CLIMATE FINANCE FACILITY

DBSA
DEVELOPMENT BANK OF SOUTHERN AFRICA
Building Africa's Prosperity

A DEBT FACILITY TO CATALYZE PRIVATE CAPITAL TO SUPPORT PRIVATE SECTOR PROJECTS THAT ARE LOW EMISSIONS AND CLIMATE RESILIENT

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OVERVIEW

THE CLIMATE FINANCE FACILITY - OVERVIEW

Overview of CFF

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 Republic of South Africa, Kingdom of Lesotho, Kingdom of Eswatini and Republic of 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

Demand

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 ad rural agricultural focused businesses and projects by providing credit enhancement
- Inability to finance energy efficiency in commercial buildings

THE CLIMATE FINANCE FACILITY

Eligible sectors

Climate Mitigation

- Renewable energy (solar, wind, small hydro) NB less than 10MW for South African based projects
  - Electricity Generation
  - Heat Production
- Energy Efficiency in new 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

30%

THE CLIMATE FINANCE FACILITY

Key funding criteria for sub-borrowers

Key Features	CFF Blended Finance Capital Structure
Project size	▪ The size of projects to be considered will range from R 150 million to R 1 billion. ▪ The CFF can therefore only provide funding from R 45 million to R 250 million ▪ Ticket size for adaption and cross cutting projects to be considered separately
Capital structure	▪ Maximum of **30%** Sub-ordinated loan (capped at R 250 million) ▪ Minimum of **20%** Equity finance - Project sponsors / Shareholders ▪ **50%** Senior loan – Commercial banks/Private Sector Financial institutions
Private Sector Senior Debt participation	▪ **Minimum 30% of project costs**
Security and sub-ordination	▪ To be determined on a deal-by-deal basis
Tenor and repayment profile	▪ Up to 15-year tenor ▪ 3-year capital grace ▪ Interest moratorium on an exceptional basis to be decided on a deal-by-deal basis ▪ Monthly, quarterly and semi-annual repayment profile
Loan Currency	▪ ZAR (one blended loan to sub-borrower) ▪ GCF concessional funding blended with DBSA funding on a 50:50 basis
Fees	▪ Attractive fee structure

THE CLIMATE FINANCE FACILITY

Key Selection Criteria for Projects

1

Climate Impact Potential

The project must contribute to low emission and /or climate resilience infrastructure.

For mitigation projects, the CFF can only finance projects that promote efforts to reduce or limit GHG emissions. Accordingly, projects would need to clearly demonstrate that net emissions GHG reductions would be realized over the project life.

2

Development Impact

The project must demonstrate consistency with UN Sustainable Development Goals and meet climate, developmental, ESG and gender objectives as determined by the DBSA. The project should illustrate that it is designed to benefit local communities, with a particular focus on women and vulnerable groups, the environment and illustrate that there are no anticipated adverse social or environmental impacts.

3

Private Sector Leverage

The project must demonstrate the ability to crowd-in commercial investment in the form of senior debt from private sector financial institutions.

THE CLIMATE FINANCE FACILITY

Key Selection Criteria for Projects

4

Increase Market Efficiency

The project must demonstrate that it has not been able to secure financing from the commercial market due to specific financing gaps and barriers and demonstrate that there is need for support from the CFF (CFF funding is additional).

5

Market Transformation

The project must contribute to market transformation and demonstrate that the project can materially and sustainably expand markets in terms of scale, improved private sector participation and confidence in climate mitigation and climate change adaptation investments.

6

Paradigm Shift Potential

The project must show a paradigm shift potential; the degree to which the proposed can catalyse impact beyond a one-off project or programme investment.

7

Country ownership

The project must align to the specific country's priorities, climate strategies and Nationally Determined Contributions (NDCs).

ELIGIBLE CFF SUB-SECTORS & ACTIVITIES

CLIMATE MITIGATION

ELIGIBLE CFF SUB-SECTORS & ACTIVITIES

Climate Mitigation

1. Renewable Energy

1.1 Electricity Generation

Examples of Activities:

- Wind power.
- Solar power (PV and concentrated solar power).
- Biogas power *(only if net emission reductions, including carbon pool balance, can be demonstrated).*
- Small-scale hydropower plants *(Category B and below 10MW and only if net emission reductions can be demonstrated)*
- Renewable energy power plant retrofits.

1.2 Heat Production

Examples of Activities:

- Solar water heating and other thermal applications of solar power in all sectors.
- Thermal applications of geothermal power in all sectors *(only if net emission reductions, including carbon pool balance, can be demonstrated).*
- Wind-driven pumping systems.
- Thermal applications of sustainably/produced bioenergy in all sectors, including efficient, improved biomass stoves.

