



Evaluation of the Development Bank of Southern Africa Limited Green Bond Framework and Green Bond

Second Party Opinion

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Carbon Trust Second Party Opinion Statement

Background

The Development Bank of Southern Africa Limited (“**DBSA**”) is a development finance institution wholly owned by the government of South Africa, with the primary purpose of promoting economic development and growth, human resource development and institutional capacity building by mobilising financial and other resources from national and international private and public sectors for sustainable development projects and programmes in South Africa and the wider African continent.

DBSA’s mission is to advance development impact in the region by expanding access to development finance and effectively developing and implementing sustainable development solutions that improve the quality of the lives of people in South Africa and the wider continent. DBSA’s operations span the infrastructure development value chain and include active participation in infrastructure solutions.

DBSA has more recently become a hub for green finance. DBSA is a focal point for national climate finance and green funding, and is managing and supporting a variety of current and recent national-scale energy, energy efficiency and green economy funding programmes. The DBSA’s climate finance initiatives involve managing facilities, funds and programmes that promote a greener economy, drive sustainability and development impact and support the DBSA’s commitment to play a role in the just transition to a low carbon economy and adaptation to climate change.

DBSA is an active member of the International Development Finance Club (IDFC), with a vision of promoting low-carbon and climate-resilient futures, and the Global Innovation Lab for Climate Change, which supports the identification and piloting of climate change financing instruments and products to catalyse private sector money into climate change mitigation projects in developing countries. Accredited as a Global Environment Facility National Implementing Agency in 2014 and Agency of the Green Climate Fund since January 2016, DBSA has partnered with the Green Climate Fund (GCF) to implement large scale programmes that support the transition to a low carbon economy in the African continent. Programmes jointly financed by the DBSA and the GCF include the Climate Finance Facility, and the Embedded Generation Investment Programme. Additional programmes jointly supported by the GCF and DBSA are being developed to address municipal organic waste treatment, public and private sector energy efficiency, and water reuse solutions.

As a component of the DBSA’s strategy to diversify and develop a suite of sustainable financing products and services and in line with the DBSA’s Climate Finance Policy Framework which requires the Bank to pivot operations to support climate aligned infrastructure solutions, the DBSA will issue its first green bond as a private placement.

DBSA proposes to structure its Green Bond Programme and the prospective Green Bond in alignment with the recently developed Development Bank of Southern Africa Green Bond Framework (January 2021), which includes eligibility criteria and is supplemented by internal DBSA procedure documents and supporting documents concerning the prospective Green Bond.

DBSA has determined the need for a Second Party Opinion in accordance with the International Capital Markets Association Green Bond Principles regarding both its Green Bond Framework (January 2021) and the prospective Green Bond. Indeed, DBSA has determined that the execution of the Green Bond is contingent upon the completion of the Second Party Opinion (the “**Report**”). DBSA has appointed Carbon Trust Africa (Pty) Ltd as a suitably qualified and experienced External Review service provider in this regard, also having received the investor’s preliminary non-objection in selection.

Note that a consolidated list of abbreviations has been included in *Appendix 2: Abbreviations*.

Terms of Engagement and Scope of the Second Party Opinion

Carbon Trust Africa was commissioned by the Development Bank of Southern Africa Limited (“**DBSA**”) (the “**Bond Issuer**”) as an External Reviewer to provide a Second Party Opinion on the alignment of the DBSA Green Bond Framework (the “**Issuer Framework**”) (January 2021) and the Green Bond¹ (the “**Green Bond**”), with International Capital Markets Association’s (“**ICMA**”) ‘*Green Bond Principles, Voluntary Process Guidelines for Issuing Green Bonds*’ (“**GBP**”) (June 2018). Further, the assessment is to take into consideration requirements set out in the Subscription Agreement between the investor and the Bond Issuer (the “**Subscription Agreement**”).

Carbon Trust’s role was to act as an External Reviewer (“external ESG (Ethical, social, governance) firm”) as set out by the Subscription Agreement), and to provide a Second Party Opinion as contemplated by the ICMA ‘*Guidelines for Green, Social and Sustainability Bonds External Reviews*’ (June 2020).

