


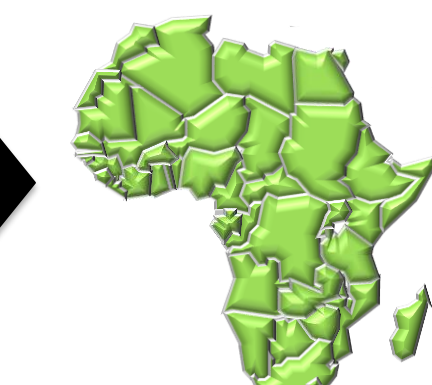
GROWING A FOCUSED, SUSTAINABLE AND DEVELOPMENTAL DBSA



FINANCING THE GREEN ECONOMY:

CTCN REGIONAL FORUM: ARUSHA, TANZANIA
PRESENTATION 25 JUNE 2015

DBSA Priority markets and activities

Project development advisory services	Project finance	Accelerating infrastructure delivery	Programme implementation
Services			
<ul style="list-style-type: none"> • Project identification • Feasibility assessments • Technical assistance • Financial structuring • Project preparation funds 	<ul style="list-style-type: none"> • Debt • Mezzanine finance • Limited and non-recourse lending • Guarantees 	Managing the design and construction of key projects in the education, health and housing sectors	Project management support, including to the Jobs and Green Funds
Key target markets			
<ul style="list-style-type: none"> • Municipalities • Public-private partnerships • Public-public partnerships • Regional integration 	<p>South Africa</p> <ul style="list-style-type: none"> • Municipalities • State-owned enterprises • Public-private partnerships • Public-public partnerships • Private sector <p>Outside South Africa</p> <ul style="list-style-type: none"> • State-owned enterprises • Public-private partnerships 	National and provincial government departments	National and provincial government departments
		Countries of operations	Recently expanded to the rest of the continent
			



DBSA Driven green initiatives

- Some of the DBSA green economy initiatives:
 - ❖ Implementation of SA Renewable Energy Independent Power Producer Programme (REIPPP)
 - ❖ Renewable energy funds – for small scale IPPs
 - ❖ Implementation of the National Green Fund
 - ❖ GEF and GCF accreditation



Implementation of SA Renewable Energy Independent Power Producer Programme (REIPPP)

Total amount to be procured as per current Ministerial Determinations = 6500MW

- DBSA has been involved in this programme since inception.
- Being rolled out in five phases. First three rounds have already reached financial close.
- 11 Projects financed by DBSA have completed and already generating power
- Remaining projects at various stages, namely under construction.
- Bank has committed R11bn across the first three rounds in supporting 18 projects and will contribute to 1450 MW upon completion
- Mostly debt funding support during implementation
- DBSA supported mainly solar photovoltaic, CSP and wind power
- DBSA leveraged overseas technical expertise, experience and skills for an independent view of each project



