



**GREEN  
CLIMATE  
FUND**

**Meeting of the Board**  
13 – 15 December 2016  
Apia, Samoa  
Provisional agenda item 16(e)

**GCF/B.15/13/Add.02/Rev.01**

1 December 2016

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# Consideration of funding proposals – Addendum II

## Funding proposal package for FP029

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### **Summary**

This addendum contains the following three parts:

- a) A funding proposal summary titled “SCF Capital Solutions” submitted by Development Bank of Southern Africa;
- b) No-objection letters issued by the national designated authorities or focal points; and
- c) Environmental and social report(s) disclosure;

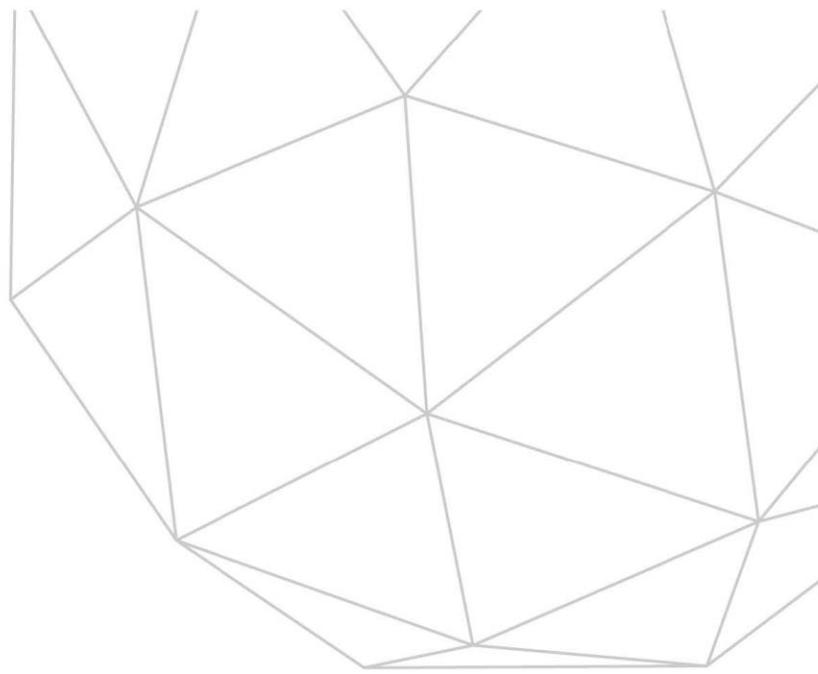
These documents are presented as submitted by the accredited entity and the national designated authority(ies) or focal point(s), respectively. Pursuant to the Comprehensive Information Disclosure Policy of the Fund, the funding proposal titled “SCF Capital Solutions” submitted by Development Bank of Southern Africa is being circulated on a limited distribution basis only to Board Members and Alternate Board Members to ensure confidentiality of certain proprietary, legally privileged or commercially sensitive information of the entity.

## Table of Contents

Funding proposal summary submitted by the accredited entity	1
No-objection letters issued by the national designated authorities or focal points	61
Environmental and social report(s) disclosure	63



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# Funding Proposal

Version 1.1

**The Green Climate Fund (GCF) is seeking high-quality funding proposals.**

Accredited entities are expected to develop their funding proposals, in close consultation with the relevant national designated authority, with due consideration of the GCF's Investment Framework and Results Management Framework. The funding proposals should demonstrate how the proposed projects or programmes will perform against the investment criteria and achieve part or all of the strategic impact results.

Project/Programme Title:	<u>SCF Capital Solutions</u>
Country/Region:	South Africa_
Accredited Entity:	Development Bank of Southern Africa
Date of Submission:	04 November 2016

## Contents

Section A	<b>PROJECT / PROGRAMME SUMMARY</b>
Section B	<b>FINANCING / COST INFORMATION</b>
Section C	<b>DETAILED PROJECT / PROGRAMME DESCRIPTION</b>
Section D	<b>RATIONALE FOR GCF INVOLVEMENT</b>
Section E	<b>EXPECTED PERFORMANCE AGAINST INVESTMENT CRITERIA</b>
Section F	<b>APPRAISAL SUMMARY</b>
Section G	<b>RISK ASSESSMENT AND MANAGEMENT</b>
Section H	<b>RESULTS MONITORING AND REPORTING</b>
Section I	<b>ANNEXES</b>

### *Note to accredited entities on the use of the funding proposal template*

- Sections **A, B, D, E** and **H** of the funding proposal require detailed inputs from the accredited entity. For all other sections, including the Appraisal Summary in section F, accredited entities have discretion in how they wish to present the information. Accredited entities can either directly incorporate information into this proposal, or provide summary information in the proposal with cross-reference to other project documents such as project appraisal document.
- The total number of pages for the funding proposal (excluding annexes) is expected not to exceed 50.

### **Please submit the completed form to:**

[fundingproposal@gcfund.org](mailto:fundingproposal@gcfund.org)

Please use the following name convention for the file name:

"[FP]-[Agency Short Name]-[Date]-[Serial Number]"

A.1. Brief Project / Programme Information		
A.1.1. Project / programme title	SCF Capital Solutions	
A.1.2. Project or programme	Project	
A.1.3. Country (ies) / region	South Africa	
A.1.4. National designated authority (ies)	Department of Environmental Affairs	
A.1.5. Accredited entity	Development Bank of Southern Africa	
A.1.5.a. Access modality	<input type="checkbox"/> Direct <input type="checkbox"/> International	
A.1.6. Executing entity / beneficiary	Executing Entity: SCF Capital Solutions Beneficiary: Green MSMEs	
A.1.7. Project size category (Total investment, million USD)	<input type="checkbox"/> Micro ( $\leq 10$ ) <input checked="" type="checkbox"/> Small ( $10 < x \leq 50$ ) <input type="checkbox"/> Medium ( $50 < x \leq 250$ ) <input type="checkbox"/> Large ( $> 250$ )	
A.1.8. Mitigation / adaptation focus	<input type="checkbox"/> Mitigation <input type="checkbox"/> Adaptation <input checked="" type="checkbox"/> Cross-cutting	
A.1.9. Date of submission	04 November 2016	
A.1.10. Project contact details	Contact person, position	Olympus Manthata, Investment Manager
	Organization	Development Bank of Southern Africa
	Email address	OlympusM@DBSA.org
	Telephone number	+27 11 3135238
	Mailing address	OlympusM@dbsa.org

A.1.11. Results areas <i>(mark all that apply)</i> All	
<b>Reduced emissions from:</b>	
<input checked="" type="checkbox"/>	Energy access and power generation (E.g. on-grid, micro-grid or off-grid solar, wind, geothermal, etc.)
<input type="checkbox"/>	Low emission transport (E.g. high-speed rail, rapid bus system, etc.)
<input checked="" type="checkbox"/>	Buildings, cities and industries and appliances (E.g. new and retrofitted energy-efficient buildings, energy-efficient equipment for companies and supply chain management, etc.)
<input type="checkbox"/>	Forestry and land use (E.g. forest conservation and management, agroforestry, agricultural irrigation, water treatment and management, etc.)
<b>Increased resilience of:</b>	
<input checked="" type="checkbox"/>	Most vulnerable people and communities (E.g. mitigation of operational risk associated with climate change – diversification of supply sources and supply chain management, relocation of manufacturing facilities and warehouses, etc.)
<input checked="" type="checkbox"/>	Health and well-being, and food and water security (E.g. climate-resilient crops, efficient irrigation systems, etc.)
<input type="checkbox"/>	Infrastructure and built environment (E.g. sea walls, resilient road networks, etc.)
<input type="checkbox"/>	Ecosystem and ecosystem services (E.g. ecosystem conservation and management, ecotourism, etc.)

## A.2. Project / Programme Executive Summary (max 300 words)

Please provide a brief description of the proposed project/programme, including the objectives and primary measurable benefits (see [investment criteria in section E](#)). The detailed description can be elaborated in [section C](#).

The SA Government is seeking to achieve a 34 percent reduction in domestic Greenhouse Gas Emissions by 2020 and 42 percent by 2025. In addition, the growth foreseen in the Green Economy is expected to create almost 255 000 jobs in South Africa in the medium term. These targets can only be fully realised if the current problem of lack of access to finance for SMMEs in the green economy can be adequately addressed. Like those in other industries, SMMEs in the green economy suffer from chronic lack of access to finance. This is mostly due to lack of track record and collateral, thus traditional banking is unable to access risk and approve a credit facility for such companies. With vast, renewable resources and biodiversity positions, the green economy sector is seen as strategic to solving the problem. Renewable energy is the leading source of Foreign Direct Investment, with over R200bn (\$15bn) invested into the renewable energy independent producer program. The latter was established to offer opportunities for small-scale renewable energy producers that will stimulate participation by Small Medium Enterprises. The Industrial Policy Action Plan (IPAP) identifies “green and energy-saving industries” as a priority sector, targeting areas such as solar water heating and buildings energy efficiency. MSMEs therefore play an instrumental role in these value chains and help achieve climate policy goals, if only their access to finance challenges can be improved.

This application is for the GCF to contribute 36 percent (US\$12.2 million) of the required funding of US\$ 34.15 million (R461 million at the exchange rate of 13.5 per USD) Fund that will be setup to finance MSMEs. The fund will deploy Equity capital committed by its Partners to support the most promising working capital prospects in the MSME space on purchase order or invoice discounting basis to MSMEs in the green economy. The objective of this programme is to improve access to finance for MSMEs in the green economy. This will result in more green activities being implemented. MSMEs are dynamic and highly innovative, however they are hampered by lack of access to finance. Many of them are at early stages of the business lifecycle and cannot access commercial bank financing, mainly due to lack of financial history and collateral.

We will solve this problem by using supply chain financing techniques to provide working capital to MSMEs. Supply chain finance is applicable where MSMEs supplies goods or services to large credit worthy buyers. In supply chain finance, credit approval decisions are made based on the credit worthiness of the buyer (not the MSMEs) and the overall strength of the supply chain.

- We will target MSMEs which supply green services to strong off-takers for lower risk.
- We will focus on recurring supply chains to optimize operational efficiency and cost of operation for stable annuity income.
- Risk per transaction is minimised because individual transactional values are small, volumes are high and financing tenures are short, typically less than 90 days.

**SCF has already developed specific eligibility criteria for a pilot programme that is currently being used to extend credit, this criteria is in-line with the South Africa’s National Green fund. The current qualifying criteria is also aligned to the strategic imperatives of the GCF as well. The DBSA will ensure this criteria in enhanced for complete alignment with GCF.**

## A.3. Project/Programme Milestone

Expected approval from accredited entity’s Board (if applicable)	20/12/2016
Expected financial close (if applicable)	15/01/2017
Estimated implementation start and end date	Start: <u>01/04/2017</u> End: <u>31/03/2027</u>
Project/programme lifespan	10 years

## B.1. Description of Financial Elements of the Project / Programme

Please provide:

- an integrated financial model in [Section I \(Annexes\)](#) that includes a projection covering the period from financial closing through final maturity of the proposed GCF financing with detailed assumptions and rationale; and a sensitivity analysis of critical elements of the project/programme
- a description of how the choice of financial instrument(s) will overcome barriers and achieve project objectives, and leverage public and/or private finance

a breakdown of cost estimates for total project costs and GCF financing by sub-component in local and foreign currency and a currency hedging mechanism:

For example, under the component of drilling activity for a geothermal exploration project, sub-components would include civil engineering works, drilling services, drilling equipment and inspection test.

Amount (for entire project)	Currency	GCF funding amount	Currency	Currency of disbursement to recipient
34.148	million USD (\$)	12.222	million USD (\$)	ZAR

- a breakdown of cost/budget by expenditure type (project staff and consultants, travel, goods, works, services, etc.) and disbursement schedule in project/programme confirmation (term sheet) as included in section I, Annexes.

	Financial Instrument	Amount	Currency	Tenor	Pricing
<b>(a) Total project financing</b>	<b>(a) = (b) + (c)</b>	<b>34.148</b>	<u>million USD (\$)</u>	<u>10 years</u>	
<b>(b) GCF financing to recipient</b>	(i) Senior Loans	.....	<u>Options</u>	( ) years	( ) %
	(ii) Subordinated Loans	.....	<u>Options</u>	( 10 ) years	( ) %
	(iii) <b>Equity</b>	<b>12.222</b>	<u>million USD (\$)</u>		( 16 ) % IRR
	(iv) Guarantees	.....	<u>Options</u>		
	(v) Reimbursable grants *	.....	<u>Options</u>		
	(vi) Grants *	.....	<u>Options</u>		

\* Please provide economic and financial justification in [section F.1](#) for the concessionality that GCF is expected to provide, particularly in the case of grants. Please specify difference in tenor and price between GCF financing and that of accredited entities. Please note that the level of concessionality should correspond to the level of the project/programme's expected performance against the investment criteria indicated in [section E](#).



	Total requested (i+ii+iii+iv+v+vi)		12,222	million USD (\$)			
(c) Co-financing to recipient	Financial Instrument	Amount	Currency	Name of Institution	Tenor	Pricing	Seniority
	Equity	12.222	million USD (\$)	Private investor	(10)		Options
	Equity	7.407	million USD (\$)	SEFA.....	(10)		Options
	Equity	2.222	million USD (\$)	DBSA.....	(10)		Options
	Equity	0.074	million USD (\$)	SCF Capital Solution	(10) Year		Options
Lead financing institution: .....							
* Please provide a confirmation letter or a letter of commitment in section I issued by the co-financing institution.							

(d) Financial terms between GCF and AE (if applicable)	<p>In cases where the accredited entity (AE) deploys the GCF financing directly to the recipient, (i.e. the GCF financing passes directly from the GCF to the recipient through the AE) or if the AE is the recipient itself, in the proposed financial instrument and terms as described in part (b), this subsection can be skipped.</p>															
	<p>If there is a financial arrangement between the GCF and the AE, which entails a financial instrument and/or financial terms separate from the ones described in part (b), please fill out the table below to specify the proposed instrument and terms between the GCF and the AE.</p>															
	<table border="1"> <thead> <tr> <th>Financial instrument</th> <th>Amount</th> <th>Currency</th> <th>Tenor</th> <th>Pricing</th> </tr> </thead> <tbody> <tr> <td>Choose an item.</td> <td>.....</td> <td>Options</td> <td>( ) years</td> <td>( ) %</td> </tr> </tbody> </table>		Financial instrument	Amount	Currency	Tenor	Pricing	Choose an item.	.....	Options	( ) years	( ) %	<p>Please provide a justification for the difference in the financial instrument and/or terms between what is provided by the AE to the recipient and what is requested from the GCF to the AE.</p>			
Financial instrument	Amount	Currency	Tenor	Pricing												
Choose an item.	.....	Options	( ) years	( ) %												

**B.3. Financial Markets Overview (if applicable)**

How market price or expected commercial rate return was (non-concessional) determined?  
 Existing factoring and contract financing firms tend to charge much higher monthly fees for this funding, between 4-8% per month, which is unsustainable for most SMMEs, whose margins are typically not that high. One of the main objectives of SCF Capital Solutions is to utilize developmental funding to provide affordable financing to SMMEs. Another objective is to catalyse private sector investment, who need to price higher in order to obtain good returns. Thus we will be seeking a cost of funds rate from DBSA, SEFA and GCF that will enable SCF to lower the client's rate whilst also crowding-in private sector investors.

Private sector investors in South Africa typically look for IRR above 20,7% for their investment. At envisaged pricing of 1,5-2% per month, it would not be possible to attract private investment. The GCF funding enables a build-up of the book by reinvesting returns until the desired rate of return can be achieved.

Please provide an overview of the size of total banking assets, debt capital markets and equity capital markets which could be tapped to finance the proposed project/programme.

According to the South African Reserve Bank's credit exposure figures, captured on the BA200 form submitted to the bank supervision department, as of December 2015 South African bank loans of less than R7,5M to MSMEs was R180bn (USD 13bn). During the program we aim to attract USD11M of private investment. This is enable us to build a track record of performance and loss data that will enable *us to attract commercials and tap into the USD13bn market.*

*Activity in the equity markets for MSMEs is negligible, according to a recent SAVCA surveys, private equity firms in South Africa invest only 11% in early stage businesses. If Business Partners ( a specialist MSME investor)'s investments are excluded, the total average deal size during 2013 was R72.6 million (2012: R48.9 million).*

*Please provide an overview of market rates (i.e. 1-year T-Bill, 5-year government bond, 5-year corporate bond (specify credit rating) and 5-year syndicate loan.*

Indicator	Value	Last Period
Money Market Rates	i	
Repo rate	7.00	16/11/07
Sabor	6.988	16/11/04
Overnight FX rate	6.960	16/11/04
Treasury bills - 91 day (tender rates)	7.39	16/11/04
Treasury bills - 182 day (tender rates)	7.44	16/11/04
Treasury bills - 273 day (tender rates)	7.36	16/11/04
Treasury bills - 364 day (tender rates)	7.25	16/11/04
NCD's - 3 months (closing rates)	7.34	16/11/04
NCD's - 6 months (closing rates)	7.96	16/11/04
NCD's - 12 months (closing rates)	8.39	16/11/04
Jibar - 3 months	7.36	16/11/04
Prime lending rate (predominant rate)	10.50	16/11/07
Capital Market Rates		
6.75% 2021 (R208) (closing yields)	8.14	16/11/04
10,5% 2026 (R186) (closing yields)	8.69	16/11/04
3-5 years (daily average bond yields)	7.92	16/11/04
5-10 years (daily average bond yields)	8.36	16/11/04
10 years and longer (daily average bond yields)	8.66	16/11/04
Exchange rates		
Nominal effective exchange rate	62.18	16/11/07
Rand per US Dollar	13.5353	16/11/07
Rand per British Pound	16.7871	16/11/07
Rand per Euro	14.9700	16/11/07
Rand per Japanese Yen	0.1295	16/11/07

The weighted average exchange rate of the rand is based on trade between South Africa and its twenty most important trading partners.

Index: 2010=100.(See Article in June 2014 Quarterly Bulletin for various weights).

Weighted average of the banks' daily rates at approximately 10:30am.

As from 1 April 2004, the rate reflected related to negotiable certificates of deposit (NCD's) (instead of promissory notes).

Replacing the Saonia+, Saonia, Forex Forwards and carry rate from 27 March 2007.

Bankers Acceptances are no longer issued or traded.

The last BA matured on 13 September 2013 and as a consequence publication of the BA rate has been discontinued.

The R157 government bond matured on 15 September 2014 and is therefore no longer published.

The rate on the R208 bond is published in its place.

*Provide examples or information on comparable transactions.*

Pricing comparison with comparable transactions

Lending Type	Pricing
Secured bank lending	Average Prime + 6% for SMEs (prime is 10,5%)
Current SCF Capital Solutions	2% per month (24% annualized)
Envisaged SCF Capital Solutions	1,5%-2% per month (18-24% annualized)
Unsecured lending	Up to 32% pa
Invoice discounting and factoring firms	Fee of 4-8% per month (36%-96% annualized)

Please fill out applicable sub-sections and provide additional information if necessary, as these requirements may vary depending on the nature of the project / programme.

### C.1. Strategic Context

*Please describe relevant national, sub-national, regional, global, political, and/or economic factors that help to contextualize the proposal, including existing national and sector policies and strategies.*

Climate change is already a measurable reality and along with other developing countries, South Africa is especially vulnerable to its impacts. The overall strategic approach for South Africa's climate change response is needs driven and customised; developmental; transformational, empowering and participatory; dynamic and evidence-based; balanced and cost effective; and integrated and aligned.

In terms of adaptation, the National Climate Change Response includes a risk-based process to identify and prioritise short- and medium-term adaptation interventions to be addressed in sector plans. The process will also identify the adaptation responses that require coordination between sectors and departments and it will be reviewed every five years. For the immediate future, sectors that need particular attention are water, agriculture and forestry, health, biodiversity and human settlements. Resilience to climate variability and climate change-related extreme weather events will be the basis for South Africa's future approach to disaster management and we will use region wide approaches where appropriate.

South Africa's approach to mitigation, which is addressed by section 6 of the response policy, balances the country's contribution as a responsible global citizen to the international effort to curb global emissions with the economic and social opportunities presented by the transition to a lower-carbon economy as well as with the requirement that the country successfully tackles the development challenges facing it.