It is important to note that no opinion or assurance is provided regarding the financial performance of the Green Bond or the value of any investments in the Green Bond or any asset deriving value from the Green Bond. The Carbon Trust’s objective has been solely to provide an opinion concerning the Issuer Framework and the Green Bond issuance as described in the Basis of Opinion set out below.

The Bond Issuer has committed to make the Report accessible to relevant parties to the Green Bond.

Basis of the Second Party Opinion

Overview regarding this Report in terms of the Green Bond

The Bond Issuer has established the Issuer Framework (refer Appendix 2: of this Report) linked to the Bond Issuer’s organisational mandate to provide evidence that:

- The Issuer Framework aligns with the principles and criteria laid out in the GBP; and
- Green Bonds underpinned by the Issuer Framework in terms of the Issuers’ Green Bond Programme are structured in alignment with the Issuer Framework in its green component and that the instrument is classified as ‘green’ pursuant to the ICMA GBP.

Furthermore, the Bond Issuer has provided supporting documentation to provide evidence that:

- The Bond Issuer and the prospective Green Bond to be issued in January 2021 is underpinned by and structured in alignment with the Issuer Framework.
- The initial pool of selected Green Projects (“Eligible Sub-Projects”) have been selected in conformance to the Bond Issuer’s Eligibility Principles and Eligibility Criteria for this Green Bond in terms of the Issuer Framework.
- The Issuer Framework and the Green Bond have considered the requirements of the Subscription Agreement (and its accompanying Terms and Conditions) between the investor and Bond Issuer (draft dated January 2021).

In considering this Second Party Opinion, it is necessary that users review the Development Bank of Southern Africa Green Bond Framework (January 2021) (included in Section Appendix 3: of this document) along with this Second Party Opinion, with specific reference to the Eligible Principles and Green Project Categories as outlined under the Use of Proceeds section in the Issuer Framework.

¹ The prospective Green Bond is to be considered as the potential forthcoming bond, which issuance is subject to the Bond Issuer’s discretion, prospectively planned for January 2021.

Green Bond Principles, GBP (June 2018)

The GBP are a set of voluntary process guidelines for issuing green bonds; a green bond being a type of bond instrument “exclusively applied to finance or re-finance, in part or in full, new and/or existing eligible Green Projects”, the latter being “projects that contribute to environmental sustainability”. The GBP are comprised of four core components detailed below. It is against these guidelines that the Carbon Trust has reviewed the alignment of the green component of the Issuer Framework (January 2021) and the Green Bond and related supporting documentation.

Principle one – Use of Proceeds

The proceeds of the bond should be used to finance or refinance Green Projects which should be appropriately described in the legal documentation of the financial security. All designated Green Project categories should provide clear environmental benefits, which will be assessed and, where feasible, quantified by the issuer. Eligible project categories and Green Projects are indicatively described in the GBP.

Further recommendations pertain to the Bond Issuer providing information regarding re-financing where all or a portion of proceeds may be used for re-financing and further guidance that may be sought by Bond Issuers with regards to categories and criteria for Green Projects.

Principle two – Process for Project Evaluation and Selection

The issuer of a Green Bond should outline a process to determine how the projects fit within the eligible Green Projects categories identified in the GBP, including a process for determining eligibility and the criteria used. The process should consider the environmental objectives of the proposed bond.

The Bond Issuer is encouraged to position this information in the context of overarching governance and/or other processes relating to environmental sustainability, and to disclose pertinent standards or certifications. The Bond Issuer is recommended to supplement its process with an external review.

Principle three – Management of Proceeds

The net proceeds of the Green Bond should be credited to a sub-account, moved to a sub-portfolio or otherwise tracked by the issuer in an appropriate manner and attested to by a formal internal process linked to the issuer’s lending and investment operations for Green Projects. So long as the Green Bond is outstanding, the balance of the tracked net proceeds should be periodically adjusted to match allocations to eligible Green Projects made during that period. A declaration should be made as to how any unallocated funds are managed.

