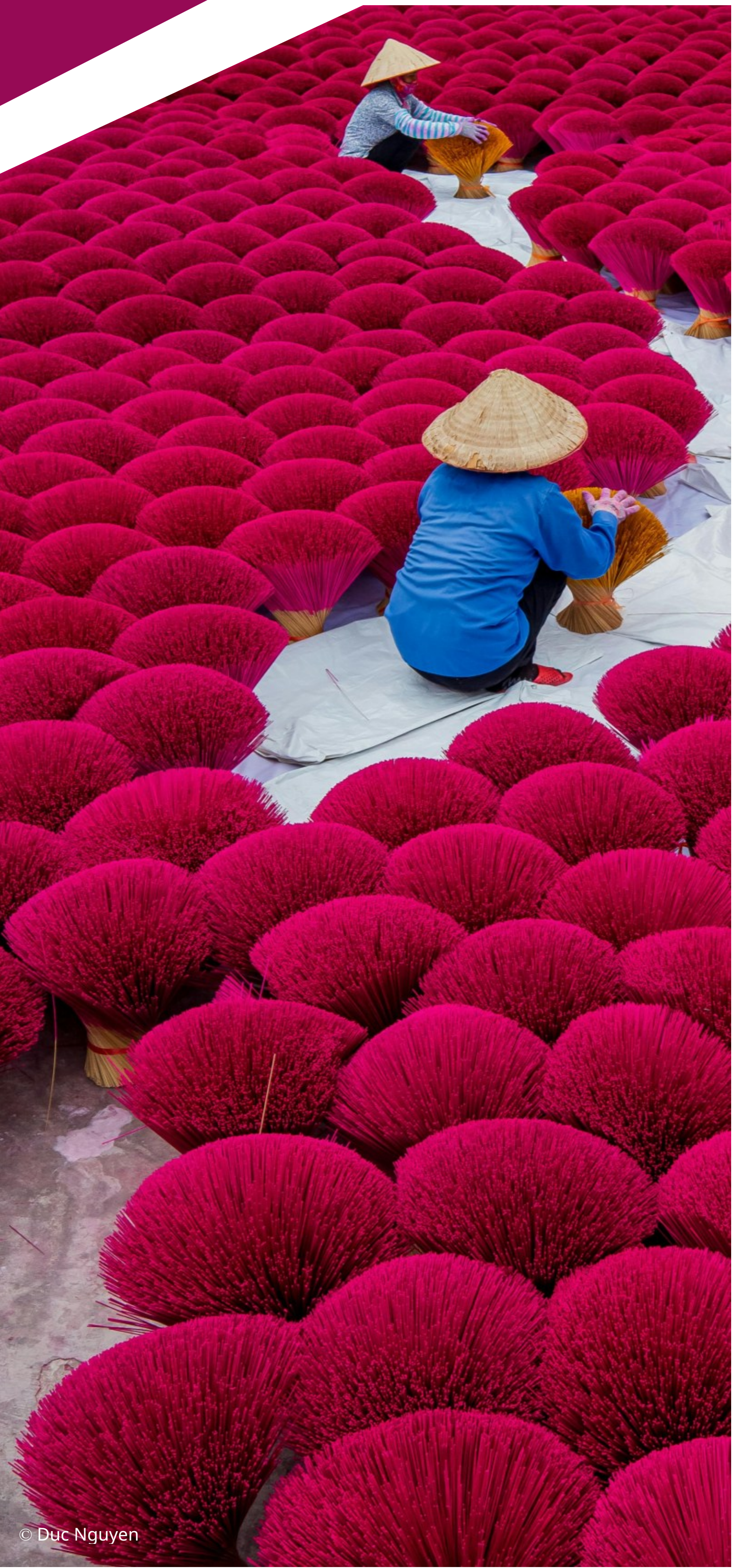
Operationalizing just transition finance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SIFEM's just transition contribution assessment

The global transformation toward low-carbon, climate-resilient economies represents one of the most significant socioeconomic shifts of our time. While essential to limit global warming to 1.5°C, this transition must not come at the expense of workers, communities and vulnerable populations affected by this large-scale economic restructuring.

Financial institutions, and particularly development finance institutions (DFIs), play a pivotal enabling role in this transformation. By directing capital flows toward climate solutions and resilient infrastructure while advancing social objectives, they can accelerate low-carbon transformation and inclusive growth.

