris Agreement by de-risking climate-aligned infrastructure investments through blended finance tools.

The DBSA also participates in collaborative research with the Centre for Sustainability Transitions (CST) and AADFI, to address early-stage infrastructure pipeline gaps and align DFI capacity-building with the Sustainable Development Investment Partnership (SDIP).

4. African Development Bank (AfDB)

The AfDB is Africa's pre-eminent multilateral DFI. Its work spans across sovereign lending, private sector development, technical assistance, and institutional reform. The Bank is accredited to both the Green Climate Fund (GCF) and Adaptation Fund, making it a key delivery partner for climate finance on the continent.

AfDB's Sustainable Energy Fund for Africa [1](SEFA) mobilises capital for early-stage renewable energy and energy efficiency projects—advancing SDG 7 and SDG 13. The Bank also champions DFI integration through its participation in the FiCS and the IDFC, amplifying Africa's voice in shaping the global green finance architecture.

AfDB's operations directly support the implementation of Agenda 2063 and the goals of the United Nations Framework Convention on Climate Change (UNFCCC) by aligning financing instruments with national and regional development priorities.

[1] https://sefaafrica.org/

Helpful Reference: *Reference: https://financeincommon.org*

1.06. Why DFIs Matter for Africa's Just Transition

Addressing Market Failures

African DFIs operate in a context marked by deep-rooted structural inequalities. Despite having vast renewable energy potential, solar in the Sahel, wind in the Horn of Africa, and geothermal in East Africa, many of these opportunities remain underfunded due to risk perceptions and weak institutional support. Commercial banks typically avoid these sectors, especially in rural or informal economies, due to long payback periods, uncertain regulatory environments, and limited credit histories.

DFIs play a counter-cyclical and corrective role in this landscape, using their public development mandate to absorb higher risks and finance sectors that private lenders deem unbankable, including decentralised renewable energy, climate-smart agriculture, and community infrastructure. Counter-cyclical action means sustaining or expanding lending during downturns or shocks, which stabilises investment and employment, prevents viable projects from being abandoned, and supports recovery, often through concessional pricing, guarantees, or flexible covenants that manage elevated risk while protecting solvency. At the same time, DFIs can act pro-cyclically where appropriate by scaling catalytic finance in expansions to crowd in private capital at lower cost, maintaining disciplined risk limits to avoid overheating, and reserving scarce concessional resources for stress periods. In practice, effective DFIs balance these modes by maintaining capital and liquidity buffers, pre-arranged guarantee lines, and instrument menus that shift from risk-sharing and working-capital support in downturns to syndications, securitisations, and take-out financing in upturns. In doing so, they market failures while accelerating inclusive investment when conditions allow. According to the Green Climate Fund, DFIs are pivotal in enabling access to clean energy and adaptation services in least-developed and climate-vulnerable nations.

Importantly, DFIs provide non-financial support that enhances bankability, such as project preparation assistance, stakeholder engagement, and environmental and social safeguards. For example, the Sustainable Energy Fund for Africa (SEFA) supports early-stage renewable energy development by offering feasibility grants and transaction advisory services, particularly where private capital is reluctant to engage.

Through this dual function of financing and capacity-building, DFIs ensure that social and climate priorities like energy access, water security, or food system resilience are not sidelined by market constraints.

1.06.1. *Mobilising Long-Term Capital*

Africa's climate and infrastructure needs demand patient capital, loans and equity with maturities of 10–25 years, yet most commercial banks on the continent operate on short-term liquidity cycles, offering tenors of just 3–5 years, which are poorly suited to long-gestation projects such as solar mini-grids or electric bus systems. Yield spreads play a central role here: they indicate the risk premium investors require for lending to infrastructure projects relative to safer or benchmark government securities. Ordinarily, long-term bonds, especially less liquid or higher-risk infrastructure bonds, should yield more than short-term government instruments because investors demand extra compensation for duration and credit risk. When short-term government yields exceed long-term infrastructure bond yields (an inverse yield curve), markets interpret it as a signal of economic downturn; it also raises the cost of capital in the short term while compressing long-term yields, complicating project financing and discouraging pipeline development. DFIs, supported by government guarantees or donor partnerships, are therefore

better placed to provide stable, long-tenor finance aligned with infrastructure asset lifecycles, buffering projects against adverse yield dynamics and crowding in private capital on more sustainable terms. Such long-horizon finance is essential for projects in water, housing, transport, and clean energy.

DFIs often serve as anchor investors, catalysing private and concessional co-finance. A notable example is the Noor Ouarzazate Solar Complex, backed by the African Development Bank (AfDB). AfDB's participation signalled bankability and enabled a financing mix that included the Clean Technology Fund (CTF), KfW, and the World Bank.
African DFIs also increasingly blend concessional and commercial finance, creating structured financial products that offer predictable returns while meeting social and climate objectives. These instruments make African green infrastructure more accessible to pension funds, sovereign wealth funds, and international climate investors.

1.06.2. *Catalysing Private Sector Finance*

DFIs are central to de-risking and scaling private investment in Africa's Just Transition. Instruments like partial credit guarantees, subordinated debt, and first-loss capital are used to attract commercial capital into high-impact sectors.
For example, the DBSA's Climate Finance Facility (CFF) provides blended finance solutions to support clean energy and sustainable transport. The CFF uses subordinated loans and credit enhancements to crowd in commercial investment for early-stage or higher-risk projects in the Southern African region.
The Development Bank of Nigeria (DBN) has developed digital risk assessment tools and loan products to expand SME access to finance, particularly for women-led and climate-smart enterprises. These innovations make financing more inclusive and aligned with Just Transition goals.
Beyond financing tools, DFIs also act as market shapers. They work with regulators to:

- Reform procurement laws and reduce bottlenecks;
- Standardise Power Purchase Agreements (PPAs) for renewables;
- Pilot green bond frameworks, such as those supported by UNDP and the African Securities Exchanges Association (ASEA).

These systemic reforms reduce transaction costs and improve investor confidence. According to the OECD and UNCDF, DFIs also build data systems and institutional networks that improve the credibility and transparency of climate investment pipelines.
Thus, DFIs create enabling ecosystems, where private capital is not only mobilised but can thrive in delivering inclusive, green development.

KEY TAKEAWAYS:

DFIs are pivotal enablers of Africa's development: With public mandates and hybrid financial instruments, DFIs finance high-impact sectors underserved by commercial banks—such as clean energy, rural infrastructure, SMEs, and climate resilience.

Africa hosts 20% of global DFIs, but holds only 1.9% of global DFI assets: This mismatch underscores the urgent need for recapitalisation, institutional strengthening, and international support.

Governance and strategic autonomy are essential: Strong legal mandates, skilled boards, and insulation from short-term political pressures are crucial to ensuring financial sustainability and developmental impact.

DFIs catalyse both public and private finance: By de-risking projects, blending concessional capital, and shaping policy environments, DFIs help unlock long-term investment for just transitions and sustainable infrastructure.

African DFIs are aligning with global agendas: Through climate-aligned finance, ESG integration, and participation in networks like FiCS, African DFIs are becoming visible actors in the global sustainable finance architecture.

Diversity in scale and scope calls for tailored support: From micro DFIs to continental institutions like the AfDB, differentiated strategies are needed to build capacity, attract investment, and deliver on Africa's development goals.

Helpful Reference: *UNFCCC Climate Finance Needs Report*

1.07. Mandates and Typologies

African DFIs vary widely in their mandates, sectoral focus, ownership models, and operational reach. Understanding these typologies is essential for tailoring institutional capacity-building efforts and for designing appropriate financial and technical support.

Sectoral Focus

African DFIs are mandated to fill investment gaps in strategic development sectors that are often neglected by commercial lenders due to long investment horizons, high risk profiles, or limited profitability. These sectors reflect national and regional development priorities and commonly include:

1. Energy and Clean Power
   DFIs play a central role in financing renewable energy, grid expansion, and off-grid electrification. For example, the Development Bank of Southern Africa (DBSA) has been instrumental in advancing clean energy infrastructure across the region. Through initiatives like the Embedded Generation Investment Programme (EGIP), launched in partnership with the European Investment Bank (EIB), DBSA supports small- and medium-scale renewable energy projects, particularly in solar and wind. This €400 million programme is expected to generate up to 1,200 MW of new capacity and reduce carbon emissions by approximately 3.6 million tonnes (DBSA, 2022).
2. Small and Medium Enterprises (SMEs)
   SMEs are key to job creation and inclusive growth in Africa but are significantly underserved by formal financial institutions. DFIs like the Banque Nationale pour le Développement Économique (BNDE) in Senegal and the Development Bank of Nigeria provide long-term working capital, credit guarantees, and capacity-building services to SME-focused lenders (DBN, 2023).
3. Infrastructure Development
   From roads and rail to water and sanitation, infrastructure is a priority for national and regional DFIs. The DBSA invests heavily in regional integration projects and operates a project preparation facility to support early-stage infrastructure development across Southern Africa (DBSA, 2024).
4. Agriculture and Rural Development
   In many countries, DFIs also support agro-processing, climate-smart agriculture, and rural value chains. Regional institutions like the Banque Ouest Africaine de Développement (BOAD) and university-led partners such as RUFORUM are helping integrate climate finance into agricultural development strategies (RUFORUM, 2023).

Ownership Structures and Operational Scales

DFIs may be wholly government-owned, majority-owned with private participation, or multilateral entities co-owned by several states. These ownership models influence their governance structures, risk appetite, and ability to access concessional funding.

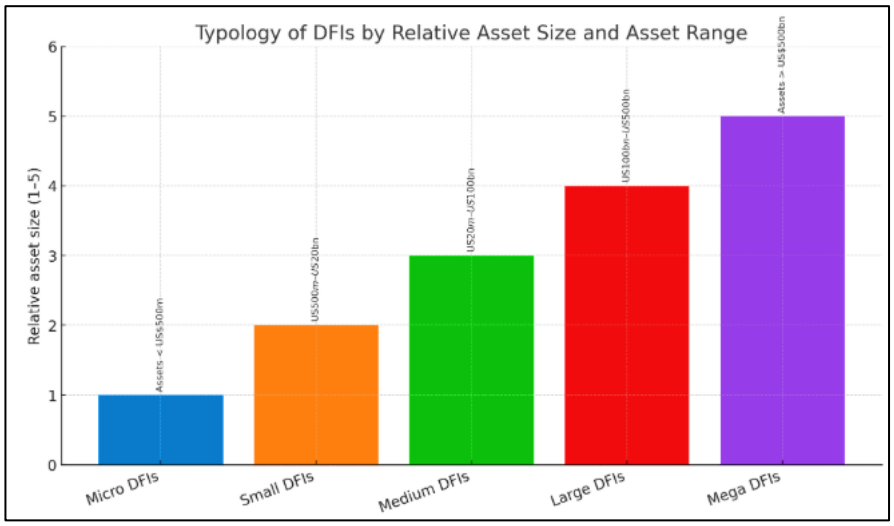
1. **National DFIs** are typically owned by a single government and operate within national borders. They implement domestic development policies and may serve as intermediaries for donor or climate finance. Examples include KDC (Kenya), BNDE (Senegal), and TIB Development Bank (Tanzania).

2. **Regional DFIs** are owned by a consortium of states within a regional bloc, such as DBSA (Southern Africa), BOAD (West Africa), or the Trade and Development Bank (TDB), Eastern and Southern Africa. They support cross-border infrastructure and regional market integration.
3. **Multilateral DFIs** operate continent-wide or globally and include the AfDB, which has both sovereign and non-sovereign operations and plays a key role in mobilising international climate finance (AfDB, 2021).

Asset Size Classification: Micro to Mega DFIs (FiCS, 2025)

A useful way to understand the diversity of DFIs is to classify them by asset size, which often correlates with their operational reach, capital mobilisation capabilities, and technical resources.

1. **Micro DFIs** typically have assets below US$500 million and operate locally or in a single sector. These institutions often struggle with capacity and may depend heavily on donor partnerships. Many rural or municipal banks fall into this category.
2. **Small DFIs** have assets between US$500 million and US$20 billion and may serve national or subnational markets. They often finance SMEs, health, and education sectors. BNDE Senegal fits within this range.



3. **Medium DFIs** range between US$20 million and US$100 billion and support broader sector portfolios, often including infrastructure and clean energy. DBN Nigeria and KDC Kenya operate in this range.
4. **Large DFIs** range between US$100 and 500 billion.
5. **Mega DFIs** exceed US$500 billion in assets and have international engagement and broad sectoral portfolios. AfDB and DBSA are prominent examples. These institutions have the credibility and capital base to attract blended finance, issue bonds, and scale their development impact across regions. Understanding this typology helps tailor technical assistance, governance reform strategies, and financial instruments to the specific needs of each DFI type.

Helpful Reference: *PDB Database: http://www.dfidatabase.pku.edu.cn/*

Chapter 2: Case Studies

This section offers practical, country-level insights from four African DFIs and one regional Multilateral Development Bank (MDB). These snapshots highlight institutional strengths, ongoing challenges, and lessons that can inform broader DFI capacity development and climate readiness across the continent.

Case Study 1:

This case study highlights the experience of a national DFI that has emerged as a strategic player in supporting renewable energy development, with a particular focus on geothermal energy. The institution was established through the consolidation of several legacy finance agencies, giving it a broad mandate to drive investments in infrastructure, industrial development, and clean energy.

Geothermal energy accounts for a significant share of the country's electricity generation mix. It is regarded as a stable, scalable, and cost-effective renewable source, particularly well-suited to the country's volcanic terrain. The DFI has played a catalytic role in scaling up this sector by targeting investment in upstream infrastructure, such as exploratory drilling and steam-field development, which are often deemed too risky for private investors.

DFI's contributions have included:

Strategic Alignment with National Energy Priorities

The DFI plays a facilitative role in advancing national energy and industrial strategies, with geothermal a clear priority: while it does not directly finance speculative early-stage drilling or extend pure concessional loans for that phase, it acts catalytically by helping government and specialist agencies structure risk-mitigation solutions (e.g., partial-risk guarantees, drilling insurance windows, contingent technical-assistance grants) and by funding project-preparation once resource risk is partially de-risked (studies, permitting, Front-End Engineering Design (FEED)). Downstream, after resource confirmation, its role is explicit and operational. It anchors long-tenor debt and selective equity in generation and associated transmission, arranges blended-finance packages, offers credit enhancements for IPPs and offtaker support, and provides implementation support through PPA bankability reviews, competitive procurement, ESG and resettlement compliance, grid-integration planning, and performance monitoring. This sequencing avoids any contradiction and keeps the DFI tightly aligned with national frameworks while unlocking private capital on sustainable terms.

Partnership Facilitation and Ecosystem Support

The DFI actively engages in climate finance and energy investment forums, helping to attract capital into the country's green economy. It promotes partnerships across the public and private sectors and supports the development of an enabling investment environment. While it does not lead project preparation for geothermal ventures, the DFI contributes to the ecosystem by collaborating with technical institutions, identifying viable projects, and encouraging co-investment for infrastructure scale-up.

Role in Capital Mobilisation and Portfolio Diversification

The DFI has articulated a strong interest in climate-aligned investment and is actively working to diversify its portfolio to include clean energy and green industrial projects.

Its broader capital mobilisation strategy includes a clear sequencing and mix of instruments to crowd in private capital at each stage of the project cycle:

Upstream: it deploys technical-assistance grants and contingent support to improve feasibility, standardise documentation and run competitive procurement;

At approval: it uses blended structures (first-loss or subordinated tranches, partial-risk and partial-credit guarantees, political-risk cover, and results-based payments) to shift risk and improve bankability;

At financial close: it anchors long-tenor debt and selective equity, syndicates portions to commercial lenders, and provides offtaker and payment-security enhancements;

Post-close: it expands balance-sheet capacity through lines of credit to local banks, co-lending frameworks with insurers and pensions, and periodic issuance of local-currency green/sustainability bonds or securitisations to recycle capital.

As part of this strategy, the DFI also builds markets by establishing aggregation and warehousing vehicles for small assets (e.g., mini-grids or e-buses), supporting local-currency hedging solutions, creating standard term sheets and PPAs. To keep investors informed and engaged, it holds roundtable discussions that preview future investment opportunities.

