GREEN
OUTCOMES
FUND

Information Deck, 2020

The Green Outcomes Fund

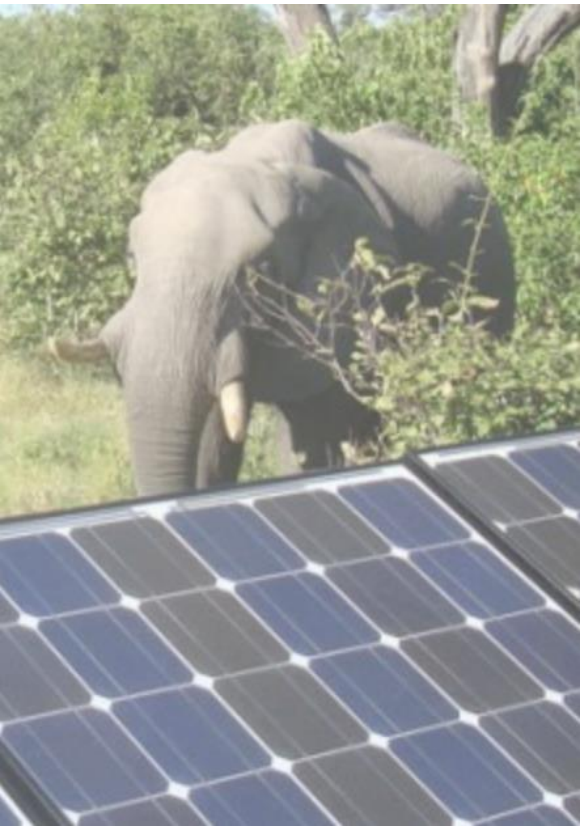
READY FOR LAUNCH

FIRST OF ITS KIND: The Green Outcomes Fund (GOF) **incentivises local South African fund managers to increase investment** in green SMMEs by paying for outcomes, such as green job creation, climate mitigation, and improved water and waste management.

GROWING THE GREEN IMPACT MARKET: It creates demand for **verified, pre-agreed green outcomes** generated by SMMEs. Simultaneously, it creates a common base for growing the South African green impact investing market.

The Need for the Green Outcomes Fund

The GOF responds to key bottlenecks in South Africa's green economy



CHALLENGES AFFECTING SOUTH AFRICAN GREEN SMMEs	GOF RESPONSE
• Low local investor interest • Lack of business development support, including technical capacity to develop and execute a growth plan • Limited access to market	• Stimulates local investor interest by subsidising green SMME investments • Pays for successful business development support • Involves local investment community in growing green SMMEs
CHALLENGES AFFECTING SOUTH AFRICAN FUND MANAGERS	**GOF RESPONSE**
• High start-up costs, especially for innovative (green) strategies • Lack of quality green SMME pipeline • Limited technical understanding of green issues	• Stimulates local investor interest by subsidising green SMME investments • Supports sourcing of green SMMEs through partners • Provides technical support on green issues

The Green Outcomes Fund: An Innovation

Provides incentives to local fund managers to promote increased investment in green SMMEs and building a common set of green metrics within the local investment industry

The Green Outcomes Fund provides outcomes-based matched concessionary capital to existing and emerging local investment funds to promote investments in green SMMEs in South Africa.

The GOF tests whether an outcomes-based payment model can catalyze additional local investment in green SMMEs, and ultimately further the development of a robust green impact investment industry in South Africa. For funders, it creates a market for pre-agreed, verified green outcomes.

1. Driving deals and innovative finance strategies: As a result of setting up the structure, local fund managers are already experimenting with linking the cost of capital to social and environmental gains.

2. Enabling fund managers to invest with greater efficiency: By providing outcomes-based incentives, the GOF enables local fund managers to invest with greater efficiency and risk mitigation, provided they continuously deliver green impact.

3. Organizing the green investment market place: The portfolio spans early stage seed funders providing high risk capital to investors expecting market rate returns in order to increase the co-ordination between capital committed to green SMMEs. This portfolio approach is key to developing the green impact investing industry.