Renewable energy funds – for small scale IPPs

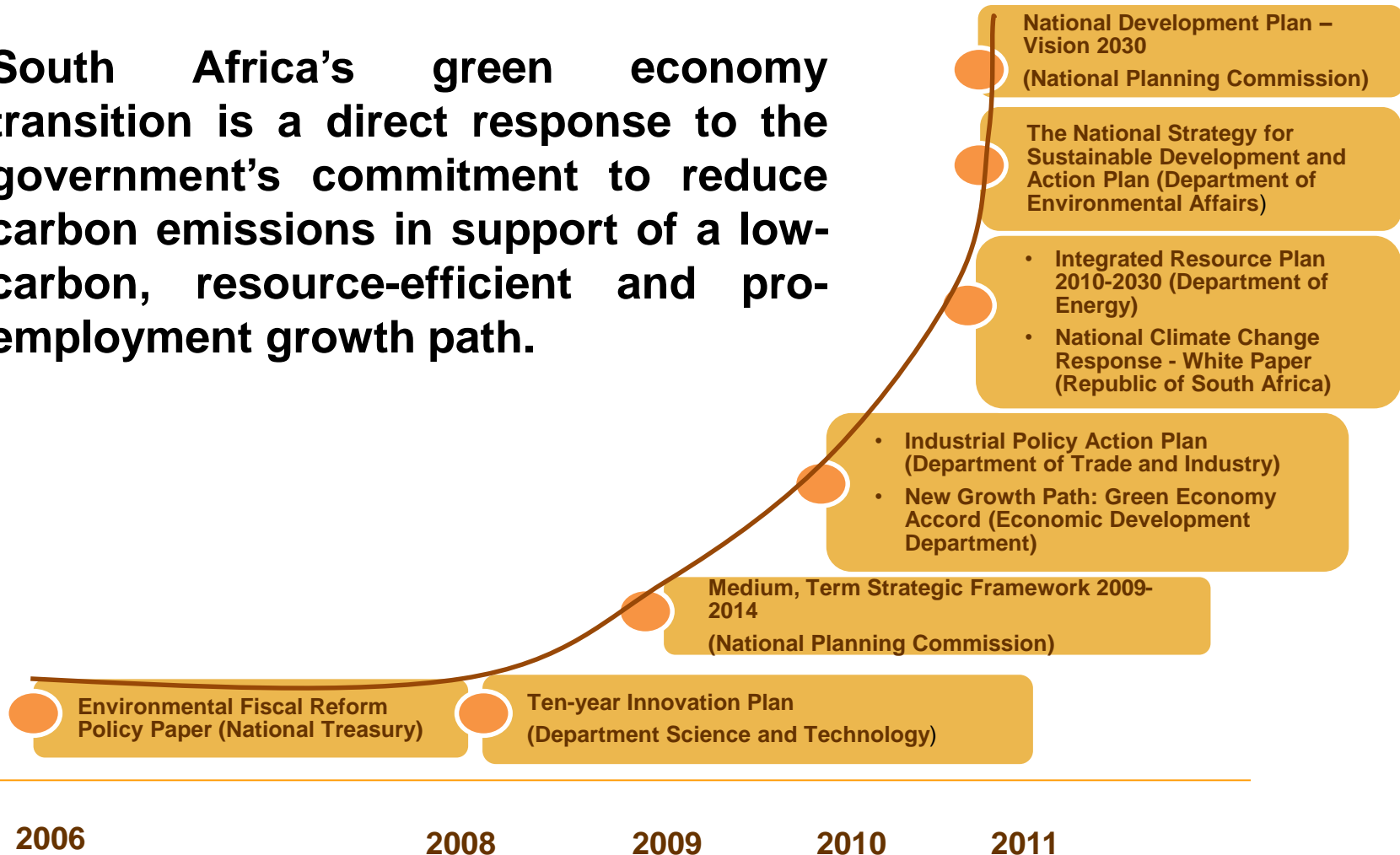
DBSA was appointed Implementing Agent (“IA”) for the establishment of a small IPP renewable energy fund targeting small IPPs under the Small Scale Renewable Energy Programme.

KfW to provide programme support as well contribute towards fund. This Fund is to be blend commercial and DFI funding through a combination of different layers of investment risk tranches, with a sizable first-loss tranche leveraging senior-debt investors.

This Small Projects fund would provide financing to predominantly small scale IPPs based on a structured risk sharing model that would allow for the standardisation of certain risks for developers to enable these projects attract commercial financing and reduce transactional costs normally associated with small project finance deals.

SA Green Economy Policy Context

South Africa's green economy transition is a direct response to the government's commitment to reduce carbon emissions in support of a low-carbon, resource-efficient and pro-employment growth path.





Green Fund

- The Green Fund is a resource mechanism to contribute to a wide range of goals of transitioning to a greener economy
- Managed by the DBSA, established in 2012
- R1.1 billion has been allocated to the fund to date through the Department of Environmental Affairs
 - ❖ Aimed at facilitating investment in green initiatives;
 - ❖ To transition SA to a greener economy
 - ❖ To support socio-economic development
- Key Objectives
 - ❖ Promoting innovative and high impact green programmes and projects
 - ❖ Reinforcing climate policy objectives and sustainable economic development through green interventions
 - ❖ Building an evidence base for the expansion of the green economy
 - ❖ Attracting additional resources to support South Africa's green economy development – Fund plays a catalytic role

Thematic Focus Areas



Environmental & Natural Resource Management

Sustainable agriculture
Ecological Infrastructure
Wildlife Economy



Green Cities & Towns

Green transport
Waste management
Renewable Energy solutions for mine rehabilitation
Integrated planning for climate resilient cities