Governance and learning are embedded via mobilisation KPIs (e.g., private-to-public capital ratios, tenor extension, local-currency share), additionality tests, and post-deal evaluations that feed back into instrument design and sector dialogues.

Institutional Consolidation and Capacity Development
The DFI has prioritised internal reforms to strengthen governance, financial oversight, and investment evaluation processes. These reforms have positioned the institution to play a more active role in blended finance arrangements, enhance ESG integration, and improve institutional readiness for climate-related investments.

While still evolving, these efforts are laying a more resilient foundation, characterised by clearer mandates and decision rights, stronger risk governance (including ALM, stress testing, and exposure limits), upgraded credit and ESG due diligence, and a standardised project-preparation pathway, supported by a dedicated unit and template documents. They also include tighter fiduciary controls and audit trails, improved data and IT systems for portfolio monitoring and impact reporting, enhanced talent and incentives aligned to long-tenor climate assets, and diversified funding (local currency lines, guarantees, and green bond capacity) to reduce currency and refinancing risks.

Together, these capabilities increase the DFI's ability to price and share risk, crowd in private capital, and manage complex implementation challenges, providing the institutional durability required to finance capital intensive sectors such as geothermal energy.

Ongoing Challenges

Despite its important contributions to geothermal development and clean energy investment, the DFI continued to face structural and operational challenges that constrained its ability to scale impact and meet international climate finance expectations.

Early-Stage Pipeline Gaps

One of the most persistent barriers was the lack of a robust and coordinated approach to early-stage project development. The institution struggled with generating a consistent pipeline of viable, investment-ready projects. While downstream financing mechanisms were in place, upstream activities, such as project identification, conceptual design, and initial technical scoping, remained fragmented. This gap often led to delays in project preparation, limited the flow of bankable proposals, and reduced the DFI's ability to respond swiftly to emerging development priorities, particularly in fast-evolving sectors like distributed renewable energy or climate-smart infrastructure.

ESG Integration

Although the DFI acknowledged the strategic importance of strong ESG safeguards, its internal systems for managing these issues were underdeveloped. ESG considerations were often applied inconsistently across projects, and dedicated staff with the necessary expertise were limited. This presented significant challenges when engaging with international climate funds or impact investors, who increasingly expect institutions to demonstrate robust ESG frameworks, measurable impact indicators, and community engagement protocols.

The absence of embedded ESG processes created a credibility gap with international climate funds and other co-financiers, who interpret weak ESG systems as non-alignment with global standards. This elevated reputational risk and prompted additional due-diligence requirements that prolonged appraisal timelines and, in some cases, deterred engagement with the DFI.

Data and Risk Management

Weaknesses in the DFI's data architecture and risk analysis tools further constrained its performance. The absence of advanced climate risk tools and the data systems they require made it difficult to judge long-term investment resilience. Real-time data refers to Supervisory Control and Data Acquisition(SCADA) or Internet of things (IoT), remote-sensing, and early-warning feeds that show current floods, heatwaves, or resource variability, while performance-tracking data consists of structured KPIs and dashboards that reveal trends over months or years. Key screening capabilities were also missing, including Geographic Information System-based downscaled hazard maps, physical-risk models for flood, heat, drought, and wildfire, transition-risk screens based on policy and price pathways, and scenario or stress testing aligned with TCFD and NGFS. Moreover, the lack of integrated information systems limited cross-departmental collaboration and hindered efforts to adopt global standards such as TCFD-aligned climate risk disclosures or ISO-based ESG reporting.

Institutional Response and Reform Efforts

In response to these challenges, the DFI initiated a series of internal reforms aimed at improving climate and institutional readiness. It undertook a structured self-assessment to benchmark its systems and practices against international standards. Collaborative partnerships were formed with academic institutions and policy experts to support skills development and knowledge sharing. The institution also rolled out training programmes focused on environmental risk assessment, clean production, and governance practices, laying the foundation for more robust project screening and compliance mechanisms.

Lessons Learnt

The experience of developing and financing large-scale geothermal energy projects offered several important lessons for strengthening the institutional readiness and operational effectiveness of DFIs in Africa.

1. Geothermal Investment Requires Strong Public Anchoring

Investments in geothermal energy infrastructure, particularly at the upstream phase, are inherently high-risk and capital-intensive. The initial stages, such as exploratory drilling and steam resource mapping, often require long timeframes before commercial viability can be assessed. These conditions are typically unattractive to private investors. The experience showed that national DFIs, especially when supported by concessional finance, are best positioned to step in as

public anchors during this phase. Their ability to absorb risk and maintain a long-term outlook is critical to unlocking private sector interest further downstream. In essence, geothermal development will stall without early-stage public investment that can lay the technical and financial groundwork for eventual scale-up.

2. Blended Finance Depends on Institutional Credibility

Mobilising blended finance, combining concessional, public, and private capital, requires more than access to funds. The DFI's ability to act as an effective financial intermediary was directly tied to its institutional credibility. This credibility stemmed from its internal governance systems, transparency mechanisms, and demonstrated ability to manage funds efficiently. Donors, multilateral partners, and private investors were more willing to engage where the institution had clear policies, streamlined procedures, and a track record of implementation. This experience reinforced the idea that trust, built through governance and delivery, is one of the most valuable assets a DFI can cultivate when seeking to mobilise capital at scale.

3. Capacity Gaps Can Stall Project Delivery

Even where concessional financing was available and political support aligned; the absence of internal technical capacity posed a significant barrier to execution. Delays were often caused not by financing constraints, but by bottlenecks in project appraisal, ESG due diligence, and procurement processes. The lesson was clear: funding alone does not ensure success. Converting concepts into operating assets required investment in institutional systems, especially staff training, practical digital monitoring and evaluation tools, and standardised ESG safeguards. Staff training covered project preparation, climate and ESG risk screening, procurement, stakeholder engagement, gender and inclusion, and results reporting.

Digital monitoring and evaluation tools included:

- Mobile data collection apps such as KoboToolbox or ODK for site audits,
- Geographic Information System (GIS) platforms such as QGIS for mapping service coverage and risk,
- Dashboarding tools such as Power BI or Tableau for KPI tracking,
- Remote-sensing pipelines using Sentinel data or Google Earth Engine to verify construction and land use, and

Asset performance systems such as SCADA feeds and computerised maintenance management systems for uptime, energy output, and fault logs. Standardised ESG safeguards meant a fit-for-purpose ESMS, risk categorisation and screening checklists; model terms of reference for ESIAs; template Stakeholder Engagement Plans and Grievance Mechanisms; Labour Management Procedures; Resettlement Action Plans where relevant; Biodiversity and Cultural Heritage management plans, and clear contractor EHS requirements. Together, these capabilities reduced appraisal delays, improved credibility with co-financiers, and increased the likelihood that financed projects reached time, cost and performance targets.

4. Strategic Partnerships Strengthen Readiness

Working in isolation limits institutional learning and slows progress. In this case, the DFI's engagement with policy centres, technical agencies, and peer DFIs was a major enabler of progress. These partnerships helped to refine project design, improve regulatory compliance, and build a pipeline of climate-aligned investments. Exchanges with peer institutions also provided insight into emerging good practices, including how to manage risk, integrate climate metrics, and

engage communities more effectively. Cross-sectoral collaboration emerged not only as a means of knowledge-sharing but also as a way to align projects with broader national development and climate strategies.

KEY TAKEAWAYS

Public DFIs are essential for de-risking early-stage geothermal investment.

Concessional loans with flexible terms unlocked both public and private co-financing.

Institutional credibility played a central role in attracting blended finance.

Support for feasibility studies and ESIAimproved project quality and bankability.

Weak ESG systems and data gaps slowed project delivery and funder confidence.

Strategic partnerships enhanced regulatory alignment and internal capacity.

The DFI is expanding into mini-grids and SME-focused renewable solutions.

Looking Ahead

The DFI intends to broaden its focus beyond large-scale geothermal plants to include distributed renewable energy solutions, such as mini-grids and captive power systems for small and medium-sized industries. These technologies hold significant promise for improving energy access, enhancing resilience, and stimulating local economic development, particularly in underserved and rural areas. Drawing on the lessons above, the institution is working to improve pipeline generation, strengthen ESG compliance, and deepen its partnerships in support of a more inclusive and climate-resilient energy transition.

Case Study 2:

This case study reflects the experience of a national DFI that adopted a wholesale lending model to support climate resilience and financial inclusion. Operating as a second-tier lender, the institution focused on catalysing off-grid renewable energy expansion, particularly solar mini-grids, by extending long-term, low-cost financing to participating financial intermediaries. These included microfinance providers, deposit-taking banks, and other non-bank institutions that worked directly with small and medium enterprises (SMEs) and clean energy entrepreneurs.

Driving Mini-Grid Expansion Through Intermediation

The DFI played a catalytic role in expanding off-grid energy access by adopting an intermediation model. Rather than lending directly to end-users, it channelled long-term, concessional financing through a network of Participating Financial Institutions (PFIs), including microfinance banks, cooperatives, and other local lenders. This approach allowed the DFI to reach underserved rural areas where grid extension remained economically unfeasible, and traditional financiers were reluctant to operate due to high transaction costs and perceived risks.

By targeting PFIs that specialised in supporting clean energy enterprises, the DFI enabled capital to flow to mini-grid developers, solar distributors, and energy service companies operating at the last mile. These actors typically faced steep financing barriers, particularly during early-stage deployment phases when revenue models were unproven and technical risks were high.

To de-risk lending and enhance access to finance, the DFI used a combination of instruments:

- *Wholesale Credit Lines:* These concessional lines of credit, extended to PFIs, were structured with longer tenors and low interest rates. This gave PFIs the flexibility to design suitable loan products for clean energy entrepreneurs operating in informal markets.
- *Partial Credit Guarantees:* These instruments reduced PFIs' exposure to loan defaults by covering a portion of potential losses. This encouraged financial institutions to expand lending to high-risk or first-time borrowers, including women-led enterprises and cooperatives.

- *Technical Assistance Grants:* These grants were used to strengthen institutional capacity within PFIs, focusing on credit appraisal for energy projects, ESG compliance, and customer education initiatives.
- *Digital Credit Assessment Tools:* To improve loan origination and reduce default rates, the DFI supported PFIs in adopting digital profiling and scoring systems. These tools allowed better risk screening, even where borrowers lacked formal financial histories, thereby expanding the pool of eligible recipients.

This integrated model improved the overall quality of project selection, reduced default risks, and facilitated the delivery of decentralised energy services to communities that had historically been excluded from formal finance and reliable electricity supply.

Ongoing Challenges

Despite the DFI's progress in expanding decentralised energy access and piloting innovative finance mechanisms, several institutional and operational constraints continued to limit its ability to deliver transformative impact at scale.

Limited Concessional Capital

One of the most pressing challenges was the limited pool of concessional capital available to support high-risk, socially valuable investments. The demand for affordable, long-tenor financing far outstripped the DFI's capital base, particularly as interest in off-grid renewable energy and climate-smart solutions grew. While the institution had strong demand from participating financial intermediaries and energy enterprises, it struggled to meet these needs at the pace required for national energy access targets.

Efforts to access international climate finance mechanisms were hampered by stringent fiduciary, transparency, and impact verification requirements. Without full accreditation or compliance with global funder criteria, the DFI faced bottlenecks in scaling its lending operations into sectors deemed too risky by commercial markets. This limited its ability to offer concessional terms for mini-grid developers, clean cooking entrepreneurs, and other climate-aligned service providers operating in underserved communities.

Key Takeaways

- Wholesale lending through local intermediaries enabled capital flow to last-mile clean energy providers.
- Concessional credit lines and partial guarantees de-risked lending to informal, high-risk borrowers.
- ESG compliance was uneven across partner institutions, posing reputational and implementation risks.
- Digital tools enhanced credit profiling but lacked integration with impact monitoring systems.
- Limited concessional capital constrained the DFI's ability to meet rising off-grid energy demand.
- Institutional reforms focused on climate metrics, ESG training, and downstream partner support.
- The DFI is now positioning itself for international accreditation and private sector co-financing.

Inconsistent ESG Compliance

As a wholesale financial intermediary, the DFI depended on downstream partners, such as microfinance institutions, rural banks, and non-bank financial institutions, to uphold environmental and social safeguards. Yet many of these partners lacked the capacity, institutional systems, or training to implement consistent ESG protocols. ESG integration varied significantly across the portfolio, with some projects exhibiting strong compliance and community engagement, while others fell short of international expectations.

This inconsistency exposed systemic weaknesses, particularly when the DFI sought to attract funding from development partners with strict ESG criteria. It also undermined the institution's ability to demonstrate a coherent sustainability strategy, complicating efforts to measure and aggregate impact across its investments. In some cases, weak safeguards led to community resistance, implementation delays, or sub-optimal service delivery outcomes. These weak safeguards often translated into shallow or late engagement with affected people, unclear information about project impacts, and inadequate mechanisms to address grievances, which in turn fuelled community resistance. Where stakeholder mapping missed informal settlers, women traders, youth or customary landholders, decisions were perceived as exclusionary, especially when land access, water use, traffic, noise or dust affected daily livelihoods without clear mitigation or compensation. In several cases, environmental and social impact assessments were treated as compliance paperwork rather than a co-design process, leading to misclassification of risks, weak livelihood restoration plans, and opaque resettlement or wayleave negotiations. Benefit sharing was frequently underspecified, with vague promises on local jobs, enterprise opportunities and tariff affordability, and no binding community development agreements or local ownership vehicles. Grievance redress was either absent or slow, lacking clear service levels, anonymity, escalation routes and feedback loops, which pushed frustrations into the public arena through protests, site blockades, petitions, or litigation. Faith and cultural heritage concerns were sometimes overlooked, as were gendered safety issues around construction sites and service access. These gaps eroded social licence, attracted negative media and political scrutiny, and led to stop-start implementation, cost overruns and, in some cases, the withdrawal of co-financiers. Robust safeguards would have required early and continuous engagement, accessible information in local languages, documented consent processes where applicable, monitored commitments on local hiring and procurement, binding benefit-sharing arrangements, and a trusted, time-bound grievance mechanism linked to corrective action.

Data and Impact Measurement Gaps

While the DFI had made progress in digitalising its financial operations, its systems for measuring development impact remained underdeveloped. Data on energy access expansion, greenhouse gas emissions avoided, job creation, and local economic benefits were often incomplete or anecdotal. Impact metrics were inconsistently collected by financial intermediaries, and reporting timelines did not always align with funding cycles or investor requirements.

These gaps hindered the DFI's ability to conduct evidence-based reviews, respond adaptively to performance issues, or present compelling investment cases to climate financiers and donors. The absence of a unified Monitoring and Evaluation (M&E) framework also made it difficult to benchmark results or participate in global climate finance reporting systems.

Institutional Response and Reform Efforts

In response to these constraints, the DFI undertook a range of reform initiatives aimed at strengthening institutional systems, improving technical capacity, and enhancing alignment with climate finance standards.

It started adding climate metrics to its credit and portfolio tools, like emissions intensity and adaptation benefits. This shift allowed for more informed lending decisions and enabled the institution to better quantify the climate impact of its financing activities. The DFI also updated its

internal ESG protocols, standardising baseline requirements for intermediaries and establishing clearer monitoring processes to ensure compliance.

Recognising that lasting impact would require capacity building at all levels of the delivery chain, the institution launched a technical support programme for its partner financial institutions. This included training on ESG safeguards, gender-responsive finance, climate risk screening, and results-based lending models. Partnerships were also established with energy access agencies and local development actors to strengthen pipeline development, share data, and coordinate implementation at the national and subnational levels.

These reforms marked an important shift in the DFI's institutional maturity. It moved from being a capital provider to becoming a knowledge-driven facilitator of sustainable finance, anchored in local realities but responsive to global expectations. By investing in systems, skills, and standards, the DFI laid a more resilient foundation for future engagement with international donors, climate funds, and private investors.

Lessons Learnt

The experience of supporting mini-grid deployment through a wholesale lending approach offered valuable lessons for DFIs seeking to advance clean energy access, particularly in underserved regions.