A Theory of Change:
How the Green Outcomes Fund Achieves Impact

GOF Theory of Change

	INPUTS	ACTIVITIES	OUTPUTS	OUTCOMES	IMPACT
As market-builder:	**The GOF partners will capture and share learning outcomes**	1. **Knowledge development**, including green metrics, reflections on fund design, implementation and results	• Reflections on the GOF design process (knowledge pieces, including blogs and reports) • Green metrics and guidance	**For the local investment industry** • Increased access to capital for CFPs willing to commit to green outcomes • Increased technical capacity of local investment industry e.g. on green aspects, Sustainable Development Goals (SDGs) • Increased knowledge about de-risking and blended finance • Shared approaches to impact reporting and data collection • Evidence-based approach to quantify and assess costs and benefits of increasing investment in green SMMEs	**For local SGBs** • Increase in interest by local investors • Technical assistance / business development support including on green aspects	**Create green outcomes, such as:** • Greenhouse gas mitigation • Green job creation • Access to reliable and affordable green energy • Improved resource use efficiency, including in the water and waste sectors
		2. **Knowledge-sharing** with local and international funders, investors and potential partners	• Knowledge-sharing events, locally and internationally			**Increase the effectiveness and efficiency of concessional funding in achieving green outcomes** Data collected on green outcomes and evidence of costs of delivery (applicable to other impact sectors)
As funder:	**The GOF provides concessional outcomes-based funding for local fund managers (Catalytic Finance Partners, CFPs) to invest in green SMMEs**	3. **De-risking investments** by providing outcomes-based concessional funds to RFs investing in green SMMEs	• Establishment of appropriate GOF legal structure • Outcomes-based agreements with CFPs on green outcomes to be achieved			
		4. **Creating understanding of green outcomes** by providing clear and user-friendly guidance on green outcomes and metrics	• Green outcomes and metrics guide			**Grow South Africa's green investment sector** through shared green measurement and reporting outcomes, and including among local investors
		5. **Building the case for green economy investing** by verifying and sharing results with local and international funders and investors	• Agreement(s) with outcomes funders			**Grow South Africa's green economy** through creation of increased demand for green SMMEs by local investors, including business development support

THE IMPORTANCE OF AN ECOSYSTEM APPROACH

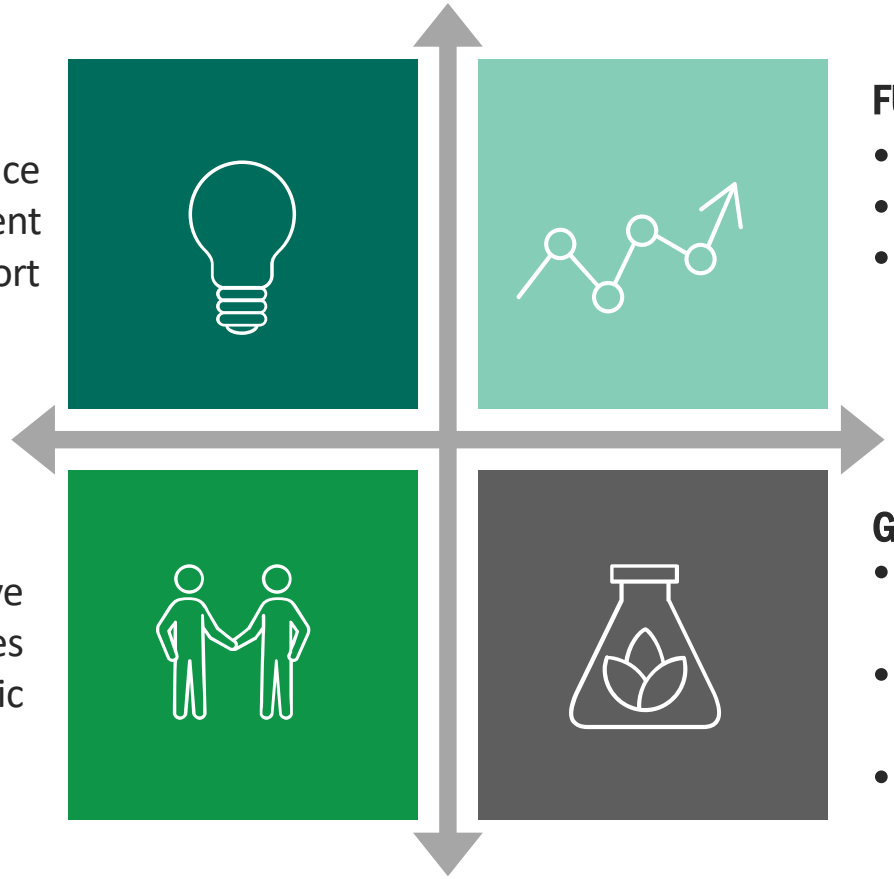
Addressing market blockages from multiple angles