DFIs are uniquely positioned to do so because they can channel long-term, patient capital into sectors and geographies with higher risks that often deter private investors but generate substantial development impact. They can provide capital on more favourable terms and complement it with technical assistance (TA) and capacity-building support. DFIs also engage in policy dialogue with governments, regulators, employers and workers to help shape enabling environments for equitable and climate-aligned growth.

As DFIs are increasingly tasked with mobilising capital for climate action while promoting fairness and inclusion, their role in advancing a Just Transition becomes ever more central.

This case study forms part of a series illustrating how financial sector actors can approach and implement just transition-aligned practices in a manner tailored to their specific activities. It reflects practices at the time of publication and aims to provide practical examples of how a just transition can be advanced as part of core operations.

About SIFEM

The Swiss Investment Fund for Emerging Markets (SIFEM AG) is the Swiss government's DFI. Fully owned by the State Secretariat for Economic Affairs (SECO), it serves as a key instrument of Switzerland's international development cooperation and operates under the Swiss Confederation's Strategic Objectives. Its mandate is to contribute to poverty reduction and sustainable development by mobilising long-term capital for businesses in emerging countries that would otherwise lack access to commercial financing. Operating according to the principle of subsidiarity, it ensures that its investments complement rather than compete with private sector financing, providing patient capital in contexts where commercial markets are not yet ready to engage.

SIFEM is an active member of the Association *of European Development Finance Institutions (EDFI)*, a network of 15 bilateral DFIs that jointly invest over USD 15 billion every year in the private sectors of emerging and developing economies. The 2020 EDFI Statement on Climate and Energy Finance explicitly commits all European DFIs to contribute to a Just Transition and to ensure that Paris alignment also incorporates social considerations. EDFI is currently exploring how to operationalise the Just Transition across its member institutions, including approaches to support workforce transition and socially inclusive climate finance.

Under its 2025–2028 Strategic Objectives (published by the Swiss Federal Council), SIFEM has **strengthened its focus on the climate and social outcomes of its investments:** the new targets require that at least 30% of new investments contribute to climate mitigation or adaptation (up from 25% previously) and that at least 30% promote gender equality. This focus on development, climate and social outcomes is a key structural lever for promoting a just transition.

Investment model

SIFEM[1] invests indirectly through:

- **private equity funds** investing indirectly in growth companies and SMEs across emerging markets;
- **debt and mezzanine / current-income funds** providing access to growth capital for enterprises and financial institutions;
- **financial institutions and intermediaries** offering long-term lending solutions in challenging markets.

These intermediaries channel long-term capital into underlying businesses in SIFEM's target countries. Through its indirect investment model, SIFEM invests via fund managers and financial intermediaries, which are responsible for selecting investments, deploying capital and supporting portfolio companies. This structure enables SIFEM to reach smaller enterprises and frontier markets, where direct investment would be operationally difficult or inefficient.

SIFEM's role extends beyond the provision of long-term finance. In addition to its investments, it provides technical assistance and also aims to strengthen the capacity of local fund managers and financial institutions to manage environmental, social and governance (ESG) risks within their underlying portfolios. Additionally, its active participation in Limited Partner Advisory Committees (LPACs), also provides important channels to shape financial intermediaries' approaches to climate and social issues. As a comparatively small DFI, SIFEM seeks to mobilise private capital and work alongside peer DFIs and private investors, thereby supporting development outcomes at a scale.

Portfolio profile

As of the end of 2024, SIFEM's investment portfolio amounted to USD 485 million, with total active commitments of USD 1.05 billion. These were invested via 90 funds (reaching 590 underlying investees) and 17 financial institutions across roughly 70 mostly lower-middle- and upper-middle-income countries.

For each USD 1 invested by SIFEM, private investors contributed USD 2.9 (2023 data) and by 2024 this leverage

[1] SIFEM's operations are supported by two main entities: ResponsAbility Investments AG, the portfolio manager, is responsible for sourcing and advising on investment opportunities, conducting investment cycle management, monitoring and reporting, performing business and strategic planning, and managing financial, transaction, liquidity, development impact, ESG, and risk functions. This function ensures full integration of ESG, climate and development-impact criteria throughout the investment cycle. Tameo Impact Fund Solutions SA, the business services manager, is responsible for policy-related activities in support of the Board of Directors, representative and administrative functions, financial management of the Board's administrative expenses, external reporting, compliance with Swiss laws, communication functions, and supporting the Board in its strategic, planning and oversight roles.

had increased to USD 4.97, demonstrating its role as a catalyst for mobilising private capital toward sustainable and inclusive economic transformation. This catalytic effect is particularly vital for financing a Just Transition, allowing to attract private capital to higher impact climate and social projects and activities that otherwise may be deemed un-investable.