Innovation for the Green Economy

Institutional and financial innovation
Technological innovation



Low Carbon Economy

Cleaner production
Energy efficiency
Renewable energy & Alternative fuels

Green Fund Financing Offering

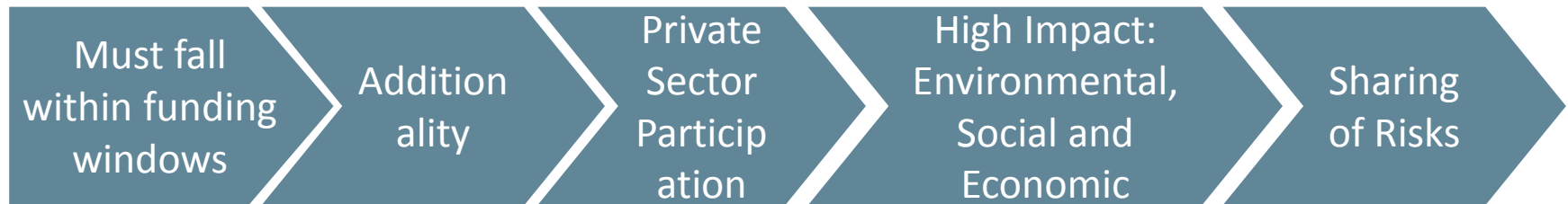
- Funding in the form of **Non-Recoverable Grants**, **Recoverable Grants**, **Loans**, and **Equity** across the thematic windows supports **project development**, **capacity building** in green initiatives and **research and development** initiatives that feeds into policy and regulatory environment for the green economy
- The Fund allocation for the three products is as follows:

Product Offering	Allocation
Project development	75%
Capacity building	20%
Research and development	5%

Value Chain Participation

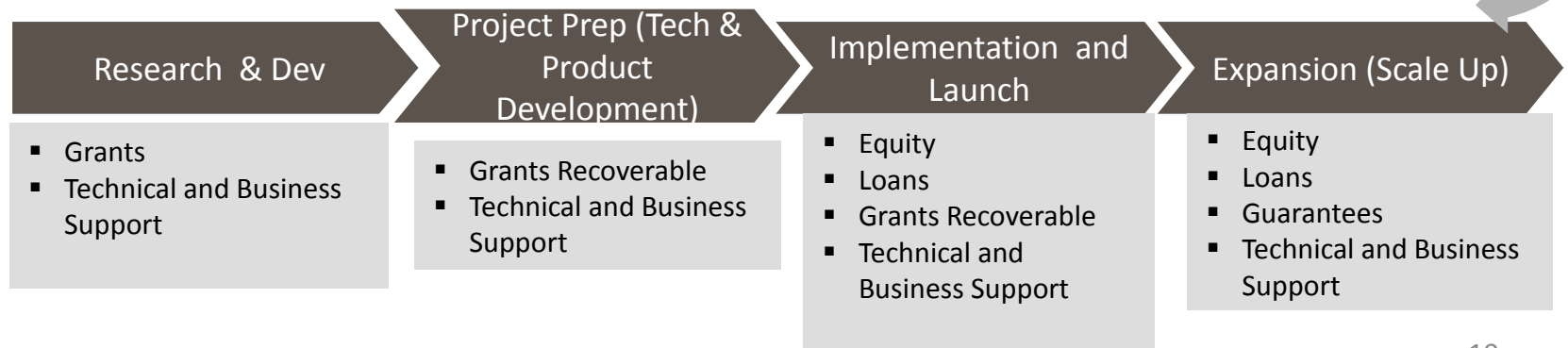
Green Fund's Role: Catalyst for Green Economy Transition

Investment principles:



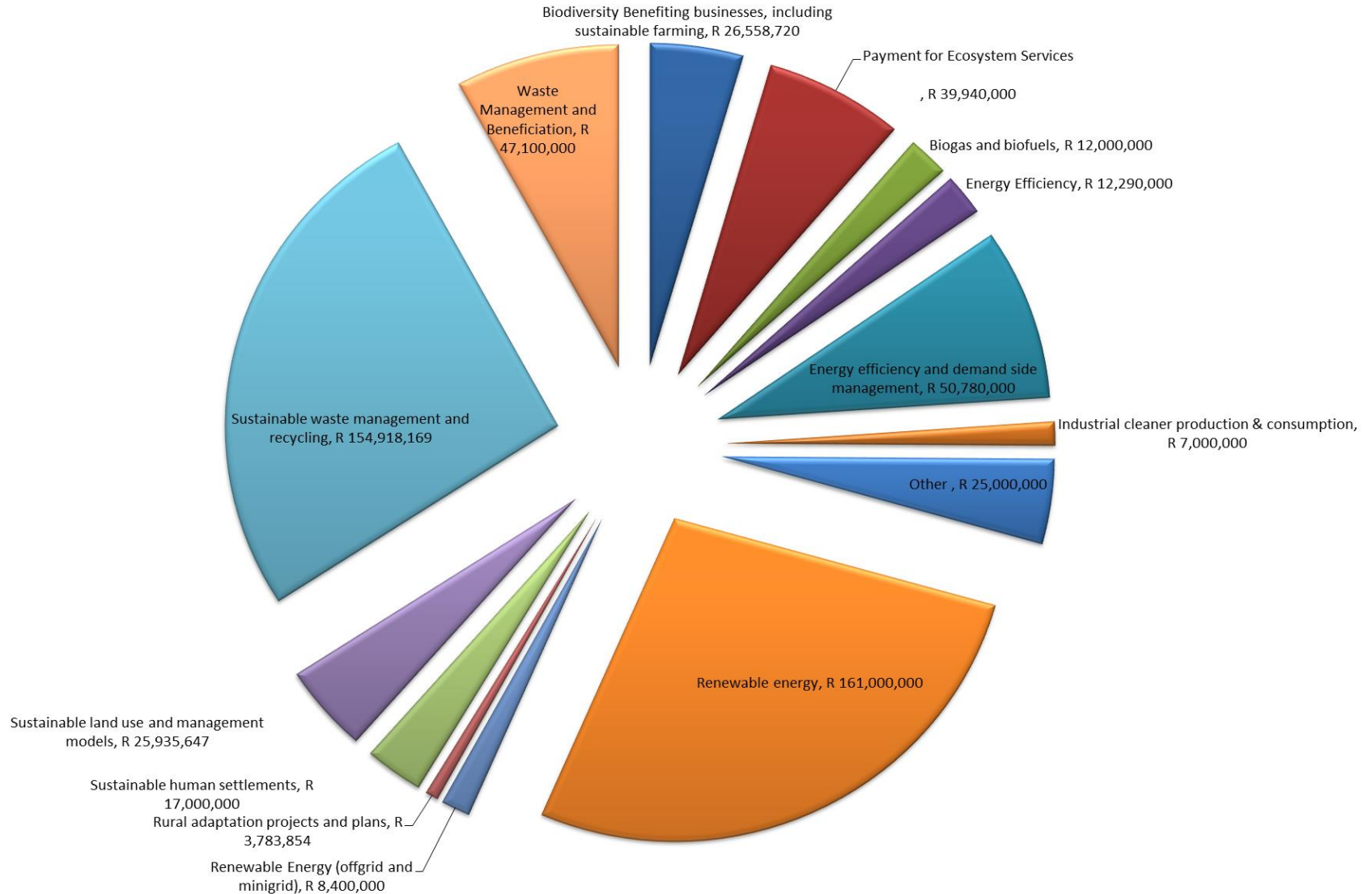
Catalytic participation, unlocking barriers and investment stretching across the entire innovation value chain

Typical types of value chain participation



Green Fund Portfolio

Green Fund Portfolio - Focus Areas



Lessons Learnt

➤ **Managing Risk is challenging**

The level of matching contribution is used to help reduce exposure. Some good projects may not meet matching thresholds.

➤ **Private Sector Participation could be better**

Some progress has been made, however there still remains significant scope for increasing participation of the private sector.

➤ **Follow on Funding (Full life cycle opportunity arrangement is challenging)**

Risk return characteristics including early stage of development and long period to payback with relatively high uncertainty reduce the scope for follow on funding and support from risk averse financial return oriented investors such as commercial banks. There is however significant scope for support from risk tolerant multiple outcome returns oriented investors in the mould of development finance institutions

Lessons Learnt

- **Effectively discharging the role of a catalytic finance mechanism and being measured on the right performance indicators**

To measure the performance of a catalytic mechanism using absolute aggregates/ indicators such as total amount of carbon emissions reduction attributable to projects supported may be inappropriate, if the scope of focus areas/funding windows supported is broad.

- **Asset Allocation**

Can be very difficult to balance the portfolio and gain exposure to all the desired focus areas owing to market characteristics. E.g limited uptake in transport

- **Applying Concessionary terms**

Adding concessionary terms has to be done diligently and using sound analytics in order to avoid moral hazard and the crowding out of free market participants through cheap money.