GREEN SMMEs

- Green SMMEs gain access to finance
- Increased targeted business development support

FUND MANAGERS

- Enables otherwise inaccessible investments
- Develops a track record of green portfolio
- Internal knowledge building & skills development



GRANT FUNDERS

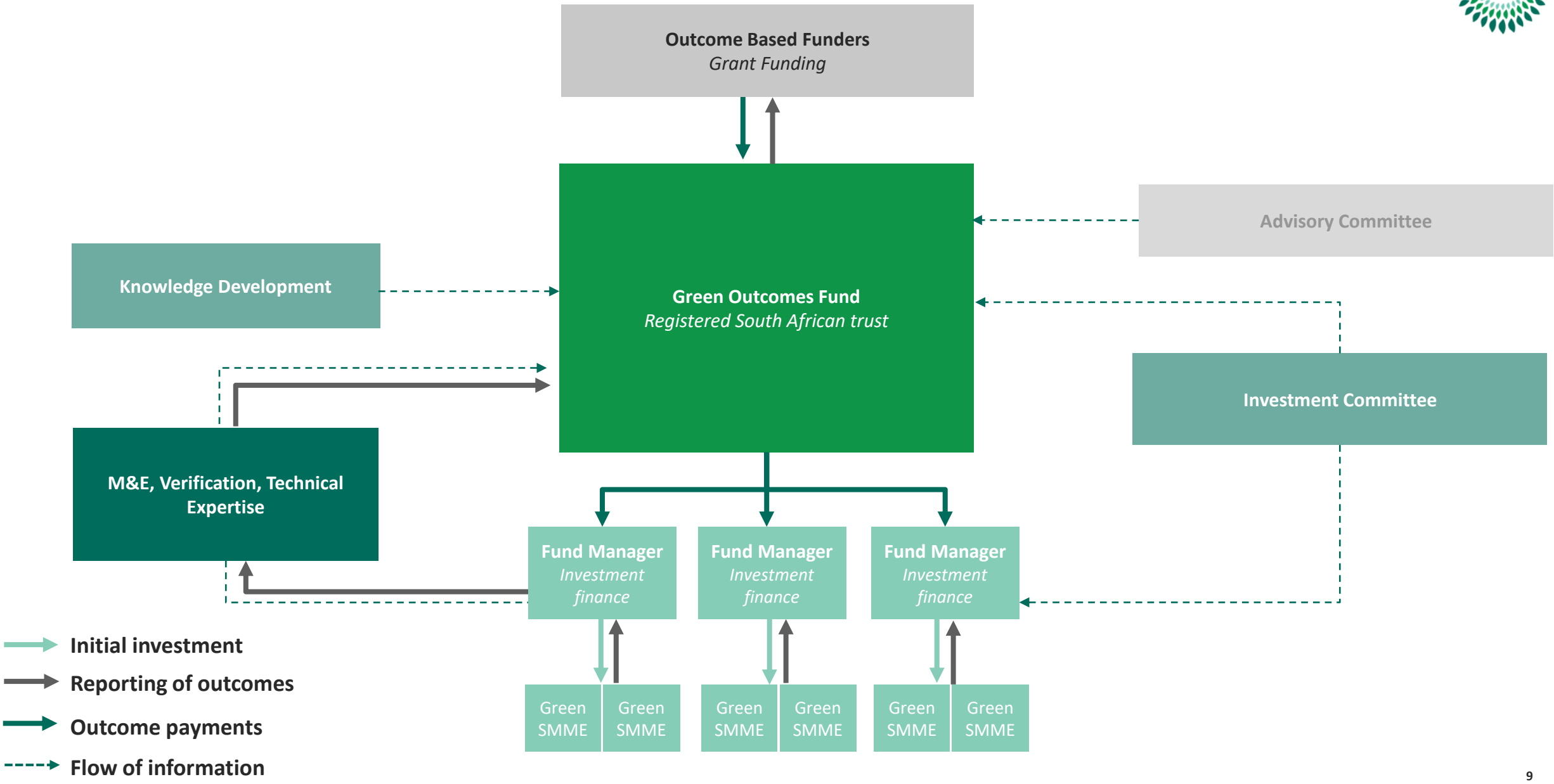
- Funding guaranteed to achieve positive outcomes
- Grants are catalytic