The key elements in the overall approach to mitigation are:

- Using a National GHG Emissions Trajectory Range, against which the collective outcome of all mitigation actions will be measured;
- Defining desired emission reduction outcomes for each significant sector and sub-sector of the economy based on an in-depth assessment of the mitigation potential, best available mitigation options, science, evidence and a full assessment of the costs and benefits;
- Adopting a carbon budget approach to provide for flexibility and least-cost mechanisms for companies in relevant sectors and/or sub-sectors and, where appropriate, translating carbon budgets into company level desired emission reduction outcomes.
- Requiring companies and economic sectors or sub-sectors for which desired emission reduction outcomes have been established to prepare and submit mitigation plans that set out how they intend to achieve the desired emission reduction outcomes.
- Developing and implementing a wide range and mix of different types of mitigation approaches, policies, measures and actions that optimise the mitigation outcomes as well as job creation and other sustainable developmental benefits. This optimal mix of mitigation actions will be developed to achieve the defined desired emission reduction outcomes for each sector and sub-sector of the economy by ensuring that actions are specifically tailored to the potential, best available solutions and other relevant conditions related to the specific sector, sub-sector or organisation concerned;
- The deployment of a range of economic instruments to support the system of desired emissions reduction outcomes, including the appropriate pricing of carbon and economic incentives, as well as the possible use of emissions offset or emission reduction trading mechanisms for those relevant sectors, sub-sectors, companies or entities where a carbon budget approach has been selected.
- A national system of data collection to provide detailed, complete, accurate and up-to-date emissions data in the form of a Greenhouse Gas Inventory and a Monitoring and Evaluation System to support the analysis of the impact of mitigation measures.

**This business case is based on the premise that MSMEs can make a significant contribution to the country's climate change objectives in line with National Climate Change Response, whilst also contributing to economic growth and development. As noted by the OECD (Issue Paper 33, 2010), this will involve greening traditional sectors and favouring the transition of all economic actors, both producers and consumers, towards a low carbon development. It is well known fact that many MSMEs participate actively in the sectors that are the focus of recent green oriented**

policies, such as renewable energy production, smart metering, building refurbishment, cleaner cars, wind and solar installations, and battery development etc. (IEA, 2009). However, for MSMEs and entrepreneurs to fully participate in the transition towards sustainable economic patterns and seize the opportunities arising, it is essential that the main barriers to green growth are identified such as access to finance. We are of the strong view that Supply Chain Finance offers an innovative mechanism of ensuring that MSMEs fully participate in the efforts towards low carbon growth in South Africa and benefit from policy changes to support climate mitigation and adaptation measures. The rationale for this approach and the need for such funding must be understood in the broader context of the Green economy in South Africa and the role of MSMEs in this regard especially its potential impact on CO2 reductions which is unpacked in section E.

Thus the below sections are structured in the following way:

- firstly the South African environmental challenges are presented in the context of economic growth
- the government intent, through policies, to use promote the green economy is presented
- key drivers of MSMEs participation in the green economy
- lack of access to finance for MSMEs is presented

### **The South African environmental challenges in the context of economic growth**

The Europe 2020 Strategy recognises the central role of the transition towards a green, low carbon and resource efficient economy in achieving smart, sustainable and inclusive growth. The inefficient use of resources, the unsustainable pressure on the environment, and climate change, as well as social exclusion and inequalities pose challenges to long-term economic growth and an alternative growth model going "beyond GDP" has been on the agenda for many years. South Africa is no exception in this regard. In fact, the country's current economic growth model is heavily resource and energy-intensive, aggravating pressures on the environment and the threat of climate change. South Africa is the world's 13th largest greenhouse gases emitter while only ranking 29th and 70th in terms of gross domestic product (GDP) and GDP per capita.

On the other hand South Africa is in a unique position to exploit the emergence of green economic development in the world. The country's renewable resources abundance (solar and wind predominantly) and biodiversity positions it to play a leading role in the Southern African region and in Africa. In addition, if supported by an enabling environment, green sectors have the potential to foster South African shift to low carbon and sustainable development, which would also contribute to employment creation.

### **South African government green economy policy framework**

Since 1994, South Africa has achieved far-reaching political, economic and social changes, and has shown an increasing commitment to sustainable development. Along with its involvement in international negotiations, it has developed its own national framework for a shift to a green economy. South Africa recognises sustainable development as a human right in the Bill of Rights of its 1996 Constitution (Republic of South Africa, 1996) and also committed to achieving the Millennium Development Goals, which include environmental sustainability as a target (United Nations, 2000). The country is a Party to both the Kyoto Protocol and the United Nations Framework Convention on Climate Change (UNFCCC) and has made commitments under the Cancun Agreement for its greenhouse gas emissions to "peak, plateau and decline", with reductions in emissions compared to a "business as usual" scenario of 34% in 2020 and 42% in 2025. South Africa is also Party to many international conventions and agreements on biodiversity (such as the Convention on International Trade in Endangered Species of Wild Fauna and Flora, the Convention on Biological Diversity, the International Convention for the Regulation of Whaling and the Ramsar Convention on Wetlands of International Importance) and pollution issues (such as the Basel Convention on the Control of Trans-boundary Movement of Hazardous Wastes and their Disposal, the Stockholm Convention on Persistent Organic Pollutants and the Montreal Protocol for the Protection of the Ozone Layer).

The South African framework which guides the development of a green economy and, as a result, contributing significantly to climate change initiatives in the country essentially consists in nine key texts. Table 1 provides a chronological overview of these policies and measures, summarising their relevant goals, current (mid-2012) progress and the nature and level of civil society involvement in their establishment.

Table 2: Review of some of the key climate change-related policy and legal measures in South Africa

Policies and measures	Main goals	Progress (mid-2012)	Civil society involvement
<b>Framework for Environmental Fiscal Reform (NT, 2006)</b>	Provides principles and guidelines for fair and effective environmental taxes	Taxes and levies have been implemented on plastic bags, incandescent light bulbs, ecosystem restoration costs related to water use, liquid fuel, non-renewable electricity and new vehicle carbon dioxide emissions performance	A paper on carbon tax was published in 2010 for public consultation
<b>Innovation Plan (DST, 2008)</b>	Includes “safe, clean, affordable and reliable energy supply” and climate change as priorities	Support for innovation in electric vehicles, fuel cells and carbon capture and storage, but cancellation of the country’s largest clean energy R&D programme (the Pebble Bed Modular Reactor) and delay in the implementation of renewable energy demonstration projects (e.g. solar tower)	Limited
<b>Medium-Term Strategic Framework 2009-2014 (NPC, 2009)</b>	Notes the need for sustainable livelihoods and sustainable resource management and relates these to various other policy areas including energy, water, housing, technology and competitiveness	Numerous policy responses implemented in line with the Medium-Term Strategic Framework, particularly the NSSD, the creation of an enabling environment for renewable energy, several water management projects and the National Climate Change Response.	Limited
<b>Industrial Policy Action Plan (the dti, 2010, 2011 and 2012)</b>	Specifically targets growth in green industries, focusing on solar water heaters (SWHs), but also includes other solar and wind energy, biofuels, electric vehicles and organic farming	Around 200 000 SWHs installed by mid-2012 and a procurement process started for around ZAR 120 billion worth of large-scale renewable electricity generation	Some consultation via NEDLAC
<b>New Growth Path (EDD, 2010)</b>	Targets the growth of a green economy, resulting in 400 000 new and additional jobs	Enabling regulation passed in other departments	Government, business and civil society signed the Green Economy Accord in 2011, which details (mostly already-existing) support measures
<b>Integrated Resource Plan 2010-2030 (DoE, 2011)</b>	Limits emissions from electricity generation to 275 Mt per year Expects renewable energy to make up 42% of all new electricity generation over the next 20 years	Procurement of renewable energy under the plan is on track, but procurement of nuclear energy has been delayed by at least a year	Large public participation, including inputs on modelling parameters and a first draft of the plan

<p><b>National Climate Change Response (Republic of South Africa, 2011)</b></p>	<p>Endorses and quantifies South Africa's greenhouse gas emissions limits/commitments. Aims to grow green jobs while limiting job loss in unsustainable industries</p>	<p>South Africa had already made a (voluntary) emissions commitment and approved an emissions-limited energy plan (Integrated Resource Plan 2010-2030) prior to the publication of the policy</p>	<p>Significant public consultation, starting with the multi-stakeholder Long-Term Mitigation Scenarios process in 2007</p>
<p><b>National Strategy for Sustainable Development (DEA, 2011)</b></p>	<p>A large variety of indicators and goals spanning social, economic and environmental issues, but no budgets, timelines or responsibilities</p>	<p>Strategy published and annual publication of sustainability indicators (different from the ones in the strategy)</p>	<p>Public consultation on a draft NSSD since 2009.</p>
<p><b>National Development Plan (NPC, 2011b)</b></p>	<p>The NDP is very specific about goals and focuses on energy and carbon: greenhouse emissions to peak in 2025 and introduce carbon budgeting an economy-wide price for carbon and incentives for energy efficiency and managing waste better. 5 million SWHs by 2030 vehicle emission standards, zero-emission building by 2030 simplify the regulatory regime for contracting about 20 000 MW of renewable energy by 2030</p>	<p>Greenhouse gas emissions may already be higher than levels committed to for stabilization in 2025. A carbon tax with exemptions is expected in 2013. SWH installations stand at just over 200 000 in 2012 (compared to the targeted 1 million by 2014/2015) Tax on carbon dioxide emissions of motor vehicles and new building energy efficiency regulations implemented Procurement has started on the first 3.7 GW of electricity supply from renewable energy out of a plan for 17.8 GW by 2030.</p>	<p>The NPC is guided by nominated Commissioners from outside of government (and business for the most part) and consulted publicly on the Development Plan based on an initial publication of a Diagnostic document.</p>

Overall it is clear that South Africa has a very large number of policies and strategies in place with respect to the green economy, many of which originated before the concept even came into widespread use (around 2009/2010). It is notable that the policies were often developed from the bottom up, i.e. a more holistic document was informed by one (or several) dealing with a more specialized aspect, for example, the NSSD and the National Development Plan (NDP) were both developed after the electricity, industrial policy and economic development plans which would be informed by it.

Sector- and time-specific policies complement the South African framework. Policies related to waste management, biodiversity, energy efficiency (standards in particular), solar water heating, water conservation and demand management, and public transport have been implemented in the recent years to support the shift to a green economy. Various government initiatives also exist at the provincial and local levels (for example provincial green economy or green industry strategies in Gauteng, Western Cape and KwaZulu-Natal). In addition, the Framework for South Africa's Response to the International Economic Crisis, published in February 2009 as a result of the combined effort of government, business and labour (facilitated by NEDLAC), was the first economic policy document to directly mention green jobs (Republic of South Africa,

2009). It has triggered substantial green investment, particularly in renewable energy (to the value of ZAR 120 billion) and transport (including rail in the order of ZAR 100 billion).

Last but not least, the South African government has implemented a comprehensive monitoring system, the 12 Outcomes Framework, developed by the Department of Performance Monitoring and Evaluation, a dedicated department created in 2010 in the Presidency. This framework, which identifies the goals to reach, the means to achieve them, and the tools to assess progress, determines 12 outcomes (system-wide results) covering all spheres of sustainable development (education, health, safety and security, employment, skills, infrastructure, rural development, human settlement, local government, environment, international relations, and public service) and reflecting the desired development impacts that the government seeks to achieve. Each outcome is clearly articulated with key activities and measurable outputs and sub-outputs. A large set of specific indicators (overlapping the development indicators published annually by the Presidency), associated with targets for 2014/2015, is used to measure the progress. The green economy is reflected throughout the framework, in addition to specific mentions in the employment and environment outcomes (DPME, 2010).

As a result, possibly the major challenge for green economy initiatives – as with many others in government – lies in coherence among multiple policies and coordination among the various departments and other government actors (like Eskom, the South African electricity public utility) responsible for its implementation. The policies implemented generally involved public consultation during the formulation, with significant levels of public involvement particularly with respect to climate change policy. In terms of implementation, while there has been an initial lag in the meeting of clean energy (energy efficiency and renewable energy) targets, these have started to be addressed since 2011. Procurement of renewable energy in particular is expected to result in investment worth ZAR 120 billion in the first round alone, rising in time to over ZAR 500 billion. Ecosystem-related public employment programmes have been successful for some years and are widely cited as best practice, even though their scale remains small compared to the economic and unemployment challenge.

#### **Drivers of MSMEs participation in the green economy**

- The sector is relatively new, thus by definition many of the players are new. Thus MSMEs do not have to fight off incumbents
- There is significant drive for government to reduce emission, leading to carbon credits etc.
- Large companies and government entities are incentivized to go green, they need MSMEs to do installations, projects too small for large companies
- In case of renewable energy, large companies mostly focus on large REIPPP projects
- The renewable energy production comes in any size type, from a small production for a single house to large plans. This means the scope for MSMEs is huge.
- Traditional energy costs increasing, whilst renewable energy costs coming down
- Access to energy, especially in the rest of Africa
- Security of supply of energy

#### **Lack of access to finance for MSMEs**

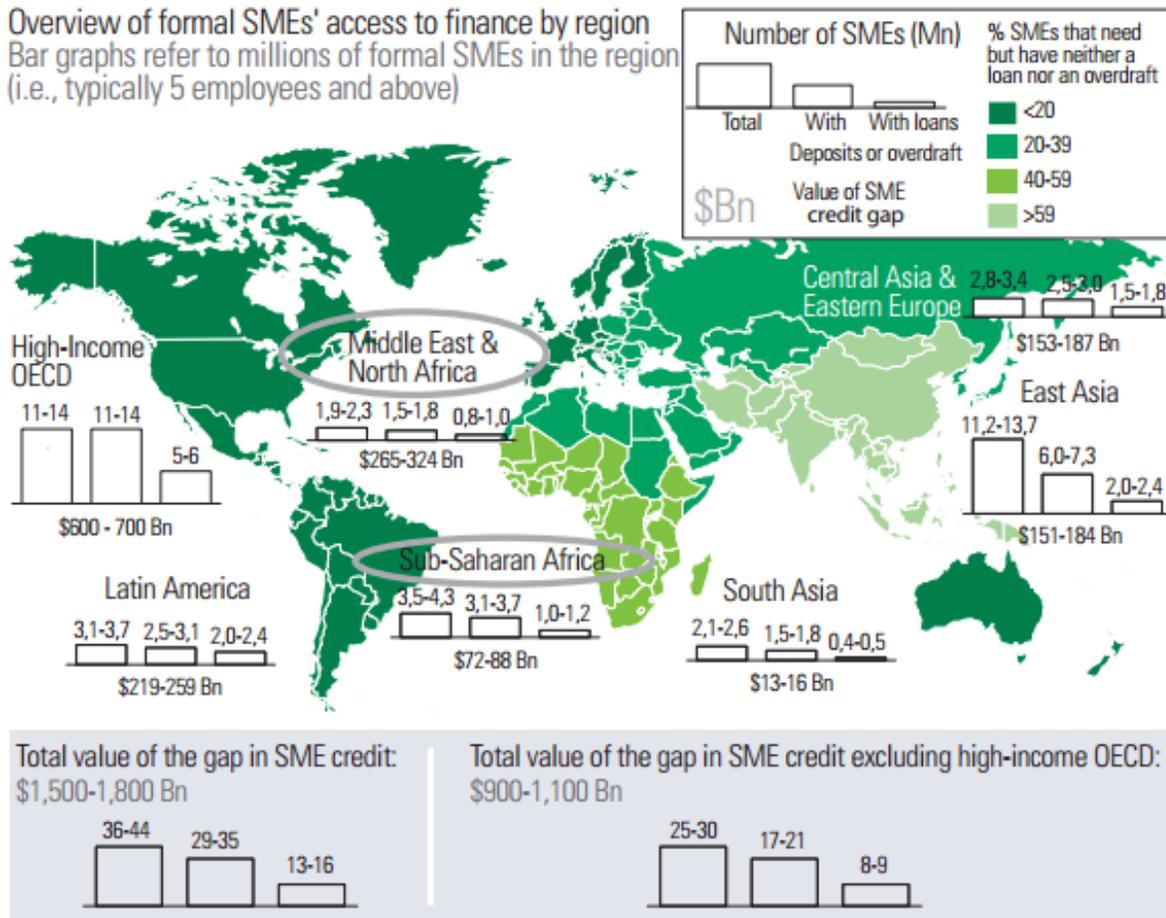
Despite the opportunities in the low-carbon sector and the various steps taken by government to promote the Green Economy over the years, a number of key challenges have been identified that negatively affect the growth of MSMEs in this sector such as the regulatory environment and shortage of skills. However, Limited Access to Finance still remains a major challenge facing MSMEs in the South African market especially the Green sector as noted in the section below. There seems to be a mismatch of what is currently being offered by the Government and traditional Finance Institutions and what the Green MSME needs are. The majority of small and medium enterprises are anyway discouraged in applying due to the stringent qualifying criteria's compared to the scale at which small manufacturers operate. The trade-off between the time spent in trying to access the finance market and the time actually needed to run the business does not leave much space for bureaucratic (even if needed) procedures.

The market size of SME lending is very big. The African Development Bank's "Financial Inclusion in Africa" report estimates the SME funding gap in Sub-Saharan Africa at between USD100bn and USD120bn (i.e. over a one trillion rand) per annum. The report finds that the funding gap in Africa is "particularly acute" for small firms with typically fewer than nine employees, small and medium firms with one or more women owners and firms operating in the informal sector. These firms are

constrained in getting finance from formal institutions by their limited ability to offer collateral, and lack of information about their financial situation and solvency.

The World Bank Enterprise Surveys data shows that about 80% of SMEs in Africa finance investments themselves, around 3% through supplier credit and only 8% through banks. A similar 2010 study of small businesses by Finscope found that 75% of applications for credit by new businesses were rejected. Only 2% of SMEs were able to access loans and just 2% of businesses seeking private equity succeeded.

The below picture shows MSMEs financing gap across the world by region



Source: IFC Enterprise Finance Gap Database (2011).

It is estimated that SMEs contribute 50% to GDP and almost 40% of jobs in South Africa  
Government's focus is on providing support to SMEs to enable job creation and economic development:  
National Development Plan (NDP)

- Target of 11 million jobs by 2030 is based on creation of SME\* jobs
- The NDP makes the proposal that 90% of the jobs will be created in SMEs.
- NDP expectation therefore that 9,9 million jobs will come from SME's

Ministry of Small Business Development

- Recently established ministry
- To promote small business development

Despite the recognized importance of the SME sector, evidence indicates that SMEs continue to be undersupplied with the financial products and services that are critical to their growth. In global surveys, including the World Bank's Enterprise Surveys and Investment Climate Assessments, SMEs report that the cost of finance is their greatest obstacle to growth and rank access to finance as another key obstacle.

While these constraints are more acute in developing countries, SMEs in any environment are nearly one-third more likely than large firms to rate financing constraints as a "major" growth obstacle. In low-income countries, this means that nearly half of small firms report being severely constrained by financing difficulties.

In South Africa, the number of SMEs estimated to be between 1 and 3 million in South Africa. Excluding micro-enterprises, it is estimated that there are 250 000 to 650 000 enterprises. Depending upon age of business, significant portion of those rely on own finance to finance from friends to get by. As they become more developed they rely on VC and Angel Investors. Once fully established and with history of operational performance they rely more heavily on PE investors and the banking sector. The Problem Is Further Compounded In That Many SMEs Are Being Formed By Previously Disadvantaged Individuals Who Find It Difficult Accessing Any Of These Markets Especially Due To Lack Of Business Skills And Collateral.

While large businesses can access the growing market for debt financing, small businesses are reliant on banks and specialist finance and leasing businesses, which have become conservative in their lending practices since the 2008 crash. Small firms have consistently reported that credit is either refused or is offered at high prices by the major lenders. When traditional banks downscale their operations to serve the SME market, higher transaction costs and undefined risk management strategies are seen to be a major obstacle. In fact research reports indicate that poor business skills and financial management contribute significantly to small business failure in addition to a lack of access to finance. This makes the market too risky for traditional banks to service adequately

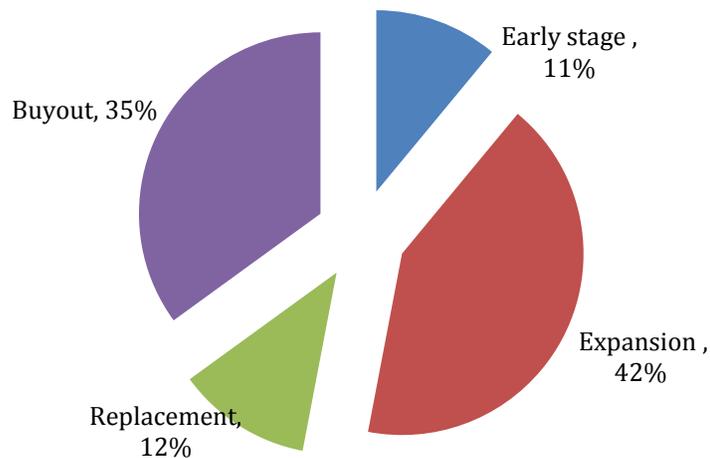
For start-ups, micro-enterprises, entrepreneurs from previously disadvantaged communities or any other group with limited collateral or weak (or limited) credit histories, access is more limited

World Bank research covering 91 banks in 45 countries found that:

1. The financial assessment of the business is the most important consideration across all types of firms
2. Overall, a firm's credit history with the bank is the second most important criterion, with the owner's characteristics and the purpose of the loan being next in importance
3. At least three-quarters of banks require collateral to make business loans

According to recent SAVCA surveys, private equity firms in South Africa invest only 11% in early stage businesses. If Business Partners' investments are excluded, the total average deal size during 2013 was R72.6 million (2012: R48.9 million). The average deal size is indicative that most private equity firms focus on higher value, larger type deals with little focus on small business or the SME sector

**Investments made**



Excluding Business Partners, most private equity firms conclude less than 5 deals per annum. This is clearly too few deals to address the need to fund small businesses – private equity funds thus don't have capacity to address the small business funding market even if they wished to. Venture capital (VC) is financial capital provided to early-stage, high-potential, growth startup companies.