1. Wholesale Lending Can Catalyse Clean Energy Markets

The use of wholesale lending, financing participating financial institutions that on-lend to energy enterprises, proved to be an effective strategy for expanding access to clean energy finance at scale. By working through local intermediaries, the DFI was able to reach remote and informal markets that it could not have served directly. This model leveraged the existing infrastructure and customer relationships of microfinance banks, cooperatives, and rural lending institutions.

The success of this approach was not automatic. It depended heavily on the capacity, financial health, and sustainability orientation of the intermediaries. Where these institutions had strong governance, clear development missions, and some experience in green lending, outcomes were positive. In contrast, where intermediaries lacked ESG frameworks, technical expertise, or stable operations, results were mixed. This underscored the need for DFIs to assess the institutional readiness of their downstream partners and provide targeted support where necessary.

2. Strengthening Downstream ESG Systems Is Critical

One of the most consistent lessons was that sustainability cannot be guaranteed through delegation alone. As the DFI channelled funding through intermediaries, it became apparent that many of these partners lacked adequate ESG systems. Some did not have written policies on environmental safeguards; others had never conducted a social impact assessment or engaged communities during project implementation.

This gap posed significant risks, particularly in projects involving land use, gender dynamics, or vulnerable populations. It also created reputational concerns, especially in light of growing scrutiny from global climate funders. The experience highlighted the need for DFIs to invest in strengthening the ESG capabilities of their financial partners. This included providing training, establishing baseline standards, and introducing monitoring and oversight mechanisms that ensure safeguards are consistently applied throughout the financing chain.

3. Digital Tools Can Enhance Risk Management and Learning

The adoption of digital credit assessment platforms helped improve underwriting and borrower profiling, particularly in markets dominated by informal actors. These tools supported more data-driven decision-making, reduced default rates, and increased transparency. Yet, the experience also revealed the limitations of a narrow focus on financial risk alone.

Without integrated systems to track development outcomes, such as energy reliability, emissions reductions, or household-level impacts, the DFI struggled to demonstrate the full value of its investments. The lesson was clear: digital transformation must go beyond operational efficiency to include tools that support learning, adaptation, and results-based management. Integrating geospatial data, impact dashboards, and community feedback mechanisms would provide richer insights and help the DFI remain responsive to both development and climate imperatives.

Looking Ahead

Building on these lessons, the DFI planned to deepen its work in off-grid electrification, targeting communities with the highest unmet energy needs. It also aimed to pursue accreditation pathways with international climate finance institutions, enabling it to access new sources of concessional capital. In parallel, the institution intended to expand its suite of risk-sharing instruments, such as partial guarantees and subordinated debt facilities, to attract private investment and scale up financing for clean energy entrepreneurs. Strengthening internal ESG systems, investing in intermediary capacity, and enhancing its impact measurement frameworks were core priorities in the DFI's strategy to evolve into a more effective, transparent, and climate-aligned institution capable of driving inclusive energy transitions across the region.

Case Study 3:

This case study focuses on a national DFI that played a pivotal role in financing a landmark hydropower project central to the country's climate-resilient and low-carbon development strategy. Operating as a policy-driven financial institution, the DFI is guided first by public policy rather than purely by profit. This means its development mandate and sector priorities are aligned to national plans for a green economy; it can accept different risk and return profiles to achieve public outcomes; and it uses instruments such as concessional tranches, guarantees and technical assistance to crowd in private capital. Its sector focus follows government strategy, it reports on impact alongside financial performance, and it operates with state oversight and safeguards to protect independence. The DFI also has flexibility on pricing, tenor, currency and structures so it can mobilise and deploy capital into strategic infrastructure that advances national sustainability goals. The flagship hydropower project, one of the largest in Africa, not only represented a significant investment in clean energy but also symbolised national pride, domestic ownership, and developmental ambition.

The DFI helped structure and underwrite the early-stage financing of the project, combining a variety of instruments such as sovereign guarantees, syndicated loans from domestic commercial banks, and concessional bilateral support. A defining feature of the financing model was the mobilisation of diaspora bonds, targeted at residents living abroad. The most substantial contributions came from diaspora communities in North America and Europe, particularly in cities like Washington D.C., Toronto, and London. These fundraising efforts were driven by diaspora associations, religious institutions, and media platforms, with the government framing the hydropower project as a patriotic undertaking and a vehicle for self-reliant development.

While the overall funding contribution from diaspora bonds was modest relative to the total project cost, it played an important catalytic and symbolic role. It demonstrated the feasibility of

citizen-backed infrastructure financing and reinforced the commitment of the diaspora to national development. The DFI's ability to coordinate diverse funding streams highlighted its institutional flexibility and strategic function in advancing the country's hydropower ambitions.

Green Project Financing and Hydropower Strategy

The DFI's role in hydropower development aligned with the national vision to expand clean, reliable baseload electricity. The project financing structure was designed to mitigate early-stage risks and ensure construction momentum. Sovereign-backed concessional loans, domestic syndicated lending, and bilateral co-financing were central to de-risking construction, civil works, and environmental and social assessments.

As the project progressed, some initial international financiers withdrew, citing concerns over environmental and social safeguards. In response, the DFI and national authorities expanded ESG compliance protocols, although inconsistencies remained. To fill the financing gap, Chinese concessional support was leveraged to finance key electromechanical components. Chinese engineering firms also assumed a lead technical role. This shift underscored both the geopolitical dynamics of infrastructure finance and the determination of national actors to retain project ownership, despite global hesitancy.

Institutional Challenges and Reforms

Despite a strong policy mandate and initial resource mobilisation, the DFI faced several internal challenges:

- Appraisal Limitations: The DFI lacked a robust internal framework for assessing the financial and technical viability of large-scale infrastructure projects. This included limited capacity for conducting detailed risk assessments, cost-benefit analyses, and scenario planning. As a result, early-stage project screening and design were often reliant on external consultants, which delayed decision-making and increased transaction costs.
- Weak ESG Integration: Although the institution had adopted basic environmental and social safeguard policies, their application was inconsistent and often superficial. ESG assessments were not systematically embedded into the project cycle, and there was limited institutional awareness of international ESG standards. This contributed to gaps in environmental compliance, insufficient stakeholder consultation, and reputational risks during implementation.
- Human Capital Gaps: The DFI struggled with high turnover rates among mid-level technical staff, many of whom left for more competitive opportunities in international organisations. This created bottlenecks in institutional memory and undermined project continuity. In addition, there was a shortage of trained personnel in specialised fields such as climate risk analysis, hydrology, and social impact evaluation.
- Fragmented Coordination: The DFI operated in relative isolation from key sectoral ministries and regulatory bodies, resulting in misalignment between financing pipelines and national planning frameworks. Projects were sometimes delayed due to duplication of efforts, lack of data sharing, or unclear institutional mandates, reducing overall efficiency and impact.

To address these gaps, the DFI launched a series of reform efforts:

- ESG Help Desk and Monitoring Tools: A dedicated ESG Help Desk was established to coordinate safeguards implementation across the project portfolio. New monitoring tools were introduced to support real-time compliance tracking and community feedback mechanisms, aiming to close the gap between policy and practice.

- Internal Capacity Building: The DFI introduced structured training programmes in areas such as environmental impact assessment, investment appraisal, and climate finance structuring. These initiatives sought to improve in-house technical competencies and reduce reliance on external advisors.
- Project Preparation Unit (PPU): A new PPU was launched to manage early-stage project development, including feasibility studies, permitting processes, and investor engagement. This helped improve project bankability and alignment with domestic and international standards.
- Climate Finance Accreditation: The DFI initiated the accreditation process to access international climate finance mechanisms such as the Green Climate Fund. This involved reforms to fiduciary systems, impact measurement, and institutional transparency, with the goal of enhancing the DFI's credibility and mobilisation capacity.

Strategic Use of Financial Instruments

To support the delivery of the hydropower project, the DFI deployed a strategically coordinated set of financial instruments designed to mobilise capital, manage risks, and maintain national ownership over the investment.

Government and Diaspora Bonds

The DFI helped structure and issue government bonds domestically to raise local capital and anchor the project in national ownership. In parallel, diaspora bonds targeted Ethiopians living abroad, harnessing their patriotic sentiment and commitment to development. While these bonds accounted for a modest portion of the total project cost, they played an outsized role in generating public legitimacy and international visibility. Diaspora contributions were particularly strong in North America and Europe, with organised fundraising efforts led by diaspora associations and community leaders.

Syndicated Loans and Commercial Bank Participation

To bridge financing gaps, the DFI coordinated syndicated loans with domestic commercial banks. While the scale of mobilisation was limited and created some liquidity pressure and repayment risk for participating banks, the DFI's role reduced perceived risk, improved structuring quality, and kept lending aligned with national priorities. On balance, the syndications were beneficial, channelling local capital into priority projects that would likely have struggled to reach financial close otherwise.

Concessional Finance from Bilateral Partners

When global DFIs declined participation due to political and environmental sensitivities, the DFI secured concessional loans from bilateral partners to finance key technical components. This included funding for turbines, transmission infrastructure, and other electromechanical inputs. The concessional nature of the loans below-market interest rates and long repayment periods improved the financial viability of the project.

Public Fundraising and Community Contributions

Grassroots campaigns invited small voluntary contributions from citizens. Although the sums raised were modest, participation broadened the stakeholder base, fostered national pride, and demonstrated the value of participatory finance. The primary gain was social and political legitimacy rather than balance sheet scale.

Combined with concessional loans and domestic syndications, this layered structure enabled the project to proceed, despite the absence of multilateral support. It shows that, when instruments

are matched to local conditions, constrained markets can still mobilise capital for large infrastructure. Institutional Strengths and Innovations

The DFI's involvement in the landmark hydropower project revealed several institutional strengths that underpinned its ability to lead complex infrastructure finance in a resource-constrained and politically sensitive environment. Despite operational challenges, the institution demonstrated resilience, adaptive capacity, and a commitment to innovation, allowing it to mobilise diverse financing instruments, respond to shifting political dynamics, and contribute meaningfully to the country's long-term low-carbon development agenda.

Growing Project Structuring Expertise

Over time the teams moved beyond passive funding roles to provide active project development support. They helped sponsors and public counterparts shape projects from concept to bankability by leading early scoping and feasibility work, building transparent financial models, and testing tariff and demand assumptions. They structured PPPs and risk allocation frameworks, prepared standard term sheets and bankable PPAs, and aligned projects with policy and regulatory requirements. They coordinated permitting, land and wayleave processes, grid interconnection studies, and offtaker due diligence. They strengthened environmental and social design through impact assessments, stakeholder mapping, engagement plans, and grievance mechanisms, with a focus on gender and inclusion. They assembled blended finance packages, including guarantees and subordinated tranches, and designed procurement strategies with clear evaluation criteria. They set up technical assistance to build capacity in implementing agencies and local lenders, and established milestone-based disbursement, construction monitoring, and operations readiness plans so that assets could reach commercial operation on time and within budget. Despite gaps in advanced financial modelling and ESG integration, the institution cut reliance on external consultants by strengthening in-house capacity. It introduced shared model libraries, peer review, and targeted training, and rolled out standard operating procedures, toolkits, and templates to streamline preparation, due diligence, and procurement.

Foundations of ESG Systematisation

Although ESG performance had previously been a weak point, the DFI launched targeted reforms that laid the groundwork for stronger safeguards. These included establishing a central ESG help desk and introducing monitoring templates aligned with global practices. While not yet fully compliant with benchmarks such as the IFC Performance Standards, these steps marked an important shift from ad hoc compliance toward systematic integration. This evolution in ESG governance not only reduced reputational exposure but also improved the DFI's eligibility for future concessional finance and international partnerships.

Policy-Aligned Governance and Mandate Clarity

As a policy bank, the DFI operated with a clearly defined public mandate tied to the country's green economy strategy and was judged on development results as well as financial performance. Being a policy bank implies that the institution takes direction from national plans, accepts tailored risk and return profiles to achieve public goals, and uses purpose-built instruments such as guarantees, concessional tranches, and technical assistance to crowd in private capital. It also plays a market-shaping role by standardising documentation, supporting regulators, and building pipelines in priority sectors. Governance includes state oversight with safeguards for operational independence, while funding combines sovereign-backed lines, multilateral facilities, and local bond issuance, including green bonds where feasible. The DFI's policies emphasise longer tenors, local-currency solutions where possible, and impact KPIs that align with national climate and

industrial objectives. This mandate gave it the institutional legitimacy to prioritise long-term, strategic investments over short-term returns. Although operational independence was still maturing, the DFI maintained an internal investment committee insulated from direct political interference, helping ensure that funding decisions were technically grounded and fiscally responsible. Ongoing efforts to strengthen board oversight and fiduciary controls aimed to further enhance institutional accountability and transparency.

Early Steps Toward Digital and Operational Modernisation

Institutional reform efforts included the digitalisation of safeguard tracking and the creation of internal knowledge systems. Digitalised safeguard tracking moves the DFI's environmental and social system into a single data workflow, from screening to operations. Staff use mobile forms to capture site evidence with timestamps and geotags, which sync to a central ESMS that assigns actions and deadlines. Dashboards show risk ratings, incidents, community grievances and corrective actions by project, while Geographic Information System layers and remote sensing verify land use and restoration. Contractor portals track permits, training and audits, and notifications alert users to overdue tasks or threshold breaches. Disbursements can be linked to verified safeguard milestones, creating faster feedback, clearer accountability and credible reporting to boards and co-financiers. While still in early stages, the deployment of digital tools for ESG reporting and pipeline monitoring marked a shift toward performance-based management. Internal seminars, cross-unit reviews, and targeted staff training sessions were initiated to foster knowledge exchange and strengthen organisational learning. These operational innovations were particularly important for improving continuity and scaling capacity in a context of high staff turnover.

Ongoing Challenges

Despite its policy mandate, financial innovation, and successful delivery of a flagship hydropower project, the DFI continued to face structural and operational challenges that limited its ability to scale interventions, diversify project pipelines, and deepen its impact in under-served regions and sectors. These persistent bottlenecks point to the need for further institutional evolution, cross-governmental alignment, and targeted capacity support.

Lack of a Climate Finance Classification Framework

A core institutional constraint was the absence of a nationally endorsed green finance taxonomy or climate investment classification framework. For example, the South African Green Finance Taxonomy (GFT) – Issued by National Treasury in 2022 – defines which activities count as "green" in South Africa and aligns local financing with climate goals. This gap created difficulties in distinguishing between low-carbon and conventional infrastructure across the DFI's portfolio. Investment officers had to rely on external donor classifications or case-specific judgements, which complicated internal monitoring and led to reduced alignment with global reporting frameworks such as the Common Principles for Climate Mitigation Finance Tracking or the Green Climate Fund's investment criteria. Without a clear and consistent classification system, the DFI struggled to quantify its climate-related financing share, weakening its ability to engage with multilateral climate finance facilities or attract thematic green bond investors. This limitation also

reduced transparency in impact reporting and made it harder to benchmark performance against other DFIs or regional peers.

Institutional Fragmentation and Regulatory Incoherence

The DFI's financing efforts often outpaced policy and regulatory coordination across government entities. Despite strong engagement with the energy ministry, overlapping functions between infrastructure, environment, and water authorities led to delays in permitting, contradictions in safeguard requirements, and uncertainty in long-term planning. For instance, changes to transboundary water policies mid-implementation disrupted procurement schedules and forced financing revisions.

KEY TAKEAWAYS:
DFIs can successfully anchor large-scale hydropower investments aligned with green economy strategies.
Mobilising diaspora bonds can provide catalytic capital while fostering national pride and public engagement.
Concessional finance remains vital to derisking complex infrastructure but must be balanced with domestic sources.
ESG integration and institutional reform are critical to sustaining credibility, attracting finance, and improving developmental outcomes.
Hydropower projects offer high-impact potential but require systematic planning, inclusive stakeholder engagement, and cross-sectoral coordination to avoid unintended social and environmental consequences.

The absence of a high-level coordination platform for climate infrastructure meant that the DFI frequently assumed de facto leadership in inter-agency negotiations—diverting institutional focus from pipeline development to bureaucratic alignment. The existing coordination mechanisms were under-resourced, lacked enforcement authority, and operated reactively rather than strategically.