ELIGIBLE CFF SUB-SECTORS & ACTIVITIES

Climate Mitigation

2. Lower-carbon and efficient energy generation

2.1 Transmission and distribution systems

Examples of Activities:

- Retrofit of transmission lines or substations and/or distribution systems to reduce energy use and/or technical losses including improving grid stability/reliability (only if net emission reductions,, can be demonstrated)

3. Energy Efficiency

3.1 Energy efficiency in industry in existing facilities

Examples of Activities:

- Industrial energy-efficiency improvements though the installation of more efficient equipment, changes in processes, reduction of power and/or heat losses and/or increased waste heat recovery.
- Installation of co/generation plants that generate electricity in addition to providing heating/cooling.

ELIGIBLE CFF SUB-SECTORS & ACTIVITIES

Climate Mitigation

3. Energy Efficiency

3.2 Energy efficiency improvements in existing commercial, public and residential buildings

Examples of Activities:

- Energy-efficiency improvement in lighting, appliances and equipment.
- Substitution of existing heating/cooling systems for buildings by co/generation plants that generate electricity in addition to providing heating/cooling.
- Retrofit of existing buildings: Architectural or building changes that enable reduction of energy consumption.

3.3 Energy efficiency in new commercial, public and residential buildings

Examples of Activities:

- Use of highly efficient architectural designs, energy efficiency appliances and equipment, and building techniques that reduce building energy consumption, exceeding available standards and complying with high energy efficiency certification or rating schemes.

ELIGIBLE CFF SUB-SECTORS & ACTIVITIES

Climate Mitigation

4. Waste and wastewater

4.1 Wastewater

Examples of Activities:

- Treatment of wastewater, which is not in relation to regulatory or compliance requirements (e.g. performance standard or safeguard) and that is part of a larger project that reduce methane emissions *(only if net GHG emission reductions can be demonstrated)*

4.2 Waste

Examples of Activities:

- Waste management projects that capture or combust methane emissions.
- Waste to energy projects.
- Waste collection, recycling and management projects that recover or reuse materials and waste as inputs into new products or as a resource *(only if net emission reductions can be demonstrated)*

ELIGIBLE CFF SUB-SECTORS & ACTIVITIES

Climate Mitigation

5. Transport

5.1 Urban transport modal change

Examples of Activities:

- Urban mass transit.
- Non-motorized transport (bicycles and pedestrian mobility).

5.2 Vehicle energy efficiency fleet retrofit

Examples of Activities:

- Existing vehicles, rail or boat fleet retrofit or replacement (including the use of lower-carbon fuels, electric or hydrogen technologies, etc.).

5.3 Transport oriented urban development

Examples of Activities

- Integration of transport and urban development leading to a reduction in passenger cars
- Transport demand management measures dedicated to reduce GHG emissions (e.g., speed limits, high-occupancy vehicle lanes, congestion charging/road pricing, parking management, restriction or auctioning of license plates, car-free city areas, low-emission zones).

5.4 Inter-urban transport

Examples of Activities:

- Railway transport ensuring a modal shift of freight and/or passenger transport from road to rail (improvement of existing lines or construction of new lines).
- Waterways transport ensuring a modal shift of freight and/or passenger transport from road to waterways.

ELIGIBLE CFF SUB-SECTORS & ACTIVITIES

CLIMATE CHANGE ADAPTATION

ELIGIBLE CFF SUB SECTORS & ACTIVITIES

Climate Change Adaptation

1. Water Preservation

Examples of Activities:

- Improvement in catchment management planning (to adapt to a reduction in river water levels due to reduced rainfall).
- Installation of domestic rainwater harvesting equipment and storage (to adapt to an increase in groundwater salinity due to sea level rise).
- Rehabilitation of water distribution networks to improve water resource management (to adapt to increased water scarcity caused by climate change)

ELIGIBLE CFF SUB SECTORS & ACTIVITIES

Climate Change Adaptation

2. Other Disaster Risk Reduction

Examples of Activities:

- Early warning systems for extreme weather events (to adapt to an increase in extreme weather events by improving natural disasters management and reduce related loss and damage).
- Improved drainage systems (to adapt to an increase in floods by draining off rainwaters).
- Insurance against natural disasters (to adapt better to extensive loss and damage caused by extreme weather events).
- Building resilient infrastructures such as a protection system for dams (to adapt to exposure and risk to extreme weather impacts, such as flooding, caused by climate change).

THANK YOU

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