

# FINANCING CLIMATE RELATED INFRASTRUCTURE

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# CONTENT

- DBSA Overview and Value Proposition
- A Case for Greener Economy
- DBSA Climate Change Framework
- Accreditations and Partnerships
- Financing Instruments
- Roadmap
- Current Activities

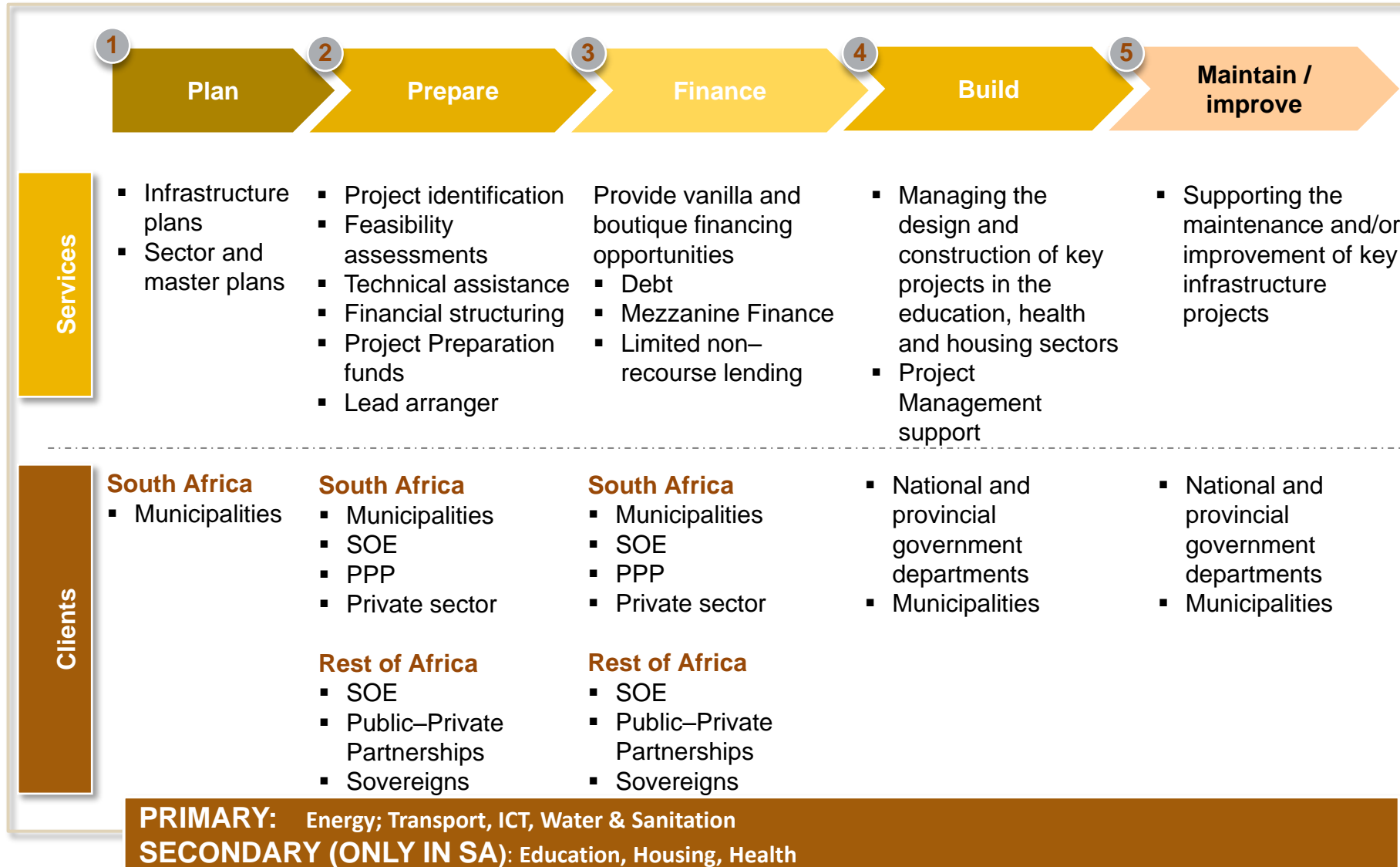


# DBSA: BACKGROUND

DBSA was created to catalyse economic growth through investment in economic & social infrastructure and supporting regional integration

