SOUTH AFRICAN RESERVE BANK

Address by Fundi Tshazibana,

Deputy Governor of the South African Reserve Bank,

at the Association of African Central Banks Symposium,

27 November 2025

Promoting green finance: The role of central banks in supporting sustainable investments

Introduction

Thank you for the invitation to speak today on the role of central banks in supporting sustainable investments by promoting green finance.

In recent years, we have all witnessed the devastating consequences of increasingly frequent and severe droughts and floods. These climate-related events exert a significant toll, both in terms of direct insurance costs and broader economic losses.

The financial burden imposed by such disasters is substantial, and the negative effects on national and regional economies are unmistakable. Empirical evidence underscores the scale of these challenges. For instance, droughts in the Southern African Development Community (SADC) region can reduce a country's gross domestic product (GDP) per capita by approximately 18%.[1] As climate events intensify, the adverse impact on GDP will only become more pronounced, affecting livelihoods, economic growth and long-term development prospects.

Moreover, the ramifications extend beyond immediate physical and economic damages. International policy developments such as the introduction of carbon border adjustment mechanisms have the potential to increase export costs for affected

[1] T Gwatidzo, 'Analysing the impact of climate change on economic growth in the SADC region: a synthetic control approach', *SARB Working Paper Series WP/25/17*, 23 October 2025. Link

countries. These mechanisms may also restrict capital inflows, compounding existing economic pressures.

Taken together, these combined pressures – the direct costs of climate events and the indirect effects of evolving international policies – pose serious risks to both price stability and overall financial stability. Addressing these challenges is therefore critical for safeguarding economic resilience and ensuring sustainable growth in the face of a changing climate.

To minimise these effects, we require increased funding to enhance economic resilience and drive the green transition. However, current investment levels fall short. The Climate Policy Initiative (CPI) measured South Africa's climate finance flows at R188.3 billion over the period 2022 to 2023 – less than half the R499 billion needed annually to meet the country's targets.[2] Only 23% of Africa's broader climate funding needs are currently being met.[3] Given this significant financing gap, scaling up finance remains an absolute imperative.

The question is, what role should central banks play in addressing this funding gap?

Some may argue that the central bank should simply provide the necessary funding, often in the form of direct support to governments. This approach suggests bypassing the development of financial markets altogether, effectively replacing them with central bank interventions. However, there are several compelling reasons why this is not an advisable path. In its most extreme form, direct central bank funding can have severe negative consequences. It has been shown to result in high inflation, depreciation of the currency, an increase in low-productivity investments and, perhaps most critically, a loss of central bank credibility.

Historical experiences underscore these risks. A recent paper from the South African Reserve Bank's (SARB) Economic Research Department highlights the outcomes of macroeconomic policies in Latin America during the 1980s and 1990s.[4] During this period, measures such as large banking sector bailouts, forced lending and the monetisation of fiscal deficits led to episodes of hyperinflation and a significant erosion of central bank trust and credibility. If similar monetisation approaches were applied to green finance, we could expect comparable destabilising results.

---

[2] C Meattle, M Taylor, M Price and P de Aragão Fernandes, 'The South African Climate Finance Landscape 2025', Climate Policy Initiative, 27 October 2025. Link

[3] C Meattle et al, 'Landscape of Climate Finance in Africa 2024' Climate Policy Initiative, 22 October 2024. Link

[4] J Naidoo, 'Economic policy and aggregate outcomes in South Africa and selected Latin American countries, 1994-2024', *South African Reserve Bank Working Paper Series,* forthcoming.

Even in less extreme scenarios, central bank efforts to directly provide green finance to governments can have unintended consequences. Such interventions may end up increasing funding for both environmentally sustainable (green) and unsustainable (brown) investments, leading to allocative inefficiency.[5] This is problematic, as the primary objective is to channel funds specifically towards green initiatives.

In summary, replacing the role of financial markets is not the solution. Instead, the focus should remain on fostering the creation and development of robust financial markets. This is the most effective and sustainable way to scale up green finance and support the broader goal of sustainability.