GREEN ECONOMY

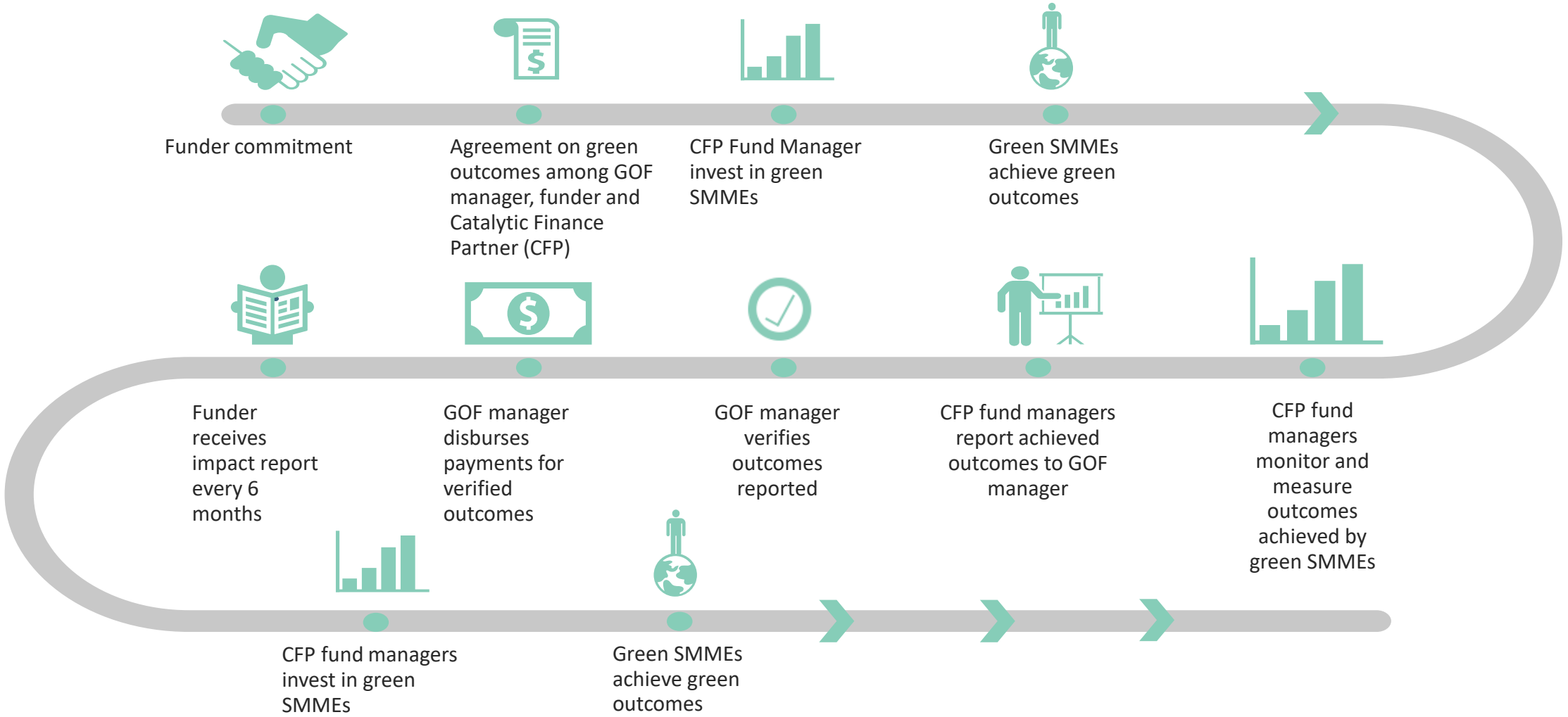
- Mobilises capital for South Africa's green economy
- Establishes foundation for impact data collection and reporting
- Results in increased environmental and social impact

Outcomes-based Payments Models

Green Outcomes Fund Structure



Green Outcomes Fund Process



Advisory Committee and Investment Committee

In addition to the founding members and funders, the GOF has attracted external experts to serve on the Advisory and Investment Committees for the GOF pilot

External experts represent the public and private sector, with extensive green and SMME finance expertise:

Jonathan First

Managing Director
GFA Climate and Infrastructure

Monique Mathys Graaff

Senior Advisor
Impact Management Project

Itumeleng Merafe

Head of Structuring
Investec

WHAT ARE GREEN OUTCOMES?

The GOF measures, verifies, and reports on 13 metrics across the sectors of clean energy, waste, water, and sustainable agriculture.