Reflecting SIFEM's strategic emphasis on equity-driven private-sector growth, the portfolio remains primarily focused on private equity funds investing in growth companies and SMEs (67%), followed by current-income funds (16%), other financial intermediaries such as banks (12%), microfinance (4%) and infrastructure investments (2%).

Regionally, Asia accounted for 38% of the portfolio, followed by Africa (34%), Latin America (18%) and Central and Eastern Europe (9%), in line with Swiss development cooperation strategy. Individual country exposures were led by India (11%), Vietnam (6%), Kenya (6%), South Africa (6%), Indonesia (5%) and Peru (5%).

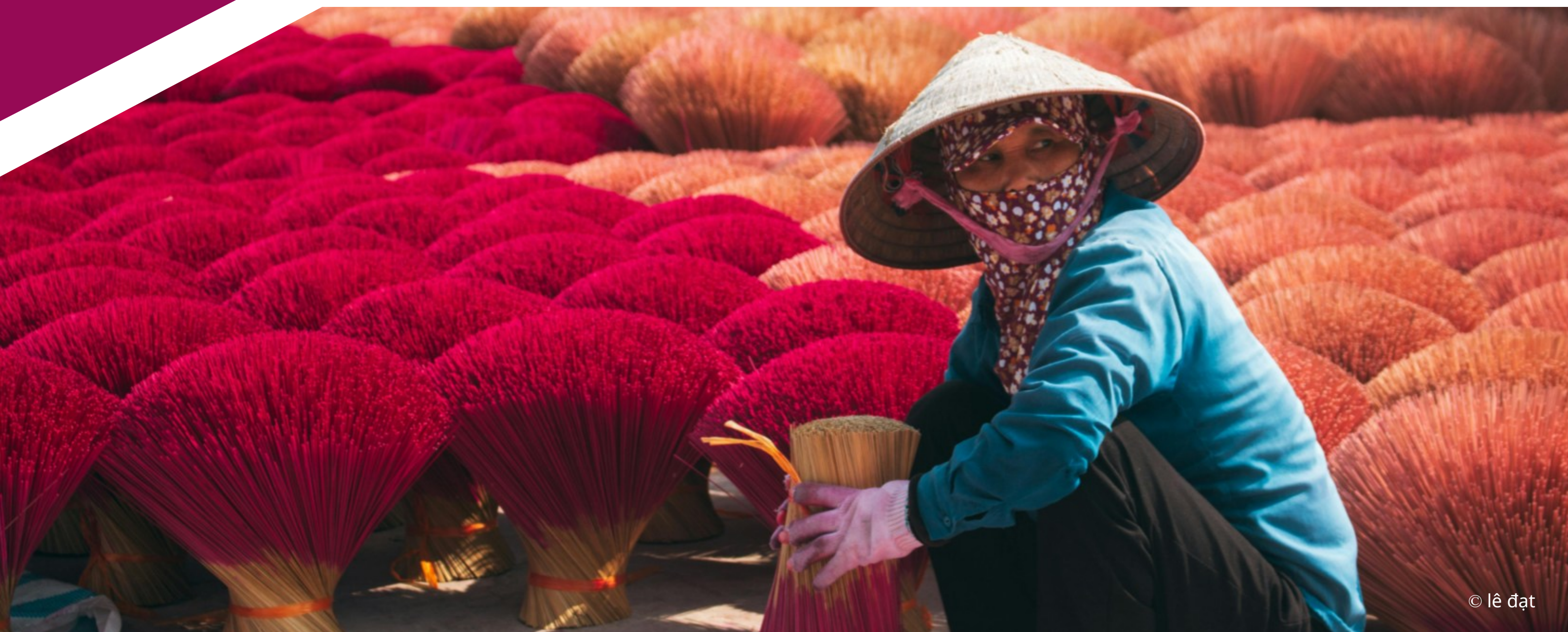
▶ Why a just transition contribution assessment?