Deepening African financial markets for green finance

Currently, African financial markets remain shallow. Excluding South Africa, stock market capitalisation in many nations is below 30% of GDP, and private sector credit averages roughly 28% of GDP.[6] These figures are significantly lower than the 100% or more typically observed in developed economies. It is clear that, to effectively mobilise both domestic and international resources for climate and sustainability goals, deepening financial markets across the continent is essential.

Developing robust financial markets requires a coordinated approach that involves all levels of government. This process must be underpinned by macroeconomic stability, effective financial regulation and the establishment of reliable market infrastructures. These foundational elements are necessary to address existing frictions and enable the efficient allocation of resources.

Given the breadth of this topic, I will focus on three key strategies that can support the development of financial markets in Africa:

- Improving information flows: Enhancing transparency and the availability of reliable data is crucial for market participants, allowing for better decision-making and risk assessment.
- Addressing insurance gaps to scale up funding: Identifying and closing gaps in insurance provision can help attract greater investment by reducing risk and enhancing market confidence.
- Removing unnecessary regulatory obstacles that hinder green funding: Streamlining regulations and removing barriers can facilitate the flow of capital to sustainable and environmentally friendly investments.

[5] Institute for Climate Economics, *Using credit lines to foster green lending: opportunities and challenges*, September 2017. Link
[6] European Investment Bank, *Finance in Africa*, 2024. Link

Improving information flows

Financial stability is the cornerstone of an effective and functioning market. Without it, the flow of funds ceases and markets become obstructed by three well-known frictions: (i) information asymmetry; (ii) moral hazard; and (iii) adverse selection. These challenges can significantly impede the allocation of capital and undermine the confidence required for investment and growth. Central banks and financial sector supervisors play a pivotal role in mitigating these risks. Their work ensures that the financial system remains resilient in the face of economic shocks by maintaining stability and addressing sources of market friction. This oversight is particularly vital when considering the transition to a greener economy.

In the context of climate change, scaling up green funding presents unique challenges. If market participants are unable to internalise climate risks within their decision-making processes, or if there is no clear distinction between environmentally harmful ('brown') and sustainable ('green') activities, the market for green finance cannot develop efficiently. Transparency and clarity in the classification of financial products and activities are therefore essential.

To address these issues and prevent frictions from obstructing progress in green finance, three key interventions should be prioritised:

- Enhancing information flows: Improving the quality and availability of data enables market participants to make informed decisions and accurately assess risks.
- Addressing moral hazard: Implementing mechanisms that align incentives and responsibilities helps prevent undue risk-taking and promotes accountability among financial actors.
- Preventing adverse selection: Establishing clear standards and classifications for green and brown activities ensures that capital is allocated to genuinely sustainable investments, supporting market integrity and confidence.

These interventions are critical for overcoming information asymmetries and other market frictions, thereby enabling the development and scaling of green finance initiatives.

1. *Ensure consistent and credible labelling of green finance instruments using green finance taxonomies*

Taxonomies serve as a foundation for the development of green financial markets, including carbon markets. By establishing a clear classification system rooted in environmental integrity and social safeguards, taxonomies enable financial sector participants to confidently and efficiently identify, track, monitor and demonstrate the credentials of their green activities. This structured approach helps to prevent greenwashing, ensuring that investments and financial products labelled as 'green' genuinely contribute to sustainable outcomes. Furthermore, with international alignment and interoperability, taxonomies provide a universal language for green finance.[7] This global consistency minimises the reporting requirements for market participants, facilitating smoother cross-border transactions and enhancing transparency across jurisdictions.

2. *Ensure that financial institutions manage and disclose risks related to climate change and nature degradation*

Both the Network for Greening the Financial System (NGFS) and the Basel Committee on Banking Supervision have established clear principles for managing climate-related risks.[8] These frameworks require banks to actively identify, monitor and mitigate risks associated with climate change.

