



## Multilateral Development Bank (MDB) Reform: How can MDBs Better Support Green Energy Transitions and Financing Requirements in the Global South?

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### Key messages

- The urgency of the energy transition: South Africa's heavy reliance on coal has placed it among the largest CO<sub>2</sub> emitters globally, necessitating an accelerated transition to sustainable energy sources to meet climate goals and improve air quality.
- Role of Multilateral Development Banks (MDBs): The support of MDBs is essential to address South Africa's financial and technical constraints and support expansion in renewable energy infrastructure.
- Socio-economic challenges: Transitioning from coal affects coal-dependent regions like Mpumalanga, requiring targeted workforce retraining, community support, and economic policy reforms.
- Strategic recommendations: MDBs should prioritise concessional finance, project preparation, and economic diversification support, while South Africa strengthens institutional governance to attract investment.

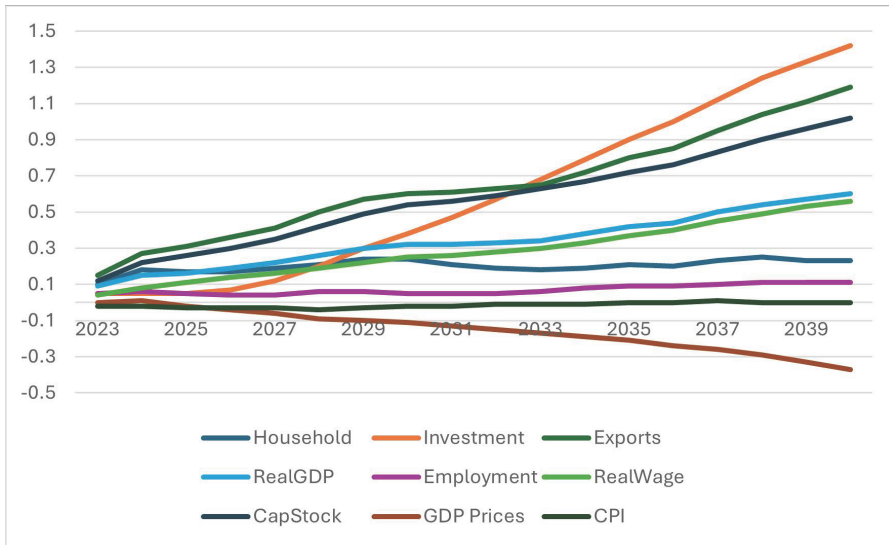
### Expected benefits of the energy transition in South Africa

South Africa's dependency on coal not only impacts global CO<sub>2</sub> levels but has also led to severe air pollution, particularly in coal-dependent regions like Mpumalanga. The country's planned energy transition —i.e. a shift towards renewable energy sources—is critical to fulfill climate obligations and safeguard economic stability.

A study was conducted to examine the economic and socio-economic impacts of electricity generation scenarios, focusing on four major sources: coal, nuclear, gas, and renewable (solar, wind, hydro). Key results include:

- Increased investment: Investment in renewable infrastructure boosts capital stock and contributes to economic growth. Net investment spending is 1.42% higher in 2040 than in the business-as-usual baseline, largely driven by the construction of new renewable electricity generation and related infrastructure. From a baseline amount of around R1 trillion in 2022, this represents an increase of around R14.5 billion in today's money.
- Macroeconomic gains: On the back of more competitive production prices, real GDP increases by 0.6%, while exports may grow by 1.2%, bolstering South Africa's economy.
- Good economy-wide outcome: In general, the improvement in South Africa's electricity output is good news at a macro level and will provide significant opportunities (if taken advantage of) for investors in sectors linked to its value chain. The impact on investment will be more positive if likely crowding-out effects related to the concentration of investment resources towards the energy sector can be limited by improving overall supply-side bottlenecks.