Difficulties in Extending the Model Beyond Flagship Projects

The DFI demonstrated success in financing large, nationally significant infrastructure. However, it faced challenges replicating this model in more decentralised or community-led settings. Smaller municipalities, regional utilities, and cooperatives often lacked the capacity to meet the DFI's appraisal standards or produce bankable project proposals. These entities also faced difficulty in navigating the DFI's due diligence and ESG requirements, resulting in low disbursement rates for subnational projects.

Furthermore, commercial banks remained reluctant to co-finance smaller projects, citing high transaction costs, limited credit histories, and inadequate tariff structures. As a result, efforts to scale decentralised hydropower, mini-grid solutions, or integrated rural electrification schemes stalled, despite strong developmental demand.

Operational Overstretch and Limited Resources for Early-Stage Support

The DFI's reform agenda placed increased demands on its operational units, especially those tasked with ESG compliance, project preparation, and monitoring. Limited institutional bandwidth constrained the DFI's ability to show up early and consistently in project development. Small, multi-hatted teams were stretched across approvals, compliance, and reporting, which left little time for upstream tasks such as site visits, early stakeholder engagement, or iterative financial modelling with first-time developers. Budget cycles and procurement bottlenecks delayed the onboarding of short-term experts, while travel and training funds were rationed, reducing sustained presence in provinces or project corridors. Siloed work between credit, technical, legal, and ESG units slowed coordinated reviews, so concept notes and feasibility studies waited for feedback and lost momentum. High staff turnover meant institutional memory was thin and new staff needed onboarding before they could advise credibly on tariff structures, risk allocation, or safeguard design. As a result, the DFI often entered projects only at appraisal, missing

opportunities to shape bankability, standardise documentation, or de-risk early decisions for new or first-time developers.

Efforts to establish a Project Preparation Unit (PPU) and digitise ESG tracking systems showed promise but had yet to fully materialise into faster deal closure or greater portfolio diversification. The lack of discretionary resources for pre-investment technical assistance further limited the DFI's ability to de-risk innovative or non-traditional projects that could align with national Just Transition objectives.

Inconsistent Donor Engagement and Fragmented Concessional Finance

Discussions with bilateral donors and climate finance facilities around co-financing were often fragmented, project-specific, and administratively complex. Differences in procurement thresholds and methods, eligibility rules, and tied-aid or local-content requirements often pulled projects in conflicting directions. Donors used non-aligned E&S frameworks, safeguard triggers, and grievance standards, alongside divergent anti-corruption, sanctions, and beneficial-ownership checks. Financial terms and treasury rules varied, including currency of commitment, disbursement modalities, escrow requirements, and audit standards. Impact frameworks were inconsistent, with different theories of change, indicators, baselines, GHG accounting methods, and additionality definitions, as well as incompatible reporting cycles and data formats. Together these misalignments increased transaction costs, lengthened timelines, and reduced the feasibility of pooled, programmatic concessional capital.

Lessons Learnt:

1. *Sovereign-Led Infrastructure is Achievable but Demands Strong Institutional Discipline*
   This case underscores that national DFIs can serve as principal financiers and coordinators of large-scale infrastructure when international support is limited or politically constrained. Sovereign-led approaches offer opportunities for enhanced ownership, national pride, and development alignment. However, they also require robust fiduciary oversight, long-term financial planning, and strategic coordination across government. In the absence of strong ESG systems and transparent governance, such initiatives can expose institutions to reputational risk and undermine sustainability.

2. *Diaspora Finance Offers Symbolic and Strategic Leverage*
   Although modest in absolute financial terms, the mobilisation of diaspora bonds proved to be an effective tool for building legitimacy, fostering a sense of national solidarity, and catalysing early-stage momentum. The success of these instruments lay not just in the capital raised, but in their ability to engage the diaspora as stakeholders in national development. This approach holds potential for replication in contexts where trust, patriotism, and collective mobilisation can be harnessed to complement formal finance mechanisms.

3. *ESG Integration Must Be Proactive and Institutionalised*
   The project's initial ESG weaknesses, reflected in resettlement concerns and biodiversity risks, led to financing withdrawals and international scrutiny. This revealed that ESG is not a peripheral compliance issue but a central determinant of financial access, reputational standing, and long-term project viability. Systematic ESG integration, including early-stage assessments, community consultation, and continuous monitoring, is now essential to

attract concessional and commercial finance, especially in politically sensitive or environmentally complex settings.

4. *Institutional Capacity is the Cornerstone of Scalable Green Finance*
   The DFI's experience demonstrated that strong technical teams, standardised appraisal systems, and inter-agency coordination mechanisms are foundational for effective project delivery. Gaps in these areas not only slowed implementation but reduced the institution's ability to respond to emerging opportunities or scale interventions across multiple sectors. Investments in human capital, internal systems, and project preparation capacity are critical to unlocking future climate finance and ensuring readiness for accreditation with global funds.

5. *Balanced Financing Structures Promote Resilience and Impact*
   While the project's highly domesticised financing model enabled construction in a challenging geopolitical environment, it also placed significant strain on local financial institutions and constrained macroeconomic flexibility. A more balanced mix of sovereign, concessional, and commercial capital ideally guided by a national climate finance strategy can reduce risk exposure, enable financial sustainability, and ensure alignment with long-term development goals. DFIs must actively structure financing to protect fiscal space while still achieving transformative outcomes.

Looking Ahead

Looking ahead, the institution aims to act as a long-term system partner by aligning investments with national least-cost power plans and subnational electrification goals, using a just transition lens. Near-term priorities include mobilising local-currency capital with domestic banks and pension funds, establishing a project preparation window for renewables, grid and storage, and deploying programmatic concessionality for last-mile access. The portfolio should embed just transition KPIs covering tariff impact, decent work, local content, gender and youth participation, and community benefits. Over three to five years, the institution is well positioned to back transmission and system strengthening, flexible generation and storage, and support competitive local value chains through skills and SME supplier development. Partnerships with public utilities, transmission operators and subnational authorities will deepen domestic ownership, while instruments such as green securitisations, performance-based guarantees and equity-like mezzanine can unlock early-stage projects. The playbook could translate regionally, delivering reliable, affordable clean power, faster progress to universal access, and stronger domestic capability.

Case Study 4:

This case study highlights the experience of a well-capitalised national DFI that played a strategic role in advancing the country's clean energy transition. As part of a broader national strategy to generate over half of its electricity from renewable sources by 2030, the DFI focused on large-scale solar development as a central pillar of its climate finance agenda. The DFI's most prominent contribution was its role in the development and financing of one of the world's largest concentrated solar power (CSP) complexes. This utility-scale project represented a milestone for renewable energy infrastructure on the continent. It was executed through a public-private partnership involving national energy agencies and multiple international financiers.

Strategic Use of Financial Instruments

To catalyse investment, the DFI deployed a well-coordinated mix of financial instruments. These tools were designed to mobilise capital, build investor confidence, manage risk, and ensure the project's financial and technical sustainability over the long term.

Equity Participation

The institution invested directly in the project through equity participation, which gave it partial ownership and a formal governance role. This strategic move helped stabilise the project during its early phases and signalled the DFI's confidence in its long-term viability. By being a co-owner, the institution could influence major decisions, ensure alignment with national development objectives, and exert oversight on technical, ESG, and operational performance. Equity also acted as a buffer for other financiers, absorbing initial project risks and improving the capital structure to make the venture more bankable.

Sovereign-Backed Guarantees

Recognising that concentrated solar power infrastructure involves significant upfront costs and long payback periods, the DFI employed sovereign-backed guarantees to reassure commercial lenders and private investors. These guarantees reduced perceived risks related to political instability, currency volatility, and regulatory changes. By leveraging government backing, the institution mitigated key risks that might otherwise deter private sector participation, thereby lower the cost of capital and accelerate financial close. These guarantees were especially effective in crowding in long-term institutional investors and foreign development partners.

Debt Syndication with Development Partners

The DFI acted as a lead arranger in a syndicated loan structure that brought together domestic banks, regional DFIs, and global multilateral lenders. By pooling resources through a syndication platform, the DFI was able to mobilise substantial capital while distributing risk across multiple participants. This approach allowed the project to benefit from a blend of concessional and market-rate financing, with each lender contributing according to its risk appetite and strategic priorities. Syndication also facilitated harmonisation of loan terms, streamlined monitoring and reporting, and enabled faster disbursement and implementation.

Green Bonds and Concessional Loans

To further support the project's sustainability profile, the institution issued green bonds that attracted impact-oriented investors seeking both financial returns and climate-positive outcomes. These bonds were structured to comply with international standards such as the Green Bond Principles, with proceeds earmarked specifically for eligible renewable energy infrastructure. In addition to the bonds, concessional loans were extended to the project developers at below-market interest rates with grace periods and longer tenors. This helped de-risk the early-stage phases of construction and enabled project sponsors to meet the high capital expenditure requirements associated with CSP technology.

The concessional component was critical in bridging the viability gap for infrastructure that delivers long-term environmental and economic benefits but faces high upfront costs. The concessional loans were often linked to performance milestones and environmental safeguards, reinforcing accountability and driving sustainable development impact.

Through its asset management division, the DFI provided advisory support on procurement strategy and risk-sharing mechanisms. Its credibility and fiduciary oversight served as critical enablers for attracting blended capital and maintaining investor confidence.

Institutional Strengths and Innovations

The DFI demonstrated a high level of institutional maturity and technical proficiency, particularly in designing and delivering large-scale infrastructure projects that balanced commercial viability with public development objectives. Its strengths lay in a combination of internal capabilities, governance structure, and operational systems that positioned it as a trusted anchor institution in the country's transition to a low-carbon economy.

Advanced In-House Project Structuring Capacity

Over time, the DFI had built substantial in-house expertise in infrastructure finance, enabling it to serve as both a financier and strategic advisor in sectors such as energy, transport, and urban development. It maintained multidisciplinary teams with backgrounds in engineering, finance, public policy, and environmental science, allowing the institution to design complex blended finance solutions that met both technical and fiscal requirements. This depth of internal capacity reduced the need for external consultants, accelerated project preparation timelines, and enabled the DFI to engage proactively with a wide range of stakeholders, from municipal authorities to international development partners.

Dedicated ESG Teams and Global Safeguard Alignment

Recognising the rising importance of ESG performance in development finance, the DFI established specialised ESG teams tasked with ensuring that all projects met internationally recognised safeguards. These teams worked closely with project officers from inception through to implementation, conducting due diligence, community consultations, and impact assessments in line with frameworks such as the IFC Performance Standards and the Equator Principles.

The institution's proactive approach to ESG compliance not only enhanced its reputation among global investors but also helped ensure that funded projects delivered inclusive and socially responsible outcomes. It further contributed to improved risk management, reduced reputational exposure, and helped prepare the institution for potential accreditation with international climate finance mechanisms.

Governance Structure that Promoted Integrity and Independence

A key institutional innovation was the DFI's governance model, which clearly delineated commercial decision-making from policy and political oversight. By ensuring that investment decisions were made through professional and transparent processes, the institution was able to reduce the risk of undue political influence. This separation of powers helped foster a culture of accountability, prudent risk-taking, and long-term strategic alignment.

The institution also adopted regular internal audits, performance reviews, and reporting systems that ensured compliance with both national regulations and international fiduciary standards. This enhanced transparency, boosted investor confidence and enabled the DFI to form long-standing partnerships with public and private sector actors alike.

Track Record in Public-Private Co-Investment

The institution's credibility was strengthened by its successful history of public-private partnerships and co-investment platforms. It often served as a first-mover in high-risk sectors, using its own capital to crowd in private finance and align project structures with national development strategies. Through instruments such as subordinated debt, guarantees, and equity participation, the DFI was able to mitigate risk and signal bankability to commercial partners. These co-investments not only mobilised additional capital but also supported the development of local financial markets and catalysed long-term sectoral transformation.

KEY TAKEAWAYS

Strong institutional capacity is foundational for African DFIs to access and deploy climate finance effectively. This includes robust financial systems, technical expertise, strategic governance, regulatory alignment, and climate risk readiness.

Common capacity gaps—such as weak project preparation units, underdeveloped ESG systems, and limited concessional capital—constrain DFI performance and scale.

DFIs must mature from lenders to ecosystem builders, embedding sustainability principles across operations and aligning closely with national climate and development plans.

Innovative instruments like results-based finance and wholesale lending, when paired with credible governance and technical systems, have proven effective in scaling clean energy and inclusive finance.

Institutional reform and peer learning are key to unlocking the transformative potential of DFIs. Tailored support and strategic partnerships are essential to overcome systemic barriers and ensure long-term impact.

Innovative Operational Systems

Internally, the DFI had embraced digitalisation and institutional learning as pillars of operational excellence. It invested in digital project management tools, ESG monitoring systems, and data analytics platforms to track portfolio performance and anticipate risk. Capacity-building programmes were embedded into staff development processes, and cross-functional knowledge exchange was encouraged through internal seminars, joint reviews, and secondments.

Ongoing Challenges

Despite useful innovations, and a solid record in mobilising blended finance at scale, the institution still faced binding systemic and operational constraints that limited speed, scale, and replicability, especially in emerging sectors and less-developed regions. Systemically, macro volatility and FX risk, tight fiscal space, uneven policy and regulation, weak offtaker credit, grid bottlenecks, shallow local capital markets, fragmented concessional finance, trade and supply chain exposure, and land and permitting frictions all raised costs and timelines. Operationally, variable pipeline quality, limited standardisation, depth of ESG integration, procurement and contracting risks, resource-intensive monitoring, scarce specialist talent, and data gaps constrained execution even when projects were well structured. .

Green Taxonomy Alignment

The constraint was twofold: the absence of a comprehensive national green taxonomy and only partial alignment with global frameworks. Without a domestic rulebook for what qualifies as green or climate-aligned, teams defaulted to case-by-case judgements or donor-specific criteria, which slowed decisions, complicated risk appraisal, and made internal tagging and monitoring inconsistent. In parallel, incomplete alignment with established standards led to uneven external disclosures, limited comparability with peers, and reduced eligibility for targeted green capital. In practice, gaps against the EU Sustainable Finance Disclosure Regulation, the EU Taxonomy, and climate-related disclosure frameworks such as the Task Force on Climate-related Financial Disclosures and emerging ISSB requirements hindered systematic portfolio classification, tracking, and benchmarking, and weakened the institution's ability to evidence climate impact to partners and investors (EU, 2019; EU, 2020; TCFD, 2017; IFRS Foundation, 2023; ICMA, 2024).

Policy and Institutional Coordination

While the DFI maintained strong relationships with energy ministries and regulatory bodies, overlapping mandates among government agencies, especially in the infrastructure and renewable energy sectors, created challenges in coordinating implementation. Shifts in ministerial leadership, administrative turnover, and delays in updating sectoral masterplans often disrupted project timelines or led to duplications and gaps in project delivery.

This lack of horizontal policy alignment occasionally resulted in contradictory signals to investors and delayed the finalisation of public-private partnership (PPP) frameworks. For the DFI, this meant that even well-structured projects could become entangled in regulatory limbo, undermining investor confidence and exposing the institution to reputational and operational risk. The DFI's internal policy unit often had to spend significant time aligning financing decisions with evolving policy directives, detracting from its core mandate of mobilising capital and supporting bankable project pipelines.

Scaling Private Sector Participation

The DFI excelled in crowding in private finance for flagship infrastructure projects, but replicating these successes at smaller scales, in rural municipalities, peri-urban settlements, or off-grid energy sectors, proved far more challenging. Many of these local contexts lacked the institutional capacity, credit history, or technical expertise required to structure complex deals or manage concessional finance. Commercial lenders and private developers often perceived such projects as high-risk, low-return ventures, particularly in regions where revenue collection mechanisms were weak or where regulatory enforcement was inconsistent.

Attempts to extend blended finance approaches to these underserved areas required significant hand-holding, de-risking mechanisms, and capacity-building efforts, activities that were often resource-intensive and time-consuming. The DFI found itself needing to develop bespoke financial products and technical assistance facilities to serve these markets, but faced constraints in terms of staffing, budget, and standardised instruments.

There were persistent gaps in local government coordination and an absence of bankable proposals coming from these areas. Without adequate early-stage project support and pipeline generation mechanisms at the municipal level, the institution struggled to scale its impact beyond large urban centres and national priority sectors.