The Bond Issuer is recommended to supplement its processes with an external review by an auditor, or other third party, to verify the internal tracking method and the allocation of funds from the Green Bond proceeds.

Principle four – Reporting

Issuers should make, and keep, readily available, up-to-date information on the use of proceeds to be renewed annually until full allocation, and on a timely basis in case of material developments. The annual report should include a list of the projects to which Green Bond proceeds have been allocated, as well as a brief description of the projects and the amounts allocated, and their expected impact. Where confidentiality agreements, competitive considerations, or a large number of underlying projects limit the amount of detail that can be made available, the GBP recommend that information is presented in generic terms or on an aggregated portfolio basis. The GBP recommend the use of qualitative performance indicators and, where feasible, quantitative performance measures, and the disclosure of the key underlying methodology and/or assumptions used in the quantitative determination. Bond Issuers with the ability to monitor achieved impacts are encouraged to include those in their regular reporting.

Relevant Documentation

The following information and documents, provided by DBSA, have been reviewed in order to form the basis of the Second Party Opinion:

- DBSA Green Bond Framework (January 2021)
- Subscription Agreement and accompanying Terms and Conditions (drafts dated January 2021)
- Overarching governance and/or other processes relating to environmental, social and sustainability matters with regards the Green Bond, including:
 - DBSA Environmental and Social Safeguards Standards (March 2020)
 - Environmental Appraisal Framework (November 2013)
 - DBSA Social and Institutional Guidelines (draft dated October 2013)
 - Loan and Facility Management Policy (December 2019)
 - Credit Procedures level 3 policy (September 2019)
 - Development Results Reporting Framework (April 2017) – currently under revision
- Supporting documentation relating to the Eligible Sub-Projects:
 - Social appraisal of Kathu 1 CSP
 - Kathu/Kalahari Solar Power project (KSP): Initial Environmental Appraisal
 - Credit approval record: Khobab Wind Project (February 2015)
 - Environmental Aspects: Borrow Appraisal for Mainstream Renewable Power, Khobab, Northern Cape, South Africa
 - Credit approval record: Loeriesfontein Wind Project (February 2015)
 - Loeriesfontein social appraisal
 - Environmental Aspects: Borrow Appraisal for Mainstream Renewable Power South Africa, Loeriesfontein Farm, Northern Cape
 - Credit approval record: Noupoot Wind Project (February 2015)
 - Noupoot social assessment
 - Noupoot Wind Farm Project Environmental Appraisal (March 2014)
- Supplementary supporting documentation, including:
 - DBSA Green Bond climate change agenda presentation (September 2020)
 - 2019 DBSA Sustainability Review Report
 - DBSA Website Governance Hub
 - DBSA Coffee Book (electronic version) (2018)

Management Responsibilities

The management team of the Bond Issuer is responsible for the following “**Procedures**”:

- Designing, implementing and maintaining internal controls relevant to the preparation and issuance of Green Bonds;
- Selecting and/or developing a suitable framework to underpin the issuance and management of such Green Bonds;
- Developing and applying suitable eligibility criteria and processes for selecting sustainability, green and/or social investments underlying such Green Bonds;
- Reporting relevant information on the use of proceeds of such Green Bonds;
- Maintaining the alignment between the sustainability, and green components of Green Bonds and the respective GBP principles and criteria as applicable; and
- Maintaining alignment to the requirements set out in the Subscription Agreement (and accompanying Terms and Conditions) between the investor and Bond Issuer.

External Reviewer Responsibilities

Carbon Trust’s responsibility is:

- To plan and perform its work to form an independent opinion on whether the Development Bank of Southern Africa Green Bond Framework (January 2021) and the prospective Green Bond have been prepared in accordance with the ICMA ‘*Green Bond Principles, Voluntary Process Guidelines for Issuing Green Bonds*’ (June 2018) and further that these align to the requirements set out in the Subscription Agreement between the investor and the Bond Issuer (draft dated January 2021), as described in the Basis of Opinion;
- To report to the Bond Issuer in the form of a ‘Second Party Opinion’ based on the work undertaken and the evidence obtained.