|                          |  |
|--------------------------|--|
| 1 Founding year          | 1983   |
| 2 Shareholding structure | 100% owned by SA Government through the Ministry of Finance  |
| 3 Vision                 | A prosperous and integrated region, progressively free of poverty and dependence   |
| 4 Mission                | <ul style="list-style-type: none"><li>▪ To advance the development impact in the region <b>by expanding access to development finance</b> and effectively integrating and implementing <b>sustainable development solutions</b></li><li>– Improve the <b>quality of life</b> of people through the development of <b>social infrastructure</b></li><li>– Support <b>economic growth</b> through investment in <b>economic infrastructure</b></li><li>– Support <b>regional integration</b></li></ul> |
| 5 Strategic objectives   | <ul style="list-style-type: none"><li>▪ Sustained growth in development impact</li><li>▪ Integrated infrastructure solutions</li><li>▪ Financial sustainability</li></ul>  |

# DBSA: VALUE PROPOSITION



**DBSA offers a unique value propositions along the value chain; playing a leading role in project preparation, funding and implementation**



# WHY GET INVOLVED IN GREEN ECONOMY?

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The South African government has over the years adopted a range of national legislation and plans in support of its vision of a greener and more sustainable economy.

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South Africa's vision of sustainable economic development and commitment to a greener economy was re-affirmed at the Conference of Parties 17th Meeting (COP17) held in Durban, South Africa during December 2011.

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The DBSA in support of government's commitment to contribute to a wide range of goals of transitioning to a greener economy aims to:

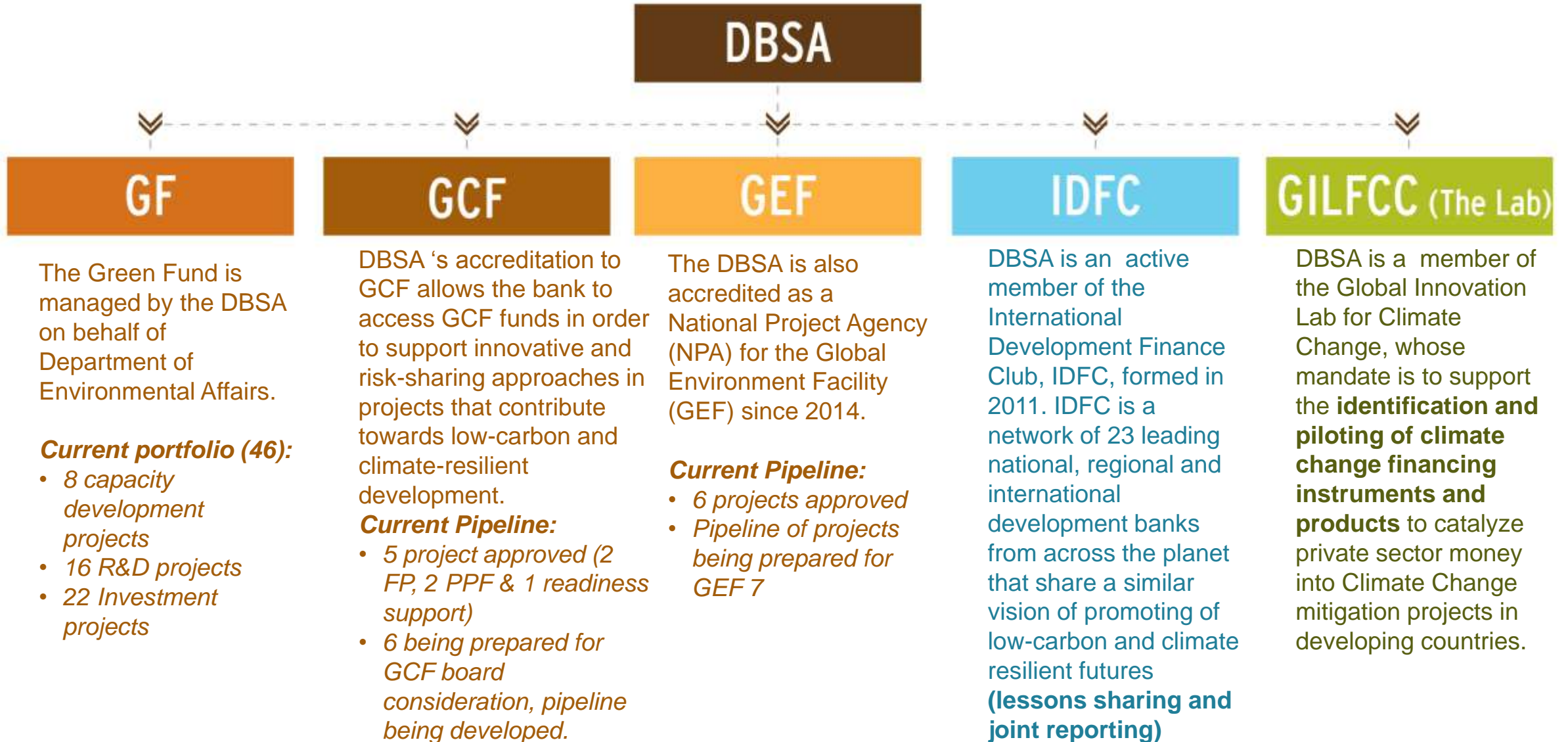
- *To be a leading DFI with regard to its contribution towards the country and region's transition to a low carbon economy*
- *Support government and region in meeting its NDCs*
- *Achieve excellence in climate change reporting and development of appropriate frameworks*