While venture capital can provide a means for small business to access finance, the venture capital market in South Africa has seen a long period of declining activity. In addition venture capital firms usually focus on technology type businesses, which excludes the majority of the population of small businesses. A SAVCA venture capital survey indicated that in 2012, transactions were concluded in each of the main sectors of the economy with the largest recipient being Information and Communication Technologies (35%), followed by Life Sciences (health, pharma and medical devices; 25%).

**C.2. Project / Programme Objective against Baseline**

*Describe the baseline scenario (i.e. emissions baseline, climate vulnerability baseline, key barriers, challenges and/or policies) and the outcomes and the impact that the project/programme will aim to achieve in improving the baseline scenario.*

The following sectors have been identified as potential key priority sectors for supply chain finance in the green economy landscape in South Africa, where the programme will play an important catalytic role in supporting MSME in these sectors.

**Rural energy including mini-grid and off-grid (Low Carbon Economy)**

Given the robust and favourable policy environment surrounding renewable energy, the programme can catalyse more investment from the private sector in renewable energy through supporting MSMEs who provide services to municipalities in Public Private Partnerships (PPPs). Furthermore, support for municipal leadership in renewable energy can help increase local participation through encouraging local innovation and entrepreneurship and soliciting local manufacturing.

Support will also be directed towards other renewable energy projects that require less catalytic funding but can have a large impact e.g. rural off grid and mini grid energy and the development of biogas and biofuels. Energy access is an issue of major concern in South Africa, where most of the rural population still remains very vulnerable, with very low level of access to basic services such as water and sanitation, employment opportunities and food security. It is on this basis that the various government policies have made pronouncements on the need to build inclusive societies (NDP) and build sustainable communities (NSSD). The Medium Term Strategic Framework (MTSF) specifically states that there is a need to build "vibrant, equitable, sustainable rural communities contributing towards food security for all.

Sustainable energy solutions for rural communities is at the nexus of building inclusive societies, and considering that extending the grid to rural communities may not be cost effective in the short- to medium-term, promoting energy solutions such as solar PV, wind power and bio-digesters may help to improve energy access in rural communities in the interim.

This sub-theme is also directly linked to the development of rural adaptation plans that is critical for building rural community resilience and for harnessing ecosystems services. The rural adaptation plans sub-theme also received very few applications, despite it being critical for activating local economies and testing models that help to promote grassroots interventions and solutions.

### **Biogas and biofuels (Low Carbon Economy)**

The significance of the biofuels and biogas sector is that it is closely linked to building resilience in rural communities, as it will encourage smallholder agriculture. For example biogas generation could utilize manure from animals such as cows, pigs, goats and poultry, which is linked directly to agricultural production. Considering the need for sustainable farming practices, generating energy from biogas could contribute to cutting emissions from the agricultural sector in South Africa.

By the time the pricing regulations were published, only 4 biofuels and biodiesel companies were licensed. It was difficult to ascertain from current available information, how many companies are active in the bio-energy sector in South Africa, and the amount of financial resources invested. The Southern Africa Bio-energy Association (SABA), which purports to promote the establishment of a biofuels industry in South Africa, has a membership of close to 50 companies, which is a good indication of interest in the sector.

Despite the impetus provided by the Final Biofuels Strategy and great energy and investment from the private sector, the South African biofuels industry has remained nascent - possibly due to the persistence of the view that biofuels projects are unattractive due to the relatively low cost of crude oil. However the introduction of mandatory blending of biofuels with petroleum product in October has created the needed impetus. The Final Biofuels Strategy provides for a 2% (or 400 million liters per annum) penetration level of biofuels in the national liquid fuels supply - revised down from the 4.5% blending target that was proposed in the draft Biofuels Strategy. For the stated purposes of food security and environmental concern, the Final Biofuels Strategy proposes the following crops for the production of biofuels in South Africa: 6

- sugar cane and sugar beet in order to produce bioethanol; and
- sunflower, canola and soya beans for purposes of producing biodiesel.

*It should be noted that the pilot phase of the SCF programme has already started financing 2 MSMEs in biofuels and with GCF funding we will be looking at expanding involvement in this important sector.*

### **Sustainable water management (Green Cities and Towns)**

South Africa is a water-stressed country, with many of its economic hubs located in water stressed regions that are projected to suffer from severe water shortages with major implications on the economy. Effective implementation of water conservation and demand management measures will be critical in ensuring that cities adapt to the potential risks posed by lack of water availability and poor quality. At present a significant amount of water is lost as a result of poor water infrastructure, and opportunities exist for innovative partnerships between the private and public sector to address this challenge. The push for water demand management by local authorities may also stipulate the installation of water saving devices, which could potentially stimulate a potential manufacturing of such devices, which however requires incentives for such initiatives to take off.

Based on the water challenges that the country faces, and potential risk water scarcity poses to various sectors including the private sector, there is an opportunity for the programme to catalyze projects that promote green innovations in the water sector in South Africa. Such innovations should not only be limited to technologies, but also include green business model innovations (GBMI), that help companies to manage their water-related risks but with significant impacts at the landscape level.

### **Sustainable human settlements, the built environment and green buildings (Green Cities and Towns)**

Current projections show that by 2050 close to 80% of South Africa's population will be living in cities and towns, which presents a major challenge for service delivery. Cities are already burdened by the large informal sector, and the need to provide basic services including housing, water and sanitation. Most of these responsibilities lie with local government authorities that are poorly capacitated to deal with these challenges.

Sustainable human settlements and the built environment and green buildings is therefore a key sector within the green

economy landscape, that is key for addressing the triple challenge of environmental sustainability, social equity and economic development. *The programme will play a key role in stimulating this sector by promoting private sector participation, testing new models for sustainable housing and building local government capacity.*

### **Industrial cleaner production and consumption (Low Carbon Economy)**

The manufacturing sector is important for South Africa's economy, because of its role in sustainable job creation. However the sector is also responsible for significant CO<sub>2</sub> emissions and pollution. As a result there is need for the manufacturing sector to adopt cleaner production measures that are more resource efficient and reduce waste discharge into the system.

The South African government recognized the importance of this sector and established the National Cleaner Production Centre (NCPC). The goal of NCPC is to enhance the competitiveness of the manufacturing sector by promoting energy efficiency and waste minimization. The NCPC is playing a critical role in promoting sustainable practices within the manufacturing sector, but unfortunately this effort is not adequate. Industrial energy audits done by the Private Sector Energy Efficiency, a program sponsored by the Department of Energy and the Carbon Trust, identified more than 2 000 possible savings interventions or opportunities in some 360 of the medium and large companies audited to date. Implementation of these opportunities would save an estimated 115 MW of grid capacity and result in lifetime carbon savings of 3.7 million tonnes of CO<sub>2</sub> equivalent (MtCO<sub>2</sub>e). These numbers excludes opportunities in government owned facilities, however the government's strategic goal is to reduce energy consumption in their facilities by 12%. The average payback period for the interventions is marginally over two years, with more than two-thirds of the interventions having paybacks of less than two years. Less than 5% of the opportunities have been intervened.

*SCF Capital Solutions has already started with the NCPC to implement industrial energy efficiency and waste management programmes.*

### **Ecosystem services**

A significant amount of research on ecosystem services has been conducted in South Africa, including ecosystems valuation and ecological infrastructure mapping techniques. However, very limited actual ecosystem services that promote actual investments have been conducted in South Africa. The DBSA Green Fund has provided funding for two such projects during the research window (RFP2). However, there is a need to support more of such projects, but under project finance instead of the research window, since significant research work has already been carried out on ecosystem services research in the country. *The programme will look at actual payment for ecosystem services, preferably linked to water. In this case this theme would be linked to that of sustainable water management.*

### **Solar water heating**

Water-heating accounts for a third to half of the energy consumption in the average household ([www.energy.gov.za](http://www.energy.gov.za); Department of Mineral Resources, 2007). In South Africa, water heating is derived mainly from electricity, being the most common energy-carrier employed. The equivalent of a large coal-fired power station (2 000 MW+) is used to provide hot water within the domestic sector alone ([www.energy.gov.za](http://www.energy.gov.za); Department of Mineral Resources, 2007). Government's target is to install 5 million SWHs by 2030. SWH installations stood at just over 200 000 in 2012 (compared to the targeted 1 million by 2014/2015). In December 2015 the Department of Energy relaunched the project, MSMEs have be contracted to manufacture and install the heaters. *The program will look to providing working capital to many of these MSMEs*

### **Sustainable Agriculture and Agro processing**

The agricultural sector has a key role to play in a green economy. The sheer size of the sector (in terms of land area and use of resources such as water), its impacts on the environment, and its direct role in the well-being of people, places it at the centre of the green economy globally and in South Africa. Agriculture currently uses 12% of the world's land surface for crop production (arable land and land under permanent crops), and accounts for 70% of all freshwater withdrawn from aquifers, streams and lakes (FAO, 2012b). About 80% (100 million hectares) of the land area of South Africa is used for agriculture, but only approximately 11% of the total area of South Africa is arable (suitable for cropping) (DEAT, 2006; World Bank, 2013). Agriculture is a key water user in South Africa, with about 62% of the country's surface water being used for irrigation (Statistics South Africa, 2010). Globally, the agriculture sector as a whole provides livelihoods for 40% of the world's population (CGIAR, 2012). In South Africa, the primary agricultural sector contributes about 3% to the country's gross domestic product (GDP) and provides about 7% of formal employment (DAFF, 2010).

The relationship between agriculture and the green economy has been summarised by the United Nations Food and Agriculture Organisation (FAO) (FAO, 2012a) in a concept note prepared for the Rio+20 conference as; “The single largest sector using 60% of the world’s ecosystems and providing livelihoods for 40% of today’s global population, the food and agriculture sector is critical to greening the economy. There will be no green economy without agriculture”.

To improve efficiency, the agricultural sector has to investigate how best to meet demands for increased outputs in a way that is more efficient in its use of resources, and less damaging to the environment (i.e., to decouple agricultural production from resource use and environmental degradation). In addition, agriculture should also create sustainable livelihoods<sup>4</sup> for farmers and others along the supply chain (Farming First, 2013). According to Africa post-harvest loss index, losses for tubers and roots were at 10-40%, fruit and vegetables at 15-44%, and fish and seafood at 10-40%.

*The pilot phase of the SCF programme has started financing an MSMEs in sustainable agriculture and with GCF funding we will be looking at expanding involvement in this important sector*

### C.3. Project / Programme Description

*Describe the main activities and the planned measures of the project/programme according to each of its components.*

#### Funding mechanism

We will leverage on Supply Chain Finance techniques, i.e. risk assessment based on strength of the ecosystem (operational risk), instead of the balance sheet (credit risk), to finance SMEs. According to International chamber of Commerce surveys;

- Default Rate on short term trade finance loans does not exceed 0.06%
- “Whilst the default rate for MLT transactions is already relatively low (less than 50% of Moody’s published corporate default rates), the ECA coverage further contributes to the overall low risk of these products” - *ICC Trade Register Report 2015*

**The International Chamber of Commerce (ICC) Banking Commission has released its 2015 Trade Register – illustrating the favourable risk profile of trade finance.**

Now in its fifth year, The International Chamber of Commerce (ICC) Banking Commission's Trade Register - which includes 13 million transactions from 2007-14, and encompasses a total exposure of over US\$ 7.6 trillion - has been released today, highlighting the low risk nature of trade finance.



In particular, it shows that Short Term (ST) trade finance has default rates that only reach, on average, one fifth of comparable Moody’s default rates. The Moody’s default rate across 2008-14 in the investment grade rating universe was 0.11%. By comparison, the Trade Register shows that the exposure weighted default rate for export letters of credit (LCs) was 0.02% over the same period, and the transaction default rate for export LCs was as low as 0.01%. Even the default rate for ST loans for import/export, which is the highest across any of the products, was 0.06%.

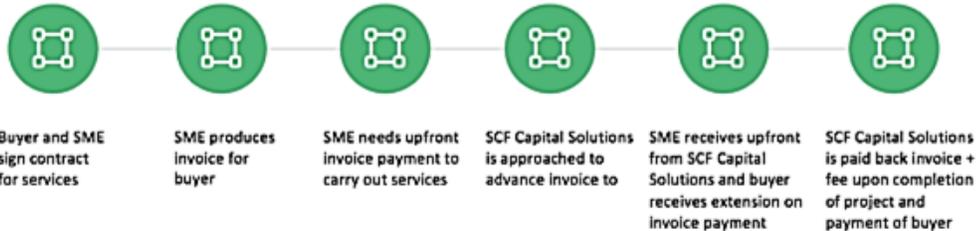
The 2015 Trade Register also suggests that Medium- to Long- Term (MLT) trade finance is low risk. The default rate for MLT transactions is less than 50% of the default rate of comparable Moody’s corporate credit portfolio, and the Export Credit Agency (ECA) coverage that backs MLT products further contributes to their low risk.

#### 5 Pillars of the Credit Programme Model:

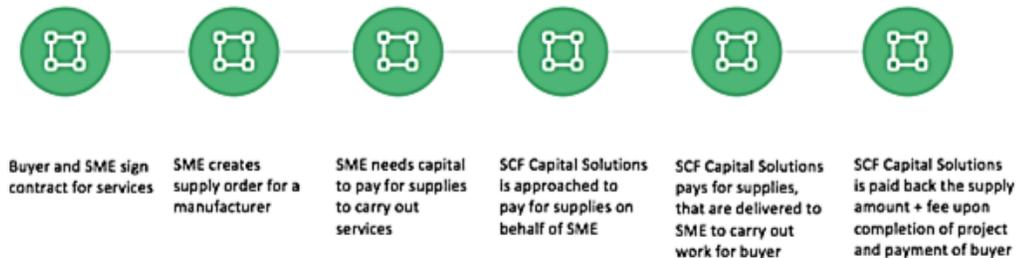
1. Assessing the bankability of the transaction: Ensuring that the transaction makes sense from a business and economic perspective.
2. Assessing the buyer’s credit risk: Ensuring that the buyer will be willing and able to pay.

3. Assessing the SME's ability to perform: Ensuring that the SME has the credibility, skills and experience to perform on the contract, as well as due diligence on the manufacturer, buyer, and logistics of the corresponding contracts.
4. Transaction risk and cash flow structuring: Putting together a financing structure based on the specific transaction details.
5. Credit administration: Administering the financing conditions via the Credit Administration.

INVOICE CAP



SUPPLY CAP



Provide information on how the activities are linked to objectives, outputs and outcomes that the project/programme intends to achieve. The objectives, outputs and outcomes should be consistent with the information reported in the logic framework in section H.

The detailed activities for the programme with the respective outcomes are outlined in section H.

#### C.4. Background Information on Project / Programme Sponsor (Executing Entity)

Describe the quality of the management team, overall strategy and financial profile of the Sponsor (Executing Entity) and how it will support the project/programme in terms of equity investment, management, operations, production and marketing.

- **SCF Capital Solutions will be the Fund Manager and the SCF Fund will be the executing entity.**

##### How SCF Capital Solutions was selected for the Fund Manager role:

The National Green Fund in its normal course of business received a proposal from SCF Capital to provide supply chain finance for MSMEs in the green space. This proposal from SCF Capital was seen by the National Green Fund as a useful tool to address the challenges MSMEs graduating out of Green Fund funded incubators where experiencing, with regard to access to financing. The SCF capital proposal was taken through the normal due diligence, appraisal and approval processes of the National Green Fund. It was then approved by the Management Committee on the condition that SEFA will co-fund on an equal basis.

The proposal was then successfully taken through the SEFA approval process. The essence of the approval was that the facility will be run on a pilot basis with the understanding that if successful it would then be launched for full implementation

and that other funders would be roped in. The strength of the SCF Capital proposal to the National Green Fund and SEFA was the innovation and the individual track record of the two key members of the SCF Capital team.

- Find attached submission to National Green Fund management committee and record of decision.

### **Brief Overview of SCF Capital:**

SCF capital Solutions is relatively new, it was established in 2015. It was capitalized by the founder for approximately R1mil as part of the pilot project which was funded by the DBSA and SEFA. SCF experience is mainly the work done with regard to the supply chain finance pilot programme (the strength is in the expertise and experience of the key team members).

- The business currently has 6 staff members
  - Senior staff
    - Bob Blower – Chairman
    - Vonani Mabunda – CEO
    - Nomvula Mabunda – COO
    - Mfundo Nesi – Head of Sales
  - Junior Staff
    - Khumo Motsisi – Operations officer
    - Athenkosi Mtirara – junior sales manager
- Post-launch the size of team will progressively be increased

### **Role of SCF Capital Solutions: Fund Manager**

The principals of SCF Capital Solutions

#### **Bob Blower                      Non-Executive Chairman**

Bob is the co-founder and Non-Executive Chairman of SCF Capital Solutions. Bob is also a Network Relationship Director for Transpay, a leading US Fintech company covering P2P and B2B payments. Prior to his current roles, Bob was Head of Trade Channels for National Bank of Abu Dhabi, where he delivered supply chain finance products including insured receivables, payables and receivables as part of the trade working capital vision of the National Bank of Abu Dhabi. Bob also previously served as Global Head of Trade Finance and Financial Institutions at Standard Bank, Global Head of Trade and Supply Chain IT at HSBC, Director at Logica, Director at Gresham and the British Banker Association. Bob is an experienced business and technology specialist with more than 20 years of banking and corporate experience in new product development and implementation covering all areas. Bob has written papers, spoken at seminars across the globe, covering a wide range of subjects and has been interviewed by BBC on LIBOR.

#### **Vonani Mabunda              Co-Founder and CEO**

Vonani is the co-founder and CEO of SCF Capital Solutions. Prior to founding SCF Capital Solutions Vonani was The Principal and Head of Lending Products at Barclays Africa Business Banking, responsible for all the bank's lending activities to small businesses. Prior to joining Barclays Vonani was with Standard Bank Corporate and Investment Bank where we held the various roles: Head of Supply Chain Finance for the group, Head of Risk for Transactional Banking, Head of Operational Risk for International Trade Services division. Prior to joining Standard Bank he served 6 years at Citibank where notably he was involved in starting a fiduciary unit at Citibank Frankfurt in Germany, Head of Trade Operations and Head of Trade Sales at Citibank South Africa. Vonani has a BSc Engineering Degree from Wits University and an MBA from the Gordon Institute of Business Science (GIBS).

