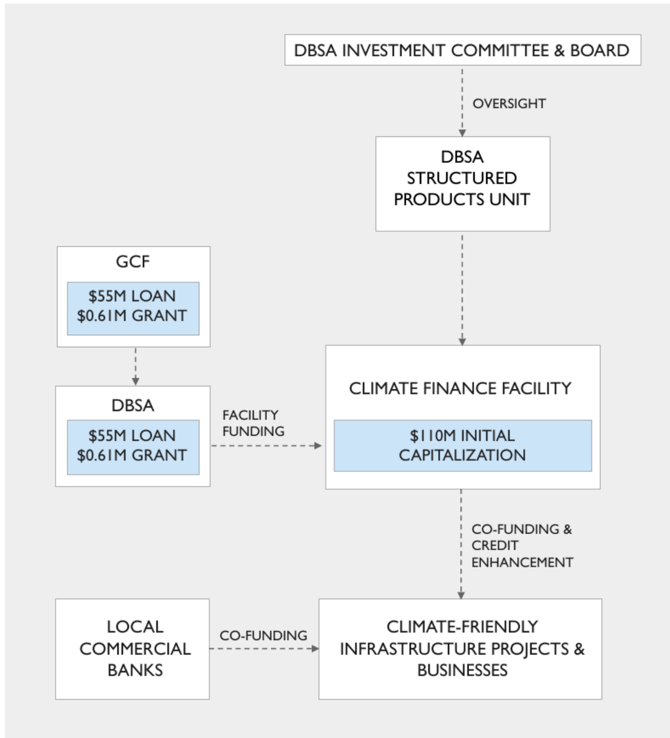
MITIGATION & ADAPTATION
BLENDED

Project Name	**Development Bank of Southern Africa (DBSA) Climate Finance Facility (CFF)**[1]
Country/Region	Eswatini, Lesotho, Namibia, South Africa
Sector	Climate-resilient infrastructure
Project/Investment Amount	$110 million (2 billion rand)
Development Partner(s)/Stakeholders	Development Bank of Southern Africa (DBSA), Green Climate Fund (GCF), Coalition for Green Capital, GreenCape, ClimateWorks Foundation, Convergence
Beneficiary Ministry/ Institution	N/A
Investor(s) and Funders	DBSA, GCF
GUIDEBOOK TAXONOMY FINANCIAL SYSTEM ACTOR	National Development Banks Multilateral, Bilateral and DFIs
Project Overall Goal	Address key market constraints and catalyze climate-related investment in the Southern Africa region.
Project Outcomes	Avoidance of 30 million tons of CO2 equivalent during lifetime of program, saving 23,000 jobs through water systems installation, 400,000 or more indirect beneficiaries
Alignment with Country Identified Climate Strategies, NDCs, etc. (if applicable)	The CFF prioritizes investment opportunities based on target country needs and priorities identified in Nationally Determined Contributions (NDC) documents.
Contribution of the Project to the UN SDGs	SDG 6: Safe Water and Sanitation SDG 7: Affordable and Clean Energy SDG8: Decent Work and Economic Growth SDG 9: Industry, Innovation, and Infrastructure SDG13: Climate Action
Socioeconomic Impact	Through water and waste management projects, CFF has potential to create over 100 jobs and save 22,600 jobs through installation of water systems (by avoiding dismissal due to water shortages). Expected number of indirect beneficiaries is over 400,000.
Environmental Impact (on climate mitigation and/or adaptation)	CFF is expected to help avoid approximately 30 million tons of carbon dioxide equivalent during its lifetime.
Enabling Environment (Supporting Policies)	The CFF concept was initiated in 2017, when South Africa was developing its capacity to scale up climate finance in support of the Paris Agreement, and the DBSA was considering repositioning itself as a local leader in green finance. These factors contributed to the DBSA's strong interest in acting as local green finance champion and host institution for the CFF, which was instrumental to the creation of the CFF.
Technical Assistance (If Provided)	N/A
Financing model/approach (ex: Blended finance)	Blended finance, blended at the project level with private capital mobilized at an overall portfolio ratio of 1 to 5

[1] This case was provided by Convergence as a contribution to the Sharm El-Sheikh Guidebook for Just Financing