Carbon Trust has not performed any review of, and does not express any conclusion regarding the ongoing effectiveness of the application of the Procedures described in the previous section, or the Bond Issuer’s continued compliance with the requirements of the Subscription Agreement between the investor and Bond Issuer.

Assurance Standards

The type of External Review undertaken is a Second Party Opinion as identified in the GBP. Carbon Trust’s services are aligned to the ICMA ‘*Guidelines for Green, Social and Sustainability Bonds External Reviews*’ (June 2020). The Second Party Opinion concerns the Issuer Framework and the Green Bond issue. The External Reviewer has reviewed these to confirm alignment with the four components of the GBP, as set out in the Basis of Opinion. The details for the External Review undertaken is documented in *Appendix 1: External Review Form concerning DBSA Green Bond, January 2021*.

The External Reviewer has worked in accordance with its assurance methodology which is based on the International Standard on Assurance Engagements 3000 (Revised) *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* (“**ISAE 3000**”), but this Second Party Opinion is not an assurance opinion in accordance with ISAE 3000.

External Reviewer Assurance Activities

Carbon Trust planned and performed the work to obtain all the information and explanations considered necessary to provide a basis for its opinion. Carbon Trust's work included, but was not restricted to the following activities:

- Reviewing the Bond Issuer's positioning of the related documents and related information in context of overarching governance and/or other processes relating to environmental and sustainability matters;
- Evaluating the Issuer Framework for this Green Bond against the GBP, including the analysis of the use and management of the proceeds, the eligibility criteria and the process for project selection, as well as the reporting aspects of the Green Bond;
- Reviewing the requirements set out in the Subscription Agreement and accompanying Terms and Conditions between the investor and Issuer (both drafts dated January 2021) in relation to the Green Bond;
- Evaluating the Eligible Sub-Projects in terms of the Issuer Framework and related Green Bond documentation;
- Reviewing the internal supporting documents implemented by the Bond Issuer in relation the Green Bond;
- Assessing the suitability of the Procedures;
- Interviewing relevant personnel of the Bond Issuer to understand the key related processes, systems, controls, both current and committed, and related documentation;
- Interviewing relevant personnel of the Bond Issuer to assess compliance with the Issuer Framework and the implementation of associated policies and procedures;
- Preparation and revision of the Second Party Opinion report, incorporating the findings, conclusions and relevant information gathered during the evaluation process.

The External Reviewer's Competence and Independence

Carbon Trust's commitment to impartiality and quality assurance is established in policies, procedures and management structure. We, the Carbon Trust, maintain our independence from our clients and objectivity with regards to engagements, by maintaining, and adhering to appropriate governance processes that reflect industry best practice for assurance and independent review services. Carbon Trust ensures the selection of appropriate professionals to carry out the work in order to give this opinion, based on their qualifications, training and experience.

The outcome of all verification and certification assessments is internally reviewed by senior management to ensure that the approach is rigorous and transparent. We have undertaken this Independent External Review guided by the fundamental ethical and professional principles of integrity, objectivity, professional competence, due care, appropriate confidentiality and professional behaviour throughout.

Carbon Trust is a leader in the evaluation and certification of sustainability and environmental frameworks, practices and projects, providing an independent point of view to help on the decision-making in connection with Green Bonds and Sustainability Bonds.

Carbon Trust is an Observer to the ICMA Principles approved by the Secretariat as contemplates in the Governing framework Section 4.2 (<https://www.icmagroup.org/green-social-and-sustainability-bonds/governance-framework/>) and provides regular inputs to updates and other matters put to public comment by ICMA with regards the Principles. In October 2020, Carbon Trust has been nominated to sit on the ICMA GBP and SBP Advisory Council.