**N Mabunda is the Chief Operations Officer.** She is responsible for the back-office, financial and business administration  
Nomvula Mabunda, Operations Head

Nomvula is responsible for planning, directing and managing the performance of all internal operations and ensuring that strategic business objectives are put into practice. Prior to SCF, Nomvula was with Citibank in South Africa for 8 years, where she held various roles: Client Service Manager and Citi Service Head for South Africa for Global Transaction Services, Relationship Associate and Relationship Manager to multinationals in Client Coverage. She is an experienced banker with top tier corporate customers and has a solid knowledge of the local and international banking environment. Nomvula holds a BSc Mathematical Sciences degree from the University of Johannesburg and a Higher Diploma in Banking from Milpark Business School

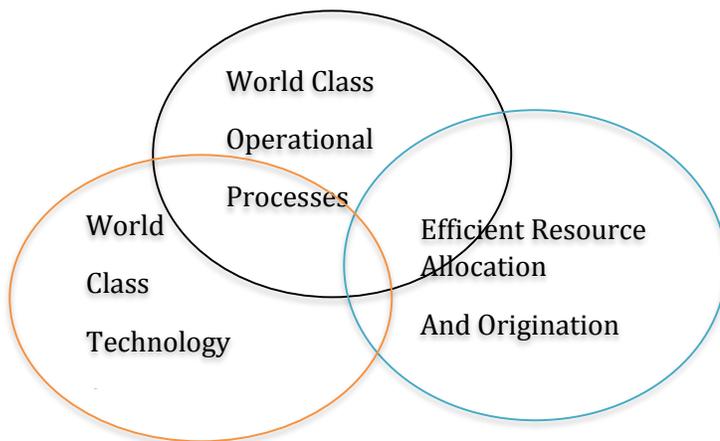
**Mfundo Nesi: Head of Sales**

Mfundo is responsible for developing and delivering the sales strategy, representing the company in client and industry engagements and achieving targeted growth. Before joining SCF Capital Solutions Mfundo was Area Manager - Inland Regions for Gidani (lottery operator) where he was responsible for the optimal performance of the four inland regions (Gauteng, North West, Limpopo & Mpumalanga, Free State & Northern Cape), and had 45 people working under him. Prior to that he held various business development and relationship management roles at British American Tobacco. Mfundo has a BCom in Information Systems and a Certificate in Basic Financial Management from the University of Cape Town.

SCF is currently looking at enhancing the team capacity by identifying and recruiting high caliber business development executives and managers. Bob and Vonani’s networks have been quite instrumental in this regard.

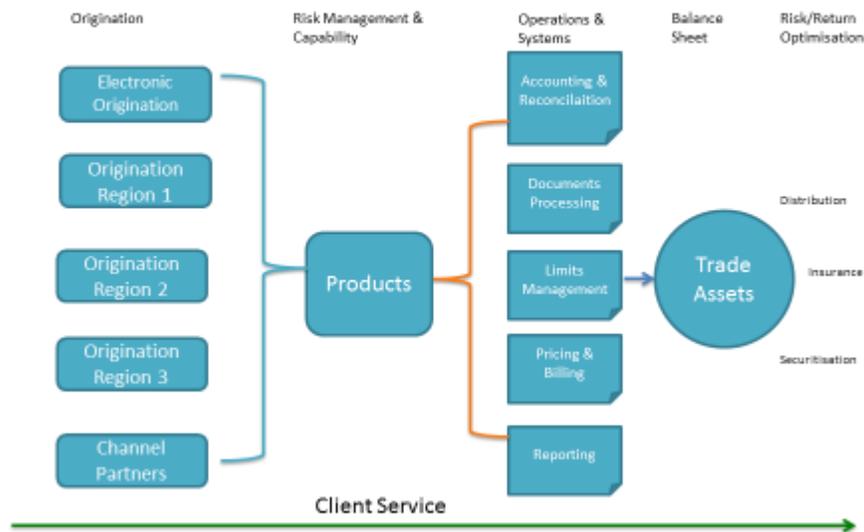
**Future operating model of SCF Fund**

Our team ethos is to take young professionals with financial acumen and to grow them and guide them to be operations staff and then in the future customer facing staff. This level of training assures experience of processing, attention to detail and understanding of the operational risks inherent in these on processing is where the major risk sits in this type of financing. These operational processes are reinforced and systematised with an industry leading cloud-based platform using a platform provided by China Systems – a leading provider of trade finance operational processing tools. This platform manages operational processes such as disbursements and collections, limits and concentration management and diary events and past due events. The platform also provides reporting and audit at various levels of management.



Our Operating Model is designed to provide an origination to distribution capability, with potential for securitisation. The origination of assets through various channels is productized for risk management purposes via common technical and operational processes. The resulting instruments become part of the trade assets pool that can be used to distribute, and insure the pool. This opens the possibility to bring in new funders, reduce in certain areas. The operating model underpins sound risk management and can be used to drive forward our client engagement.

### Delivering the Trade Operating Model



Our pilot model for business development and origination currently embraces direct sales only, due to low volumes. Given the limited number of clients, it is relatively simple for a relationship manager to engage with potential clients directly. The Relationship Manager then works with Operations to KYC a client, structure the initial deal and then liaise with operations to operationalize the process flow. The pilot has been on “word of mouth” basis and consequently has not seen a fast ramp up in number clients, however, as we ramp up and cover more areas geographically we will need higher levels of automation to cover the market effectively and to ensure an efficient client service model.

The focus on marketing, will be accompanied by an increase direct business development resource to provide support to new clients and to engage with, for example, corporate enterprise development schemes that cover many hundreds or thousands of SMEs. In 2017 we shall also introduce an “app” lined to our processing system that enables our clients to directly upload documents to us electronically, to request financing and receive status updates and marketing/service messages. This app will supplement our direct sales team while digitizing the conversation to reduce fraud risk and the amount of paper processed by the operations team. The app will also enable more remote working by our own staff and a streamlining of processes such KYC (Know Your Customer).

Of course, to cope with the increased flow of business we plan to proportionately increase the operations team numbers. This will be needed to risk mitigate and fraud and other risks will increase as we become well known and as the scale of the operation increases. While digitization and automated back office processes while streamline some checks, experienced staff will be needed to ensure that concentration, over trading and documentary fraud are prevented and to maintain losses within acceptable limits.

SCF Capital Solutions operates from its own offices separate from the accredited entity and will continue to do so. We shall invest regional representatives and remote working to provide greater coverage. South Africa is a huge and sparsely populated country and a limited number of large urban conurbations. Regional representatives will be needed to cover the remote areas, but will also require a commitment to fraud prevention given that team members will be working with significant monetary values and we have are to safeguard such monies as are entrusted to us.

## C.5. Market Overview (if applicable)

*Describe the market for the product(s) or services including the historical data and forecasts.*

### Addressable market

- The addressable market is not easy to quantify, but we know there are 2.26 million MSME businesses in South Africa and that "green" enterprises, and supporting green enterprises represents one of the fastest going sectors.
- Our market is limited not by the size of the addressable market therefore, but is related to the amount of funding available and the number of companies that can be financed.
- Based on our current average facility we can finance around 350 businesses under the new facility, which is a fraction of the number of companies engaged in greening the South African economy.
- Over time we would like to further increase the number of businesses we finance and to do this we would use data from the expansion to encourage new investors into this short term revolving asset class.
- We are involved in sectors with high developmental impact; an example is the sustainable agriculture value chain (see the showcased study), where through our financing we are looking to connect small holder farmers (which are mostly run by women) to large retail off takers such as Pick and Pay, Woolworths, Shoprite and Massmart. This is a high volumes area which will expose us to high number of recurring clients.

### Competition

In South Africa, the number of SMEs estimated to be between 1 and 3 million in South Africa. Excluding micro-enterprises, it is estimated that there are 250 000 to 650 000 enterprises. Depending upon age of business, significant portion of those rely on own finance to finance from friends to get by. As they become more developed they rely on VC and Angel Investors. Once fully established and with history of operational performance they rely more heavily on PE investors and the banking sector. The problem is further compounded in that many MSMEs are being formed by previously disadvantaged individuals who find it difficult accessing Any of these markets especially due to lack of business skills and collateral.

While large businesses can access the growing market for debt financing, small businesses are reliant on banks and specialist finance and leasing businesses, which have become conservative in their lending practices since the 2008 crash. Small firms have consistently reported that credit is either refused or is offered at high prices by the major lenders

When traditional banks downscale their operations to serve the SME market, higher transaction costs and undefined risk management strategies are seen to be a major obstacle. In fact research reports indicate that poor business skills and financial management contribute significantly to small business failure in addition to a lack of access to finance. This makes the market too risky for traditional banks to service adequately

For start-ups, micro-enterprises, entrepreneurs from previously disadvantaged communities or any other group with limited collateral or weak (or limited) credit histories, access is more limited.

World Bank research covering 91 banks in 45 countries found that:

- The financial assessment of the business is the most important consideration across all types of firms
- Overall, a firm's credit history with the bank is the second most important criterion, with the owner's characteristics and the purpose of the loan being next in importance
- At least three-quarters of banks require collateral to make business loans

According to recent SAVCA surveys, private equity firms in South Africa invest only 11% in early stage businesses. If Business Partners' investments are excluded, the total average deal size during 2013 was R72.6 million (2012: R48.9 million).

**Market Drivers**

South Africa has unique strong drivers for large business to procure from small businesses. The procurement/supply chain market size in South Africa is over R1 trillion in size. Preferential procurement and localization requirements in these programs requires that 30% of inputs must be procured from local MSMEs. Some examples of the key areas sectors are:

- **Renewable energy** continues being the country's growth driver with over R200bn spent in the REIPPP program to date, an attracting 85% of the foreign direct investment into the country. Government requires that 30% of inputs must be procured from small businesses
- In 2013/14, the **South African public sector** spent R500 billion on goods and services and on construction works
- In 2010/11, **State Owned Enterprises** spent R212bn on procurement
- In **mining** for example; Anglo American reported that in 2013, their total Black Economic Empowerment procurement spend by managed and independently managed businesses was R32,4bn
- In **financial services**, Standard Bank's socioeconomic report stated that in 2013 their procurement/supply chain spend was R35,1bn, (R19bn on BEE suppliers)
- With total annual sales of over R800bn, the retail sector represent are large opportunity for SME procurement
- In manufacturing, the **automotive industry** is the largest manufacturing sector in South Africa, contributing 7,5% of GDP and over R350bn in annual sales local and export sales.

The above examples illustrate the scope of opportunities and strong legislative drivers for MSME participation. Even a market share of just 1% of procurement spend in three years, we can build a business that will finance over R10bn of transactions by 2019/2020

*Describe the competitive environment including the list of competitors with market shares and customer base and key differentiating factors (if applicable).*

In the SMME financing space, reports from the World Economic Forum (2015) titled "The Future of FinTech: a Paradigm Shift in Small Business Finance" note that the use of supply chain finance for SMME financing has the least amount of competitors available yet high potential for sustainably meeting the SMME financing gap. Those competitors range from Taulia, Apex Peak (Singapore), Umati Capital (Small-scale SCF in East Africa) and Propell (Prime Revenue). All of these competitors, except for Propell (platform provider) are still in start-up phase.

*Provide pricing structures, price controls, subsidies available and government involvement (if any).*

SCF enables SMMEs to obtain financing that is not backed by their credit score or balance sheet. Existing factoring and contract financing firms tend to charge much higher monthly fees for this funding, between 4-8% per month, which is unsustainable for most SMMEs, whose margins are typically not that high. One of the main objectives of SCF Capital Solutions is to utilize developmental funding to provide affordable financing to SMMEs.

Lending Type	Pricing
Secured bank lending	Average Prime + 6% for SMEs (prime is 10,5%)
Current SCF Capital Solutions	2% per month (24% annualized)
Envisaged SCF Capital Solutions	1,5%-2% per month (18-24% annualized)
Unsecured lending	Up to 32% pa
Invoice discounting and factoring firms	Fee of 4-8% per month (36%-96% annualized)

### C.6. Regulation, Taxation and Insurance (if applicable)

*Provide details of government licenses, or permits required for implementing and operating the project/programme, the issuing authority, and the date of issue or expected date of issue.*

The relevant government institutions that SCF considered for license applications given the nature of the business are the Financial Services Board and the National Credit Regulator. The facility is exempt from applying for licenses from the Financial Services Board as the SCF does not provide financial advice. The National Credit Act requires a creditor provider to register with the National Credit Regulator if the credit agreement entered into with a consumer falls within the ambit of the Act. SCF initially approached the National Credit Regulator (“NCR”) to ascertain whether it was required to register with the NCR. Given the fact that the credit provided is developmental in nature the facility was deemed to be exempted from registration. However during the course of the provision of credit it has become apparent that the Facility may need to provide credit amounts that notwithstanding the exemption fall within the ambit of the Act, in this regard an application has to been submitted to the NCR for registration. The application was submitted on the second week of September. The NCR does not have specific timeframes for the approval of applications but we do envisage that the registration should be finalized before the approval of the funding.

*Describe applicable taxes and foreign exchange regulations.*

The fund is set up as an En Commandite structure in which tax “flow-through” at the partnership level is assumed.

The fund set up as a fiscally transparent structure under South African law in accordance with the tax provisions contained in section 25BA of the Income Tax Act, ensuring that the liability for taxes is not on the fund vehicle itself but on the investors/Partners in the fund. Income and capital gains of the fund would be taxed in the hands of investors according to the tax profile of each investor. Therefore, individual partners are taxed separately from the partnership, each on their share of partnership profits or losses

SCF Capital complies with all South African government tax laws, we have been issued with tax clearance certificate by the South African Revenue Services to evidence this. Currently the Facility is capitalised using the South African Rand and as such foreign exchange regulations do not apply. In future however in the event that the Fund receives foreign denominated capital, it would have to adhere to the exchange control regulations imposed on such transactions by the South African Reserve Bank.

*Provide details on insurance policies related to project/programme.*

Financial institutions, specialty lenders and investors use trade credit insurance to protect international trade payment instruments, trade finance facilities, general corporate loans, and other financial assets against default on scheduled payments. Credit Insurance is a product designed to protect a business’s accounts receivable, generally the largest asset on a company’s balance sheet, against losses due to its customer’s financial inability to pay. Bankruptcy and slow payments are risks that can be covered with this product. Political risk insurance can also be provided to cover international accounts receivable. Financial institutions that use credit insurance are ones that would be adversely affected by an unforeseen catastrophic loss, are looking for sales expansion, have a concentration risk in the a certain portfolio, exporting or using their accounts receivable as collateral for financing.

The goal of credit insurance is to assist in the growth of a business by making informed credit decisions, by using the right information to help companies avoid catastrophic losses and maintain sustained profitability. Doing this requires an understanding of a business trade sector, normal business practices and the internal credit management policies. A credit insurance policy does not replace managements credit practices but supplements them.

### D.1. Value Added for GCF Involvement

*Please specify why the GCF involvement is critical for the project/programme, in consideration of other alternatives.*

The financial structure allows us to use GCF support to “crowd in” private sector funders whilst at the same time allowing the GCF to claw back economic benefit when the returns exceed private sector expected returns. This makes it possible for the GCF to benefit from the upside when the business outperforms expectations.

The GCF funding will enable SCF Capital Solutions to overcome the following key barriers:

- Increase number SMEs financed: currently the R60ml facility financed an average of 3 SMEs per month, the GCF funding will enable us to increase that to 133 SMEs per month, based on current average transaction value of R1,5mil per SME
- Better rate: After access to finance, the cost of finance is the biggest obstacles to SMEs in capital formation. We want to use the GCF funding to help reduce cost of borrowing for SMEs
- Private funding: By blending The GCF funding with private investor funding, we will enable private funder to lower their risk exposure per transaction. Increased participation of private sector would over time lead to sustainable private sector support without GCF participation.
- The above would lead to increased climate change and socio economic impact as more SMMEs are encouraged to participate in the green industry.

### D.2. Exit Strategy

*Please explain how the project/programme sustainability will be ensured in the long run, after the project/programme is implemented with support from the GCF and other sources, taking into consideration the long-term financial viability demonstrated in [E.6.3](#). This should include a description of strategies for longer term maintenance of physical assets (if applicable).*

The GCF funding enables the Funds to build a substantial asset base that makes the long-term returns attractive to private sector investor. LPs are expected to be locked in with redemption restrictions for a period of 5 years. The fund anticipates a life of 10 years with an option to extend for a further 5 years. LPs are allowed to sell their interest or redeem after 5 years.

There will be multiple channels from recapitalizations to private investors and commercial banks. Returns can be withdrawn in a 5-year term. Principal investment can be withdrawn by buyout from 5 year term or at the end of the 10 year term

In this section, the accredited entity is expected to provide a brief description of the expected performance of the proposed project/programme against each of the Fund’s six investment criteria. Activity-specific sub-criteria and indicative assessment factors, which can be found in the Fund’s [Investment Framework](#), should be addressed where relevant and applicable. This section should tie into any request for concessionality made in [section B.2](#).

**E.1. Impact Potential**

Potential of the project/programme to contribute to the achievement of the Fund’s objectives and result areas

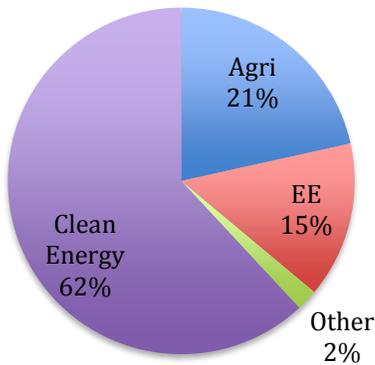
**E.1.1. Mitigation / adaptation impact potential**

*Specify the mitigation and/or adaptation impact, taking into account the relevant and applicable sub-criteria and assessment factors in the Fund’s [investment framework](#).*

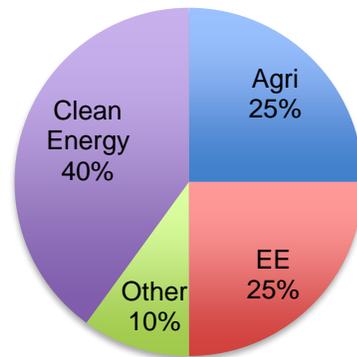
Climate impact potential

- This project will demonstrate that businesses and public sector can implement various green initiatives in many aspects of their everyday activities, ranging from Sustainable transport, Sustainable Waste management & recycling, Renewable energy, including off grid and mini grid, Sustainable water management, Energy Efficiency & Demand Side Management, Sustainable human settlements, the built environment and green buildings, Ecosystem services, Energy efficiency, Renewable energy, Rural energy including off grid and mini grid, Biogas and biofuels, Sustainable transport, Industrial cleaner production and consumption projects, Biodiversity Benefiting businesses, including sustainable farming, Land use management and models, Rural adaptation projects and plans
- Reduction of CO2 emissions through displacement of fossil-fueled electricity use at the business level by implementing energy efficiencies technology, installation of clean and renewable energy sources such as solar pv and biofuels. As illustrated below, the current portfolio is 62% Clean, energy, 21% sustainable agriculture and 15% Energy Efficiency. We project that the future portfolio will be 40% clean energy, 25% sustainable agriculture, 25% energy efficiency and 10% other interventions.

**Pilot phase portfolio**



**Future portfolio**



The projected CO2 emission reduction are calculated in following section.

*When applicable, specify the degree to which the project/programme avoids lock-in of long-lived, high emission or climate-vulnerable infrastructure.*

One of the main energy challenges in South Africa is due to historical environmentally unfriendly structural design. Utility scale electricity infrastructure require large cost on distribution lines. Compounding the problem is the fact that the infrastructure is ageing. Embedded generation and micro-grids can solve this problem whilst also bringing the following additional benefits:

- Due to the small size of these individual projects, they are perfect for MSMEs to do as large business wouldn't be interested. Thus whilst providing electricity, there will be added benefits of MSME development, job creation and skills building
- There are no distribution costs
- They are quick to install, thereby bringing delivery of basic services to the poor

SCF Capital Solutions has started financing such projects.