Lessons Learnt

1. *Strong Institutions Enable Blended Finance* Blended finance is most effective when it lowers the cost of capital, improves risk allocation, speeds time to financial close, crowds in private capital at meaningful leverage, and safeguards ESG outcomes. This requires institutions with strong governance, sound financial management, and technical credibility. In this case, the DFI's capacity to structure sovereign guarantees, coordinate multi-stakeholder transactions, and maintain rigorous due diligence was instrumental in unlocking concessional and private capital.
2. *Replicability Depends on Technical Support Beyond Financing*

   The DFI's role as a technical advisor proved critical. By supporting municipalities and public agencies in structuring and appraising projects, it created the enabling conditions for scalable, bankable infrastructure investments.

2. *Institutional Credibility Drives Partnerships' Transparency, Operational Consistency*
   Demonstrated delivery was key to building long-term relationships with global climate finance actors. The institution's governance model and ESG track record reinforced its role as a trusted partner.
3. *Local Adaptation Is Essential*

   The models that succeeded in large national projects could not be directly applied to underserved areas without adjustment. The DFI recognised the need to tailor risk-sharing instruments, reduce transaction costs, and simplify financing processes to better suit smaller-scale investments and rural deployment contexts.

SUMMARY OF LESSONS LEARNT

DFIs need access to long-term, concessional capital to finance early-stage, high-impact projects.

Strong institutional credibility is essential to attract blended finance and crowd in private sector partners.

Weak project preparation capacity is a major barrier; technical and financial appraisal systems must be strengthened.

ESG frameworks must be embedded systematically across all operations, not treated as compliance checklists.

Linking finance to performance outcomes (e.g. through results-based finance) improves delivery and accountability.

Institutional success depends on internal systems—especially staff capacity, governance, and risk management tools.

High staff turnover undermines continuity and reform; retention and internal training strategies are essential.

Peer learning and partnerships with academic and technical institutions accelerate institutional readiness.

Tailored financial instruments and simplified procedures are needed to reach underserved and rural communities.

Digital tools must go beyond financial reporting to include impact monitoring and community feedback mechanisms.

Policy and regulatory alignment enhances project relevance and scale-up potential.

Without clear green finance taxonomies, DFIs face challenges in classifying and reporting climate-aligned investments.

Looking Ahead

The DFI planned to broaden its focus to include investments in green transport, sustainable housing, and climate-resilient infrastructure. It also aimed to share its experience with regional peers, contributing to efforts to develop a common green finance taxonomy across the continent. Strengthening institutional partnerships, developing agile financing tools, and embedding ESG systems across all operations remained core to its future strategy.

Through these efforts, the DFI positioned itself as a financier of national infrastructure and a regional leader in delivering climate-aligned investment solutions that balance financial returns with long-term environmental and social impact.

DFI Case Study Comparison Table

Case Study	Financial Instruments Used	Institutional Gaps	Capacity-Building Needs
Case Study 1	Equity co-financing, downstream project finance, co-investment facilitation	Limited involvement in early-stage geothermal preparation; evolving ESG frameworks	Pipeline development support, ESG integration tools, geothermal-specific investment appraisal skills
Case Study 2	Wholesale lending, guarantees, result-based finance, concessional SME lines	ESG compliance inconsistencies among intermediaries, constrained concessional capital absorption	ESG due diligence frameworks, intermediary training, climate-aligned portfolio tracking
Case Study 3	Domestic bonds (including diaspora), syndicated loans,	Gaps in ESG implementation, weak internal technical appraisal systems	ESG helpdesk consolidation, project preparation capacity,

	concessional bilateral finance		climate finance governance training
Case Study 4	Blended finance, sovereign guarantees, syndicated debt, green bonds	Incomplete green taxonomy, difficulty replicating model in rural/underserved areas	National taxonomy development, localised de-risking instruments, community-level project support

Summary of Lessons and Insights from Case Studies

Success Factors

1. **Strong Policy Alignment**
   Lesson for DFIs: do not assume alignment, build it. Proactively anchor strategies and pipelines in nationally determined plans, but keep a clear line of sight to just transition outcomes and affordability. In practice this means co-creating a country investment compact with the planning, energy and finance ministries; mapping each operation to specific targets in the NDC, LTS, power plans and electrification strategies; and using MoUs and joint steering groups to keep policies, permits and finance moving. DFIs that achieved strong alignment invested early in project preparation with public counterparts, adopted common results frameworks, and tied concessionality to reforms that unblock grid, tariff and procurement constraints. Climate strategies should be aligned with national development goals where these are credible and up to date, and should include an escalation path when goals are silent on equity, access or resilience. Where policy gaps exist, DFIs should advocate for updates by providing evidence from transactions, publishing pipeline-to-target maps, and offering technical assistance on regulatory and planning improvements (AfDB, 2022; Finance in Common, 2024). (AfDB, 2022, Finance in Common, 2024).

2. **Integrated Funding Platforms**
   Morocco demonstrates how public-private partnerships (PPPs) can enable large-scale projects and blended finance structures have proven effective in enabling large-scale renewable infrastructure. Some national DFIs have helped structure projects using a mix of sovereign-backed loans, concessional finance, and commercial investment, mobilising capital for landmark concentrated solar power complexes and similar initiatives. These funding platforms have attracted international climate finance while diversifying risk (World Bank, 2020, IRENA, 2021).

3. **Institutional Mandate Clarity**

   DFIs with clearly defined development mandates tend to perform better in climate finance readiness. For example, the DBSA has a strong mandate to support climate-resilient infrastructure across Southern Africa and has developed internal capacity to design, prepare, and finance such projects through its Project Preparation Facility.

Common Challenges

1. **Staff Turnover and Capacity Gaps**
   Frequent staff changes and limited in-house expertise, particularly in areas such as project appraisal, risk analysis, and ESG integration continue to pose major constraints across many DFIs. These challenges erode institutional memory and weaken the continuity required to

build long-term project pipelines. In several interviews, institutions reported difficulties in retaining skilled personnel and sustaining technical capacity over time.

2. **Weak Project Pipeline Development**
   Many institutions, especially those operating at the national level, lack dedicated project preparation units or consistent access to early-stage technical support. This results in a limited pipeline of bankable projects and delays in mobilising climate finance. Some institutions noted difficulties in advancing renewable energy and infrastructure investments due to gaps in pre-feasibility work and alignment with funder requirements.

3. **ESG Integration and Transparency**
   ESG standards are not uniformly implemented. A number of institutions reported challenges in meeting the ESG due diligence thresholds expected by international investors and climate funds. These challenges are often linked to outdated policies, limited internal expertise, and insufficient data monitoring tools, hindering efforts to attract sustainable finance and demonstrate developmental impact.

Recommendations from the Field

1. **Peer Learning and Practice Exchange**
   Participants at the 2024 AADFI Annual Meeting in Nairobi, underscored the value of South-South collaboration. DFIs expressed strong interest in technical exchanges, model-sharing, and joint training on project pipeline development, ESG integration, and digital M&E systems.

2. **Tailored Capacity Building**
   Survey results from AADFI member institutions highlighted the need for hands-on, sector-specific training. DFIs asked for curricula focused on climate risk assessment, green finance instruments, blended finance structuring, and fiduciary controls.

3. **Institutional Diagnostic Tools**
   Interviewees requested clear, easy-to-use diagnostic frameworks to identify institutional gaps. These tools enable DFIs to self-assess progress on investment readiness and benchmark themselves against peers.

4. **Greater Policy-DFI Dialogue**
   DFIs in Nigeria and Ethiopia called for more structured engagement between financial institutions and policy-makers to align project criteria with Nationally Determined Contributions and sectoral targets. Country platforms and multi-stakeholder task forces can help facilitate this alignment and reduce policy fragmentation. (UNECA, 2024).

KEY TAKEAWAYS

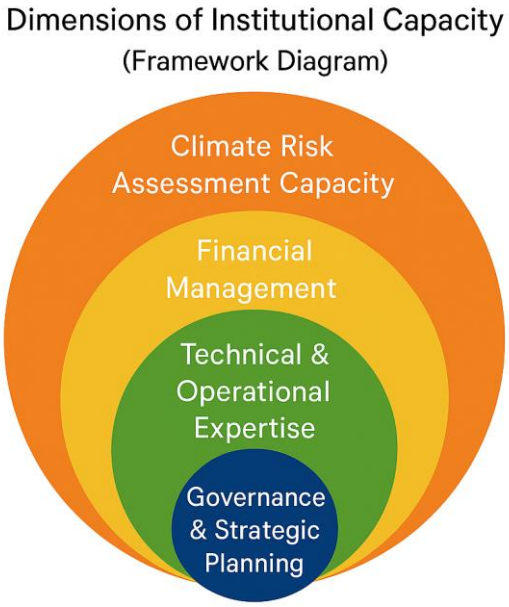
- DFIs thrive when embedded within strong national policy frameworks that align finance with climate and development goals.
- Integrated funding platforms, combining sovereign guarantees, concessional loans, and private investment are crucial for scaling large infrastructure projects and attracting global climate finance.
- Clearly defined institutional mandates enhance DFI climate finance readiness by clarifying roles, enabling focused investment strategies, and strengthening operational coherence.
- Common constraints include staff turnover, weak project pipelines, and inconsistent ESG systems, all of which undermine project preparation and access to concessional finance.
- Peer learning, tailored capacity-building, and diagnostic tools are widely endorsed by DFIs to close institutional gaps, while policy-DFI dialogue is essential to improve alignment with NDCs and national investment plans.

Chapter 3: Institutional Capacity and Climate Readiness

3.01 Dimensions of Institutional Capacity

Institutional capacity forms the backbone of any DFI's ability to deliver on its mandate, especially in the context of climate finance, where the risks are systemic, the funding is complex, and the development stakes are high. Strong institutional capacity is not just about having financial resources; it requires an integrated foundation of financial management, technical expertise, governance frameworks, and regulatory alignment. These elements are essential for ensuring that DFIs can prepare, fund, implement, and monitor projects aligned with the Just Transition and low-carbon development goals.

Financial Management



Robust financial management is fundamental to the credibility and sustainability of DFIs. It involves systems for budgeting, forecasting, financial reporting, risk management, and internal controls. DFIs with sound financial oversight are more likely to attract international climate finance, meet fiduciary standards, and manage multi-source capital effectively.

For instance, the Development Bank of Nigeria has rolled out portfolio risk dashboards and bureau-linked credit-scoring in partner banks' loan-origination systems, using automated data pulls and early-warning triggers to improve loan performance and help secure co-financing from the World Bank and AfDB (SME Finance, 2014). Without rigorous financial controls, DFIs risk underperforming or failing to disburse available climate finance, ultimately undermining project outcomes and reputational standing (OECD, 2020).

Technical and Operational Expertise

Technical expertise enables DFIs to design, implement and evaluate projects that meet environmental, social, and economic objectives. This includes internal capabilities in engineering, procurement, ESG assessment, and project appraisal.

Many DFIs in Africa struggle to maintain this expertise in-house and rely on external consultants, which can delay project delivery. The African Development Bank's support through its Sustainable Energy Fund for Africa (SEFA) has focused on closing this gap by offering early-stage technical assistance and transaction advisory services for renewable energy projects (AfDB, 2022).

In Morocco, DFIs engaged in the Noor Solar Complex project benefited from in-depth knowledge transfer from international financiers like the World Bank and KfW, which strengthened their operational readiness and accelerated implementation timelines (World Bank, 2021).

Governance and Strategic Planning

Transparent, competent, and independent governance structures are essential to ensure that DFIs remain mission-focused and accountable. This includes having skilled board members, clear strategic plans, internal audit mechanisms, and regular performance evaluations.

According to Finance in Common (2024), DFIs with effective governance frameworks tend to align more closely with national development strategies and are more successful in mobilising external finance. The DBSA has institutionalised strong board oversight mechanisms and an enterprise risk management framework that has made it a preferred partner for multilateral climate finance initiatives (DBSA, 2024).

In many African DFIs, governance weaknesses are the critical fault line. They show up as politicised lending, mission drift, and weak oversight. Where boards are fully government-appointed without clear qualification criteria, independence, or performance accountability, decision making tilts toward short-term political priorities, credit risk rises, and fiduciary controls are eroded. Strengthening board independence, fit-and-proper requirements, conflict-of-interest rules, and transparent performance contracts are essential to protect mandate integrity and lender confidence. .

Regulatory and Policy Alignment

Institutional capacity is also shaped by the extent to which a DFI's activities are aligned with broader policy frameworks, especially climate commitments such as Nationally Determined Contributions (NDCs), national development plans, and green growth strategies.

For example, the Development Bank of Ethiopia (DBE) plays a role in implementing the Climate Resilient Green Economy Strategy (CRGE) but has faced coordination challenges due to a lack of clear policy linkages and capacity shortfalls at the implementation level (World Bank, 2020).

DFIs that operate within well-articulated national policy frameworks—such as Morocco's National Energy Strategy or Kenya's National Climate Change Action Plan—are better placed to design projects that qualify for concessional climate finance and international technical assistance. Regulatory clarity also helps DFIs avoid duplication of efforts with ministries or other implementing agencies (CIF, 2021; Nicholson et al, 2023).

Climate Risk Assessment Capacity

A critical pillar of climate readiness is the ability to identify, quantify, and manage climate-related financial risks across the deal cycle. This covers physical risks such as floods, heat, drought, and storms, and transition risks arising from policy change, carbon pricing, technology shifts, and potential stranded assets. While many institutions are aligning with the Task Force on Climate-related Financial Disclosures (TCFD) and using Network for Greening the Financial System (NGFS) scenarios, most African DFIs remain early in adoption. Common gaps include limited stress-testing and scenario analysis, and weak integration of climate factors into credit assessment, pricing, covenants, and portfolio limits. Building capability requires clear board oversight and risk appetite, routine NGFS-based stress tests, project-level resilience assessments, internal carbon pricing or shadow tariffs in models, and portfolio metrics and targets that are reported in a TCFD structure. Developing these systems is essential to protect asset quality, meet emerging disclosure expectations, and access targeted green capital. Chapter 3 sets out practical pathways for embedding training, tools, partnerships, and phased implementation into DFI capacity-building.

3.02 Common Barriers Faced by African DFIs

Despite their critical role in financing Africa's development and low-carbon transition, many African DFIs face persistent barriers that limit their effectiveness and ability to access and deploy green finance at scale. These challenges are often systemic and interconnected, requiring targeted institutional, financial, and policy-level interventions.

Lack of Concessional Capital

A major constraint for African DFIs is their limited access to concessional capital—long-term, low-interest funding provided by donors or multilateral institutions. Concessional capital is critical for absorbing early-stage risks in green infrastructure, de-risking investments, and offering more favourable terms to local project developers.

Many national DFIs operate with undercapitalised balance sheets and depend on short-term commercial loans or government appropriations. This severely restricts their ability to finance climate-aligned investments that require long gestation periods and patient capital. For example, while the Development Bank of Nigeria has attracted international lines of credit from the World Bank and AfDB, smaller DFIs like BNDE Senegal rely heavily on government equity and limited bilateral funding, constraining their reach and resilience (DBN, 2023; World Bank, 2014).

Concessional finance is also increasingly tied to stringent ESG standards and fiduciary requirements, which many DFIs struggle to meet due to capacity gaps. This restricts their eligibility for global climate funds like the GCF or the Global Environment Facility (GEF) (OECD, 2020). In addition to these constraints, few DFIs have dedicated teams or tools for integrating climate scenarios into risk management, leaving portfolios vulnerable to transition and physical risks. The absence of internalised climate risk assessment systems compounds undercapitalisation, as investors are reluctant to commit resources to institutions perceived as weak on climate governance.

Institutional Governance Challenges

Governance is one of the most cited determinants of DFI performance. DFIs that lack independent boards, clear mandates, or performance monitoring often become instruments of politically driven investments rather than professional financiers of development. Weak governance leads to mission drift, low risk discipline, and lack of credibility among funders.

Integrating governance diagnostics and aligning with international best practice for state-owned financial institutions is a key reform step. Some DFIs have improved credit ratings and co-financing traction by implementing such governance reforms. Beyond these measures, there is also a need to invest in leadership pipelines and strengthen governance frameworks, with independent and technically skilled boards playing a pivotal role in enhancing institutional credibility and expanding access to international capital.