- 1** The DBSA board has approved a climate change policy framework. The policy framework enables the DBSA to communicate to stakeholders the DBSA intentions with regard to supporting climate change.
- 2** This policy framework provides the DBSA with a vehicle to progressively transition to a greener portfolio over a reasonable period of time by providing a cohesive, measurable and accountable response to climate change
- 3** The targets proposed within the policy framework provide goals to enable the DBSA to transition to a greener portfolio and are supported by identified opportunities, baselines indicators, and reporting frameworks to track progress in responding to climate change.
- 4** To Policy is further aligned with the Bank's 100 billion target in partnership with other key stakeholders.

# DBSA ACCREDITATION AND PARTNERSHIPS



The DBSA has created a new Climate Finance Unit to strategically advance sustainable and environmentally friendly infrastructure solutions



# FINANCING INSTRUMENTS FOR CLIMATE INFRASTRUCTURE



| Instrument                     | Key Features  |
|--------------------------------|---|
| General Obligation Loans/Bonds | <ul style="list-style-type: none"><li>• Funds may be used for any municipal project</li><li>• Minimal reporting requirements, i.e., standard financial covenants requirements</li><li>• Interest rates dependent on the credit rating of the city</li><li>• Sources of repayments backed by all municipal revenue streams</li></ul>   |
| Concessional Loan or Grants    | <ul style="list-style-type: none"><li>• Special funds set aside for high-impact projects by donors or MDB's</li><li>• The proceeds of the loan are typically restricted to the project</li><li>• Subsidized or zero interest rates are aimed at achieving a blended WACC</li><li>• Flexible repayment terms, e.g., longer tenor and grace period</li><li>• High and frequent monitoring of use of funds and implementation of the project</li></ul> |