Central banks and financial sector supervisors play a critical role in ensuring that climate-related risks are not treated as abstract concepts. Instead, these risks must be embedded within banks' core strategies and risk management processes. This approach ensures that climate factors are considered in decision-making at all levels of the institution, enhancing overall resilience. By integrating climate-related risks into their risk management frameworks, financial institutions are better positioned to address vulnerabilities – whether arising from exposure to carbon taxes or from physical risks such as flooding. This comprehensive approach supports the stability and soundness of the financial system.

In the South African context, banks have already begun to implement practical tools such as heatmaps and asset-tagging to identify and assess climate-related exposures. The data gathered through these methods is essential; it enables banks to engage proactively with their clients and to scale up green funding. This includes supporting existing clients as they manage their transition to more sustainable practices.

3. *Understanding the impacts of climate change and nature degradation on price and financial stability*

As the membership of the NGFS has expanded to include 144 member countries, we are observing that jurisdictions are now assessing the impact of climate-related risks by combining country-specific analysis with NGFS scenarios, which model a range of plausible futures and risks. The NGFS continually refines its granular data on transition

---

[7] Sustainable Banking and Finance Network (SBFN), *SBFN Toolkit: Sustainable Finance Taxonomies*, 2024. Link

[8] Network for Greening the Financial System (NGFS), *Guide for Supervisors: Integrating climate-related and environmental risks into prudential supervision*, May 2020. Link; and Basel Committee on Banking Supervision, *Principles for the effective management and supervision of climate-related financial risks*, June 2022. Link

pathways, climate impacts and macro-financial indicators.[9] This shared learning process allows us to leverage collective expertise rather than working in isolation. The availability of this scenario has helped enhance understanding of long-term and now short-term risks as well.

In addition to scenarios, the NGFS provides analysis and modelling to assist central banks, financial sector supervisors and financial sector participants to deepened understanding on the impacts on price and financial stability. This analysis has contributed to international discussions and the work of standard-setting bodies, and can anchor national discourse by providing the evidence base needed for effective policy coordination.

Addressing insurance gaps to scale up funding

Insurance gaps represent a major challenge. This was particularly highlighted during South Africa's Group of Twenty (G20) Presidency. Insurance is closely intertwined with funding: for example, securing a mortgage is often contingent on having property insurance, while agricultural loans are typically linked to crop insurance.

Despite these clear connections, insurance penetration across our continent remains considerably below the global average, leaving communities and economies dangerously exposed to climate-related shocks. This situation creates a vicious cycle. As climate risks increase, the cost of insurance rises, resulting in even greater gaps in coverage. These gaps intensify our vulnerability to environmental and financial risks.

Barriers to insurance penetration

There are significant barriers on both the demand and supply sides of the insurance market. On the demand side, consumers contend with low incomes, limited financial literacy, and a lack of trust in insurance providers. These factors inhibit the uptake of insurance products. On the supply side, local insurers face challenges such as underdeveloped markets and insufficient quality data, which hinders their ability to accurately price risk and offer suitable products.

Collaborative solutions

Despite these obstacles, solutions are within reach. The development of affordable insurance products requires robust collaboration among the public sector, insurers and international partners.[10]

---

[9] NGFS Scenarios Portal: Link

[10] International Association of Insurance Supervisors (IAIS) and World Bank Group, G20 Sustainable Finance Working Group input paper, 'Identify and address insurance protection gaps', July 2025. Link

Public-private insurance programmes illustrate the potential of such partnerships, leveraging the unique strengths of each stakeholder:

- Central banks and financial sector supervisors offer regulatory and supervisory oversight as well as expert advice.
- Governments, international organisations and multilateral development banks provide financial and technical support and facilitate access to essential data.
- Insurers contribute expertise in underwriting, risk assessment and claims management.
- Civil society plays a critical role in advising on relative priorities, ensuring that solutions address the most pressing needs.

By fostering these collaborative efforts, it is possible to design effective and affordable insurance products that help close the coverage gap and strengthen resilience to climate risks.