**E.1.2. Key impact potential indicator**

*Provide specific numerical values for the indicators below*

GCF core indicators	Expected tonnes of carbon dioxide equivalent (t CO <sub>2</sub> eq) to be reduced or avoided (Mitigation only)	Annual	132 920 tons CO2 per year
		Lifetime	33 001 833 tons CO2
	<ul style="list-style-type: none"> <li>• Expected total number of direct and indirect beneficiaries, disaggregated by gender (reduced vulnerability or increased resilience);</li> <li>• Number of beneficiaries relative to total population, disaggregated by gender (adaptation only)</li> </ul>	Total	307 MSME beneficiaries, of which 138 will be women
		Percentage (%)	N/A
Other relevant indicators			<b>Per year</b>
	Amount of Facility (Rand)		460 000 000
	Average value per investment (Rand)		1 500 000
	Number of deals		307
	% women (target)		45%
	Number of women companies		138
	Number of agriculture jobs		15660
	Number of energy jobs		15000

*Describe the detailed methodology used for calculating the indicators above.*

Main assumptions

- The impact calculation is based on the projected total investments that will be made
- Whilst the Fund amount is USD34mil, the amount of investments is based on the number of times the facility is churned. Since the average tenor of transactions is 90 days, the facility will be churned four times a year to make USD120M investments per annum

	1	2	3	4	5	6	7	8	9	10
<b>Total amount of funding disbursement in 10 years</b>	120M	144M	173M	207M	249M	299M	358M	430M	516M	619M

**Clean Energy**

- The total installed cost of solar PV in South Africa is R19/W or USD1,35/W.
- Daylight hours of 2500 per year, as per department of energy
- Average number of days of energy usage is 5 days per week
- CO2 / kWh of 0,0000957 as per Spalding Fletcher, 2011

Based on the project future portfolio where Clean energy is 40% of the total investment, the CO2 savings will be as follows

<b>Solar PV</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>	<b>Lifetime (25 years)</b>
Allocated investment	40%	40%	40%	40%	40%	
Investment Amount ZAR	48 000 000	57 600 000	69 120 000	82 944 000	99 532 800	1 246 016 741
USD/kw	1 300	1 300	1 300	1 300	1 300	1 300
KW installed	36 923	44 308	53 169	63 803	76 564	958 474
daylight hours per year	2 500	2 500	2 500	2 500	2 500	2 500
Average number of days of use per year	261	261	261	261	261	261
KWh per year	65 934 066	79 120 879	94 945 055	113 934 066	136 720 879	1 711 561 458
Emissions factor (CO2/KWh)	0,000957	0,000957	0,000957	0,000957	0,000957	0,000957
Co2 saving (tonnes)	63 099	75 719	90 862	109 035	130 842	24 569 465

**Benchmarks**

	<b>CO2 saving</b>	<b>KWh</b>	<b>CO2/KWh</b>
SCF	63 099	65 934 066	0,000957
Exquisite-thornbury	139,7	107000	0,001305607
Monash university	220	170000	0,001294118

### Energy efficiency

For energy efficiency the CO2 calculation the main assumption were based on results of the project we financed

Energy Efficiency	Year1	Year 2	Year3	Year4	Year5	Lifetime ( 5 years)
Allocated investment	25%	25%	25%	25%	25%	
Amount of investments USD	30 000 000	36 000 000	43 200 000	51 840 000	62 208 000	778 760 463
Amount of investments ZAR	450 000 000	540 000 000	648 000 000	777 600 000	933 120 000	11 681 406 950
Rand investment per KW saving	6,70	6,70	6,70	6,70	6,70	6,70
KW savings from total investment per year	67 211 100,00	80653320	96783984	116140780,8	139368937	1744711579
Emissions factor (CO2/KWh)	0,000957	0,000957	0,000957	0,000957	0,000957	0,000957
Co2 saving (tonnes)	64 321	77 185	92 622	111 147	133 376	8 348 445

### Sustainable farming

According to the Food and Agriculture Organization of the United Nations, agriculture is the major economic sector of many developing countries and most Least Developed Countries (LDCs). It is the main livelihood of 75 percent of the poor in developing countries. Farmers constitute the largest group of natural resource managers on earth (land, water, domesticated genetic resources). Agriculture is expected to feed a population that will number 9.1 billion in 2050, while providing income, employment and environmental services. Responding to more rapid and intense climate changes is additional to these other demands on the sector and follows decades of declining investment in the sector and a global financial crisis. At the same time, agriculture is an important source of greenhouse gas (GHG) emissions, representing 14 percent of the global total. Developing countries are the source of 74 percent of these emissions (Smith et al. 2008). If related land-use change, including deforestation (for which agriculture is a key driver) and emissions beyond the farm gate are considered, the sector's share would be higher. However, the technical mitigation potential of agriculture is high and 70 percent of this potential could be realized in developing countries. However, while the profile of agriculture within the climate change negotiations has improved, it is still considered to be a difficult sector, the options involve difficult trade-offs, with benefits for mitigation but negative consequences for food security and/or development.

The global and regional potential of the four most important sources of land-based mitigation are:

- Cropland management: High global potential, spread over the regions. In terms of food insecure regions, potential mitigation is particularly high in South America, Eastern Africa, South Asia and Southeast Asia.
- Pasture and grazing land management: Despite the low C density of grazing land, practices in this category have a high potential for C sequestration because of the large amount of land used as pastures. Data from FAOSTAT indicate that global pasture area accounted for 3 488 Mha in 2002 (69 percent of global agricultural land). On the other hand, conversion of pasture accounted for 65 percent of the increase in arable land from the 1960s to 2005. Improving pasture efficiency, therefore, will avoid further land conversion and concomitant C loss. According to IPCC (2007), potential gains are particularly high in almost all regions of Africa and Asia, as well as South America.
- Restoration of degraded land: Oldeman (1994) estimated that over 2 billion hectares of land were degraded. Degraded land due mainly to erosion was calculated to affect 250 Mha, including 112 Mha in Africa, 88 Mha in Asia, and 37 Mha in Latin America (Oldeman 1994). Thus, there is a large potential to increase carbon sequestration in South America, East and West Africa and South and Southeast Asia through mitigation options falling within this category.
- Restoration of organic soils: These carbon dense soils are often important in developing countries; for example, Andriessie (1988) estimated that the South East Asian region contains the largest expanse of peat deposits. The second most important area is the Amazon basin and the basins bordering the Gulf of Mexico and the Caribbean. These soils are also found in the wet equatorial belt of Africa.

Our analysis focuses only on cropland management, this is because our target clients produce primarily vegetables. We are therefore looking to provide financing to these farmers to encourage them to undertake sustainable farming. Given that many large retailers are focused on sustainable farming, we will be able to support supply chains between small farmers who supply the large retailers.

**Assumptions**

In quantifying the mitigation potential:

- We assumed that 25% of the investments will be in sustainable farming
- We started by looking at the cost per hectare of vegetable farmers. Research done by the University of Cape Town in this regard looked at costs for small farmers and determine an average cost per hectare of R109 639 for typical 90 day crops. This translates into R 438554 per ha per year
- A 10% annual escalation of the cost was assumed
- We then computed how may hectares our funding will be able to support
- In 2007 the IPCC determined that the mitigation potential of cropland management in developing countries is 0,62-5,36 tonnes of CO<sub>2</sub>/ha/year. We used this number of calculate the CO<sub>2</sub> mitigations from the ha of land that we will have supported

	Year1	Year 2	Year3	Year4	Year5	Total (10 years)
Allocated investment	25%	25%	25%	25%	25%	
Amount of investments USD	30 000 000	36 000 000	43 200 000	51 840 000	62 208 000	778 760 463
Amount of investments ZAR	450 000 000	540 000 000	648 000 000	777 600 000	933 120 000	11 681 406 950
Investment per ha/year	438 554	482 410	530 651	583 716	642 088	6 989 429
Ha invested in	1 026	1 119	1 221	1 332	1 453	
improved cropland management (Mt CO <sub>2</sub> /ha/yr)	5,36	5,36	5,36	5,36	5,36	
CO <sub>2</sub> savings (tons)	5 500	6 000	6 545	7 140	7 789	83 923
Jobs	103	112	122	133	145	1566

\*\*\* South African farming employs 1 jobs per ha.

51.1 percent employment of a permanent nature, 25.2 per cent had employment of limited duration, and 23.6 per cent had employment of unspecified duration

Total

- Total CO<sub>2</sub> savings in one year = 132 920 tons CO<sub>2</sub> per year
- Total lifetime CO<sub>2</sub> savings = 33 001 833 tons CO<sub>2</sub>

**Other benefits**

To compute the beneficiary impact, we used the average investment size from the pilot phase, which is R1,5M.

The facility of R460M (USD30M) will be churned four times, we assume it will be churned on the same clients.

The target investment on women business is 45% (In the pilot phase, 7 out of 21 investments made by end of October were on women, i.e. 33%)

	Per year
Amount of Facility (Rand)	460 000 000
Average value per investment (Rand)	1 500 000
Number of deals	307
% women (target)	45%
Number of women companies	138
Number of agriculture jobs	15660
Number of energy jobs	15000

## E.2. Paradigm Shift Potential

Degree to which the proposed activity can catalyze impact beyond a one-off project/programme investment

### E.2.1. Potential for scaling up and replication (Provide a numerical multiple and supporting rationale)

*Describe how the proposed project/programme's expected contributions to global low-carbon and/or climate-resilient development pathways could be scaled-up and replicated including a description of the steps necessary to accomplish it.*

According to a research done by the University of Cape Town on barriers to investing in clean energy in South Africa, TimeLine et al. (2012) state that despite recent market growth, the solar PV industry remains inhibited by a range of financial, technical, regulatory and institutional barriers, and they argue, "The continuation of policy supports might be necessary for several decades to maintain and enhance the growth of solar energy in both developed and developing countries". Pegels (2010) states that the main barriers to renewable energy in South Africa are the country's "energy innovation system" (which includes the historical and present reliance on coal), and the economics of renewable energy.

#### Financial Barriers

The primary economic barrier to investment in solar PV is the large upfront capital requirement, which applies regardless of the extent to which grid parity has been achieved. Timilsina et al. (2012) also highlight the fact that financing options are expensive as solar PV is still considered a high-risk technology with a short history, a long payback period and with limited cash inflow. Wamukonya (2007) lists the various options for overcoming the high up-front costs of rooftop solar, such as micro credit facilities, loan schemes and revolving funds, removal of taxes and levies, and subsidies.

Drury et al., (2012) describe how third-party ownership is transforming the PV market in California. In this case, the PV equipment is not purchased by the consumer but is leased from the supplier, thereby eliminating the need for a large amount of upfront capital. Drury et al (2012) show that this has the potential to increase the size of the market through making the technology available to a different demographic, thereby increasing market penetration. Jelle et al. (2012) show that building-integrated PV modules could result in additional savings through the dual-purpose functionality of a PV installation, which negates the need for additional investment in traditional roof materials. They highlight the potential use of various technologies such as photovoltaic foils and photovoltaic tiles, which could serve this dual function.

#### Regulatory Barriers

Unlike many other countries, South African policy does not yet include any strong incentives to invest in PV for small-scale generation, and given the high cost of the investment required and the long payback period, the market penetration remains small. Net Metering (credit given for surplus electricity returned to the grid) has been used in other countries and this has been an efficient justification for private investment in residential solar PV systems. Ndanga and Gorn (2012) highlight the lack of formal incentives for small-scale generators, such as net metering, as a major barrier in South Africa.

#### Institutional Barriers

Sebitosi (2010) summarises the approach to the determination of tariffs in South Africa: Eskom (a traditional monopoly) presents its projected costs and sales to the National Regulator of South Africa (NERSA). NERSA then approves a tariff structure, which is deemed to allow ESKOM a fair return. Sebitosi (2010) also highlights the "dilemma of energy conservation and utility revenue" which results from ESKOM being best place (as a monopoly) to manage energy conservation programmes. Sebitosi and Pillay (2008b) argue that the political climate in South Africa has not promoted the implementation of renewable energy. Ndanga and Gorn (2012) also identify city council and municipal bureaucracy and resistance as a barrier to initiatives such as Net Metering.

### **Technical Barriers**

Wamukonya (2007) highlights a lack of technical support for installation and maintenance, which can be overcome by training of technicians and disseminating of user-friendly manuals. Wamukonya (2007) also highlights the quality of PV technology being produced as a barrier; and suggests that this can be mitigated through labelling, adherence to standards, and regulation. Technical barriers include the low conversion efficiencies of PV modules (Timilsina et al., 2012). However, a series of recent and on-going technical innovations may result in improvements in PV efficiency, including the application of nanotechnology in the design of new PV modules.

This programme responds to the financial barrier. Despite the recognized importance of the SME sector, evidence indicates that SMEs continue to be undersupplied with the financial products and services that are critical to their growth. In global surveys, including the World Bank's Enterprise Surveys and Investment Climate Assessments, SMEs report that the cost of finance is their greatest obstacle to growth and rank access to finance as another key obstacle. While these constraints are more acute in developing countries, SMEs in any environment are nearly one-third more likely than large firms to rate financing constraints as a "major" growth obstacle. In low-income countries, this means that nearly half of small firms report being severely constrained by financing difficulties.

In South Africa, the number of SMEs estimated to be between 1 and 3 million in South Africa. Excluding micro-enterprises, it is estimated that there are 250 000 to 650 000 enterprises. Depending upon age of business, significant portion of those rely on own finance to finance from friends to get by. As they become more developed they rely on VC and Angel Investors. Once fully established and with history of operational performance they rely more heavily on PE investors and the banking sector. The Problem Is Further Compounded In That Many SMEs Are Being Formed By Previously Disadvantaged Individuals Who Find It Difficult Accessing Any Of These Markets Especially Due To Lack Of Business Skills And Collateral.

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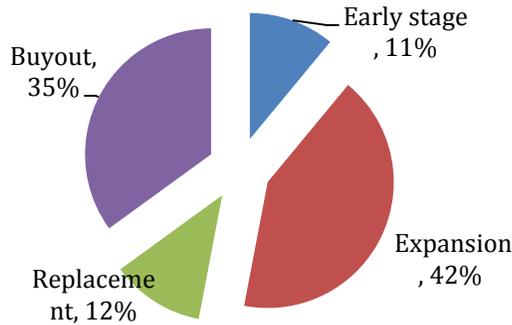
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- Overall, a firm's credit history with the bank is the second most important criterion, with the owner's characteristics and the purpose of the loan being next in importance
- At least three-quarters of banks require collateral to make business loans

According to recent SAVCA surveys, private equity firms in South Africa invest only 11% in early stage businesses. If Business Partners' investments are excluded, the total average deal size during 2013 was R72.6 million (2012: R48.9 million). The average deal size is indicative that most private equity firms focus on higher value, larger type deals with little focus on small business or the SME sector

### Investments made



This programme aims to both build the capacity and coverage of MSMEs through financial support while integrating this support with the national system of incubators and learning regarding business management and project delivery. In doing so it is aimed at encouraging other financial institutions to address this critical sector by:

- engaging MSMEs
- building competence
- scaling up significantly as additional resources applied and thus
- addressing the shortfall for funding in green sector

The program will create the paradigm shift in the following ways

1. **Acceleration of installations:** By applying supply chain finance, we finance companies who wouldn't be financeable by traditional credit. We finance commercially-proven technology such as solar pv, therefore it enables acceleration of rollout of green technology
2. **Crowd-in banking sector:** Commercial banking needs data in sufficient data in order to adopt a product. It is for this reason that whilst adoption of supply chain finance is rising rapidly in Europe, Asia and America, it is still nascent in South Africa and many other parts of the developing world. Therefore the GCF funding will enable us to build on the work that has been done highly encouraging results from the pilot phase to demonstrate that with appropriate risk management, supply chain finance can be used to provide access to finance to MSMEs in the green economy. We will be able to build a substantial data and track record to demonstrate this. With sufficient track record, we will be able to attract funding from commercial banks, thereby improve access to finance for MSMEs.
3. **Scaling up regionally:** Access to finance for MSMEs is a global problem, and more so in Africa. The African region also has a severe under-electrification problem. This model can be rolled applied in the region to solve the two problems and generate socio-economic development. The mandate of the DBSA extend into the rest of the African continent, therefore learnings and capacity developed by the programme can be applied elsewhere in the rest of Africa.
4. **Cost of fund for MSMEs:** The GCF funding will enable the program to reduce to cost of funding for MSMEs to levels that are comparable with commercial bank funding. Supply chain finance does not take physical collateral from the MSMEs, other lending products that do not take physical collateral are priced much higher. The statutory financing limit in South Africa is 33%, however this does not apply to trade finance type lending, where financiers can charge as high as 7,5% per month. During the pilot phase the recommend pricing from sefa (a government agency that fiancés small businesses) for this program was 3-4% per month, the GCF funding will enable the pricing to be managed at around 2% per month.
5. **Link to incubation and Enterprise and Supplier Development programs:** One of the weaknesses of incubation and Enterprise and Supplier Development programs is that incubates who graduate out of the programs cannot access funding to commercialize their products. During the pilot phase, SCF Capital Solutions started working with incubation centres such as Innovation Hub, GreenCape and Impact Amplifier to provide financial support to their incubatees. With more funding, we will be able to partner with large private and public businesses who to provide funding to MSMEs in their programs. We have already started discussions with companies such as Sasol, Clover and the Estate Agency Affairs Board to help them increase number of MSME suppliers

### E.2.2. Potential for knowledge and learning

*Describe how the project/programme contributes to the creation or strengthening of knowledge, collective learning processes, or institutions.*

Commercial banking relies on long track record of data in order to make credit decisions. It is for this reason that whilst adoption of supply chain finance is rising rapidly in Europe, Asia and America, it is still nascent in South Africa and many other parts of the developing world due to lack of information. The GCF funding will enable us to build on work done during the pilot phase to demonstrate that with appropriate risk management, supply chain finance can be used to provide access to finance to MSMEs in the green economy. We will be able to build a substantial data and track record to demonstrate this.

Commercial banks that finance MSMEs generally offer the overdraft product, which exposes banks to high risk due to lack of control on the usage, and it is costly for the banks as they need to hold capital even for unutilized portions of the facility. With sufficient track record of supply chain finance, we will be able to attract funding from commercial banks into this low-risk financing product. More funding from the banks will mean more green developments will be done. Ability to access to finance for green developments will result in MSMEs switching to green.

Supporting MSMEs is an imperative of different stakeholders such as government, large corporations and financiers, however there is still lack of information on the correct parameters for MSME financing. Supply chain financing is a collaborative framework between the various partners in the supply chain, and government and large corporations are part of the chain. Supply chain finance is primarily process-based, instead of credit parameter based. Thus the programme will naturally enable us as the financier to work with government and private sector to build on the knowledge gained during the pilot and optimize the various parameters of the supply chain to enable low risk financing of the MSME within the supply chain financing.

We will collect the following information

- Intra-organizational frameworks for public and private sector buyers that that are conducive for MSMEs, support such as relationships between finance, operations and procurement;
- Inter-organizational frameworks that are conducive for MSME support such as contract parameters
- MSME-side factors such as financial and technical competency
- Regulatory factors
- MSMEs can be educated on key aspects to look out for in contracts and financial terms
- We will build a database of MSMEs and their track records of performance, thereby lowering progressively performance risk of the entire supply chain. MSMEs with higher performance will be teamed with incubation programs for support.

### E.2.3. Contribution to the creation of an enabling environment

*Describe how proposed measures will create conditions that are conducive to effective and sustained participation of private and public sector actors in low-carbon and/or resilient development that go beyond the program.*

A supply chain, by definition, is a movement of goods and services from suppliers to buyers. It is made up of Suppliers, Intermediaries and Buyers;

- The private sectors are suppliers,
- The MSME are the service providers who buys goods from Suppliers and provide a service to Buyers.
- Public sector are the Buyers

Supply chain finance enables the supply chain to function. An efficient network of suppliers, MSMEs and buyers will then enable more green developments to be executed.

Our supply chain finance program creates a win-win-win situation between the three parties in the supply chain. By tying the financing of the supply to MSME performance we create;

- an incentive on the MSME to collaborate as better performance increases chances of obtaining future contracts and financing
- an incentive on the large private and public sector buyers to collaborate as it enables them build a network of competent MSME suppliers which reduces their supply chain risk and also enables them to meet the social responsibilities
- an incentive on manufactures who supply goods to MSMEs to collaborate as it enables them to sell more goods

*Describe how the proposal contributes to innovation, market development and transformation. Examples include:*

- *Introducing and demonstrating a new market or a new technology in a country or a region*
- *Using innovative funding scheme such as initial public offerings and/or bond markets for projects/programme*

The proposal contributes to innovation through the provision of an innovative financing solution and technology to deliver the solution. Since financing is one of the main obstacles to green developments, the innovative financing solution will result in more green developments being implemented.

#### **Innovative financing model**

SCF Capital Solutions solves this problem by applying supply chain finance. Supply chain finance is a set of technology-based business and financing processes that link the various parties in a transaction – the buyer, seller and financing institution – to lower financing costs, improve access to finance for SMMEs who supply large institutions and improve business efficiency. In supply chain finance the financial institution avails credit to the supplier, based on the credit strength of the buyer, who would normally be a large entity. Thus in supply chain finance the credit risk is on the buyer and performance risk is on the supplier. The supplier performance risk can be broken down further by looking at how early in the supply chain the transaction is financed. Supply chain finance (SCF) provides short-term credit that optimizes working capital for both the buyer and the seller. Supply chain finance generally involves the use of a technology platform in order to automate transactions and track the invoice approval and settlement process from initiation to completion. The growing popularity of SCF has been largely driven by the increasing globalization and complexity of the supply chain, especially in industries such as automotive, manufacturing and the retail sector. The innovative aspects of the model are discussed in more detail in section E 6.4.

#### E.2.4. Contribution to regulatory framework and policies

*Describe how the project/programme strengthens the national / local regulatory or legal frameworks to systematically drive investment in low-emission technologies or activities, promote development of additional low-emission policies, and/or improve climate-responsive planning and development.*

The development and increased participation of MSME in the radical transformation, including the shift to a low carbon and climate resilience developmental trajectory, of the South African economy is a national strategic priority. As such, several regulatory and policy instruments have been put in place and institutional arrangements reconfigured to ensure optimal participation of small scale players in the economy. National strategies such as the National Development Plan, Industrial Policy Action Plan, and Green Economy Accord, the New Growth Path as well as defined guides including the Shared Economic Infrastructure Facility Guidelines and Guidelines for Reducing Municipal Red Tape, all have the common goal of ensuring that MSMEs play a part in growing the economy of South Africa.