With regards Green Bonds for which the primary objectives for underlying projects is climate change mitigation and/or climate change adaptation, Carbon Trust is an approved *Climate Bonds Initiative*

verifier for carrying out Green Bond assessments and verifications under the *Climate Bonds Standard* methodology, which has incorporated the *Green Bond Principles*. Consult: <https://www.climatebonds.net/standards/assurance/approved-verifiers>

The External Reviewer's Opinion

Based on the work we have undertaken and the evidence provided by the Bond Issuer, we believe that the Issuer Framework and the proposed Green Bond and procedures related to its green component comply with the Green Bond Principles, GBP (June 2018) and as such confirm the instrument is classified as green pursuant to the GBP (June 2018).

Set out below are our specific findings and statements in relation to each of the four GBP core components and includes requirements of the Subscription Agreement between the investor and Issuer as they relate to the Issuer Framework and the Green Bond.

Green Bond Principles, GBP (June 2018)

Principle one – Use of Proceeds

The Issuer considers the issuance of the Green Bond as consistent with its commitment to channel financial flows and investments to sustainable green infrastructure projects. The Issuer Framework Use of Proceeds section sets out the Eligibility Principles and Eligible Green Project Categories (eligibility criteria) that green projects need to comply with in order to be eligible for financing or refinancing under the Green Bond Programme. Green projects are those that contribute to climate mitigation and/or adaptation in compliance with the International Development Finance Club (“IDFC”) methodologies for mitigation and adaptation; align to the South African National Development Plan 2030 (“NDP”) objective of an “environmentally sustainable and equitable transition to a low carbon economy” for South Africa; and align to the United Nations’ Sustainable Development Goals (“SDGs”), in particular *SDG 6: Clean Water and Sanitation*, *SDG 7: Affordable and Clean Energy*, *SDG 8: Decent Work and Economic Growth*, and *SDG 11: Sustainable Cities and Communities*. The eligibility criteria set out by the Issuer Framework are consistent with these environmental objectives.

In addition, the Bond Issuer requires that Green Projects comply with its Environmental and Social Safeguards Standards (“E&SSS”) and environmental and social screening and appraisal criteria for greenfield projects; demonstrate, qualify and quantify positive environmental and social benefits, which will be reflected in the Development Results Reporting Framework (“DRRF”); and meet its credit selection criteria as well approval of the relevant decision-making structure(s). The Issuer Framework sets out investment restrictions and exclusion criteria that eliminate incompatible project categories and types. The procedures and processes applied for the Green Bond Programme and referenced in the Issuer Framework are pre-existing and applied as a standard by the DBSA, notably for its other climate financing and green financing activities. As such, the Issuer Framework provides appropriate details of the eligible principles, categories and criteria of Green Projects for which the proceeds of its Green Bonds can be used.

During the Bond Issuer’s execution of the process of Project Evaluation and Selection, the Issuer Framework specifies that the DRRF is applied to projects under consideration, assessing the anticipated developmental impacts of all proposed transactions, and enabling the identification of the Green Bond project category and associated impact metrics. Projects are assessed using a Development Results Template (“DRT”), through which project objectives, anticipated impact results, indicators and monitoring requirements are identified at the project appraisal stage. Collective anticipated development results, impacts and indicators of all projects selected to be financed by the Green Bond will be reported.

The Issuer Framework’s classification of Eligible Green Project Categories and eligibility criteria maps clearly to the ICMA GBP Green Project classification categories. These are appropriate and aligned to the Issuer’s objectives and missions. The Issuer Framework also includes Green Finance categories recognised by the Issuer, which align to the ICMA Green Project Mapping Green Project categories (June 2019). The Issuer’s Green Bond climate change agenda presentation notes that an integrated environmental, social, economic, financial and sector assessment is applied for each proposed investment selected for the prospective Green Bond to ensure alignment to ICMA’s GBP.