Project Preparation Gaps

A consistent barrier reported across African DFIs is the lack of well-prepared, bankable projects. Most DFIs struggle with early-stage activities such as feasibility studies, financial modelling, stakeholder consultations, and environmental assessments.

The Infrastructure Consortium for Africa (ICA) notes that only 10% of infrastructure projects in Africa reach financial close, largely due to insufficient project preparation capacity (ICA, 2021). Institutions like the DBSA have responded by creating in-house project preparation facilities, but this is the exception rather than the norm.

In Ethiopia, for example, the Development Bank of Ethiopia (DBE) has a pipeline of renewable energy projects that stalled due to weak pre-investment planning, illustrating the need for structured support mechanisms and technical partnerships (UNDP, 2025).

Weak ESG Integration

Environmental, Social and Governance (ESG) integration remains a significant institutional challenge. Many DFIs have not yet adopted comprehensive ESG frameworks, and where policies do exist, they are often not enforced or monitored. This leads to reputational risks, delays in project approvals, and exclusion from impact-aligned international funding opportunities.

According to the IFC ESG Guidebook (2021), strong ESG systems are no longer optional but essential for institutional credibility and long-term performance. Yet, across Africa, ESG capacity is uneven. While institutions like AfDB and DBSA have robust safeguards and impact measurement systems, smaller DFIs often lack dedicated ESG officers, standardised tools, or training programmes.

In Nigeria, stakeholders revealed that weak ESG monitoring has delayed several off-grid solar projects due to non-compliance with community consultation and land use protocols (Amayo et al, 2025). Strengthening ESG capacity is vital for compliance and building community trust and resilience.

Fragmented Regulatory and Policy Alignment

DFIs often operate in parallel to ministries, utilities, or other public finance agencies, leading to inefficiencies and missed synergies. Clearer mandates, joint planning frameworks, and alignment with national climate strategies (e.g. NDCs) are necessary for DFIs to contribute meaningfully to national transitions.

These barriers underscore why subsequent chapters focus on strengthening internal systems (project prep units, ESG frameworks) and external partnerships (for concessional funding and technical assistance).

OECD Green Finance Report Insights

The OECD's *Green Finance and Investment: Mobilising Bond Markets for a Low-Carbon Transition* (OECD, 2017) highlights systemic barriers in emerging and developing markets that mirror challenges faced by African DFIs. Key observations include:

1. Fragmented policy alignment, DFIs often operate in silos, disconnected from national climate strategies or sectoral investment plans, limiting their ability to scale impact.
2. Inadequate access to risk mitigation instruments, without credit enhancements, political risk insurance, or currency hedging tools, DFIs are unable to mobilise long-term capital from institutional investors.
3. Lack of standardised green project definitions, many DFIs lack clarity on what qualifies as "green" or "climate-aligned," which undermines pipeline development and investor confidence.

To close these gaps, CST's DFI support project, in collaboration with AADFI, will actively be working to address the calls for greater technical assistance, regulatory coherence, and peer learning.

Chapter 4: Tools for Assessing Capacity

4.01. DFI Investment Readiness Scorecard

Purpose and Application of the Scorecard

The DFI Investment Readiness Scorecard is a self-assessment and peer-learning tool designed to help African DFIs benchmark their institutional capacity across key readiness dimensions. It serves as both a diagnostic and a capacity-building tool, allowing DFIs to identify gaps, track progress over time, and prioritise reforms aligned with national development goals and global climate finance standards.

The scorecard is aligned with the objectives of the Nairobi Declaration on Climate Change (2023), particularly the commitments set out in Declaration 40, which calls for "effective partnerships between Africa and other regions" to support the continent's needs for financial, technical, and technological support, and Declaration 52(viii), which urges global financial actors to adopt instruments that de-risk and crowd in private capital through mechanisms such as blended finance. The scorecard reflects the ambition articulated in Declaration 58 to develop a new climate finance architecture responsive to Africa's needs, including institutional tools that promote institutional readiness and reform. In this context, the scorecard provides some concrete, regionally grounded mechanism to operationalise the Nairobi Declaration's call for diagnostic frameworks that improve African DFIs' ability to mobilise and channel climate finance, especially toward adaptation, resilience, and just transition priorities. The scorecard is built around five core pillars:

- Governance and Strategy
- Financial Readiness
- Technical and Human Capacity
- Project Preparation Systems
- ESG and Climate Risk Integration

The scorecard may be enhanced through the inclusion of indicators on gender responsiveness, local currency financing, and the mobilisation of private co-investment. These refinements would broaden its scope and ensure that the tool captures dimensions of readiness that are increasingly recognised as critical for DFIs seeking to align with both global standards and Africa's development priorities. Each pillar contains several indicators scored on a scale of 1 to 5. The total score provides an overall readiness profile, while the disaggregated scores highlight specific strengths and weaknesses.

Guidance on Interpreting Results

After applying the scorecard, DFIs should formulate an action plan targeting their lowest-scoring areas. This results-based approach helps make the scorecard actionable, positioning it as a practical tool for institutional strengthening and climate finance readiness. For instance:

1. A low score in Governance may highlight the need for board training, clearer institutional mandates, or improved oversight mechanisms.
2. A low score in Financial Readiness could indicate the need to engage domestic stakeholders to explore options for recapitalisation, diversify funding sources, or develop sovereign-backed instruments.
3. A low score in ESG and Climate Risk may suggest prioritising the adoption of recognised environmental and social safeguards, while also investing in internal training to strengthen ESG implementation capacity.
4. Weak scores in Project Preparation Systems may call for the creation of a dedicated project preparation team or unit, and partnership with institutions that can offer technical assistance or access to early-stage financing support.

Alignment with Global Benchmarks

The scorecard indicators align with internationally recognised frameworks and standards:

- Governance and Strategy criteria reflect principles from the OECD Guidelines on Corporate Governance of State-Owned Enterprises.
- Financial Readiness indicators are informed by Basel prudential norms, asset-liability management (ALM) practices, and funding diversification benchmarks.
- ESG and Climate Risk criteria draw from the IFC Performance Standards, the Task Force on Climate-related Financial Disclosures (TCFD), and the Network for Greening the Financial System (NGFS) guidelines on climate risk management.
- Climate alignment and strategy indicators echo commitments made under the IDFC Climate Alignment Framework and Paris Agreement pathways.

To further enhance benchmarking, DFIs are encouraged to use the scorecard alongside external assessments, such as AADFI's Prudential Standards, Guidelines and Rating System (PSGRS), peer reviews, or GCF accreditation criteria. This cross-referencing promotes coherence with international funder expectations and peer accountability.

Illustrative Example

To demonstrate how the tool works in practice, consider the following fictional case:

Sample DFI Scorecard Snapshot

Readiness Pillar	Score (out of 20)	Notes
Governance and Strategy	18	Strong legal mandate, strategic plan, and independent board
Financial Readiness	10	Limited access to concessional capital; weak asset-liability tools

Technical and Human Capacity	12	No dedicated project prep team; gaps in ESG technical staffing
Project Preparation Systems	8	Few feasibility studies or pipeline planning tools
ESG and Climate Risk	9	No TCFD alignment or standardised ESG policy
Total Score	**57/100**	Moderate readiness; clear areas for targeted capacity strengthening

Based on these results, the DFI could prioritise:

- Establishing a Project Preparation Unit;
- Engaging technical partners for climate risk assessment tools (e.g. NGFS, IFC);
- Seeking blended finance partnerships to bolster capital adequacy.

The scorecard currently assumes a total score of 100 points; with 20 sub-indicators each scored on a scale of 1 to 5. This aligns with referenced frameworks (OECD, IFC) and supports comparative benchmarking across institutions.

While the scorecard draws from globally recognised standards, it also responds to an important institutional gap in the Nairobi Declaration. Despite the Declaration's ambition to reform global climate finance and expand access to adaptation and just transition funding, DFIs, with the exception of the AfDB, are not explicitly acknowledged as key implementation actors. This underrepresentation highlights a broader pattern in global climate discourse, where DFIs are often undervalued, despite their proven capacity to bridge public policy objectives with private capital mobilisation.

By providing a structured, regionally grounded tool, the scorecard helps elevate the strategic role of national and regional DFIs in operationalising the financing and capacity-building goals set out in the Declaration. It ensures that DFIs are not only better equipped to access and deploy climate finance, but also positioned as institutional pillars in Africa's broader climate and development architecture. See Annexure A for DFI Investment Readiness Scorecard

Chapter 5: Strategies for Institutional Strengthening

Strengthening the internal capacity of African DFIs is essential for improving institutional performance, enabling greater access to climate finance, and accelerating the just transition across the continent. This section outlines three priority strategies for internal capacity development: human capital investment, digital M&E systems, and the establishment of dedicated project preparation units.

5.01. Human Capital Investments

As DFIs step into a more strategic role in financing Africa's just and climate-resilient transition, their ability to succeed hinges on the depth and breadth of their internal capabilities. The technical complexity of green finance, coupled with the urgency of delivering inclusive, low-carbon development, requires skilled teams that can operate at the intersection of finance, sustainability, policy, and development practice.

Building institutional capacity is not merely about expanding staff numbers. It's about cultivating a workforce that is mission-driven, multidisciplinary, and adaptive. DFIs need professionals who are fluent in development economics, blended finance structuring, ESG standards, climate risk modelling, public policy, and sector-specific knowledge in areas such as energy, agriculture, transport, and housing. Equally important are leadership, governance, and accountability skills to drive reform and innovation internally.

Strategic Priorities for Human Capital Development

To strengthen institutional readiness, DFIs should focus on the following areas:

1. Attracting professionals with expertise in project appraisal, credit risk, climate finance instruments, and ESG integration remain a critical priority. To secure and retain such talent, DFIs need to offer competitive compensation, clear career progression pathways, and performance-based incentives, particularly in an environment where technical skills are in high demand and short supply.
2. One strategy to enhance capacity is the creation of internal training academies or structured learning programmes in collaboration with universities, business schools, or development institutions. These initiatives aim to provide accredited qualifications in areas such as sustainable finance, climate risk assessment, and infrastructure development. Customised learning tracks aligned to specific roles, whether for credit analysts, ESG specialists, or project managers, help to embed core competencies across departments.
3. Peer-learning initiatives such as staff exchanges, secondments, and mentorship arrangements with more established institutions play a key role in accelerating institutional learning. These engagements offer practical exposure to international standards and implementation challenges, while also fostering cross-institutional collaboration and strengthening professional networks.

4. Building institutional capacity also requires investment in leadership development. Senior and mid-level managers benefit from training in areas like strategic planning, performance oversight, organisational change, and stakeholder engagement. Such programmes support the emergence of a leadership culture that values innovation, accountability, and adaptability, qualities essential for navigating the complexities of climate finance.
5. Building climate and ESG literacy across all operational units helps to institutionalise a sustainability mindset. Teams in legal, procurement, finance, operations, and beyond must be encouraged to develop a baseline understanding of climate-related risks, opportunities, and compliance expectations. This cross-cutting awareness supports more cohesive, climate-aligned decision-making throughout the organisation.

While it is acknowledged that not all DFIs may have the financial resources to implement each of these strategies at once, institutions are encouraged to adopt what is feasible within their current budgetary constraints. Even incremental investments in capacity-building can deliver meaningful improvements in performance, readiness, and long-term impact.

5.02. Why Human Capital Matters

According to multiple regional and international assessments, a lack of internal technical capacity remains one of the biggest hurdles preventing DFIs from accessing international climate finance and scaling up their portfolios. Weak staff capabilities in fiduciary management, project origination, or ESG risk analysis often result in failed accreditation efforts, delayed project implementation, or poor-quality investment pipelines.

Investing in human capital is, therefore, a strategic necessity, not a peripheral activity. It not only enables DFIs to deliver on their developmental mandate but also builds trust with external funders, national governments, and private sector partners. In an increasingly competitive and performance-oriented climate finance ecosystem, DFIs must demonstrate that they have the in-house knowledge, systems, and leadership to absorb and deploy capital effectively.

5.03. Digital M&E Tools

As DFIs expand their role in Africa's just transition, the ability to track, analyse, and communicate their impact becomes essential. Monitoring and evaluation systems are not just accountability tools; they are strategic assets. When used effectively, M&E systems provide real-time insights into project implementation, inform better decision-making, enable course correction, and demonstrate value-for-money to funders and citizens alike.

In a climate finance context, M&E systems must also capture complex sustainability indicators, ranging from emissions reductions and biodiversity impact to gender inclusion and economic empowerment. Traditional, paper-based reporting systems are ill-equipped for this level of complexity and granularity. That's why digital M&E tools are no longer a luxury but a necessity.

Key Features of Modern Digital M&E Systems

To be effective, digital M&E systems should include the following capabilities:

1. M&E systems should enable institutions to track the full lifecycle of a project, from early-stage identification and feasibility studies to disbursement, implementation, and final impact assessment. Having access to real-time data supports early detection of implementation risks, improves responsiveness, and reduces reporting lag.

2. A critical feature of these systems is the integration of ESG metrics and climate-related indicators. Aligning data collection with international frameworks such as the IFC Performance Standards, the World Bank Environmental and Social Framework, or the Task Force on Climate-related Financial Disclosures ensures that projects meet compliance standards and that climate-related benefits can be quantified and reported effectively.
3. The use of automated dashboards allows for the transformation of large data sets into accessible visual summaries. These dashboards give both internal teams and external stakeholders a quick overview of project status and institutional performance. Pre-built reporting templates can simplify donor and regulator reporting, increase accuracy, and reduce administrative burdens.
4. Geo-tagging and spatial data visualisation enhance transparency and accountability by linking projects to specific physical locations. These tools can be used to show the geographic reach of investments, monitor infrastructure progress, and visualise exposure to climate risks. In remote or underserved areas, this capability is especially useful for demonstrating equitable access and ensuring no regions are overlooked.
5. Modern M&E platforms must be customisable and scalable. As DFIs evolve, expand into new sectors, or adopt new financing instruments, the M&E system should adapt to track emerging priorities. Whether it's monitoring gender outcomes, measuring digital inclusion, or evaluating resilience indicators, flexibility in design allows institutions to remain responsive to shifting demands while maintaining high standards in performance tracking.

Practical Applications and Examples

Several African DFIs are already making strides in this direction. For example, pilot initiatives have demonstrated how customised digital dashboards can support geothermal and wind investment tracking, enhance ESG compliance, and generate performance scorecards for institutional learning. These systems allow for a deeper understanding of what works and why, leading to stronger project design and improved impact.

Other institutions are using mobile-based platforms for data collection in remote areas, enabling community feedback and improving social safeguards. Some are exploring how to integrate satellite imagery, artificial intelligence, or blockchain to monitor land use changes, reduce fraud, or enhance procurement transparency.

Building Readiness for Digital M&E

To effectively implement digital M&E systems, DFIs should:

- Invest in internal data management capacity, including hiring or training staff in data science, Geographic Information Systems, and impact measurement.
- Ensure interoperability with national systems, allowing data sharing with government ministries, regulators, and development partners.
- Prioritise data security and privacy, particularly when dealing with community-level data or ESG-sensitive information.
- Develop a digital M&E strategy, with clearly defined indicators, processes, and governance structures to guide implementation.

5.04. Dedicated Project Preparation Units

One of the most persistent bottlenecks facing African DFIs is the lack of well-prepared, investment-ready projects. Even where development needs are clear, whether in renewable energy, transport, water, or SME support, the early-stage design of these projects is often incomplete or misaligned with investor requirements. This "pipeline gap" leads to low absorption of available financing, delays in implementation, and missed opportunities to crowd in private capital.

Establishing dedicated Project Preparation Units (PPUs) is one of the most effective ways to overcome this challenge. PPUs serve as internal centres of expertise that guide projects from early conceptualisation through to bankability, ensuring that they are technically sound, financially viable, environmentally sustainable, and policy-aligned. They bridge the critical gap between development ambition and financial execution.