Since 2023, SIFEM has strengthened its commitment to this agenda, recognizing that the success of the climate transition is dependent on its social enablers. The institution's Climate Approach explicitly embeds the Just Transition principle as a core element of its climate finance strategy and commits SIFEM to:

- promote low-carbon and climate-resilient development
- ensure that climate investments also support decent work and social inclusion
- advise investees on approaches that combine climate and social objectives
- align its climate finance with the Paris Agreement

In this context, in 2024 SIFEM commissioned an independent assessment to evaluate how its climate investments contribute to a Just Transition – an example of an institutional-level systematic approach to analyse its role in advancing socially inclusive climate finance. The assessment aimed to identify good practices, gaps and concrete opportunities for strengthening SIFEM's operationalisation of Just Transition principles.

SIFEM's recent work provides a strong example of how a development finance institution can operationalise the Just Transition in a practical, institution-wide manner. It illustrates how clarifying what investing for a Just Transition means within its own institutional context and translating this into tools, indicators and investment criteria creates a solid foundation for action. This clarity enables SIFEM to tailor its approaches to specific sectors and geographies and to better integrate the perspectives of workers, employers, communities and other affected groups within its broader Paris-alignment strategy.



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Assessment scope and methodology

Assessment scope and methodology

The inaugural assessment was conducted on SIFEM's climate sub-portfolio. In line with its indirect investing model, it examined SIFEM's potential contribution to a Just Transition at three levels, analysing how social and environmental objectives intersect across the investment chain:

- **SIFEM level** - reviewing strategy, policies, governance and the extent to which Just Transition principles are integrated into SIFEM's climate and responsible investment approaches.
- **Fund manager level** - analysing ESG practices, inclusion measures and emerging approaches to workforce transition among SIFEM's investee financial intermediaries. The assessment focused on a targeted sample of SIFEM's climate-focused portfolio, including five climate funds and three generalist funds for comparison.
- **Portfolio company level** - assessing practical impacts on workers, suppliers, communities and consumers across fourteen underlying portfolio companies.

The assessment and its recommendations were structured using the Just Transition Finance Tool for banking and investing activities, co-developed by the ILO and LSE Grantham Research Institute on Climate Change and the Environment, which provides a four-step framework for embedding just transition principles into the strategies and operations of financial institutions. A mixed-methods approach was applied, combining desk research, portfolio data review, surveys of fund managers and portfolio companies, stakeholder interviews and a field visit to South Africa.

Key findings

Existing good practice

SIFEM

- The principles of just transition are reflected in SIFEM's mandate through commitments to Paris alignment, decent job creation and gender equality. They are also explicitly reflected in the Climate Approach, the Approach to Responsible Investment and alignment with the EDFI Statement on Climate and Energy Finance.
- Environmental and social due diligence approach already incorporates several just transition–relevant dimensions. ESG due diligence processes, Environmental and Social Action Plans (ESAPs), investment decision notes and monitoring systems address environmental and social risks, including community impacts.
- Its Impact Rating Tool and annual impact reporting already track several relevant indicators and measure job creation, gender outcomes and training activities.
- In addition, the recently established Technical Assistance facility is developing projects related to climate-related training, emissions accounting and gender gap assessments.

Fund manager/Financial intermediary

Asset type and investment strategy influences the levers fund managers can have.

- Climate-focused fund managers are familiar with the concept of the just transition and recognise the dual environmental and social challenges in emerging markets, yet none explicitly reference "just transition" in their strategies.
- Across the assessed funds, climate and social considerations are integrated to varying degrees. Climate objectives such as renewable energy, energy efficiency and clean technology investments are often combined with social priorities including job

creation, gender equality and community development. Climate-focused funds place stronger emphasis on inclusiveness and skills development, while generalist funds focus more on affordability and local workforce availability.

- Just Transition–related social aspects, such as community engagement are mostly approached through a risk-mitigation or compliance lens and less from a value creation perspective. Some managers embed inclusive economic growth and local impact into their investment by prioritising underserved regions like Sub-Saharan Africa and South Asia.
- Supply chain practices and gender receive significant attention, however, deeper dimensions like worker reskilling, long-term job security and collective bargaining tend to receive less systematic attention.

Portfolio company level

Effects at the portfolio company level are not direct for SIFEM; they result from the practices and decisions of the financial intermediary through which SIFEM invests and provides support.

- Most companies have formal training programmes due to the need for specialised skills in emerging industries;
- Around half of the sampled funds align with 2X criteria, with less systematic focus on other vulnerable groups (informal workers, indigenous communities, youth, or communities in fossil fuel–dependent regions);
- Most portfolio companies operate primarily in business-to-business markets and are increasingly aware of social impacts in their supply chains. Some companies also develop affordable products and services targeting low-income consumers.