Lessons Learnt

- Successful projects will demonstrate to both the public and private sector investors that **green investments are bankable** and that fiscal support can catalyse investment by the private sector
- Green Fund offers **opportunity to be instrumental in development of SA green finance architecture** and its articulation with global funds such as the Global Environmental facility (GEF) and the Green Climate Fund (GCF)
- High **demand for green finance** was illustrated through the overwhelming response to the public calls for proposals
- **Strategic partnerships** with key stakeholders have been critical to the success of the funded initiatives

DBSA's Role in Climate Finance: GEF

Project	Summary	Proposed/Requested GEF Funding	Tentative Co-financing	Agency Fees	Way Forward	DBSA Interface
1. Equity Fund for the Small Projects Independent Power Producer Programme (SP-IPPP)	DBSA has formulated a Facility for Investment in Renewable Small Transactions (FIRST) which will provide debt (proposed 90%) to small projects investors. KfW through DBSA will contribute €5mil (for technical assistance) and €14mil (non-interest bearing loan) to be blended with DBSA's contribution (about R1.8 billion) to capitalise FIRST. The proposed GEF funded Equity Fund will provide equity (10%) to small projects.	US\$ 15million	US\$195,000 <ul style="list-style-type: none"> • DBSA 155,000,000 • KfW 20,000,000 (TA facility and debt loan) • Beneficiaries 15,000,000 	US\$1,350,000	PIF endorsed by GEF CEO and included in Council Work Programme for June meeting.	SA Financing – Energy & Environment
2. Building a resilient and resource efficient Johannesburg: Increased access to urban services and improved quality of life	The proposal will foster city level resilience, resource efficiency, emission reductions and other co-benefits through area-based pilot demonstrations, systems analysis (food), and institutionalization of evidence-based decision making through integrated planning.	US\$ 8,000,000 (DBSA is collaborating with UNEP to implement this project)	US\$120,000,000 (City of Johannesburg)	US\$ 365,000	PIF endorsed by GEF CEO and included in Council Work Programme for June meeting.	SA Financing – Metros, Water Utilities
3. Unlocking biodiversity benefits through development finance in critical catchments	To develop policy and capacity incentives for mainstreaming biodiversity and ecosystems values into national, regional and local development policy and finance: application demonstrated in two water catchments	US\$7,200,000	30,500,000	US\$650,000	PIF endorsed by GEF CEO and included in Council Work Programme for June meeting.	Financing Operations – Sector Specialist
Totals		US\$30,200,000	US\$345,000,000	US\$2,365,000		

DBSA's Role in Climate Finance: GCF

- DBSA eligible for fast-track accreditation due to GEF accreditation status
- DBSA submitted application for accreditation in April 2015, awaiting response from GCF Secretariat.
- First batch of funding proposals to be considered by GCF Board in October 2015

DBSA's Role in Climate Finance: GCF

Fund's Investment Criteria:

- Impact potential- potential of the programme/project to contribute to the achievement of the Fund's objectives
- Paradigm shift potential- degree to which the proposed activity can catalyze impact beyond a once-off project or programme investment
- Sustainable development potential: wider benefits and priorities, including environmental, social, and economic co-benefits as well as gender-sensitive development impact
- Responsive to recipients needs: vulnerability and financing needs of the beneficiary country and population in the targeted group.
- Promote country ownership: beneficiary country ownership of and capacity to implement a funded project or programme (policies, climate strategies and institutions)
- Efficiency & effectiveness: economic and, if appropriate, financial soundness of the programme/project, and for mitigation-specific programmes/projects, cost-effectiveness and co-financing

DBSA's Role in Climate Finance: GCF

Alignment with the Bank's Focus Areas:

- **Transport:**
 - Opportunities in mass transport
 - Use of alternative fuels or alternative drive (e.g. gas, electric etc.)
- **Energy:**
 - Support for small independent power producers
 - Support new emerging technologies
- **Water:**
 - Opportunities to support water savings programmes in a sustainable manner (e.g. revolving facilities, programmatic approach)
 - Investment in the revitalisation of aging water infrastructure
- **ICT:**
 - Support for Adaptation initiatives

*Extensive collaboration is required with **Financing Divisions and IDD** to mainstream green considerations when projects are prepared and packaged for investment.*

Potential Linkages with CTCN

- Further financial support of CTCN developed projects/concepts within Africa
- Collaboration and project implementation with other GEF/GCF participating countries in Africa
- Technical appraisals of DBSA fundable green projects & potential of emerging climate technologies
- Technology transfer and knowledge sharing for climate technology deployment across the continent



THANK YOU

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