ENERGY

- Persons reached by reliable clean energy grid/source that were without prior access to the traditional energy grid
- Energy Generation - total installed capacity
- Energy Efficiency - Generic energy saved based on deemed savings values per unit installed

WATER

- Water intensity
- Wastewater treated

WASTE

- Waste to landfill avoided
- Avoided waste incinerated
- Waste recycled / reused
- Chemical recovery

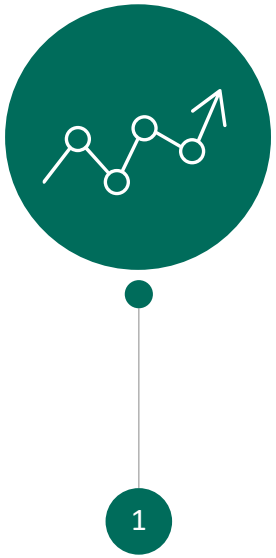
SUSTAINABLE AGRICULTURE

- **Soil Organic Carbon**
- **Synthetic chemical fertiliser reduction**

Green sector direct jobs created
Green sector indirect jobs created

USE OF OUTCOMES FUNDING

FLEXIBLE ENOUGH TO GENERATE KEY LESSONS



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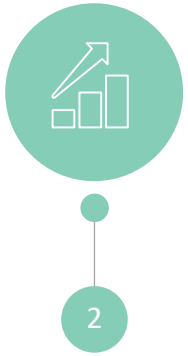
BUSINESS DEVELOPMENT SUPPORT



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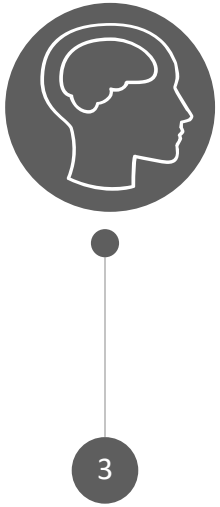
TECHNICAL ASSISTANCE



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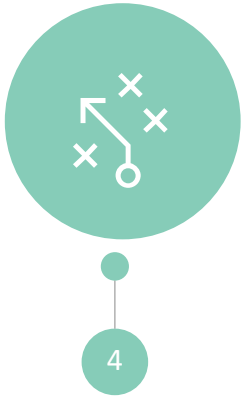
INVESTOR IN-HOUSE TECHNICAL EXPERTISE



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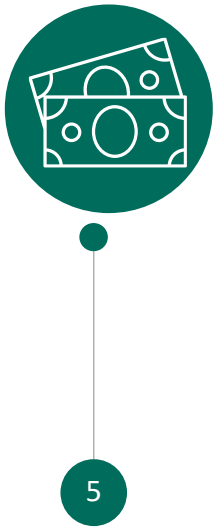
ON-LENDING/ INVESTING



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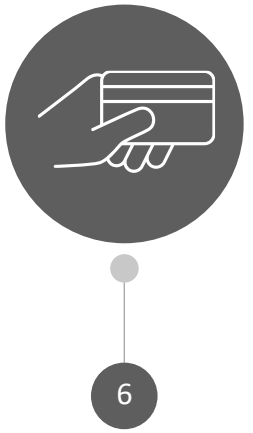
SUBSIDIZED COST OF CAPITAL



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INNOVATIVE PRICING MODELS

Determining market prices for green outcomes

A competitive bidding process allows for market-driven price discovery of green outcomes

DEVELOPING STANDARDS ACROSS THE GREEN ECONOMY: The GOF has the potential to develop an outcome-based price discovery system. The "price" of each outcome will be determined by interests of funders in a particular outcome, and the ease with which CFPs can deliver that impact.

In this first pilot phase the GOF will likely be used in support of all of the green outcomes listed, with outcome pricing based on a transparent negotiation between the GOF and selected CFPs. However, the outcomes-payment feature of the GOF may eventually allow for development of different prices for different outcomes, which can be further refined into a bidding / auction platform for green outcomes (impact).

THE TRUE COST OF GREEN IMPACT OUTCOMES: Through this competitive and transparent bidding process, the GOF can ultimately build a clearer understanding of the true cost of green outcomes delivery. These prices can then be used to effectively channel future concessionary funding to accelerate market growth.

Price Discovery Approaches

The GOF can determine the 'costs' of green outcomes through three different approaches, based on funder needs and priorities

1. PORTFOLIO CONSTRUCTION

Price discovery would be dependent on funder preferences for either (1) the types of Catalytic Finance Partners or (2) impact they would like to catalyse. The outcomes payments would be allocated based on a desired portfolio construction matrix.