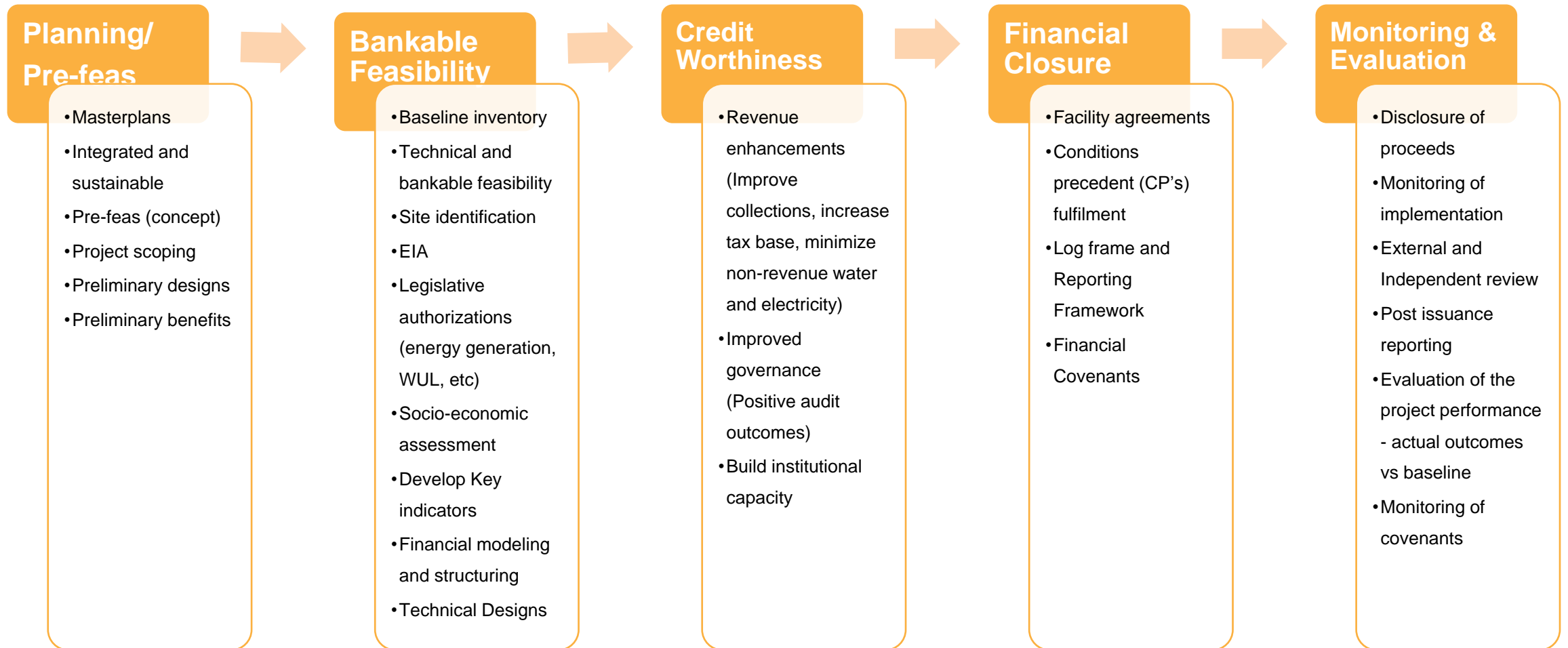


# FINANCING INSTRUMENTS FOR CLIMATE INFRASTRUCTURE



| Instrument                                | Characteristics   |
|---|---|
| Green/Climate Bonds                       | <ul style="list-style-type: none"><li>• Listed fixed income instrument at a stock or bond exchange</li><li>• Proceeds are exclusively used for eligible green infrastructure</li><li>• Attracts pool of investors with interest in the environment</li><li>• Generally pays low coupon than GO bonds</li><li>• Instrument can be rated independent of the city</li><li>• Repayments of bonds are backed by the balance sheet</li><li>• High and frequent monitoring requirements until maturity of debt</li><li>• High set up costs, lead arranger, project certification, audit fees, etc.</li></ul> |
| Public Private Partnerships/Project Bonds | <ul style="list-style-type: none"><li>• Private sector involvement in delivering government infrastructure using various models, e.g., BOT, DFBOT,</li><li>• Off-balance sheet structure which alleviates balance sheet constraints</li><li>• Private sector assumes the majority of the risk, incl. market risk</li><li>• Credit assessment is based mainly on project revenues and off-taker</li><li>• Debt is repaid from project revenues</li></ul>   |

# ROADMAP TO FINANCING



# CURRENT ACTIVITIES

## Climate Finance Facility (CFF)



|                                   |   |
|-----------------------------------|---|
| Location                          | Lesotho, eSwatini, South Africa and Namibia                               |
| Objective                         | Facility to leverage private sector investment in Climate Change projects |
| Project Development Stage         | Implementation Stage (contracting in progress)                            |
| DBSA Investment<br>GCF investment | ZAR 650 mn<br>USD 55 mn   |



### Project Description & Status

**Project Description**

- The CFF will use its capital to **fill market gaps** and crowd-in private investment, targeting commercially viable technologies that cannot currently attract market-rate capital at scale
- It will focus on infrastructure projects that mitigate or adapt to climate change and utilise two main instruments: **subordinated debt/first-loss and credit enhancements** such as tenor extension to projects that are commercially viable but not currently being financed by the private sector banks
- Covers energy generation, energy efficiency, water, sustainable transport and waste management

**Project Status**

- Contracting phase
- Approved by GCF board in October 2018.

### Development Impact

- Shift to low-emission sustainable development pathways
- Reduced CO2 emissions
- Economic growth through climate resilience
- Increased capacity within region for climate mitigation, adaptation and resilience