The Subscription Agreement between the investor and Issuer (draft dated January 2021) includes an indicative list of Eligible Sub-Projects to be financed by the Green Bond, providing details of the project specifics, categories, total disbursements, loan tenor, environmental impact indicators and projected approximate impact. The Subscription Agreement Terms and Conditions (draft dated January 2021) provides further detail regarding the Use of Proceeds, stipulating that proceeds from the Green Bond are to be used exclusively to refinance Eligible Sub-Projects, and that the Eligible Sub-Projects must comply with the list of exclusions for financing at pre-issuance, as well as for sub-projects added to the pool subsequent to the Green Bond issue date. In addition, the Subscription Agreement Terms and Conditions (draft dated January 2021) outlines requirements for project evaluation and ensuring that selected projects are eligible. The document contains specific categories and sub-categories for eligible sub-projects relating to climate change mitigation and adaptation, which includes solar energy, wind energy, and water management. The specific categories and sub-categories for eligible sub-projects specified aligns to those contained in the Issuer Framework. The indicative list of Eligible Sub-Projects to be financed by the Green Bond conform to the Use of Proceeds specifications.

The Issuer Framework specifies that within these requirements, Use of Proceeds may be applied to the financing or refinancing, fully or partially, of selected projects. The Issuer Framework commits to providing detailed information to the market with each issuance relating to the percentage allocation of proceeds for financing eligible projects and re-financing of projects within the Issuer investment portfolio.

The Issuer's Green Bond climate change agenda presentation indicates that the Bond Issuer's Green Bond Programme aims to:

1. Finance projects within the Issuer's Project pipeline that conform to the Issuer Framework and associated evaluation processes; and
2. Finance and refinance projects within the existing Issuer loan portfolio which:
 - Have made a disbursement during the thirty-six months preceding the issue date of the Green Bond;
 - Meet the project appraisal criteria; and
 - Comply with the International Development Finance Club ("IDFC") Common Principles for Climate Mitigation Finance Tracking or Climate Adaptation Finance Tracking.

The Subscription Agreement between the investor and Issuer (draft dated January 2021) notes that the net proceeds from the prospective Green Bond issuance shall be used exclusively to refinance Eligible Sub-Projects. The prospective Green Bond's Use of Proceeds is currently composed of a portfolio of four renewable energy projects approved as part of the South African National Government Renewable Energy Independent Power Producer Procurement Programme ("REIPPP") and co-financed by the Bond Issuer. As per the Subscription Agreement and associated Terms and Conditions between the investor and Issuer (both drafts dated January 2021), during the 24 months after the Issue Date (by 2023), the Issuer shall increase the pool of Eligible Sub-Projects and will use best efforts to include Climate Change Adaptation projects, including water management projects, with the remainder of the net proceeds.

- Projects are considered to assist adaptation to climate change when they limit or reduce the exposure of assets, people and ecosystems to the consequences of climate change; and
- A project is recognized as "climate/adaptation" according to (1) the analysis of its exposure context; (2) demonstration of the beneficial impact of the actions; and (3) expression of a desire to deal with climate risks and climate change exposure identified.

The Issuer Framework commits to quantifying impact and reporting impact annually (*Refer Principle four – Reporting*). The Subscription Agreement Terms and Conditions (draft dated January 2021) provides further detail regarding the information required in annual reporting of Use of Proceeds. With regards to the portfolio of four selected projects identified at the Green Bond pre-issuance stage,

each has been evaluated according to the described process in the Issuer Framework and anticipated environmental impact measures have been quantified, which include the following:

1. Relevant for each Sub-Project:
 - Localisation of Eligible Sub-Project;
 - Category (solar/wind/water);
 - Volume of amount refinanced;
 - Project board, first disbursement, maturity date;
 - Estimated CO₂ emission avoided (tCO₂e per year);
 - Produced clean renewable energy per year;
 - Size (MW) of Eligible Sub-Project; and
 - Estimated Number of households benefiting produced electricity.
2. Where information may be available for Eligible Sub-Projects added to the pool after the Issue Date, social indicators which could be included are:
 - Split of beneficiaries by gender (man/woman);
 - Evaluation of implementation of gender strategy; and
 - Share of % of beneficiaries within 40% poorest share of population.

In the External Reviewer's opinion, the Bond Issuer's processes concerning Use of Proceeds as defined in the Issuer Framework is suitably defined, supplemented by information contained in the Issuer's Green Bond climate change agenda presentation and considers requirements set out in the Subscription Agreement between the investor and Bond Issuer, with Use of Proceeds to be directed to Green Projects aligned to the indicative categories identified in the GBP and these types of Green Projects having clear environmental sustainability relevance and benefit.