2. DEAL-BY-DEAL BASIS

For each new deal, the CFP would bid for an allocation of funding based on the anticipated costs associated, which would be evaluated by the Investment Committee. Over the course of implementation, discrete costs would be aggregated and evaluated by the Knowledge Partner to establish price discovery.

3. PRIVATE AUCTION/ BIDDING PROCESS

Fund managers would submit a proposal indicating the anticipated costs related to the outcomes achieved through their portfolio of green SMMEs. This submission would require an upfront prediction and rationalisation for the figures provided. These would be evaluated by the Investment Committee.

Remarkable Partnerships

Green Outcomes Fund Design Partners

The World Bank Group

The objective of The World Bank Climate Technology Program (CTP) is to accelerate the growth of local green technology sectors that contribute to climate change mitigation and adaptation. **The CTP provides technical assistance and global insights to the Green Outcomes Fund.**

WWF South Africa

WWF-SA is part of the Worldwide Fund for Nature (WWF) global network, working to stop the degradation of the Earth's natural environment and to build a future in which people live in harmony with nature.

WWF-SA brings deep insights of local and global climate change mitigation as well as a green impact investing to the Green Outcomes Fund.

GreenCape

GreenCape is a sector development agency supporting businesses operating within the green economy in South Africa. **GreenCape brings deep insights of the local green economy to the Green Outcomes Fund and will act as the M&E partner.**

UCT GSB Bertha Centre

The UCT GSB Bertha Centre is the first academic centre in Africa dedicated to advancing social innovation and entrepreneurship, especially through innovative finance. **The Bertha Centre has led the development of the Green Outcomes Fund and will continue to act as a local knowledge partner.**

Breakdown of Catalytic Finance Partners (CFPs)

The potential portfolio spans early-stage funders providing high risk capital to investors expecting market rate returns, in order to support SMMEs across the lifecycles. All funds have confirmed their interest in LoIs

BUSINESS PARTNERS

- Impact investing focus
- 39 year track record
- Invested in RSA & SSA
- Growth stage focus
- R4.5 billion funds under management
- R500k-50m deal size
- Debt, quasi-equity

CI VENTURES

- Environmentally-focused global impact fund, invested in SSA and elsewhere.
- Priority sectors: sustainable production (esp. protein), landscape restoration
- R240m fund size
- R2m - 7.5m deal size
- Concessional direct loans, quasi-equity, revenue based financing

MERGENCE

- Impact investing fund, Infrastructure and Development Fund
- 10 year track record
- Invested in RSA, SADC
- Growth stage focus
- R550M fund size
- R10M+ deal size
- Debt, quasi-equity

EDGE GROWTH VENTURES

- Impact investing & enterprise and supplier development (ESD) fund manager
- Funds: ASISA ESD, Vumela & Action ESD
- 10 year track record
- Invested in RSA
- Early to growth stage focus
- ~R1.5 billion AUM across funds
- R500k – R50m deal size (fund dependent)
- Debt, quasi-debt, equity

BUSINESS/PARTNERS
Investing in entrepreneurs

CONSERVATION INTERNATIONAL Ventures LLC

MERGENCE INVESTMENT MANAGERS

EDGE GROWTH

The GOF aims to support CFPs from across the ecosystem, including new fund managers. The above CFPs align with the Jobs Fund's requirements, and will be supported through the Jobs Fund's funding. However, the GOF remains committed to supporting emerging funds in its broader mandate.

CATALYTIC FUNDING

The GOF has raised R92.6m in grant funding for GOF, unlocking a total of R488.1M for green SMMEs

TOTAL
R488.1M

CAPITAL CATALYSED FOR GREEN SMMEs (GOF PILOT SIZE)

The Future of the GOF

Potential Scaling for the GOF and strategies for sustainability

GOF Pilot

Grant Fund

- Price discovery: form baseline of outcome prices through auction process
- Use of funds: determine where the gaps in the market; greatest need for blended finance

GOF Phase 1

Concessionary Fund

- Outcomes payments based on auction process to ensure most efficient pricing
- Outcomes payments repaid with concessionary returns, in the form of modest interest rates or longer tenors
- Concessionary returns ensure sustainability

GOF Phase 2

Blended Finance

- Blending facility based on pilot learnings on the use of outcomes payments
- Blended structure instruments include:
  - First loss tranches
  - Subordinated debt
  - Risk sharing/guarantees
  - Technical assistance programs
  - Interest rate subsidies

THANK YOU

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