## Role of MDBs and related recommendations

The energy transition in South Africa offers a unique opportunity to address critical challenges while unlocking significant economic, environmental, and social benefits. Although the country's reliance on coal has historically supported industrial growth, job creation, and energy affordability, this dependence has come at substantial environmental and health costs.

South Africa's green energy transition represents a pathway to mitigating these challenges. However, with operational inefficiencies and financial constraints faced by state-owned power utility Eskom and general government as a whole, substantial MDB support is required to ensure an effective and just transition. Given its fiscal constraints and credit risk profile, South Africa simply cannot access finance at the scale required to fully kickstart the transition in a comprehensive manner. Therefore, a broad range of MDB and other socio-economic and financial support initiatives are needed.



### The following recommendations are based on the conclusions drawn from both the research results and discussions with relevant stakeholders in South Africa.

1. Concessional finance for renewable energy: Enhanced MDB concessional financing for large-scale renewable projects will be critical, providing essential funding for sustainable debt management.
2. Workforce retraining programs: To mitigate job losses in coal-reliant sectors, implement retraining programs that enable workers to transition to new industries, reducing social and economic impacts.
3. Governance reforms at Eskom: Strengthen governance to enhance investor confidence and ensure operational efficiency. Transparent and accountable management is necessary for effective use of MDB funds.
4. Economic diversification initiatives: Develop economic alternatives in coal-dependent regions, fostering stability through job creation and sustainable growth.
5. National financing strategies with MDBs: Collaborate on blended finance mechanisms to attract diverse funding streams and establish sustainable project funding pathways.

Each of these recommendations present both advantages and disadvantages, which are summarized in the table below:

Recommendation	Advantages	Disadvantages
MDB Concessional Finance	<ul style="list-style-type: none"> <li>• Concessional finance -characterised by favourable terms such as low-interest rates, long repayment periods, and grace periods - plays a positive role in enabling transformative projects that might otherwise struggle to attract funding</li> </ul>	<ul style="list-style-type: none"> <li>• It requires strong governance for effective fund use</li> <li>• It creates dependence on MDB timelines and priorities.</li> </ul>
Workforce Retraining Program	<ul style="list-style-type: none"> <li>• Helps displaced workers transition to new sectors, reducing the social impacts of job losses.</li> </ul>	<ul style="list-style-type: none"> <li>• It has high initial costs</li> <li>• It requires long-term commitment and capacity-building.</li> </ul>
Governance Reforms at Eskom	<ul style="list-style-type: none"> <li>• Strengthened governance will not only improve operational efficiency but also restore investor confidence, enabling the organisation to attract the financing and resources necessary for sustainable energy development.</li> <li>• Transparent and accountable management ensures MDB funds are allocated to intended projects and used efficiently, maximising their impact.</li> <li>• Governance reforms can streamline decision-making processes, reduce inefficiencies, and improve service delivery.</li> </ul>	<ul style="list-style-type: none"> <li>• Requires political buy-in which might prove challenging due to historical corruption issues.</li> <li>• Internal resistance from entrenched interests, including employees, management, and political stakeholders, can obstruct the successful implementation of the required reforms.</li> <li>• Governance reforms may focus on surface-level changes, such as restructuring boards or committees, without addressing deeper systemic issues, such as a lack of accountability or engrained corruption.</li> <li>• Without genuine commitment, reforms may fail to deliver meaningful improvements, eroding trust further.</li> </ul>
Economic Diversification Initiatives	<ul style="list-style-type: none"> <li>• Promotes regional stability by creating jobs and reducing coal dependency.</li> <li>• Diversification provides new employment opportunities in industries such as renewable energy, agriculture, tourism, and manufacturing. This reduces the economic vulnerability of regions reliant on a single industry, creating a more stable and resilient local economy.</li> <li>• It aligns with the principles of a Just Energy Transition by prioritising the welfare of coal workers and their communities.</li> <li>• Transitioning to sustainable industries ensures that regions are not left behind during the shift away from coal.</li> </ul>	<ul style="list-style-type: none"> <li>• Slow to realise economic benefits; needs substantial public and private support.</li> <li>• It requires significant investment in infrastructure, education, training programs, and business development – these costs may strain government budgets, particularly in countries with already limited fiscal space.</li> <li>• Lobbying groups with vested interests in the coal industry may resist diversification efforts due to fears of losing profits.</li> <li>• Political and social pushback can delay or derail initiatives.</li> </ul>
National Financing Strategies with MDBs	<ul style="list-style-type: none"> <li>• MDBs bring significant financial resources and expertise, enabling governments to access funding that may not be available through local or private sources.</li> <li>• Blended finance mechanisms combine concessional and market-rate funding, reducing the overall cost of capital for national projects.</li> <li>• MDB involvement lowers the risks attached to projects by providing guarantees or other financial instruments, making them more attractive to private investors – this reduces the burden on national governments to assume full financial responsibility for large or risky projects.</li> <li>• It attracts private investment – blended finance leverages MDB funds to crowd in private sector investment, multiplying the impact of MDB contributions.</li> </ul>	<ul style="list-style-type: none"> <li>• Requires strategic alignment among stakeholders which may face delays in initial project coordination.</li> <li>• Blended finance mechanisms often involve lengthy and complex negotiations between MDBs, governments, and private investors – this can delay project approvals and implementation.</li> <li>• Designing, managing, and monitoring blended finance arrangements requires significant administrative resources and expertise.</li> <li>• Relying heavily on MDBs and international partners can lead to over-dependence, reducing a country's financial autonomy – this may also expose national projects to risks associated with changes in global financial conditions or MDB policies.</li> </ul>

