GREEN CLIMATE FUND | GPIC 2023

DBSA
DEVELOPMENT BANK OF SOUTHERN AFRICA

GREENING LOCAL FINANCIAL INSTITUTIONS

A CASE STUDY ON THE DBSA CLIMATE FINANCE FACILITY (CFF)

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FROM INVESTMENT TO IMPACTS
4–5 SEPTEMBER 2023, NAIROBI, KENYA

DBSA - AN OVERVIEW

DBSA

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A

Founded
1983
DBSA
Act 1997

Externally rated

DBSA foreign currency rating

Ba3
(Moody's)

B

Owned
100%
by SA
Government

Well governed

Unqualified audits

A+ rating from AADFI PSGRS

C

Total assets
R110bn
(~US$6bn)
Equity
R45bn
(~US$2.9bn)

Globally accredited

Global Environmental Facility

Green Climate Fund EU 9-Pillars

GPIC CONFERENCE 2023

Note: DBSA Financials as at March 2022

DBSA - SECTORS

TRANSPORT & LOGISTICS

ENERGY & ENVIRONMENT

ICT

WATER AND SANITATION

EDUCATION

HOUSING

HEALTH

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Note: DBSA Financials as at March 2022

DBSA - INTEGRATED APPROACH

1. Plan

- Municipal assessments
- Bulk infrastructure plans
- Infrastructure planning advice

2. Prepare

- Project identification
- Feasibility assessments
- Technical assistance
- Programme development
- Project preparation funds

3. Finance

- Long-term senior and subordinated debt
- Corporate and project finance
- Mezzanine finance
- Structured financing solutions

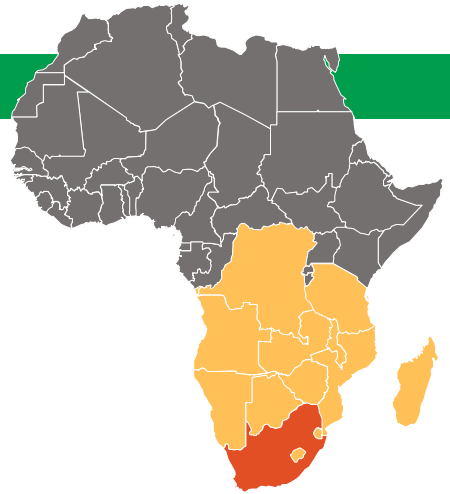
4. Build

- Managing design and construction of projects in education, health and housing sectors
- Project management support

5. Maintain

- Supporting maintenance/ improvement of social infrastructure projects

Clients



Public

- Municipalities
- SOEs
- Sovereigns

Private

- PPPs
- Private sector

Note: DBSA Financials as at March 2022

CFF- AN OVERVIEW

What is the Climate Finance Facility

- Lending facility intended to increase climate related investment in Southern Africa
- Supports infrastructure projects in mitigation and adaptation (cross-cutting)
- Co-funded by the **Green Climate Fund** and **DBSA** on a 50:50 basis
- Facility is premised co-funding project in South Africa, Lesotho, Eswatini and Namibia
- Key tenet is catalysing private sector participation – **1:5 leverage ratio (CFF: Private sector Investment)**
- Additionality principle to be applied in assessment of project

Mechanism

- Intention is to crowd in private sector funding by co-funding alongside private sector financial institutions and other institutions
- Credit enhancement: first loss/subordinated funding and tenor extension (15 years)
- Blended finance approach, concessional funding from GCF

WHAT THE CFF SEEKS TO ADDRESS

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Catalyse private sector investment

- To address challenges to climate mitigation and adaptation to climate change
- To support market transformation through stimulating private investment using a range of financial interventions and products, i.e. tenor, subordinated debt and project aggregation

Focus on micro, small – medium enterprises (MSMEs)

- In commercial and industrial sectors
- Less dependency on centralized or public sector energy and power sources

Address market barriers to climate related investment

- High Perceived risk (smaller and stage of market adoption)
- Inability of independent businesses to produce power and sell it to off takers
- Inability to secure funding for small distributed energy and water projects in semi urban and rural areas
- Enable development and expansion of micro-grid and rural agricultural focused businesses and projects by providing credit enhancement
- Inability to finance energy efficiency in commercial buildings

CFF- ELIGIBLE SECTORS

Climate Mitigation

- Renewable energy (solar, biogas, wind, hydro, >10MW for SA based projects
  - Electricity Generation
  - Heat Production
- Energy Efficiency in industry and existing facilities
- Low emission transport
- Waste to energy (waste and wastewater)

70%

Adaptation to Climate Change

- Water preservation
  - Water supply management
  - Water efficiency
  - Water treatment
- Climate resilient water infrastructure
- Disaster reduction

30%

CFF- GREENING FINANCIAL INSTITUTIONS

- CFF is a catalyst as **Proof-of-Concept Model** for Emerging Economies (replicability, scalability, sustainable development and impact)
- CFF centered on creating an enabling environment via demonstration
- Market transformation and address barriers that currently restrict market growth for mitigation and adaptation
- CFF is strongly aligned with the mission of the GCF to strengthen the capacity of developing nations to scale up climate finance and support their efforts to respond to the challenge of climate change
  - Crowd-in private investment,
  - Leverage public capital
  - Address market barriers to open new investment opportunities
  - CFF design and implementation premised on **Green Bank Model**

CFF- GREENING FINANCIAL INSTITUTIONS

- Green bank model aligns with the Climate Finance Facility:
  - Dedicated facility for green investment
  - Use of blended finance to de-risk & catalyse private investment with innovative funding structures
  - Use of debt and credit-enhancement to enable cost-effective long-term sustainable financing
  - Designed to support commercially viable and sustainable projects
  - Complementary to existing funders and programs
  - Market-oriented and flexible adjusting offerings, products and partnership structures to suit the project needs.
  - Maximize total investment by leveraging private investment – **1:5 leverage ratio**

CFF- CAPACITY BUILDING

- Role of National development banks (especially in Eswatini, Lesotho and Namibia)
- Partnership approach with project proponents and commercial lenders
- Key consideration in implementing a vehicle similar to CFF:
  - Clear understanding on the barriers in commercial lenders supporting green projects
  - Firm understanding of the local financing landscape – i.e. forex and risk sharing
  - Dynamic financial structuring at a project level
  - Principle of minimum concessionality must be adhered to- 1:5 Leverage ratio
  - Targeted origination for other sectors (low emission transport and adaptation projects)
  - Technical assistance (last mile project preparation/technical support for lenders)
  - Robust institutional governance framework and investment approval process

CFF - CAPACITY BUILDING

- Core complimentary activities (as important as the debt offering):
  - Dedicated team that leds implementation of CFF (origination, transaction execution, reporting, monitoring etc.)
  - CFF Operations manual (CFF investment and eligibility criteria will be fully integrated into the investment appraisal process of CFF)
  - Annual Work Plan and Budget
  - Project Pipeline & Financial Product Development Programs- ongoing market research
  - Continued Communications and Marketing- Commercial lenders, project sponsors, government etc.

CFF - GOVERNANCE AND INVESTMENT APPROVAL PROCESS

DBSA

Climate Finance Facility

Dedicated CFF Staff

Managed by DBSA's Climate and Environmental Finance Unit

CFF Steering Committee

IM*	DBSA
IM*	DBSA
IM*	DBSA

Independent member

DBSA Investment Committee Governance Structures

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THANK YOU