In the External Reviewer's opinion, the Issuer process for use of proceeds meets the requirements of the GBP Principle One – Use of Proceeds.

Principle Two – Process for Project Evaluation and Selection

The Issuer's Sustainability Review Report, which discloses sustainability governance, management and performance information and is published annually and is available publicly, identifies the Issuer's mission statement as: "To advance the development impact in the region by expanding access to development finance and effectively integrating and implementing sustainable development solutions to:

- Improve the quality of life of people through the development of social infrastructure
- Support economic growth through investment in economic infrastructure
- Support regional integration
- Promote sustainable use of scarce resources"

The Sustainability Review Report also identifies the Issuer's key strategic objectives, including to "[i]nstigate the formation of a new generation of special purpose vehicles and structured financial instruments that will facilitate and catalyse the mobilisation of complementary investments in development projects."

The representation in the Issuer Framework and the scope and objectives are consistent with this mission statement, and the issuance of a Green Bond is consistent with the Bond Issuer's sustainable financing objective.

The Issuer Framework sets out that issuance of Green Bonds is consistent with the Bond Issuer's other means of promoting and developing sustainable finance mechanisms, which include:

- The Issuer's participation in International Sustainability Forums, the International Development Finance Club (IDFC) and the Global Innovation Lab for Climate Change (GILFIC), each of which promote sustainable, green and climate finance developments; and
- The Issuer's accreditation as a Global Environment Facility (GEF) National Implementing Agency and Agency of the Green Climate Fund (GCF), for which the Issuer also plays the role of providing joint financial support of particular projects and programmes under these funds, each being further demonstration of the Issuer's multifaceted approach to growing the role of sustainable finance for projects consistent with its investment mandate.

The Issuer Framework provides a description of the overarching financing objectives and eligibility criteria as described above (Refer *Principle One – Use of Proceeds*). The Issuer Framework articulates the environmental objectives of the Framework and the Issuer Green Bond Programme as being in alignment with those objectives found in the organisational mandate, its commitment to sustainable development, its policy structure and its integration with existing operational functions. These include:

- The DBSA Development Statement and Position, which articulates the Bond Issuer's commitment to supporting South African development policy, African development pledges and global sustainability, in particular:
 - The South African National Development Plan 2030, the Integrated Resource Plan 2019, and the Integrated Urban Development Framework;
 - The African Union Agenda 2063, Regional Infrastructure Development Master Plan; and
 - The Sustainable Development Goals and the 2015 Paris Agreement.
- The DBSA Climate Policy Framework, which expresses the Bond Issuer's support to the South African Nationally Determined Contributions (“NDC”) and its approach to addressing climate change, in the context of Green Bond Framework specified as support for projects that achieve mitigation of greenhouse gases and/or support adaptation to climate change within the Issuer Framework eligibility criteria; and
- The DBSA Areas of Operation in terms of sector focus (most specifically energy – including energy from renewable sources, energy efficiency, and waste in the context of waste-to-energy, transport, water and sanitation), and core operations functions (from planning through to maintenance, however most pertinently to provide finance).

The representations in the Issuer Framework of this positioning and processes are consistent with information presented in the DBSA's annual Sustainability Review and website.

The Issuer Framework details the Process for Project Evaluation and Selection and is positioned within the DBSA's existing investment decision-making structures and processes. The Issuer Framework highlights the characteristics that classify *green* projects, refines the focus for the Green Bond Programme and defines the specific Green Bond Programme management processes that integrate into and supplement these existing processes, as follows:

- Projects that may be selected for inclusion in the portfolio of "selected projects" for the Issuer Green Bond are first subject to the Issuer Investment Framework, being defined by the Issuer Credit Lifecycle and Due Diligence processes. These processes include appraisal against:
 - DBSA's environmental management system;
 - DBSA's Environmental Appraisal Framework;
 - DBSA's Social & Institutional Guidelines;
 - DBSA's Environmental and Social Safeguard Standards (this process includes comprehensive evaluation of the project environmental and social risks and suitability of management); and
 - DBSA's Climate Change Policy Framework.