Strategic Plans and activities recommended in the implementation of some of the above-mentioned policies include the piloting and testing of a range of low-emission technologies, promotion of development of additional low-emission policies, and improvement climate-responsive planning and development. Lessons learned from this project will form part of the baseline data and knowledge bank that will assist South Africa towards making further decision and scaling-up of low-carbon and climate resilient initiatives in which MSMEs are particularly involved. This programme will also serve as a flagship mechanism for the newly established Department of Small Business Development. MSMEs that could have participated in this project will have improved technical and institutional capacity and financial reputation to graduate to participate larger projects including the recently launched Renewable Energy Independent Power Producer (REIPP) programme for small scale projects. The identified barriers preventing the participation of MSME low-carbon and climate resilient developmental initiatives and the overall economy will be addressed through this project thus positively influencing players such financial institutions and other private and public stakeholders towards inclusion in sustainable development initiatives that are on-going within the country.

The South African government has legislated that 30% of private and public sectors procurement to be from MSMEs. To achieve socioeconomic development MSMEs need to be involved in the economy as they are the biggest jobs creator. At the moment Public and private sector entities are not able to achieve this target to due lack of skills and financially viable MSMEs. Our programme will enable them to achieve these goals. The collaborative nature of our program will enable the development of MSMEs and development of a pool of MSMEs who can execute green projects, which can strengthen the regulator's hand to enforce the 30% procurement of services from MSMEs.

### E.3. Sustainable Development Potential

#### Wider benefits and priorities

##### E.3.1. Environmental, social and economic co-benefits, including gender-sensitive development impact

###### Economic co-benefits

- **Job creation:** During the pilot phase, we supported more than 3000 jobs with R40mil investments. 20% of the financing went to start-up businesses and therefore creating new jobs. It is important to note without our financing the rest of the jobs could have been lost. Therefore with R460mil (USD30mil) investment we can support over 30 000 jobs. 20% of which will be new jobs.
- **Cost savings:** through financing of energy efficiency and renewable energy, we will help private and public sector to save between 2- and 50% on their energy costs.

###### Social co-benefits

- **Improved access to education (working with incubators)** – We currently provide financial readiness training to incubatees. We are working with green incubators to provide a complete ecosystem where the SMME is provided with technical, financial and access to market support. This will result in more better prepared MSMEs

- to implement green developments, creating jobs and reducing poverty
- Provision of basic service: Through financing of installations such as mini-grids, we will enable quick provision of electricity to low income communities

**Environmental co-benefits** – We have financed projects in municipal water management, industrial liquid waste management, sustainable farming, conversion of waste cooking oil to biodiesel, etc. These are excellent opportunities for MSMEs to be involved, especially given the relative low technical expertise required. These projects Improved air quality, soil quality (potential) and biodiversity. More than 90% of the businesses we finance are owned and operated by previously politically excluded people and women

**Gender-sensitive development impact** – By end of October, 33% of the projects we financed were for women owned businesses, our target is for 45% of the financing to go to women owned businesses. Examples of women owned business that we financed are:

## E.4. Needs of the Recipient

### Vulnerability and financing needs of the beneficiary country and population

#### E.4.1. Vulnerability of country and beneficiary groups (Adaptation only)

*Describe the scale and intensity of vulnerability of the country and beneficiary groups, and elaborate how the project/programme addresses the issue (e.g. the level of exposure to climate risks for beneficiary country and groups, overall income level, etc.)*

South Africa is characterized by high levels of unemployment. The official unemployment rate stood at 25%, while only 41% of the active population was actually employed (Statistics South Africa, 2012). Nearly one million jobs were lost in 2009 owing to the economic recession across all major sectors (both formal and informal) of the economy (Statistics South Africa, 2010). In addition, within the employed population, significant divergences in income and welfare between highly paid and skilled workers (of all races) and low-skill low-wage workers (mostly black/African) exist. The country's current economic growth model is heavily resource and energy-intensive, aggravating pressures on the environment and the threat of climate change. South Africa is thus the world's 13th largest greenhouse gases emitter while only ranking 29th and 70th in terms of gross domestic product (GDP) and GDP per capita.

South Africa is in a unique position to exploit the emergence of green economic development in the world. The country's renewable resources abundance (solar and wind predominantly) and biodiversity positions it to play a leading role in the Southern African region and in Africa. In addition, if supported by an enabling environment, green sectors have the potential to foster South African growth and employment, as well as the shift to sustainable development.

MSMEs are key drivers in implementing green developments. By proving a financing solutions that supports MSMEs, we will enable the country to implement more green development

Delivery of basic services such as electricity is also a key government priority. Programmes to uplift economic and social development, such as provision of electricity, fuel for cooking, etc., can be rollout quicker using small scale localized sources that utility sources. For example, a small 90W rooftop solar pv system can be installed on a roof of a shack within a few hours and immediately start providing much need to shack dwellers, enabling the kids to study and other benefits. Another major developmental advantage is that such projects are perfect for MSMSs to undertake the installations since they are too small for bigger companies. Thus there is a double benefit of providing services whist also employing MSMEs and developing skills

The target market of the fund is:

- 70% previously disadvantaged people
- 45% women
- 35% youth

*These are the most vulnerable and disadvantage groups in South Africa in terms of unemployment and poverty. The below table shows unemployment statistics by demographic. Source: AfricaCheck*

Race & gender	Total population (15-34)	Unemployed*	%
Black male	8,187,887	2,892,127	35%
Black female	8,057,561	3,677,561	46%
White male	603,917	82,605	14%
White female	593,795	132,395	22%
Indian male	234,022	51,365	22%
Indian female	219,281	74,199	34%
Coloured male	810,492	260,793	32%
Coloured female	822,535	321,577	39%

#### E.4.2. Financial, economic, social and institutional needs

*Describe how the project/programme addresses the following needs:*

- *Economic and social development level of the country and the affected population*
- *Absence of alternative sources of financing (e.g. fiscal or balance of payment gap that prevents from addressing the needs of the country; and lack of depth and history in the local capital market)*
- *Need for strengthening institutions and implementation capacity.*

Economic development is a priority for South Africa and a shift to high-value, knowledge-intensive products is a national objective. It is intended that investment in Research Development Initiatives will lead to the commercialisation of the resulting technology, leading to increased employment, exports and national wealth (DST, 2007). South Africa for the green development is part of the strategy of paving a path for the economy as a whole to benefit from country's natural resources. For economic benefits to reach the poor and marginalised part of the population, more employment opportunities would have to be created (Mange, 2010).

The Fund targets MSMEs, who traditionally are excluded from the commercial banking system due to lack of collateral and financial history. We are therefore solving two problems with one solution; sustainable development and access to finance for MSMEs.

Skills transfer: the Fund will invest in MSMEs with commercially-tested technology which require artisanal skills. The increased rollout of these technologies will result in skills transfer to the artisans who will do the installations. The goal is to accelerate green developments by providing the necessary working capital required to undertake the developments. Access to finance to MSMEs in South Africa is less than 25%. According to the South African Reserve Bank's credit exposure figures, captured on the BA200 form submitted to the bank supervision department, as of December 2015 South African bank loans of less than R7,5M to MSMEs was flat at R180bn, compared to R387,5bn for larger SMEs, which grew by 80%. According to [www.smallbusinessinsight.org](http://www.smallbusinessinsight.org), The banks' reluctance to increase lending to small firms is sending many of them the way of small business financier Business Partners. The financier, which has an average loan size of R2.5m, financed R773mil in MSME transaction in 2013/14. Their large competitor Sasfin financed R2,7bn. This program will add R1,8bn financing for MSMEs in the first year, and growing at 20% per year for 10 years.

## E.5. Country Ownership

Beneficiary country (ies) ownership of, and capacity to implement, a funded project or programme

E.5.1. Existence of a national climate strategy and coherence with existing plans and policies, including NAMAs, NAPAs and NAPs

*Please describe how the project/programme contributes to country's identified priorities for low-emission and climate-resilient development, and the degree to which the activity is supported by a country's enabling policy and institutional framework, or includes policy or institutional changes.*

Since 1994, South Africa has achieved far-reaching political, economic and social changes, and has shown an increasing commitment to sustainable development. Along with its involvement in international negotiations, it has developed its own national framework for a shift to a green economy. South Africa recognises sustainable development as a human right in the Bill of Rights of its 1996 Constitution (Republic of South Africa, 1996) and also committed to achieving the Millennium Development Goals, which include environmental sustainability as a target (United Nations, 2000). The country is a Party to both the Kyoto Protocol and the United Nations Framework Convention on Climate Change (UNFCCC) and has made commitments under the Cancun Agreement for its greenhouse gas emissions to “peak, plateau and decline”, with reductions in emissions compared to a “business as usual” scenario of 34% in 2020 and 42% in 2025. South Africa is also Party to many international conventions and agreements on biodiversity (such as the Convention on International Trade in Endangered Species of Wild Fauna and Flora, the Convention on Biological Diversity, the International Convention for the Regulation of Whaling and the Ramsar Convention on Wetlands of International Importance) and pollution issues (such as the Basel Convention on the Control of Trans-boundary Movement of Hazardous Wastes and their Disposal, the Stockholm Convention on Persistent Organic Pollutants and the Montreal Protocol for the Protection of the Ozone Layer).

The South African framework which guides the development of a green economy and, as a result, green jobs in the country essentially consists in nine key texts. The Table below provides a chronological overview of these policies and measures, summarising their relevant goals, current (mid-2012) progress and the nature and level of civil society involvement in their establishment.

<b>Policies and measures</b>	<b>Main goals</b>	<b>Progress (mid-2012)</b>	<b>Civil society involvement</b>
<b>Framework for Environmental Fiscal Reform (NT, 2006)</b>	Provides principles and guidelines for fair and effective environmental taxes	Taxes and levies have been implemented on plastic bags, incandescent light bulbs, ecosystem restoration costs related to water use, liquid fuel, non-renewable electricity and new vehicle carbon dioxide emissions performance	A paper on carbon tax was published in 2010 for public consultation
<b>Innovation Plan (DST, 2008)</b>	Includes “safe, clean, affordable and reliable energy supply” and climate change as priorities	Support for innovation in electric vehicles, fuel cells and carbon capture and storage, but cancellation of the country's largest clean energy R&D programme (the Pebble Bed Modular Reactor) and delay in the implementation of renewable energy demonstration projects (e.g. solar tower)	Limited
<b>Medium-Term Strategic Framework 2009-2014 (NPC, 2009)</b>	Notes the need for sustainable livelihoods and sustainable resource management and relates these to various other policy areas including energy, water, housing, technology and competitiveness	Numerous policy responses implemented in line with the Medium-Term Strategic Framework, particularly the NSSD, the creation of an enabling environment for renewable energy, several water management projects and the National Climate Change Response.	Limited
<b>Industrial Policy Action Plan (the dti, 2010, 2011 and 2012)</b>	Specifically targets growth in green industries, focusing on solar water heaters (SWHs), but also includes other solar and wind energy, biofuels, electric vehicles and organic farming	Around 200 000 SWHs installed by mid-2012 and a procurement process started for around ZAR 120 billion worth of large-scale renewable electricity generation	Some consultation via NEDLAC

<b>New Growth Path (EDD, 2010)</b>	Targets the growth of a green economy, resulting in 400 000 new and additional jobs	Enabling regulation passed in other departments	Government, business and civil society signed the Green Economy Accord in 2011, which details (mostly already-existing) support measures
<b>Integrated Resource Plan 2010-2030 (DoE, 2011)</b>	Limits emissions from electricity generation to 275 Mt per year Expects renewable energy to make up 42% of all new electricity generation over the next 20 years	Procurement of renewable energy under the plan is on track, but procurement of nuclear energy has been delayed by at least a year	Large public participation, including inputs on modelling parameters and a first draft of the plan
<b>National Climate Change Response (Republic of South Africa, 2011)</b>	Endorses and quantifies South Africa's greenhouse gas emissions limits/commitments. Aims to grow green jobs while limiting job loss in unsustainable industries	South Africa had already made a (voluntary) emissions commitment and approved an emissions-limited energy plan (Integrated Resource Plan 2010-2030) prior to the publication of the policy	Significant public consultation, starting with the multi-stakeholder Long-Term Mitigation Scenarios process in 2007
<b>National Strategy for Sustainable Development (DEA, 2011)</b>	A large variety of indicators and goals spanning social, economic and environmental issues, but no budgets, timelines or responsibilities	Strategy published and annual publication of sustainability indicators (different from the ones in the strategy)	Public consultation on a draft NSSD since 2009.
<b>National Development Plan (NPC, 2011b)</b>	The NDP is very specific about goals and focuses on energy and carbon: greenhouse emissions to peak in 2025 and introduce carbon budgeting an economy-wide price for carbon and incentives for energy efficiency and managing waste better. 5 million SWHs by 2030 vehicle emission standards, zero-emission building by 2030 simplify the regulatory regime for contracting about 20 000 MW of renewable energy by 2030	Greenhouse gas emissions may already be higher than levels committed to for stabilization in 2025. A carbon tax with exemptions is expected in 2013. SWH installations stand at just over 200 000 in 2012 (compared to the targeted 1 million by 2014/2015) Tax on carbon dioxide emissions of motor vehicles and new building energy efficiency regulations implemented Procurement has started on the first 3.7 GW of electricity supply from renewable energy out of a plan for 17.8 GW by 2030.	The NPC is guided by nominated Commissioners from outside of government (and business for the most part) and consulted publicly on the Development Plan based on an initial publication of a Diagnostic document.

The country has already shown ownership by funding the pilot phase of the program. The GCF funds will enable the country to leverage their funding in achieve a lot more.

- The government entities DBSA and SEFA wholly funded the pilot phase of the programme, thereby demonstrating the country's commitment
- SCF Capital Solutions launched the SCF Capital Solutions is committed to local country operations and expertise. The management and operations team is made up of local employees who understand consumer needs and cultural context.

All of the Fund's investments will have significant, if not all, operations within the country. Such investments serve to create employment opportunities, local institutional knowledge that can be shared within public and private sectors, strengthen local supply and distribution channels required for scaling sustainable businesses.

### E.5.2. Capacity of accredited entities and executing entities to deliver

*Please describe experience and track record of the accredited entity and executing entities with respect to the activities that they are expected to undertake in the proposed project/programme.*

#### **The DBSA (Accredited Entity)**

The Development Bank of Southern Africa (DBSA) based in South Africa, is a national entity, specifically a development finance institution, with a mandate to finance both private and public sector activities at national and regional levels in Africa. DBSA provides sustainable infrastructure project preparation, finance and implementation support in order to improve the population's quality of life, accelerating the sustainable reduction of poverty and inequity, and promoting broad-based economic growth and regional economic integration. Climate and environmental finance is embedded in the DBSA strategy and the entity has played a key role in implementation of projects on transitioning South Africa to a green economy, including acting as the implementing agency for the Green Fund of South Africa noted below and financing of the commendable independent power producer programme projects. Since its accreditation to the Global Environment Facility, the DBSA has developed and will soon be implementing several projects that fall within different initiatives such as the Sustainable Cities Integrated Approach (SC-IAP), U4E, and the small scale national REIPP programme. The current GEF-DBSA portfolio is further proof that the Bank has a good track record for implementing projects such as the SCF. In terms the DBSA's recent track record with regards to sustainability measures, the DBSA continues to work towards embedding sustainability in its core business.

The DBSA's sustainability highlights for 2016 include:

- R17.1 billion (2015: R13.0 billion) infrastructure investment into core sectors of energy, water, transportation and telecommunication. Of this, R8.1 billion (2015: R5.4 billion) was invested with municipalities, a key provider of social infrastructure in South Africa
- 638 000 households are estimated to benefit from new or upgraded infrastructure through funding committed to municipalities
- Accelerated support for the implementation of social infrastructure
- Completion of 35 schools as part of the Accelerated School Infrastructure Delivery Initiative Programme, benefiting 17 900 learners in 2016. More than 36 000 learners have benefited since the inception of the programme
- 1 382 affordable houses completed
- 2 250 water and 203 electricity meters installed
- 500 municipal officials trained on water and equipment repairs and 269 traditional leaders and councilors trained in visionary leadership and integrated development planning
- *During 2016, the DBSA committed no funding (2015: R4.2 billion) but disbursed R1.5 billion (2015: R2.4 billion) to the REIPPP and Peakers programmes. R209 million was disbursed in favour of B-BBEE enterprises.*

#### **The DBSA (As implementer of the National Green Fund )**

DBSA also serves as the implementing agency of the Green Fund, a government national fund that aims to transition South Africa to a green economy. The fund provides financial resources to small scale initiatives, for example, renewable energy projects of a throughput of 1 – 5 MW would be eligible for funding. Projects funded by the fund are categorized under 3 funding windows; (i) Green Cities and Towns, (ii) Low Carbon Economy and (iii) Environment and Natural Resources. Capacity building and Research and Development initiatives are also eligible for financial assistance through the fund. Financial instruments offered include grants (payable and non-payable), debt and equity. Projects that are eligible for Green Fund financing under the 3 windows belong to a range of sectors including transport, water, renewable energy, ICT, energy efficiency, natural resources, biodiversity and sustainable land management. The project in question, the Supply Chain Finance project, is also a beneficiary of the Green Fund. Hence by virtue of implementing the Green Fund, DBSA's track record on implementing projects such as the SCF is clearly proven. As mentioned above, the SCF

project is a beneficiary of the Green Fund that is implemented by the DBSA. By virtue of the project being in alignment with the funding criteria of the Green Fund, the Fund itself having the ability to handle its current portfolio as described above, it is proven that it (the Fund) has a good track record with small scale projects, particularly of this nature.

With the capacity building component of the National Green Fund for example, two key SMME incubator initiatives were supported in addition to the piloting of the supply chain finance facility. The key objectives of both incubator programmes is to support innovators, entrepreneurs and SMMEs actively involved in the development of cutting edge green technologies through providing finance, facilities and office space, business and technical advices, policy advice, and access to relevant networks. These initiatives by the DBSA Green Fund has successfully created an enabling environment for entrepreneurs in the Green Economy to achieve higher rates of survival and growth for the businesses.

**The Executing entity is SCF Capital Solutions.**

The principals of SCF Capital Solutions are Bob Blower and Vonani Mabunda

**Bob Blower                      Non-Executive Chairman**

Bob is the co-founder and Non-Executive Chairman of SCF Capital Solutions. Bob is also a Network Relationship Director for Transpay, a leading US Fintech company covering P2P and B2B payments. Prior to his current roles, Bob was Head of Trade Channels for National Bank of Abu Dhabi, where he delivered supply chain finance products including insured receivables, payables and receivables as part of the trade working capital vision of the National Bank of Abu Dhabi. Bob also previously served as Global Head of Trade Finance and Financial Institutions at Standard Bank, Global Head of Trade and Supply Chain IT at HSBC, Director at Logica, Director at Gresham and the British Banker Association. Bob is an experienced business and technology specialist with more than 20 years of banking and corporate experience in new product development and implementation covering all areas. Bob has written papers, spoken at seminars across the globe, covering a wide range of subjects and has been interviewed by BBC on LIBOR.

**Vonani Mabunda              Co-Founder and CEO**

Vonani is the co-founder and CEO of SCF Capital Solutions. Prior to founding SCF Capital Solutions Vonani was The Principal and Head of Lending Products at Barclays Africa Business Banking, responsible for all the bank's lending activities to small businesses. Prior to joining Barclays Vonani was with Standard Bank Corporate and Investment Bank where we held the various roles: Head of Supply Chain Finance for the group, Head of Risk for Transactional Banking, Head of Operational Risk for International Trade Services division. Prior to joining Standard Bank he served 6 years at Citibank where notably he was involved in starting a fiduciary unit at Citibank Frankfurt in Germany, Head of Trade Operations and Head of Trade Sales at Citibank South Africa. Vonani has a BSc Engineering Degree from Wits University and an MBA from the Gordon Institute of Business Science (GIBS).

The trial period for supply chain finance in the South African business is reaching finality and will be moving to a new phase with the envisaged participation of the Global Green Fund. The increase in facility will provide the team an opportunity to scale up current pilot operations and significantly current disbursements. At the heart of our pilot strategy has been to build and test operational processes inside and outside the company and integrating those processes to an operating platform. During that time we have been working with SEFA and DBSA to refine operational and credit processes procedures to ensure rapid tune around on client applications. Drawing on the founders' experience working in senior roles at HSBC, Barclays, Standard Bank Group and Citibank, a set of world class Governance processes have been put in place with our partners covering credit, operational risk, approvals processes and disbursements. These processes cover issues such as authorization, risk mitigation, client escalation and processing goals.