Potential opportunities for scaling impact

Strengthening strategic alignment

- SIFEM can increasingly expand investment opportunities in fund managers and financial institutions that explicitly integrate climate solutions with social enablers of the low-carbon transition such as decent work, skills development, inclusion and local economic resilience. Strengthening this criterion in investment manager selection would reinforce climate–social alignment across the portfolio
- SIFEM can further reflect its Climate Approach commitments by embedding Just Transition more explicitly into internal policies (eg. the TA Policy).
- Building on its already strong labour rights safeguards, SIFEM can deepen attention to areas of social impact such as worker transitions, social dialogue, collective bargaining and decent work.

Leveraging technical assistance

The TA facility can become a major driver for scaling Just Transition–enabling activities. By supporting financial intermediaries in recognizing and linking social and climate dimensions of their strategies, SIFEM can generate cascading effects at the real-economy level, influencing the practices of portfolio companies financed by these intermediaries.

TA can support financial intermediaries to operationalise Just Transition considerations in several practical ways:

- Strengthening investment processes of fund managers by improving understanding of relevant social dimensions and their materiality, within institutional strategy and operating context. This includes reinforcing labour-related knowledge and practices, including human and labour rights, quality employment, and the management of related risks.
- Moving beyond risk mitigation and compliance by identifying business opportunities and positive social impact linked to the transition. Stronger management and tracking of workforce and broader social dependencies can enhance business and supply chain resilience, for example, by investing in companies well-positioned to benefit from environmental transition dynamics due to the availability of skilled labour, robust labour practices and limited opposition to projects.
- Strengthening inclusiveness and stakeholder outreach by promoting stronger inclusion frameworks, addressing such groups as supply chain businesses and workers (including informal), youth

and indigenous communities, and by identifying practical approaches to support social dialogue at the company level.

- Supporting pipeline development and investment eligibility by helping financial intermediaries identify and structure investment opportunities that combine climate objectives with inclusive and fair economic outcomes.

These interventions can generate spillover effects at the portfolio company level, including stronger attention to vulnerable groups (informal workers, youth, indigenous communities, fossil-fuel-dependent regions), improved job quality and workforce transitions management, greater emphasis on local hiring and workforce development, expanded support for local suppliers and supply chains and stronger stakeholder voice, social dialogue and grievance resolution.

Strengthening engagement

- Participation in Limited Partner Advisory Committees (LPACs) and shareholder structures by SIFEM can be used to introduce just transition expectations, set social impact targets and facilitate the exchange of good practices across funds.
- Although SIFEM's direct engagement with stakeholders is limited due to the financial intermediary model, SIFEM can encourage investees financial intermediaries to explore opportunities for greater local sources of personnel and supplies and promote structured engagement with local communities via their practices to adopt a broader view of inclusion. Entry points include ESAPs, TA projects or portfolio-level impact initiatives.

Scaling impact through financial services

- SIFEM could further explore opportunities through the lens of inclusive climate finance, for example by co-developing tailored financial products with investee financial institutions. This could include green lending to SMEs, financing for distributed renewable energy, and adaptation-focused solutions. Such initiatives would help link climate outcomes with social inclusion, small enterprise development and workforce resilience.

Conclusion

The 2024 assessment shows how Just Transition considerations can be integrated into existing core processes of a DFI, its ESG systems and impact tools, with clear pointers to opportunities to embed them further into TA design and investment engagement, by strengthening existing frameworks rather than creating new ones.

The findings highlight how SIFEM can leverage its fund selection influence to promote stronger alignment between climate and social objectives across financial intermediaries. By signalling expectations through investment selection, active dialogue, technical assistance and participation in LPACs, SIFEM can encourage fund managers and financial institutions to integrate decent work and inclusion alongside climate objectives thereby amplifying impact across the financial system and reaching green businesses in transition as well as vulnerable groups.

SIFEM's Technical Assistance facility represents a distinctive lever through which programmes can support financial intermediaries in achieving both their development and business objectives while strengthening social impact. By enhancing the capacities and practices of financial intermediaries, these interventions can generate cascading effects in the real economy.

International Labour Organization

Route des Morillons 4
CH-1211 Geneva 22
Switzerland
T: +41 22 799 7239
E: socialfinance@ilo.org