## Road Map

Based on the recommendations highlighted above, and taking into account both the advantages and disadvantages of the role of MBs in South Africa's energy transition, it is recommended to combine MDB concessional finance with governance reforms at Eskom while promoting economic transformation activities. This comprehensive approach can drive sustainable energy initiatives while bolstering investor confidence and regional economic stability which will ultimately reduce South Africa's environmental footprint.

### Implementation Steps:

- MDB partnerships: Engage MDBs for concessional finance tailored to South Africa's renewable needs.
- Institutional reforms: Prioritise transparency and efficiency at Eskom to secure long-term investor support.
- Community programs: Launch retraining and support initiatives for coal-dependent communities.
- Blended finance pipelines: Collaborate with MDBs and private investors to establish funding mechanisms for renewable projects.

## Conclusion

South Africa's transition requires MDB support, institutional reforms, and a focus on community needs to achieve sustainable economic and environmental outcomes. Collaborative efforts between MDBs, government bodies, and private sector stakeholders are essential for a just and effective green transition.

## Project Research Summary

This research, presented in a PEP working paper, explores the role of Multilateral Development Banks (MDBs) in facilitating South Africa's transition to green energy. Using a Computable General Equilibrium (CGE) model, the study assessed the socio-economic impacts of various policy scenarios, with a focus on employment, GDP growth, and regional stability. Stakeholder consultations enriched the model inputs, while a review of MDB financing frameworks helped shape targeted policy recommendations. The findings highlight the need for active MDB involvement, stronger governance, and workforce transition initiatives to ensure an equitable energy shift. Detailed analysis of South Africa's Integrated Resource Plan (IRP) further informed recommendations for sustainable financing and economic resilience in affected regions.

South Africa's energy transition is both critical and complex, requiring substantial financing, strategic collaboration, and institutional reforms. MDBs play a pivotal role in closing the financing gap, facilitating infrastructure expansion, and supporting socio-economic adjustments. Through coordinated policies and robust MDB support, South Africa can progress its green transition, fostering long-term economic stability and environmental sustainability.

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For more information on the study's scientific findings, please consult the corresponding research notebook in the [PEP working papers](#).



*The views and opinions expressed in this publication are those of the authors and do not necessarily reflect those of PEP.*