While some DFIs operate internal units, others may benefit from regional facilities or secondment programmes that pool expertise and reduce duplication across institutions. This shared approach not only eases resource constraints but also strengthens the overall quality and bankability of climate-aligned projects. By working collaboratively, DFIs can accelerate project preparation while ensuring consistent standards and alignment with national priorities.

Core Functions of a Project Preparation Unit

A well-functioning PPU performs several essential tasks that strengthen project readiness:

1. PPUs undertake pre-feasibility and feasibility studies to assess a project's technical, financial, social, and environmental viability. By carrying out these assessments either internally or through specialised networks, the DFI ensures a consistent standard of quality and timely project appraisal before significant resources are committed.
2. It also leads the coordination of integrated due diligence processes. This includes managing technical assessments, legal and regulatory reviews, stakeholder consultations, land use analysis, environmental and social impact evaluations, and risk diagnostics–essential elements to meet both internal governance and external funder requirements.
3. The unit plays a pivotal role in project structuring and packaging. This means developing clearly defined risk-sharing frameworks, financial models, procurement strategies, and governance mechanisms that make the project attractive to development partners, climate funds, or private investors. Effective packaging is critical for accessing blended finance and mobilising capital at scale.

4. Another central function of the PPU is ensuring alignment with national policies and facilitating coordination with other institutions. This involves engaging with sectoral ministries, planning departments, subnational authorities, and regulatory agencies to ensure

that proposed investments reflect strategic national priorities and receive the required institutional endorsements.

5. Beyond individual projects, the PPU is responsible for building and managing an investment pipeline. This includes proactively identifying priority sectors, conducting market analyses, and developing a portfolio of pre-vetted, investment-ready projects that can be rapidly deployed when funding opportunities arise. This approach strengthens long-term planning and enhances the DFI's responsiveness to changing development needs.

Strategic Importance in Climate Finance

Institutions such as the Green Climate Fund (GCF), Global Environmental Facility (GEF), and other concessional financiers often cite poor project preparation as a leading cause for rejection of funding proposals. By embedding PPUs within DFIs, African institutions can significantly increase their ability to attract concessional capital and co-financing.

In particular, PPUs enhance a DFI's ability to:

- Align projects with climate mitigation and adaptation objectives
- Integrate ESG safeguards from the outset
- Articulate development co-benefits clearly (e.g., job creation, gender inclusion, resilience)

These capacities improve the credibility of proposals and demonstrate the DFI's institutional readiness to manage complex, multi-stakeholder investments.

Institutional Models and Best Practices

Different models exist for how PPUs are structured. Some DFIs operate dedicated internal teams, while others form joint platforms with ministries or external technical assistance providers. In some cases, DFIs outsource feasibility work but maintain strong internal oversight to ensure consistency and alignment.

Key success factors for effective PPUs include:

- Staffing with multidisciplinary teams (engineers, economists, legal experts, environmental specialists)
- Securing seed funding or grants for pre-investment work
- Building partnerships with technical assistance facilities and regional hubs
- Embedding a feedback loop for learning and continuous improvement

PPUs also support DFIs in managing project development risk, a major concern for private investors. By handling the riskiest and most uncertain phases of the project lifecycle, DFIs can present de-risked opportunities to the market, increasing the chance of attracting commercial capital later.

Continental Initiatives and the Road Ahead

The SADC Project Preparation and Development Facility (PPDF) is operated by the Development Bank of Southern Africa (DBSA) as implementation agent and fund manager on behalf of the SADC Secretariat. The PPDF finances prefeasibility and feasibility work for projects with cross-border impact in Southern Africa, helping them progress from concept to bankability and financial close.

Recognising a continent-wide gap in institutional capacity, the Centre for Sustainability Transitions (CST) and its partners are conceptualising an Africa Infrastructure DFI Support Hub, a collaborative platform that aims to strengthen the role of under-capacitated DFIs across the continent. The Hub is envisioned as a shared facility that will provide targeted support in key areas such as project preparation, climate risk assessment, and financial structuring.

At its core, the model is designed to enable resource pooling, peer learning, and greater regional integration, offering DFIs access to technical expertise, common frameworks, and institutional partnerships that they may not be able to secure independently.

Strengthening the Enabling Ecosystem

A well-functioning institutional ecosystem is critical for DFIs to deliver on their climate finance mandates. Even the most capable DFI cannot succeed in isolation. It requires alignment with broader public policy, a supportive regulatory framework, and collaborative mechanisms that reduce risk and foster investment. This section outlines three key levers for enabling DFIs to thrive and deliver impact: public-private partnerships (PPPs), regulatory harmonisation, and country platforms for climate finance.

1. Public-Private Partnerships

Public-private partnerships (PPPs) are essential instruments for scaling green infrastructure in Africa. DFIs often act as facilitators of PPPs, structuring blended finance solutions, mitigating risk, and ensuring bankability of projects in energy, water, transport, and urban development.

To be effective, PPPs must include:

- Clarity on risk-sharing arrangements
- Enabling legislation and procurement frameworks
- Technical assistance for project preparation and contract design
- Transparent monitoring and renegotiation mechanisms

2. Regulatory Harmonisation

Regulatory fragmentation across African countries remains a significant obstacle to scaling green finance and regional energy projects. Harmonising regulations, especially those related to procurement, tax incentives, ESG compliance, and grid interconnection, can drastically lower transaction costs and unlock cross-border investment.

DFIs and regional blocs like ECOWAS and SADC can play a key role by:

- Promoting standardised project eligibility and ESG safeguards
- Coordinating energy market regulations (e.g. feed-in tariffs, PPA norms)
- Creating legal templates for green bonds, guarantees, and de-risking tools

3. Country Platforms for Climate Finance

Country platforms are collaborative mechanisms that bring together DFIs, governments, donors, and private investors to coordinate climate investment and capacity building. These platforms enable strategic alignment of priorities, reduce duplication, and mobilise large-scale funding.

Key characteristics include:

- Government leadership and whole-of-government coordination
- Donor alignment around NDC implementation or just transition goals
- A pipeline of investable projects backed by policy support

KEY TAKEAWAYS

- The DFI Investment Readiness Scorecard is a practical diagnostic and benchmarking tool designed to help African DFIs assess and improve their institutional capacity across five pillars: Governance and Strategy, Financial Readiness, Technical and Human Capacity, Project Preparation Systems, and ESG and Climate Risk Integration.
- The scorecard supports implementation of the Nairobi Declaration on Climate Change (2023), especially Declarations 40, 52(viii), and 58, by operationalising Africa-specific tools for institutional reform, financial de-risking, and private capital mobilisation.
- Each pillar is scored on a 1–5 scale and aligned with global standards such as the OECD Guidelines on SOEs, IFC Performance Standards, and TCFD recommendations, enabling coherence with funder expectations and climate finance pathways.
- The scorecard is action-oriented—it enables DFIs to identify low-performing areas, prioritise reform, and formulate a tailored action plan, with examples including the establishment of project preparation units or adoption of TCFD-aligned risk tools.
- Used alongside external tools such as AADFI's PSRS or GCF accreditation benchmarks, the scorecard enhances accountability, peer learning, and readiness for large-scale blended finance and adaptation investment.

5.04. *Resource Mobilisation*

Effective mobilisation of financial resources is critical for DFIs aiming to scale up investments in low-carbon infrastructure, inclusive enterprise development, and climate resilience. However, conventional financing instruments are often insufficient for addressing the risks and complexity of just transition investments. Innovative solutions are required. These include the design of blended finance vehicles in partnership with multilateral funds and the piloting of guarantee schemes that de-risk small and medium-scale climate projects. Such instruments expand the scope of DFI engagement by attracting private co-investment, improving risk allocation, and enabling concessional capital to achieve greater leverage. When coupled with performance-based incentives, they can also ensure that financing flows are directed toward projects that deliver measurable developmental and climate outcomes. This section explores three powerful mechanisms African DFIs can use to mobilise capital: blended finance structures, guarantee schemes, and performance-based grants.

Blended Finance Structures

Blended finance involves the strategic use of concessional finance, typically from public or philanthropic sources, to mobilise additional commercial capital. For DFIs, blended finance offers mechanisms to mitigate risk, enhance flexibility, and crowd in private investment in high-impact and often under-served sectors such as renewable energy, nature-based solutions, and infrastructure.

Key design features include:

- Combining grants or soft loans with commercial debt
- Layering senior and junior tranches of capital
- Embedding technical assistance facilities for pipeline development

Examples of Blended Finance in Practice:

- *AfDB's Sustainable Energy Fund for Africa (SEFA)*: Uses blended capital to co-finance renewable energy projects alongside national DFIs, thereby reducing risk for private sector partners while enabling project scale-up.
- *DBSA's Climate Finance Facility*: Africa's first green bank-style blended finance vehicle, offering subordinated debt and credit enhancements for climate-aligned infrastructure projects.

Rethinking Blended Finance for Just Energy Transitions (JETs): From Market Fixing to Mission-Driven Approaches

Blended finance is most effective when used to address clearly defined market failures such as the perceived risk of mini-grid deployment or the long payback period for nature-based solutions. However, recent scholarship questions its effectiveness.

According to Mazzucato and Vieira de Sá (2025), blended finance has not delivered on its promise. Annual volumes have stagnated around $15 billion, far below the $5–7 trillion needed each year to meet the Sustainable Development Goals. Of this amount, private capital contributions remain marginal, accounting for just 38% of total mobilised funds and only 16% for climate finance. Worse still, concessional resources are often diverted to de-risk commercially initiated projects in lower-risk sectors and regions. Low-income countries mobilise only $0.37 of private capital for every $1 of public funding compared to $1.06 in lower-middle-income countries, highlighting the structural inequity of the current model.

Mazzucato and Vieira de Sá argue that current blended finance practices reflect a flawed market-fixing logic, where public institutions are tasked with correcting risk imbalances for private investors rather than shaping markets to serve public goals. In the African context, particularly for Just Energy Transitions (JET), this logic is especially problematic.

Three Interlinked Concerns for Blended Finance in JET Contexts:

1. **Mission-Driven Finance, Not Profit-Driven Risk-Shifting:** Blended finance must be led by clear public mandates, not just structured to improve the bankability of private ventures. DFIs should use concessional capital to prioritise energy access for marginalised communities, green jobs, and local industrial development, not to subsidise profit in already investable markets.
2. **Developmental Integrity and Accountability:** Blended finance initiatives often lack strong impact measurement frameworks. In the JET context, this risks channelling funding into projects that exclude rural or low-income populations. Strong safeguards, transparency, and community engagement must be embedded to ensure just outcomes.
3. **Financial Sovereignty and Institutional Capacity:** Over-reliance on foreign concessional capital can undermine national DFIs and restrict local policy autonomy. Blended finance must be designed to build domestic financial ecosystems, empower public institutions, and foster learning-by-doing.

Cons / Challenges of Blended Finance:

- Complex deal structuring and high transaction costs
- Risk of donor dependency and crowding out of domestic finance
- Bias toward large-scale or urban projects over decentralised solutions

- Weak additionality and susceptibility to "impact washing"
- Vulnerability in fragile political and economic contexts

JET Relevance: Blended finance remains a powerful mechanism, if reformed, to accelerate investment in Africa's Just Energy Transition. It can de-risk high-impact projects such as rural mini-grids, green industrial parks, and e-mobility infrastructure. But for it to serve justice, it must be directed with mission-led intent, embedded in accountable frameworks, and rooted in African institutions that shape development on their own terms.

Guarantee Schemes

Guarantee schemes are risk-sharing instruments that reduce the risk profile of projects, making them more attractive to investors. DFIs can either offer guarantees themselves (if capitalised to do so) or work with multilateral facilities.

Types of guarantees:

- Partial credit guarantees: enhance borrower creditworthiness
- Political risk guarantees: protect against non-commercial risks
- First-loss guarantees absorb early losses in a blended structure

Example: **The African Guarantee Fund (AGF)** offers credit guarantees to financial institutions lending to SMEs, with a focus on gender and green finance. AGF partners with DFIs to extend their reach and reduce collateral requirements for underserved borrowers.
Example: The **World Bank's Multilateral Investment Guarantee Agency (MIGA)** provides political risk insurance and credit enhancement for infrastructure investments across Africa.
Guarantees are especially powerful for unlocking finance in fragile states, off-grid electrification, and sectors with long development cycles, such as climate-smart agriculture.

Performance-Based Grants

Performance-based grants (PBGs) are non-reimbursable funding tied to the achievement of predefined results. These can be disbursed to DFIs or their clients when agreed milestones—such as CO_2 reductions, access improvements, or institutional reforms—are achieved.

Benefits include:

- Incentivising innovation and reform
- Supporting last-mile service delivery
- Bridging viability gaps in pro-poor projects

Example: Under the **Global Energy Alliance for People and Planet (GEAPP)**, performance-based grants are being deployed to support mini-grid developers in Nigeria and Kenya, with verification systems built in to reward measurable energy access expansion.
Example: The **Green Climate Fund (GCF)** has used PBGs to support DFI institutional reforms and new pipeline development in Ethiopia and Senegal. Funds are released upon successful implementation of readiness support and alignment with country climate strategies.
Performance-based approaches also help strengthen DFI credibility with donors and improve monitoring and accountability frameworks.

Reference: Blended Finance Taskforce: https://www.blendedfinance.earth

Chapter 6: Looking Ahead

6.01. Scaling DFI Readiness Across Africa

Opportunities for Replication and Peer Learning

As Africa advances toward a just and climate-resilient development trajectory, scaling the institutional readiness of DFIs across the continent is a strategic necessity. The CST case studies highlight practical models that other countries and institutions can adopt or adapt to their own contexts.

One national DFI showcased the value of aligning institutional mandates with national climate strategies by channelling concessional capital into renewable energy sectors such as geothermal and wind. Another DFI demonstrated the effectiveness of blended public-private partnership models to mobilise large-scale solar infrastructure investment, underpinned by strong internal capacity and external credibility. These examples offer scalable templates for financial structuring, governance innovation, and strategic policy alignment.

To replicate and build on these successes, African DFIs can leverage regional platforms such as the AADFI to facilitate structured peer learning, benchmarking, and cross-institutional training. This should include structured peer-learning exchanges where DFIs share pipeline development experiences, particularly in scaling renewable energy and SME financing. The finance readiness tool provides a shared diagnostic framework that can support institutional self-assessment and guide targeted capacity strengthening.

Pan-African networks such as the African Union Development Agency (AUDA-NEPAD), the African Green Infrastructure Investment Bank (AfGIIB), and the AfDB's VCDA Academy offer further opportunities to harmonise standards and coordinate regional approaches to project preparation, ESG systems, and resource mobilisation.

Establishing regional DFI support hubs, such as the proposed Africa Infrastructure DFI Support Hub, could further consolidate these efforts. Such hubs can serve as centres of excellence for project development, technical assistance, and policy alignment, helping to bridge institutional gaps, pool resources, and build shared capabilities across countries and sectors.

6.02. Future Research and Collaboration

Areas Needing Further Investment

1. The current research has revealed several critical gaps in institutional systems, knowledge infrastructure, and inclusive finance design that require targeted follow-up investment and research. While national DFIs have received growing attention, the role of subnational development finance actors remains underexplored. State-owned banks, regional institutions, and municipal finance entities often operate closest to the communities most vulnerable to climate shocks. These institutions could play a pivotal role in financing decentralised energy systems, water resilience, and local adaptation infrastructure—particularly in rural or fragile contexts. However, there is limited data on their capacity, governance structures, and climate finance readiness. Strengthening these actors will require tailored capacity-building, more flexible capital instruments, and integration into national climate finance strategies.