Rationale for financing model/approach	The lack of available and affordable financing creates a barrier to more rapid implementation of climate-friendly projects in the region. The CFF aims to address market barriers faced by the private sector, particularly commercial banks, by focusing on loan tenor, interest rates, and the perceived high risk of climate investments. The CFF targets projects that are commercially viable but cannot attract market-rate capital at scale without credit enhancement.
Financial instrument(s) (loans (commercial/ concessional), equity, guarantee)	Subordinated debt and tenor extension of up to 15 years
Diagram of the financing structure	

Executive Summary

The CFF is the first developing country green bank. Initially developed in the United States, United Kingdom, and Australia, green banks aim to mobilize greater investments in climate-related infrastructure through the use of blended instruments. They are a crucial model for building climate finance capacity at the national and subnational level that can work with local capital markets, engage local commercial banks, and connect with local market intelligence to channel capital into country-led decarbonization.

The CFF, funded and housed by the DBSA and co-funded by the GCF, co-invests in climate projects alongside local commercial banks. It focuses on projects that are potentially viable but cannot attract market-rate capital at scale without credit enhancement. The CFF provides two credit enhancement instruments, which were developed based market outreach that identified constraints to financing smaller scale distributed clean energy and clean water projects. They are:

- **Loan tenor:** due to Basel III regulatory constraints, local commercial banks cannot provide loan tenors over seven to eight years. The CFF does not face similar constraints and so can offer tenor extension for up to 15 years.
- **Perceived high investment risk of mitigation and adaptation projects:** the CFF offers subordinated debt to crowd-in private investors.

The CFF has five investment criteria that transactions must contribute to, including low-carbon infrastructure and climate-related goals, market transformation, technical and economic feasibility but inability to secure commercial financing, ability to demonstrate leverage and ability to crowd in commercial investment, and focus on addressing climate adaptation related goals, particularly related to water. The initial pipeline of the CFF is focused on South Africa, but it plans to expand to the other Rand-based economies (Namibia, Lesotho, Eswatini). As part of its GCF funding requirements, the CFF has impact goals including GHG reduction and ESS standards that include benefit to local communities with a focus on women and vulnerable groups.

Analysis

What made this project successful?	• The partnership of DBSA, a strong local partner, with the CGC, an organization with a demonstrated track record with green banks in developed countries, maximized synergies between local market knowledge and international expertise. • The DBSA's strong institutional capacity was instrumental to designing and implementing a credible platform. Moreover, DBSA was resilient to setbacks like delayed funding approvals from anchor investors. • DBSA being an Accredited Entity of the GCF facilitated the GCF funding proposal process.
To what extent is this model scalable?	Though the CFF is relatively new, there is high potential for it to scale to other sectors and instrument types based on international examples. Further, there are developed country examples of green banks becoming self-sufficient and minimizing the use of public capital, e.g. via sale to a new private owner (e.g. the UK Green Investment Bank, which was purchased and is now operated by Macquarie).
What are the necessary conditions to make it replicable in other countries/regions?	The CFF aims to initially focus on South African investments, then expand into the other Rand-based southern African economies. The demonstration effect of the first developing country green bank is an important precondition for replicating the model in other developing contexts. However, countries will need to conduct their own investigations into product-market fit, investor buy-in, and deployment strategy to identify ways to adapt the model to their local contexts.
Constraints/Drawbacks of Financing Model	The model needs concessional capital to be provided pari passu with other capital sources at a blended rate, which constrains the range of possible funders of the model based on funders' differing internal requirements. For example, housing the facility within the DBSA, a GCF Accredited Entity, enabled the CFF to win GCF funding, but also meant that funders that could only provide capital to non-public institutions could not participate.
Lessons Learnt	• Blended finance practitioners looking to replicate the green bank model or deploy other existing models in developing countries should identify specialized partners to support the design, fundraising, and operations of new solutions. • Credible local champions are an important catalyst for driving blended finance solutions; housing the entity at an existing local institution can facilitate launch and offer access to resources and capacity. • Early and continuous engagement with market participants and target co-investors is essential and should aim to identify the deal pipeline and market barriers. • The green bank model has broad application in emerging markets.