## Embedded Generation Investment Programme



|                                   |  |
|-----------------------------------|--|
| Location                          | South Africa   |
| Objective                         | Facility to support non-sovereign backed IPPs (embedded generation). |
| Project Development Stage         | Implementation expected to commence mid 2019.                        |
| DBSA Investment<br>GCF investment | ~ZAR 3.7 bn<br>USD 100 mn  |



| Project Description & Status  |
|---|
| <p><b>Project Description</b></p> <ul style="list-style-type: none"> <li>To support embedded <b>generation renewable energy</b> projects that have no demonstrable track record of successfully reaching financial close.</li> <li>The key objective of the EGIP is to formulate this track record to ensure that the initial Projects reach financial close, by so doing, a market for embedded generation is created in South Africa.</li> <li>EGIP is a credit support mechanism to <b>support non-sovereign backed PPAs</b> for renewable energy projects in South Africa</li> <li>In addition, this financing mechanism is intended to crowd-in funding from commercial lenders and to assist South Africa to make further inroads towards their climate change objectives.</li> </ul> <p><b>Project Status</b></p> <ul style="list-style-type: none"> <li>Approved by GCF board of February 2019.</li> <li>Contracting Phase</li> </ul> |
| Development & Climate Impact  |
| <ul style="list-style-type: none"> <li>Shift to low-emission sustainable development pathways</li> <li>Addition of 330 MW of new generating capacity, generating approx. 744,600 MWh of clean electricity annually, thereby directly avoiding emissions of more than 717,794 tCO<sub>2</sub>e per annum.</li> <li>Provision of clean energy to households</li> <li>Socio-economic co-benefits through job creation</li> <li>Socio-economic benefits through lower electricity costs</li> <li>Socio-economic through the inclusion of women</li> </ul>   |

## Public and Private Sector Energy Efficiency Programme (PPSEEP)



|                           |                              |
|---------------------------|------------------------------|
|                           |                              |
| Location                  | South Africa                 |
| Client                    | National Business Initiative |
| Project Development Stage | Project Preparation          |
| GCF Investment            | USD 0.32 million             |



| Project Description & Status  |  |
|---|--|
| <p><b>Project Description</b></p> <ul style="list-style-type: none"> <li>Project preparation funding (PPF) will be used to conduct a detailed feasibility to evaluate the optimal financial &amp; institutional model for a Public &amp; Private Sector Energy Efficiency Programme (PPSEEP) in South Africa.</li> <li>Additionally, PPF funding will be used to prepare the full concept feasibility study and application to the GCF, and to conduct both gender impact, and ESS studies. The estimated budget is \$ 318 060, to complete the studies within 9 months.</li> </ul> <p><b>Project Status</b></p> <ul style="list-style-type: none"> <li>Execution and Implementation started in Feb 2019</li> </ul> |  |
| Climate and Development Impact  |  |
| <ul style="list-style-type: none"> <li>Lifetime energy and carbon savings in public and private sector</li> <li>Improved job security and job creation in industry</li> </ul>   |  |



## Building a Resilient and Resource-efficient Johannesburg (GEF 6)

Grant and co-financing amount      Grant: US\$ 8 million  
Co-financing: US\$ 119 million

- Key project components
- Ensuring **sustainability, integration**, in the development and implementation of the city's physical plans.
  - Improving urban **food security** in Johannesburg by increasing the efficiency of food flows and improving peri-urban agriculture techniques.
  - Adopting evidenced-based **biodegradable waste management** strategy.
  - Improving evidence-based **planning** in South Africa

Implementation status      In procurement

Timelines      January 2018 – December 2022 (delayed due to contracting)

Key indicators for M&E      Direct: 3.3 Mt CO<sub>2</sub>eq, Indirect: 1.1 Mt CO<sub>2</sub>eq

# CURRENT ACTIVITIES (CONT.)

## Municipal Solid Waste Programme



|                           |  |
|---------------------------|--|
| Location                  | Rustenburg Local Municipality (LM), Emfuleni LM, uMhlathuze LM, Msunduzi LM, Mbombela LM and Mangaung Metro Municipality (MMM) |
| Client                    | Department of Environmental Affairs / Municipalities   |
| Project Development Stage | Project Preparation  |
| GCF Investment            | USD 1.41 million   |

### Project Description & Status

#### Project Description

The purpose of the Programme would be to implement various organic waste treatment solutions identified in 6 pilot municipalities and thereafter upscale implementation to 24 additional municipalities through a programmatic approach. The programmatic approach will allow subsequent 24+ sub-projects to learn from the first 6 fore-runners and replicate the solutions in a streamlined, cost-efficient manner.

#### Project Status

- Contracting phase
- Project preparation phase to start in early 2019

### Development Impact

- significant methane emission reductions, as a result of waste diverted from landfill, fuel switch to AD and improved soil carbon sequestration due to compost applications;
- reduced air pollution;
- job creation for both men and women;
- improvement of waste collection services, thus reducing public health risks to vulnerable segments of the population;
- enhanced food security and ecosystem services as a result of compost applications and the reduction of inadequate waste practices.

**THANK YOU**

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