2. Another key area involves the measurement of effectiveness in blended finance. Although blended finance is widely promoted as a solution for de-risking and crowding in private investment, there is still a lack of standardised metrics to assess its real impact and financial additionality. More rigorous tracking systems are needed to determine when concessional resources truly unlock private capital—and when they merely subsidise commercially viable projects. Developing metrics that capture both quantitative outcomes (e.g. private capital mobilised, risk-return improvements) and qualitative co-benefits (e.g. local job creation, emission reductions, or capacity spillovers) will help DFIs, and their partners make more evidence-based financing decisions.
3. The importance of robust data and digital systems also emerged as a recurring challenge. Most DFIs still operate without integrated platforms for real-time project monitoring, ESG compliance tracking, or climate impact reporting. Off-the-shelf systems used by global financial institutions are often poorly suited to the scale, bandwidth, and regulatory contexts of African DFIs. There is a pressing need to develop cost-effective, adaptable digital tools that can support project lifecycle management, automate donor reporting, and enable institutions to meet rising global disclosure standards. Investment in such systems would enhance transparency, internal accountability, and responsiveness to funder requirements.
4. There is an urgent need to expand gender- and youth-responsive financial instruments. Women and young people are among the most affected by climate change and economic exclusion, yet financial tools often overlook their specific needs and barriers. Innovative models, such as gender-smart guarantees, climate entrepreneurship funds for youth, and targeted concessional lending windows, have shown promise but remain at pilot scale. Future work should focus on integrating these models into mainstream DFI operations and linking them to broader just transition frameworks. This will require intentional design, inclusive stakeholder engagement, and partnerships with grassroots organisations that can connect DFIs to underrepresented communities.

6.03. Connecting DFIs with Global Climate Finance Networks

African DFIs continue to be underrepresented in key global climate finance forums, despite their pivotal role in financing Africa's just transition. Platforms such as FICS, IDFC, and the United Nations Financing for Development process offer critical avenues for DFIs to influence international policy norms, gain access to technical support, and build institutional visibility on the global stage.

Engagements with global financial actors revealed practical insights:

- Governance is a threshold issue for funders, with board independence and clear risk appetite non-negotiable.
- Programmatic concessionality tied to country platforms is preferred over one-off project grants.
- Transparent maps from Nationally Determined Contribution and power plan targets to a multi-year DFI pipeline are increasingly required.
- There is appetite to support local-currency solutions where forex, tenor and pricing governance are explicit.
- Harmonised safeguards and procurement, or robust equivalence matrices, reduce friction.
- ISSB- and TCFD-style disclosures and just transition KPIs speed diligence and open performance-based grants.
- Pre-agreed co-financing playbooks and template term sheets shorten time to signing.

- Donors are willing to co-fund project preparation where stage gates and vendor panels are in place.
- A small international partnerships unit improves access to concessional pools.
- South–South learning with IDFC peers is highly valued.
- Innovative de-risking works best when structures are simple and monitoring is credible.

To convert these opportunities into outcomes, African DFIs should embed themselves in the global ecosystem by establishing dedicated international relations or partnership teams to manage donor engagement, track evolving standards, curate relationships, and represent institutional interests in multilateral dialogues. In parallel, pursue staged accreditation with major climate funds such as the GCF and CIF, starting with gap assessments on fiduciary and E&S systems, piloting TCFD or ISSB-aligned disclosures, and applying for defined result areas before expanding scope.

Participation in joint programming with MDBs, philanthropic institutions, and technical assistance providers should prioritise programmatic concessionality frameworks over isolated grants, while advancing local-currency facilities with domestic banks and pensions, standardising safeguards and procurement, and publishing portfolio-level climate and just transition metrics. Pre-agreed co-financing playbooks, simple portfolio guarantees, performance insurance, and green securitisations can then be deployed with clearer risk allocation and lighter but credible monitoring. These steps will widen access to capital and position African DFIs as credible, capable, climate-aligned actors in the global development finance architecture.

Chapter 7: Directory of Capacity Building Partners

Building institutional capacity requires more than internal reforms. It depends on strategic collaborations with organisations that bring the technical, financial, policy, and operational expertise needed to help DFIs scale their impact. This chapter maps key organisations supporting DFIs through training, toolkits, technical assistance, and peer learning, organised into five categories based on the Handbook content: African DFI Networks and Platforms, International Finance and Technical Support Institutions, Training and Research Institutions, Public-Private Platforms, and Multilateral Climate Finance Facilities.

The directory also includes platforms such as the African Green Infrastructure Investment Bank (AfGIIB) and regional climate funds, as well as partnerships with African universities and think-tanks offering training on climate finance and transition planning. It also highlights a range of technical assistance providers specialising in ESG integration, climate risk modelling, and blended finance structuring, ensuring that DFIs can access both global expertise and locally grounded knowledge.

7.01 African DFI Networks and Platforms

This category includes continental and regional associations, such as AADFI, that provide coordination, standards, and peer support; it has been expanded to reflect requests for stronger linkages to emerging platforms like the African Green Infrastructure Investment Bank (AfGIIB).

1. The Association of African Development Finance Institutions (AADFI) is the leading network for African DFIs, supporting members through institutional diagnostics (e.g., PSRS), accreditation support, training, and policy advocacy. Website: https://www.aadfi.org
2. The African Development Bank (AfDB) Academy and Institutional Support Platforms AfDB supports DFIs via its Virtual Capacity Development Academy (VCDA), SEFA, AESTAP, and institutional strengthening missions. It partners with DFIs to improve climate alignment, fiduciary systems, and pipeline development. Website: https://www.afdb.org
3. The Development Bank of Southern Africa's Academy DBSA provides regional support on project preparation, ESG integration, and blended finance through its Climate Finance Facility and capacity development platforms. Website: https://www.dbsa.org
4. The Trade and Development Bank's TDB Academy focuses on sustainable finance, risk management, and cross-border trade financing. Website: https://www.tdbgroup.org
5. FICS is the global platform for public development banks, including African DFIs. It promotes harmonised reporting, joint declarations (e.g., Paris alignment), and knowledge exchange. Website: https://financeincommon.org
6. The Africa Investment Forum (AIF) hosted by the AfDB, facilitates deal-making and investment coordination among African DFIs, sovereigns, and private capital providers. It offers a platform to unlock bankable infrastructure projects and provides transaction advisory services. Website: https://www.africainvestmentforum.com
7. The Collaborative Africa Budget Reform Initiative (CABRI) supports African public institutions, including DFIs, with public finance management reforms, fiscal transparency, and medium-term expenditure frameworks aligned with climate and development goals. Website: https://www.cabri-sbo.org
8. The African Union Development Agency (AUDA-NEPAD) engages with DFIs to deliver regional infrastructure projects under PIDA, and offers technical assistance on project

preparation, regional integration, and blended finance strategies. Website: https://www.nepad.org

9. The West African Development Bank (BOAD) Capacity Development Unit supports Francophone DFIs through its knowledge centre and regional training in infrastructure finance, environmental safeguards, and concessional resource mobilisation. Website: https://www.boad.org
10. The Eastern and Southern African Trade and Development Bank (TDB Group) through its Knowledge Hub and Academy, supports member DFIs in areas of sustainable finance, compliance, trade facilitation, and risk underwriting. Website: https://www.tdbgroup.org

7.02 International Finance and Technical Support Institutions

This section highlights international partners offering concessional finance, safeguards, and technical support; it draws attention to providers with expertise in ESG integration, climate risk modelling, and blended finance structuring, as suggested by stakeholders.

1. The International Finance Corporation (IFC) provides ESG toolkits, climate risk management frameworks, and support for project bankability and governance standards. ESG Toolkit: https://data.devbankng.com/Biz
2. The OECD and OECD/UNCDF Platform provides global guidance on governance for state-owned enterprises, ESG standards, and blended finance models. The OECD/UNCDF Toolkit helps DFIs align with SDGs and scale local currency finance. Website: https://www.oecd.org
3. Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) supports green finance readiness through its CF Ready programme, offering training, TA, and GCF accreditation support. Website: https://www.giz.de
4. The Green Climate Fund Readiness and Preparatory Support Programme funds DFI assessments, ESG system upgrades, and accreditation processes. Website: https://www.greenclimate.fund/readiness
5. UNDP Climate Promise works with national institutions, including DFIs, to enhance climate governance, gender-responsive finance, and NDC implementation. Website: https://climatepromise.undp.org
6. Agence Française de Développement (AFD) supports African DFIs with technical assistance on project preparation, social and environmental safeguards, and access to concessional finance. It also co-finances capacity-building programmes in renewable energy and health infrastructure.
   Website: https://www.afd.fr/en
7. The International Monetary Fund (IMF) provides macro-fiscal tools, debt sustainability analyses, and guidance on climate budget tagging for DFIs and ministries of finance, including through regional training centres. Website: https://www.imf.org
8. The Global Infrastructure Facility (GIF) is a G20 initiative hosted by the World Bank that supports upstream project preparation and DFI collaboration on bankable infrastructure in emerging markets. Website: https://www.globalinfrafacility.org
9. The Global Center on Adaptation (GCA) partners with DFIs on adaptation investment planning, climate resilience metrics, and readiness frameworks through the Africa Adaptation Acceleration Program. Website: https://gca.org

7.03 Training and Research Institutions

The following African universities, think-tanks, and specialist centres are actively building training programmes on climate finance and transition planning, responding directly to feedback on the need for structured learning partnerships.

1. The IMF's African Training Institute (ATI) provides regional training on debt management, macroeconomic analysis, and climate finance to central banks and DFIs. Website: https://www.imf.org/en/Capacity-Development/Training/ICDTC/Schedule/ATThe African Capacity Building Foundation (ACBF) supports institutional reform and leadership development for African financial institutions. Website: https://www.acbf-pact.org
2. The Centre for Sustainability Transitions (CST) at Stellenbosch University leads applied research and peer-learning initiatives with DFIs on climate finance readiness, investment diagnostics, and project preparation. Website: https://www0.sun.ac.za/cst/
3. The University of Cape Town (UCT) Graduate School of Business offers executive education in development finance, impact investing, and public infrastructure finance. Website: https://www.gsb.uct.ac.za
4. The African School of Regulation (ASR) provides regulatory and finance training to DFI staff working in energy transition and utility reform. Website: https://africanschoolregulation.org

7.04 Public-Private Platforms

This category covers hybrid institutions and initiatives that mobilise both public and private resources, with new emphasis on regional climate funds and blended finance platforms identified by participants as critical for scaling DFI readiness.

1. The Global Innovation Lab for Climate Finance supports DFI innovation in green bond structures, risk instruments, and blended finance products. Website: https://www.climatefinancelab.org
2. Convergence Blended Finance provides market intelligence, case studies, and technical assistance to DFIs designing blended finance solutions. Website: https://www.convergence.finance
3. The African Green Infrastructure Investment Bank (AfGIIB) is a partnership-driven platform to unlock capital for green infrastructure. It works closely with African DFIs on co-financing and deal flow. Website: https://www.afgiib.com

7.05 Multilateral Climate Finance Facilities

This section brings together global climate funds and readiness facilities; in line with feedback, it highlights how DFIs can use these mechanisms in combination with regional platforms and technical assistance providers to strengthen climate finance access.

1. The Green Climate Fund (GCF) provides concessional capital, project development support, and direct access accreditation pathways to DFIs. Website: https://www.greenclimate.fund
2. Climate Investment Funds (CIF) supports national DFIs through programmatic support for resilience, clean energy, and just transition strategies. Website: https://www.climateinvestmentfunds.org
3. The Adaptation Fund supports projects focused on climate resilience, including financial systems strengthening in eligible national DFIs. Website: https://www.adaptation-fund.org

4. The Global Environment Facility (GEF) supports small grants and institutional capacity building for climate change, biodiversity, and land use. Website: https://www.thegef.org
5. The Africa Climate Change Fund (ACCF), hosted by the African Development Bank, provides grants and technical assistance to African countries and institutions—including DFIs—to scale up climate finance readiness, particularly for adaptation planning, climate-smart infrastructure, and readiness for GCF accreditation. Website: https://www.afdb.org/en/topics-and-sectors/initiatives-partnerships/africa-climate-change-fund
6. The Least Developed Countries Fund (LDCF) is managed by the GEF. It finances climate adaptation in the world's poorest countries. DFIs in least developed countries can access funds for institutional strengthening, project preparation, and implementation aligned with national adaptation programmes. Website: https://www.thegef.org/gef/LDCF
7. The NDC Partnership Support Unit. While not a direct funding mechanism, the NDC Partnership coordinates technical and financial support for implementing countries' climate targets. African DFIs can tap into this network to align projects with NDCs and access funding from bilateral and multilateral sources. Website: https://ndcpartnership.org

Annexure A: Investment Readiness Scorecard for Development Finance Institutions

Readiness Pillar & Sub-Indicator	Description	Score (1–5)	Feedback
1. Governance and Strategy			
1.1 Development Mandate	The DFI has a clear legal mandate aligned with national development and climate strategies (e.g., NDCs, national climate plans).		
1.2 Board Governance	Board members are independent, technically qualified, and insulated from undue political interference. Governance structures include audit/risk committees. Reflects IFC guidance on corporate governance.		
1.3 Strategic and inclusive Planning	The institution has a multi-year strategy that integrates climate objectives and gender responsiveness, with performance targets aligned to Equator Principles and IFC standards.		
1.4 Performance Monitoring	Institutional KPIs are tracked, reported, and used to inform board decisions. Evaluations occur at least annually, and results are publicly disclosed.		
Subtotal – Governance		/20	
2. Financial Readiness			
2.1 Capital Adequacy	The DFI has sufficient capital buffers, can access concessional funds, and has strategies for recapitalisation or leveraging MDB support, per Climate Bonds Initiative recommendations.		
2.2 Funding Diversification	Multiple sources of funding beyond government transfers, including bond issuance and concessional climate finance.		

2.3 Local Currency & Risk Management	Ability to mobilise and lend in local currency, with effective asset-liability management and contingency planning systems.		
2.4 Financial Transparency	Audited financials are compliant with IFRS and publicly disclosed, per financial transparency standards.		
Subtotal – Financial Readiness		/20	
3. Technical and Human Capacity			
3.1 Climate-Dedicated Staff or Unit	Functional climate or sustainability desk with authority and resources to lead green finance integration.		
3.2 Access to Technical Expertise	Internal or partnered access to engineering, project appraisal, and ESG experts (e.g., SuRe Standard).		
3.3 Staff Training	Regular capacity-building on ESG, green finance, and climate risk assessment (via global initiatives like GIB or IFC).		
3.4 Blended Finance & Mobilisation Capacity	Track record in managing concessional instruments, results-based finance (RBF), and mobilising private co-investment.		
Subtotal – Technical Capacity		/20	
4. Project Preparation Systems			
4.1 Feasibility and Due Diligence	Consistent project-level assessments and climate risk screening methodologies (aligned with World Bank guidance).		
4.2 Pipeline Management	Structured pipeline management, screening for climate alignment and project bankability.		
4.3 Project Preparation Facilities	Use of in-house or partnered project preparation facilities (e.g., DBSA PPF, SEFA, donor-supported tools).		

4.4 Community Engagement & Safeguards	Systematic stakeholder engagement processes and environmental and social safeguard protocols.		
Subtotal – Project Preparation		/20	
5. ESG and Climate Risk Integration			
5.1 ESG Policy Framework	Approved ESG policies aligned with international standards (e.g., IFC Performance Standards, Equator Principles).		
5.2 ESG Monitoring & Evaluation	ESG performance is monitored and evaluated across project lifecycles.		
5.3 Climate Risk Management	Climate risk management includes TCFD-aligned risk assessments, scenario analysis, or stress testing (per UNEP FI guidance).		
5.4 Climate Impact Metrics	Projects report mitigation and adaptation metrics (e.g., CO_2 avoided, resilience indicators).		
Subtotal – ESG & Climate Risk		/20	
TOTAL SCORE		**/100**	

Score Interpretation Scale

Total Score (out of 100)	Readiness Category	Interpretation
80 – 100	**High Readiness**	Institution demonstrates strong capacity across all pillars, with systems and practices aligned to international benchmarks. Well-positioned to access and deploy climate finance.

70 – 79	**Established Readiness**	Solid institutional foundations in place. Some areas may require incremental improvements or refinement.
60 – 69	**Emerging Readiness**	Moderate capacity, with several strengths but also notable gaps. Requires targeted strengthening in specific pillars to meet funder requirements.
50 – 59	**Moderate Readiness**	Clear foundational elements exist, but significant reforms are needed to improve institutional alignment, project preparation, and ESG integration.
40 – 49	**Low Readiness**	Institution faces structural challenges across multiple pillars. Strategic capacity-building and policy alignment are urgently needed.
Below 40	**Foundational Readiness**	Major institutional reforms, technical upgrades, and human capital investments are required to build basic climate finance readiness. External support and partnerships essential.