E.5.3. Engagement with NDAs, civil society organizations and other relevant stakeholders

*Please provide a full description of the steps taken to ensure country ownership, including the engagement with NDAs on the funding proposal and the no-objection letter.*

**E.6. Efficiency and Effectiveness**

Economic and, if appropriate, financial soundness of the project/programme

E.6.1. Cost-effectiveness and efficiency

*Describe how the financial structure is adequate and reasonable in order to achieve the proposal's objectives, including addressing existing bottlenecks and/or barriers; providing the least concessionality; and without crowding out private and other public investment.*

Commercial banks that finance MSMEs generally offer the overdraft product, which exposes banks to high risk due to lack of control on the usage, and it is costly for the banks as they need to hold capital even for unutilized portions of the facility. With sufficient track record of supply chain finance, we will be able to attract funding from commercial banks into this low-risk financing product. More funding from the banks will mean more green developments will be done. Ability to access to finance for green developments will result in MSMEs switching to green.

There are also structural constraints in the economy due to the country's history. Many MSMEs from previously disadvantaged communities lack financial education and assets to collateralise loans. This program will address both challenges through training provided by partners and a financing mechanism that does not require collateral

Commercial banking relies on long track record of data in order to make credit decisions. It is for this reason that whilst adoption of supply chain finance is rising rapidly in Europe, Asia and America, it is still nascent in South Africa and many other parts of the developing world due to lack of information. The GCF funding will enable us to build on work done during the pilot phase to demonstrate that with appropriate risk management, supply chain finance can be used to provide access to finance to MSMEs in the green economy. We will be able to build a substantial data and track record to demonstrate this.

**The financial structure allows us to use GCF support to “crowd in” private sector funders whilst at the same time allowing the GCF to claw back economic benefit when the returns exceed private sector expected returns. This makes it possible for the GCF to benefit from the upside when the business outperforms expectations.**

*Please describe the efficiency and effectiveness, taking into account the total project financing and the mitigation/adaptation impact that the project/programme aims to achieve, and explain how this compares to an appropriate benchmark. For mitigation, please make a reference to [E.6.5 \(core indicator for the cost per tCO2eq\)](#).*

It is challenging to find appropriate benchmarks to compare with, but the use of Supply Chain Finance with GCF support clearly gives us the ability to support large volumes of clients with concomitant mitigation benefits.

E.6.2. Co-financing, leveraging and mobilized long-term investments (mitigation only)

*Please provide the co-financing ratio (total amount of co-financing divided by the Fund's investment in the project/programme) and/or the potential to catalyze indirect/long-term low emission investment.*

### E.6.3. Financial viability

*Please specify the expected economic and financial rate of return with and without the Fund's support, based on the analysis conducted in E.1.*

The fund, wishes to crowd in private sector institutional quality investment. However in order to achieve this, some concessionality will be required in the form of reduced profits share from the GCF as indicated in the funding structure above. A concessionality on the profit share ratio of 30 percent (that is a reduction from 34.1 to 23.9 percent) will incentivize private sector participation with a baseline IRR of 19 percent. If the IRR of the private sector investors exceeds 21 percent, GCF will be able to claw back, the concessionality in profit share that would have been advanced.

Without the GCF's concessionality, returns to the private sector are 17.5 percent in the base case, which may not be attractive.

Without the GCF's capital contribution, the chances of crowding in private sector participation and successfully growing the Fund for its intended purposes are significantly diminished

*Please describe financial viability in the long run beyond the Fund intervention.*

The GCF funding enables the Funds to build a substantial asset base that makes the long-term returns attractive to private sector investor. LPs are expected to be locked in with redemption restrictions for a period of 5 years. The fund anticipates a life of 10 years with an option to extend for a further 5 years. LPs (**excluding AE**) are allowed to sell their interest or redeem after 5 years

*Please describe the GCF's financial exit strategy in case of private sector operations (e.g. IPOs, trade sales, etc.).*

Multiple channels from recapitalizations to private investors and commercial banks as mentioned under the Investment Horizon section of the term sheet. Returns can be withdrawn in a 5-year term Principal investment can be withdrawn by buyout from 5 year term or at the end of the 10 year term. **The DBSA will invest for the life of the Fund, and will not exit before the GCF**

### E.6.4. Application of best practices

*Please explain how best available technologies and practices are considered and applied. If applicable, specify the innovations/modifications/adjustments that are made based on industry best practices.*

The program brings Innovation in terms SCF model and technology

SCF Capital Solutions solves this problem by applying supply chain finance. Supply chain finance is a set of technology-based business and financing processes that link the various parties in a transaction – the buyer, seller and financing institution – to lower financing costs, improve access to finance for SMMEs who supply large institutions and improve business efficiency. In supply chain finance the financial institution avails credit to the supplier, based on the credit strength of the buyer, who would normally be a large entity. Thus in supply chain finance the credit risk is on the buyer and performance risk is on the supplier. The supplier performance risk can be broken down further by looking at how early in the supply chain the transaction is financed. Supply chain finance (SCF) provides short-term credit that optimizes working capital for both the buyer and the seller. Supply chain finance generally involves the use of a technology platform in order to automate transactions and track the invoice approval and settlement process from initiation to completion. The growing popularity of SCF has been largely driven by the increasing globalization and complexity of the supply chain, especially in industries such as automotive, manufacturing and the retail sector.

Typically, small and medium sized enterprises (SMEs) transacting global business face the strongest obstacles in accessing financing on affordable terms. Around the world, SME business leaders point to the availability of finance as a

major barrier to their capacity to trade. This finance gap is of particular concern because SMEs are a leading driver of trade, economic development, and employment. According to World Bank estimates, formal SMEs (legally registered businesses) contribute up to 45% of total employment and up to 33% of national income (GDP) in emerging economies. Those numbers are significantly higher when informal SMEs (businesses that are not legally registered) are included.

In the US, nearly 6m businesses are considered small. According to the US Census Bureau: “Small- and medium-sized companies (those employing fewer than 500 workers, including number of employees unknown) comprised 97.7% of all identified exporters and 97.1% of all identified importers.” The finance challenges that these important contributors face was the topic of a recent analysis by the World Trade Organisation (WTO). In its [May 2016 study](#), the WTO proposed a six-part list of recommendations to address the SME finance gap.

In its action plan, the WTO report called for action on several fronts – including efforts to increase existing finance programmes; maintain open dialogue with trade finance regulators; and improve the capacity of the international community to read markets and predict problems. Weaved throughout the report was a discussion of the power of innovative supply chain finance (SCF) solutions in helping bridge the finance gap for SMEs.

### **Fintech and the democratisation of finance**

In underdeveloped countries ...“local access to factoring is almost non-existent and SMEs are largely excluded from private supply chain financing systems,” the WTO reported. However, that’s about to change. SCF is no longer only for larger importers and the game-changer is financial technology (fintech). Of course, SCF is not new. Supplier financing and reverse factoring have long been offered by the big banks to large – or investment-grade – corporations to support cross-border trade. However, today SCF techniques are being transformed by technology and that transformation maximises opportunities for SMEs and financial institutions alike.

By cutting through the bureaucracy and operational restrictions inherent in traditional financial solutions, new SCF tools extend beyond only the largest importers. New and innovative financial technologies have opened the doors to an entirely new set of financial players, giving them a broader reach and allowing SMEs to take advantage of opportunities formerly only available to large enterprises.

As these new online tools become more established and lenders become more comfortable assessing the risks associated with making advances or loans to small importers or retailers, businesses that previously had to rely on traditional banks for loans or lines of credit are able to take more control of their ability to fund inventory. In some cases they can go directly to manufacturers, as opposed to using an importer. Businesses that previously found their growth stifled because financing wasn’t available to them are able to thrive.

Additionally, thanks to advances in technology and the rise of fintech, the number of SCF options available to SMEs is diverse and growing. Small businesses selling their goods on platforms such as Amazon, eBay, or Alibaba are now offered working capital lines and loans by those very platforms facilitating the sale of cross-border goods. Last year, Chinese online marketplace Alibaba and online loans specialist Lending Club [formed a partnership](#) to provide small financial facilities for manufacturers, wholesalers and retailers in the US for buying products and supplies directly from Chinese companies over the Alibaba ecommerce site.

According to the *New York Times’ Dealbook*: “Rather than have to rely on banks or other traditional lenders who require collateral for their financing, these customers can instead use Lending Club’s systems to procure an unsecured loan with near-instant approval.” They can also use the services of business credit specialists, which provide advances to SME importers and credit guarantees through the purchase of receivables from suppliers and short term loans to importers of all sizes, around the world.

### **Timing and guaranteeing payment obligations**

SCF doesn't just support working capital; it can also support growth. Because the buyer doesn't have to pay its supplier as quickly, SCF programmes often enable the buyer to pay up to 120 days after the actual receipt of the imported goods, so that money can be put to work for growth purposes. In addition, SCF provides assurances to manufacturers and suppliers that they will be guaranteed payment upon timely performance. This can help in the negotiation of more favourable terms and strengthen international working relationships. For example, a middle market retailer of men's apparel was able to secure funding to go directly to offshore suppliers and disintermediate its traditional importer/wholesaler by taking advantage of SCF. While many suppliers were dubious of the company's ability to pay, the SCF facility provided a level of reassurance that satisfied manufacturers while providing the company with an extra 90 days to pay for the goods that were being produced overseas.

### **Benefits to SMEs and banks alike**

Although the concept of timing payments is not new, the ability to manage the transactions from a dashboard in your office is. Web-based SCF tools mean that cross-border business becomes a viable option for SMEs, importers and exporters alike, whether they are in urban areas or remote locations. An [International Chamber of Commerce \(ICC\) global survey](#) concluded that supply chain finance is a market with huge potential to be tapped. In an increasingly global marketplace with perpetually volatile economies, the ability to time payment obligations can make a huge difference for a small or medium-sized business. SCF gives SMEs more control over their ability to free up working capital and manage inventory. It changes the cross border relationship from being product-centric – when its goods arrive, the company makes a payment – to one of a collaborative partnership. It could even change the traditional role of importers, as small retailers will be able to go directly overseas for goods rather than relying on a middleman for its product.

Indeed, it just might be able to close the SME trade finance gap identified by the WTO and give SMEs the fuel they need to trade, expand, and thrive.

Processing high-volumes of supply chain finance transactions requires a robust technology platform in order to minimise human costs and reduce operational risks. Some of the key activities and risks that need to be managed in the transaction are:

- Agreements with clients and Anchor Buyer
- Credit and sub-limits
- Payment terms and dates
- Payments and collections
- Booking of finance transactions and amortization of interest or fees
- Maturities
- Tracking of transaction milestones
- Identity management
- Fraud management

Apart from supply chain finance transaction management skills and experience, which SCF Capital Solutions management has many years of, an electronic platform is needed to manage the activities and thereby minimise risk and human costs.

SCF Capital Solutions has partnered with China Systems to use their cloud based Eximills platform as the transaction management tool. Some of the functional provided by Eximills are:

#### Advanced integration capabilities

- Integrates seamlessly with any Funder's infrastructure and provides the ability to adapt the user interface

according to the Funder's look and feel, design, and navigation requirements

- Output can be generated in XML, EDI, CSV, and other commonly used formats, and supported interfaces include API calls, File, TCP, MQ, and Tuxedo

#### A powerful Straight Through Processing (STP) engine

- Allows the analysis of incoming data from SWIFT, TSU, and other sources and definition of routing rules
- Has ability to trigger automated processing and routing of transactions to reduce manual intervention to an absolute minimum

#### Compliance with industry standards

- SWIFT (both FIN and TSU XML standards)
- URC, URG, UCP, and eUCP
- XML
- EDI
- Web Services, SOAP, and Federated Identity

#### Strong system security

- Supports third-party security hardware and software that meet stringent industry specifications
- Open Java EE design allows for new security technologies to be easily adopted as they become available
- Security aspects are managed independently of the underlying operating system, thus improving protection of system data and resources
- Supports Non-Repudiation, Multi Factor Authentication/ Authorisation, Single Sign On, White List checking, and the use of third-party certificates

#### High-volume processing capabilities

- Provides configurable Batch processing and scheduling functions, such as Start and End of Day processes, generation of tracers, collection of periodic fees, and incoming payments, reducing overall processing time to a minimum
- Supports Load Balancing thereby allowing high volumes to be processed in parallel across multiple servers

#### Strong communication capabilities with other systems

- Can communicate with treasury, accounting, risk management, and other systems in online or batch mode
- Can interface with most payments systems, SWIFT, telex, fax, and e-mail devices
- Provides a built-in online messaging tool that allows checking and updating of data residing in other systems during transaction processing

#### Advanced multi-entity capability

- Fully supports global and regional processing across multiple time zones, countries, and languages, allowing Funders to use and control a centralised business application and its resources in the most efficient way
- Enables a straightforward and controlled rollout of business functionality across the Funder's entire network through thin client user access, whereby the geographical location of processing centres and customer service centres can be optimised to reduce costs, improve operational efficiency, intensify customer relationships, and deliver superior service through closely integrated front and back office processing
- Allows for maximum reuse and sharing of business components on an enterprise application level, reducing

application maintenance to a minimum

- Ensures that the various operating models, such as the Regional Processing or Insourcing Model, can be handled, regardless of whether the Funder using the system operates on a domestic, regional, or global level

Multi-channel delivery capabilities

- Through an expandable and Funder-definable 'party notification profile,' the system permits the Funder to control on a transaction event level how the Funder wishes to communicate with customers and other parties during the business process, which could be by mail, fax, e-mail, internet front end, mobile, or other devices. These profile settings automatically control the type of output generated after a transaction is confirmed. The Funder is then able to define customer-specific communication settings, meeting the level of sophistication of that customer in a competitive environment in which the speedy processing of data and decisions is a must.

System flexibility

- Its rules-based processing concept and future-proof architecture allow the Funder to withstand the rapid changes in the business environment and thus provide a solution to Funders that want to differentiate themselves and attract new customers by providing innovative and value-added services along the entire transaction chain.
- The enterprise toolkit offers the Funder the option to build new, or enhance existing, functionality in a business environment, in which we see e-commerce and open-account trading rapidly growing and creative supply chain financing solutions becoming increasingly important.

E.6.5. Key efficiency and effectiveness indicators

<i>GCF core indicators</i>	Estimated cost per t CO <sub>2</sub> eq, defined as total investment cost / expected lifetime emission reductions (mitigation only)	
	(a) Total project financing	US\$34,15M
	(b) Requested GCF amount	US\$12,22M
	(c) Expected lifetime emission reductions overtime	33 001 833 tons CO <sub>2</sub> tCO <sub>2</sub> eq (solar pv is over 25 years)
	<b>(d) Estimated cost per tCO<sub>2</sub>eq (d = a / c)</b>	<b>US\$1,03 / tCO<sub>2</sub>eq</b>
	<b>(e) Estimated GCF cost per tCO<sub>2</sub>eq removed (e = b / c)</b>	<b>US\$0,37 / tCO<sub>2</sub>eq</b>
Other relevant indicators (e.g. estimated cost per co-benefit generated as a result of the project/programme)		

*\* The information can be drawn from the project/programme appraisal document.*

### F.1. Economic and Financial Analysis

*Please provide the narrative and rationale for the detailed economic and financial analysis (including the financial model, taking into consideration the information provided in [section E.6.3](#)).*

### F.2. Technical Evaluation

*Please provide an assessment from the technical perspective. If a particular technological solution has been chosen, describe why it is the most appropriate for this project/programme.*

Processing high-volumes of supply chain finance transactions requires a robust technology platform in order to minimise human errors and reduce operational risks. Some of the key activities and risks that need to be managed in the transaction are:

- Agreements with clients and Anchor Buyer
- Credit and sub-limits
- Payment terms and dates
- Payments and collections
- Booking of finance transactions and amortization of interest or fees
- Maturities
- Tracking of transaction milestones
- Identity management
- Fraud management

Apart from supply chain finance transaction management skills and experience, which SCF Capital Solutions management has many years of, an electronic platform is needed to manage the activities and thereby minimise risk and human costs. SCF Capital Solutions has partnered with China Systems to use their cloud based Eximills platform as the transaction management tool. Some of the functional provided by Eximills are:

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- Integrates seamlessly with any Funder's infrastructure and provides the ability to adapt the user interface according to the Funder's look and feel, design, and navigation requirements
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- Allows the analysis of incoming data from SWIFT, TSU, and other sources and definition of routing rules
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Compliance with industry standards

- SWIFT (both FIN and TSU XML standards)
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#### Strong system security

- Supports third-party security hardware and software that meet stringent industry specifications
- Open Java EE design allows for new security technologies to be easily adopted as they become available
- Security aspects are managed independently of the underlying operating system, thus improving protection of system data and resources
- Supports Non-Repudiation, Multi Factor Authentication/ Authorisation, Single Sign On, White List checking, and the use of third-party certificates

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- Provides configurable Batch processing and scheduling functions, such as Start and End of Day processes, generation of tracers, collection of periodic fees, and incoming payments, reducing overall processing time to a minimum
- Supports Load Balancing thereby allowing high volumes to be processed in parallel across multiple servers

#### Strong communication capabilities with other systems

- Can communicate with treasury, accounting, risk management, and other systems in online or batch mode
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#### Advanced multi-entity capability

- Fully supports global and regional processing across multiple time zones, countries, and languages, allowing Funders to use and control a centralised business application and its resources in the most efficient way
- Enables a straightforward and controlled rollout of business functionality across the Funder's entire network through thin client user access, whereby the geographical location of processing centres and customer service centres can be optimised to reduce costs, improve operational efficiency, intensify customer relationships, and deliver superior service through closely integrated front and back office processing
- Allows for maximum reuse and sharing of business components on an enterprise application level, reducing application maintenance to a minimum
- Ensures that the various operating models, such as the Regional Processing or Insourcing Model, can be handled, regardless of whether the Funder using the system operates on a domestic, regional, or global level

#### Multi-channel delivery capabilities

- Through an expandable and Funder-definable 'party notification profile,' the system permits the Funder to control on a transaction event level how the Funder wishes to communicate with customers and other parties during the business process, which could be by mail, fax, e-mail, internet front end, mobile, or other devices. These profile settings automatically control the type of output generated after a transaction is confirmed. The Funder is then able to define customer-specific communication settings, meeting the level of sophistication of that customer in a competitive environment in which the speedy processing of data and decisions is a must.

#### System flexibility

- Its rules-based processing concept and future-proof architecture allow the Funder to withstand the rapid changes in the business environment and thus provide a solution to Funders that want to differentiate themselves and attract new customers by providing innovative and value-added services along the entire

transaction chain.

The enterprise toolkit offers the Funder the option to build new, or enhance existing, functionality in a business environment, in which we see e-commerce and open-account trading rapidly growing and creative supply chain financing solutions becoming increasingly important.

### F.3. Environmental, Social Assessment, including Gender Considerations

*Describe the main outcome of the environment and social impact assessment. Specify the Environmental and Social Management Plan, and how the project/programme will avoid or mitigate negative impacts at each stage (e.g. preparation, implementation and operation), in accordance with the Fund's Environmental and Social Safeguard (ESS) standard. Also describe how the gender aspect is considered in accordance with the Fund's Gender Policy and Action Plan.*

#### **It should be noted that projects that will be supported by SCF would be of lower category**

Since the GCF funds for the proposed programme will be administered by the DBSA as the accredited entity and the fact that DBSA will be an equity partner with GCF, the programme will be implemented and operated in accordance with the DBSA's Environmental and Social Safeguard Standards which is attached. It should also be noted that the current pilot phase of the programme funded by the DBSA Green Fund is being monitored in compliance with these standards and safeguards as much as possible. The ESSS also commits DBSA to ensure it has the necessary systems in place to implement the ESSS and to periodically update and revise it. It includes a commitment from DBSA to appoint appropriately skilled people to appraise projects, ensure they meet the minimum Safeguard requirements and apply these fairly.

The DBSA's Environmental and Social Safeguard Standards (ESSS) is an extension of the DBSA Environmental Appraisal Framework and the Social and Institutional Appraisal Guidelines. In creating its ESSS the DBSA has harmonized with the work of other Global and African DFI's and especially the Global Environmental Facility (GEF). The DBSA ESSS draws extensively from existing Safeguards which have recently gone through an extensive stakeholder engagement process. The minimum safeguards set out the minimum social and environmental and gender mainstreaming standards required of DBSA clients accessing Global Environment Facility (GEF) and GCF financing. The DBSA undertakes an integrated approach to project preparation, due diligence, approval and project surveillance, monitoring and evaluation.