Removing unnecessary regulatory obstacles that hinder green funding

In addition to addressing insurance gaps, it is essential for central banks and financial sector supervisors to conduct a thorough review of the specific rules that govern bank capital. This is an area where there is often significant pressure to remove what are perceived by some as obstacles to green finance.

There are frequent proposals to lower risk weights for green financial instruments. However, the current body of evidence does not conclusively show that green assets are inherently less risky than their counterparts. As a result, adjusting risk weights in favour of green assets is typically not seen as a risk-based measure, but rather as a policy tool intended to influence pricing within the broader economy.

Such an approach requires caution. Utilising risk weights as a policy tool presents two main dangers: first, it has the potential to undermine financial stability; and second, it constitutes a clear example of regulatory mission creep, where financial regulation is used to pursue policy objectives beyond its original scope.

Nonetheless, it is important to recognise that certain aspects of the prudential regulatory framework may inadvertently restrict the development of markets. The Glasgow Financial Alliance for Net Zero (GFANZ), through its consultations with institutions lending to emerging markets and developing economies, has identified two primary barriers in this regard.[11] These are:

---

[11] GFANZ inputs included in Institute of International Finance (IIF), Policy paper. 'Lifting Prudential Barriers to Mobilizing Private Capital for Development Finance' 26 March 2025. Link

- **Treatment of direct and implicit risk mitigation provided by multilateral development banks, development finance institutions and other publicly funded institutions.** The current regulatory framework for banks undervalues credit guarantees and fails to acknowledge the protections offered by multilateral development banks and development finance institutions, such as preferred creditor status. This hinders, for example, the use of blended instruments to reduce risk exposure.
- **Treatment of project financing.** Data show that project finance default rates are lower than investment-grade corporates after five years. Yet, these 'green' loans face higher capital charges than unrated firms. The regulatory frameworks lack granularity and fail to recognise that risk decreases over time.

Enhancing risk frameworks to support green financing

Improving the effectiveness of risk frameworks is an essential step in removing unjustified barriers to green financing, particularly in emerging markets and developing economies.

By enhancing information flows and fostering collaboration among key stakeholders, it is possible to conduct targeted research and gather comprehensive evidence. This process will help ensure that risk frameworks are accurately calibrated to reflect the true risks associated with green projects.

Such efforts will not only identify and address unintended obstacles but will also build a strong case for necessary adjustments in international regulatory standards.

Ultimately, these findings and recommendations should be brought to the attention of the Basel Committee on Banking Supervision, ensuring that the global regulatory environment evolves in a manner that supports increased green investment while maintaining financial stability.

Conclusion

To conclude, Africa faces a significant financing gap in meeting its green transition goals. Despite the scale of this challenge, it is essential to recognise that the answer does not lie in central banks stepping in to directly provide funding and supplanting market mechanisms. Experience has shown that such interventions undermine the credibility of monetary authorities and often lead to inflationary pressures, without effectively addressing the fundamental issue of insufficient capital.

The most effective and sustainable approach is to focus on developing deep, liquid and resilient financial markets. This enables both domestic and international capital to be mobilised for the continent's green transition, ensuring that resources are allocated efficiently and transparently.

To support this transition, it is crucial to deliver on three key regulatory priorities:

- Improving information flows: Enhancing transparency and access to data is vital for informed investment decisions and risk assessment.
- Bridging the insurance gap: Addressing shortcomings in risk mitigation instruments is necessary to protect investments and encourage participation in green projects.
- Removing regulatory obstacles: Streamlining and refining regulations will help eliminate unintended barriers and facilitate the flow of capital to where it is most needed.

While the transition to a green economy presents complex challenges, the mandate is clear.

Regulators must provide a stable, transparent and efficient framework that enables capital to flow freely.

In doing so, we will not only safeguard the integrity of the financial system but also empower financial institutions and markets to drive the sustainable growth and development that Africa requires.

Thank you.