The DBSA Environmental and Social Safeguards addresses seven operating safeguards requirements that DBSA clients are expected to meet when addressing social and environmental issues. The first Safeguard Standard, the Environmental and Social Assessment provides an umbrella framework to assist DBSA and clients to identify potential environmental and social risks and benefits associated with the DBSA investment lending operations and partnership initiatives such as those with GCF. It is an essential tool for integrating environmental and social concerns into bankable investment projects by providing the minimum requirements that all DBSA investment lending operations must meet. This standard also covers accountability and grievance systems. The remaining Safeguard Standards are:

2. Protection of Natural Habitats
3. Involuntary resettlement
4. Community stakeholders and vulnerable groups (including Indigenous Peoples)
5. Pest Management
6. Physical and cultural resources and
7. Safety of Dams
8. Labour Guideline

In relation to item 4 above, using a **gender mainstreaming approach**, the DBSA typically carries out an assessment of gender issues for every project and uses the findings as the basis for project design and compensation plans that lead to enhanced gender balance. When a project includes environmental and social analysis, the gender assessment may be carried out as part of this analysis. In particular, the DBSA assesses the quality and relevance of gender data and performance indicators, specific pro-gender measures, and budgetary resources allocated for equality and empowerment for any project as key criteria in investment decision-making process. This approach is very much applicable to the SCF programme since women and men are involved in climate change responses but in different ways. In fact, the Cancun Agreements acknowledge that gender equality and the effective participation of women are important for all aspects of climate change. Climate change hazards increase or heighten existing gender inequalities thereby contributing to the greater climate change vulnerability of many women. This is largely due to persistent gender norms and widespread gender discrimination that deny women income, legal rights, access to resources while assigning them the primary role in caring for their families and providing for their livelihoods, leading to women’s marginalization in many ways. Nevertheless, women are powerful stakeholders in implementing low-carbon pathways in development countries. This makes women important agents of change in the fight against global warming and their input needs to be taken cognizance of and incorporated in climate change adaptation and mitigation equation.

In the context of the socio-economic background outlined above, the action plan below considers the following aspects as important and relevant for streamlining gender in the SCF project:

- Gender inclusive design features;
- Targeted project output-specific strategies
- An appropriate institutional structure
- Capacity development initiatives for gender responsive MSME finance and development
- Ensuring Access to financing instruments by women entrepreneurs
- An improved business environment that encourages participation and involvement of women entrepreneurs
- Upscaling of project outputs

Task	Gender Design Features/activities
<b>Cross-cutting strategies</b>	<ul style="list-style-type: none"> <li>• A Gender Expert and a Social Anthropologist need to be roped in to be involved at the various phases of the project.</li> <li>• Ensuring the enabling legal and regulatory environment</li> <li>• 45% of the persons to access funding/appointed as suppliers to be women entrepreneurs. (% to grow beyond 50% after 5years)</li> <li>• 45% of entrepreneurs to be capacitated to be women/ owned companies or women (% to grow beyond 50% after 5years)</li> <li>• All training materials, technology and methodology of dissemination to be women friendly (avoiding gender stereo-types and derogatory language and illustrations).</li> </ul>
<b>Project Output-specific strategies</b>	

<p><b>Ensure institutional structure and an enabling environment supports women MSME</b></p>	<ul style="list-style-type: none"> <li>• Ensure proper coordination and interagency mechanisms are in place to support the promotion and participation of women entrepreneurs;</li> <li>• Conduct assessments to ensure a clear understanding of where most women participate in the value chain and why;</li> <li>• Establish and maintain a sector-specific sex-disaggregated MSME database;</li> <li>• Ensure that the participating key stakeholders are adequately trained in gender awareness</li> </ul>
<p><b>Ensure Capacity Building of women entrepreneurs and MSMEs</b></p>	<ul style="list-style-type: none"> <li>• Do a needs assessment and analyses of women skills set and shortage thereof</li> <li>• Where possible provide business development services and other identified training needs to a specified set target.</li> <li>• Ensure that incubator/mentorship programmes that SCF draws client from, promotes women entrepreneurs</li> <li>• 45% of entrepreneurs identified for financing to be women (% to grow beyond 50% after 5years)</li> <li>• 45% of the mentors to be women (% to grow beyond 50% after 5years)</li> </ul>
<p><b>Ensure Women Entrepreneurs/MSME access finance</b></p>	<ul style="list-style-type: none"> <li>• Ensure 45% of the total loan and other financial products are accessed by women entrepreneurs (% to grow beyond 50% after 5years)</li> <li>• Incentivise women to participate in the project/programme</li> </ul>
<p><b>Ensure improved business environment in support of women MSME prevails</b></p>	<p>Remove bottlenecks in the registration process</p> <p>Draw in relevant organisation to partner with SCF to conduct counselling especially to women on taxation and other perceived technical hurdles in conducting business;</p> <p>Simplify any financial and reporting requirements</p> <p>Establish a one-stop shop for the MSME Women entrepreneurs.</p> <p>Establish a disaggregated database for ease of monitoring and results based reporting;</p> <p>Make the programme holistic by breaking the financing product into small chunks and for various financing mechanisms to allow more women access the financing instrument</p>
<p><b>Upscaling</b></p>	<ul style="list-style-type: none"> <li>• Selection of projects for investment pipeline to be based on gender equity in ownership, operation and beneficiaries.</li> </ul>

### G.1. Risk Assessment Summary

*Please provide a summary of main risk factors. Detailed description of risk factors and mitigation measures can be elaborated in G.2.*

The current operational model is documented and integrated into a system that provides support and oversight to the use of funding. Moreover, regular reporting and audits provide a view on the operational integrity of the platform and the service. The 0% loss rate of the pilot indicates the current controls are both appropriate and robust. However, these controls and processes are re-evaluated on a periodic basis to ensure that they continue to be applied and are appropriate.

Due to the relative small scale nature of the project beneficiaries businesses, the associated environmental risks associated therewith will predominantly also be relatively low. The fact that the SCF project only provides working capital to project beneficiaries also lowers the environmental risk to SCF. This however does not exempt the project from any environmental risks. The general environmental risks associated with the project beneficiaries' day to day business may include among others, compliance with environmental legislation, norms and standards, environmental incidents, etc. These risks need to be mitigated by the project beneficiaries themselves, but the DBSA (AE) monitoring should assist in making sure there is compliance.

From a social risk perspective the project may encounter risks associated with human relations that forms part of the project beneficiaries' business. Opposite to the environmental risk, the relative small scale nature may pose a significant risk to the business of project beneficiaries due to the impact thereof being substantive and it may have a high impact on business operations. This may result in a knock-on effect to SCF and repayments of finance provided. This risk can be mitigated by ensuring proper human relations structures and policies within the project beneficiaries' businesses structure.

### G.2. Risk Factors and Mitigation Measures

*Please describe financial, technical and operational, social and environmental and other risks that might prevent the project/programme objectives from being achieved. Also describe the proposed risk mitigation measures.*

#### Selected Risk Factor 1

Description	Risk category	Level of impact	Probability of risk occurring
Non-performing loans well over the budgeted 3 percent, resulting in serious financial Losses.	Financial	High (>20% of project value)	Medium

#### Mitigation Measure(s)

- Credit due diligence is done on the buyer. Only transactions with buyers who have satisfactory credit and payment records are approved.
- Most of the portfolio is with top tier corporate buyers.
- Funds are not paid to MSMEs directly. They are paid to MSME's suppliers
- Proceed are received into an account controlled by SCF Capital Solutions

The control reduces the risk to Low

<b>Selected Risk Factor 2</b>			
Description	Risk category	Level of impact	Probability of risk occurring
Technical performance - MSME non-performance resulting incomplete work or dissatisfactory work that clients are not prepared to pay for	Technical and operational	High (>20% of project value)	Medium
Mitigation Measure(s)			
<p><i>Please describe how the identified risk will be mitigated or managed. Do the mitigation measures lower the probability of risk occurring? If so, to what level?</i></p> <p>Due diligence is done on the track record of the MSME from technical performance point of view. Where the track record is unsatisfactory, the MSME is required to have a technical partner.</p> <p>The control will reduce the risk to Low</p>			
<b>Selected Risk Factor 3</b>			
Description	Risk category	Level of impact	Probability of risk occurring
Operational – risk of processing errors	Technical and operational	High (>20% of project value)	Medium
Mitigation Measure(s)			
<p><i>Please describe how the identified risk will be mitigated or managed. Do the mitigation measures lower the probability of risk occurring? If so, to what level?</i></p> <p>Maker-checker processes are in place for all material operational processes, this ensures that a senior operations manager reviews and approved work initiated by junior operations staff.</p> <p>DBSA (AE) quarterly monitoring of the Fund performance will be able to identify errors in time and recommend corrective measures before significant damage is done. The DBSA has a dedicated unit that monitors performance of funds in which the bank invests.</p> <p>The control will reduce the risk to Low</p>			
<b>Selected Risk Factor 4</b>			
Description	Risk category	Level of impact	Probability of risk occurring
Environmental – risk of financing non-compliant project	Social and environmental	High (>20% of project value)	Low
Mitigation Measure(s)			

*Please describe how the identified risk will be mitigated or managed. Do the mitigation measures lower the probability of risk occurring? If so, to what level?*

DBSA (AE) has in place mature environmental and social safeguards which is applied for all its projects. An ESS framework that is in place for this project will be vigilantly applied to make sure that projects funded by SCF capital fully comply. The selection criteria of the fund will be aligned with ESS requirement and monitoring and evaluation regime of the DBSA will ensure compliance.

The control will keep the risk at a Low level

**Selected Risk Factor 5**

Description	Risk category	Level of impact	Probability of risk occurring
Inability to achieve returns that are satisfactory to private investors.	Financial	High (>20% of project value)	Medium

**Mitigation Measure(s)**

*Please describe how the identified risk will be mitigated or managed. Do the mitigation measures lower the probability of risk occurring? If so, to what level?*

- Sufficient marketing of the fund offering will be in place
- Ensure the fund is sufficiently capacitated to achieve the satisfactory conversion rate
- Appropriate pricing to be maintained and evaluated periodically to ensure competitiveness
- Constant monitoring by DBSA (AE) of financial performance of the Fund and ensuring measures are put in place where there is deviation from expected performance

The control will reduce the risk to Low

**Selected Risk Factor 6**

Description	Risk category	Level of impact	Probability of risk occurring
Gender targets not met by the fund	Social and environmental	Medium (5.1-20% of project value)	Medium

**Mitigation Measure(s)**

*Please describe how the identified risk will be mitigated or managed. Do the mitigation measures lower the probability of risk occurring? If so, to what level?*

- Fund criteria to be aligned with gender targets
- Women based organisations to be prioritized in business development efforts of the Fund
- DBSA (AE) monitoring to closely monitor this target and ensure compliance

The control will reduce the risk to Low

**H.1. Logic Framework.**

Please specify the logic framework in accordance with the GCF's [Performance Measurement Framework](#) under the [Results Management Framework](#).

H.1.1. Paradigm Shift Objectives and Impacts at the Fund level <sup>1</sup>						
Paradigm shift objectives						
<i>Choose appropriate expected result</i>	Reduction of CO2 emissions through displacement of fossil-fueled electricity use at the business level by implementing energy efficiencies technology, installation of clean and renewable energy sources such as solar pv and biofuels.					
Expected Result	Indicator	Means of Verification (MoV)	Baseline (based on pilot programme)	Target		Assumptions
				Mid-term (if applicable)	Final (10 year horizon)	
Fund-level impacts						
<i>M1.0 Reduced emissions through increased low-emission energy access and power generation</i>	<i>Tonnes of carbon dioxide equivalent (t CO2eq) reduced as a result of Fund-funded projects/programmes</i>	Summative ex-post evaluation (5 year)	4050 tonnes CO2 per year	250 000	500 000	Baseline estimates based on 1350 kw of solar pv 2233 Solar water heaters  Future estimates based on 40% of annual investment being invested in clean energy projects
<i>M2.0 Reduced emissions through increased access to low-emission transportation</i>	<i>Tonnes of carbon dioxide equivalent (t CO2eq) reduced as a result of Fund-funded projects/programmes</i>	Summative ex-post evaluation (5 year)	4257 CO2 per year	200 000	400 000	Baseline based on approved facility which will finance production of 1664000 liters of diesel  Future based on 15% of investments being invested in cleaner transportation

<sup>1</sup> Information on the Fund's expected results and indicators can be found in its Performance Measurement Frameworks available at the following link (Please note that some indicators are under refinement): [http://www.gcfund.org/fileadmin/00\\_customer/documents/Operations/5.3\\_Initial\\_PMF.pdf](http://www.gcfund.org/fileadmin/00_customer/documents/Operations/5.3_Initial_PMF.pdf)

<p>M3.0 Reduced emissions from buildings, cities, industries and appliances</p>	<p>Tonnes of carbon dioxide equivalent (t CO2eq) reduced as a result of Fund-funded projects/programmes</p>	<p>Summative ex-post evaluation (5 year)</p>	<p>525 tonnes CO2 per year</p>	<p>200 000</p>	<p>400 000</p>	<p>Baseline based on one energy efficiency project that produced 746790 kwh savings.  The future based on increasing percentage of investments in energy efficiency to 25% of portfolio</p>
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### H.1.2. Outcomes, Outputs, Activities and Inputs at Project/Programme level

Expected Result	Indicator	Means of Verification (MoV)	Baseline	Target		Assumptions
				Mid-term (if applicable)	Final	
<p><b>Project/programme outcomes</b></p>	<p><b>Outcomes that contribute to Fund-level impacts</b></p>					
<p>Choose expected outcome</p>	<p>Please select relevant GCF indicators from the Fund's <a href="#">performance measurement framework</a>. More than one indicator may be selected per expected impact result.</p>					
<p>M6.0 Increased number of small, medium and large low-emission power suppliers</p>	<p>MWs of low-emission energy capacity installed, generated and/or rehabilitated as a result of GCF support</p>	<p>Adherence to Perf. contract</p>	<p>1,35MW</p>	<p>77 MW</p>	<p>190 MW</p>	<p>Baseline MW savings based on actual data. Future estimates based on 40% of future portfolio being on clean energy</p>
	<p>Number of jobs created (temp and perm)</p>	<p>Monthly monitoring reports (labour stats)</p>	<p>3000</p>	<p>15300</p>	<p>30660</p>	<p>Baseline based on actuals, future estimates a straight-line extrapolation of current book</p>
<p>M7.0 Lower energy intensity of buildings, cities, industries and appliances</p>	<p>MW savings</p>	<p>Adherence to Perf. contract</p>	<p>0,2MW</p>	<p>176MW</p>	<p>352MW</p>	<p>Baseline MW savings based on actual data. Future estimates based</p>

						on 25% of future portfolio being on energy efficiency
M8.0 Increased use of low-carbon transport	Vehicle fuel economy and energy source as a result of Fund support	Adherence to Perf. contract	1,664 ,000 liters per year	8,000,000	166 400,000 liters	Baseline based on actuals, future estimates are based on 40% of portfolio being on clean energy, of which cleaner transportation will be 15-20%.
<b>Project/programme outputs</b>	<b>Outputs that contribute to outcomes</b>					
1. Funds disbursed	Amount of Facility (Rands)	Monthly disb. report	R0	R2.3bn	R4.6bn	
2. MSMEs benefitting	Number of MSME beneficiaries	Signed contracts	0	1535	3070	
3. Women-owned MSMEs benefitting	Number of women owned MSME	Signed contracts	0	690	1380	
<b>Activities</b>	<b>Description</b>		<b>Inputs</b>		<b>Description</b>	
Due diligence	Undertaken by SCF fund managers using funds investment criteria		GCF Funding		Investment to move from pilot to expansion phase and to attract private investors	
Credit Committee approval of deals	DBSA, SEFA and SCF Capital consideration of proposed deals		Equity partners		Investment to move from pilot to expansion phase	
Finalisation of contracts	Undertaken by SCF Capital		DBSA back office support		Programme management (monitoring and evaluation)	
Drawdown of facility	Funds disbursed to MSME		4.1.1 SCF fund management		Fund management and day-to-day operations	
Implementation of projects	SCF Capital manages transactions, DBSA quarterly monitoring		5.1.1 Supply chain finance platform		Transaction management tool	
Repayment	MSMEs repay loan with fees					

## I. Supporting Documents for Funding Proposal

- NDA No-objection Letter
- Feasibility Study
- Integrated Financial Model that provides sensitivity analysis of critical elements (xls format, if applicable)
- Confirmation letter or letter of commitment for co-financing commitment (If applicable)
- Project/Programme Confirmation/Term Sheet (including cost/budget breakdown, disbursement schedule, etc.) – see *the Accreditation Master Agreement, Annex I*
- Environmental and Social Impact Assessment (ESIA) or Environmental and Social Management Plan (If applicable)
- Appraisal Report or Due Diligence Report with recommendations (If applicable)
- Evaluation Report of the baseline project (If applicable)
- Map indicating the location of the project/programme
- Timetable of project/programme implementation

*\* Please note that a funding proposal will be considered complete only upon receipt of all the applicable supporting documents.*



## environmental affairs

Department:  
Environmental Affairs  
**REPUBLIC OF SOUTH AFRICA**

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**Ref:** EDMS 156571

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The Green Climate Fund  
Songdo Business District  
175 Art center-daero  
Yeonsu-gu  
Incheon 22004  
**REPUBLIC OF KOREA**

**Email:** [fundingproposal@gcfund.org](mailto:fundingproposal@gcfund.org)

Dear Sir/Madam

### **FUNDING PROPOSAL FOR THE GREEN CLIMATE FUND BY THE DEVELOPMENT BANK OF SOUTH AFRICA REGARDING THE SCF CAPITAL SOLUTIONS PROGRAMME**

We refer to the SCF Capital Solutions Programme in South Africa as included in the funding proposal submitted by the Development Bank of South Africa to us on 22 August 2016.

The undersigned is the duly authorised representative of the Department of Environmental Affairs, the National Designated Authority/focal point for South Africa.

Pursuant to the Green Climate Fund (GCF) decision B.08/10, the content of which we acknowledge to have reviewed, we hereby communicate our no-objection to the SCF Capital Solutions Programme as included in the funding proposal.

By communicating our no-objection, it is implied that:

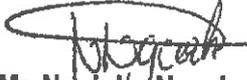
- (a) the Government of South Africa has no-objection to the SCF Capital Solutions Programme as included in the funding proposal;
- (b) the SCF Capital Solutions Programme as included in the funding proposal is in conformity with South Africa's national priorities, strategies and plans; and
- (c) in accordance with the GCF's environmental and social safeguards, the SCF Capital Solutions Programme as included in the funding proposal is in conformity with relevant national laws and regulations.

We also confirm that our national process for ascertaining no-objection to the SCF Capital Solutions Programme as included in the funding proposal has been duly followed.

We also confirm that our no-objection applies to all projects or activities to be implemented within the scope of the SCF Capital Solutions Programme.

We acknowledge that this letter will be made publicly available on the Green Climate Fund website.

Yours sincerely



**Ms Nosipho Ngcaba**  
**DIRECTOR-GENERAL**

DATE: 30/08/2016

## Environmental and social report(s) disclosure

Basic project/programme information	
Project/programme title	SCF Capital Solutions
Accredited entity	Development Bank of Southern African
Environmental and social safeguards (ESS) category	Intermediation 2 (I2)

Environmental and Social Impact Assessment (ESIA) (if applicable)	
Date of disclosure on accredited entity's website	Not Applicable
Language(s) of disclosure	
Link to disclosure	
Other link(s)	
Environmental and Social Management Plan (ESMP) (if applicable)	
Date of disclosure on accredited entity's website	Not Applicable
Language(s) of disclosure	
Link to disclosure	
Other link(s)	
Resettlement Action Plan (RAP) (if applicable)	
Date of disclosure on accredited entity's website	Not Applicable
Language(s) of disclosure	
Link to disclosure	
Other link(s)	
Any other relevant ESS reports and/or disclosures (if applicable)	
Description of report/disclosure	Environmental and Social Management Framework (ESMF)
Date of disclosure on accredited entity's website	2016-11-11
Language(s) of disclosure	English
Link to disclosure	<a href="http://www.dbsa.org/EN/About-Us/Pages/DBSA-in-Action.aspx">http://www.dbsa.org/EN/About-Us/Pages/DBSA-in-Action.aspx</a> The ESMF can be found under "Climate Finance Projects" section. The ESMF is equivalent to the Environmental and Social Management System (ESMS) required under PS1.
Other link(s)	Not Applicable