- The DBSA's Investment Framework includes more detailed processes, which includes a project concept review, deal screening (considering development impact and environmental and social impacts and risks), deal structuring and appraisal, credit approval, contracting, and portfolio management and evaluation;
- As part of the Credit Lifecycle evaluations stage, projects are put forward to the DBSA's Investment Committee for in-principal decision-making, and subsequently to the DBSA's Board (incorporating consideration by the DBSA's Credit & Investment Committee and the DBSA's Social & Ethics Committee where relevant for high-impact investments);
- Should projects be supported for investment and contracted, these form part of the DBSA's Portfolio, from which projects may be selected as eligible in terms of the Issuer Framework for support by the Bond Issuer's Green Bond, subject to a two-step process specified in the Issuer Framework.
 - The first step includes a narrowed focus for Green Finance Project Categories with principled definitions for these, as the basis for inclusion in consideration for the Issuer Green Bond, being those that advance:
 - Mitigation of greenhouse gases;
 - Adaptation to climate change; and
 - Environmental sustainability.
 - With regards to the second step, there are specific Eligibility Criteria for the Bond Issuer's Green Bond Programme, covering four project categories including detailed specifications for type/sub-category and selected performance thresholds, namely energy (renewable energy technologies and associated supporting infrastructure) and energy efficiency, low carbon public transportation, waste management (noting, this includes a range of project sub-types, such as waste collection and recycling, and waste-to-energy projects that do not include direct incineration of feedstock, with feedstocks including sewage, manure, wastewater, landfill gas capture, sugar cane bagasse, wood pellets and municipal waste), and water and ecological infrastructure (financing of water for consumption and economic use, wastewater treatment, sustainable urban drainage systems, flood and drought protection, and supporting ecological infrastructure);
- The Issuer Framework specifies investment restrictions/thresholds and exclusion criteria and, being those: "demonstrate clear and substantive environmental and social risks which cannot be mitigated"; and in particular: carbon intensive projects; high risk hydropower schemes that exceed 20MW or involve significant risk to biodiversity; and nuclear power. These are consistent with the Bond Issuer's financing exclusion criteria applied in climate financing activities. The Subscription Agreement between the investor and Issuer (draft dated January 2021) also includes a list of exclusion criteria for the Issuer to comply with, which includes a list of activities associated with prohibited sectors and that may not comply with environmental and social standards. These align with the Issuer Framework investment restrictions and exclusion criteria; and
- Those projects meeting Eligibility Criteria for the Green Bond Programme would be eligible to be nominated as 'selected projects' for the Issuer Green Bond.

The Issuer Framework records that the project selection and appraisal processes have been validated to be in line with international best practice as evidenced by the Issuer's accreditation as a GEF Agency and GCF Accredited Entity.

For the prospective Green Bond, the Bond Issuer's Process for Project Evaluation and Selection was applied and identified six renewable energy projects. The portfolio includes three on-shore wind energy projects, and three solar projects (Concentrated Solar Power, CSP), which have been approved

as part of the South African National Government REIPPP. Of these projects, four are included in the indicative list of Eligible Sub-Projects (three wind energy projects, one solar project).

The projects have been evaluated for development and environmental impact and impact indicators and anticipated performance identified according to the Framework stipulation.

A cross-functional Green Bond Programme Team, representing core operational functions associated with Green Bond Issuance management, is responsible for identification, evaluation, and selection of projects eligible for finance through Green Bond Issuance. The Green Bond Programme Team is also responsible for the oversight of management of proceeds, maintaining and monitoring the eligible pool over the Green Bond duration, reporting and compliance. The Green Bond Programme Team will collaborate with other operational areas as deemed necessary, depending on the requirements of the Green Bond issuance and projects selected for consideration.

The Issuer Framework states that the Framework is aligned to the ICMA GBP, and is developed in terms of the four GBP Principles pertaining to use of proceeds, process for project evaluation and selection, management of proceeds, and reporting.

The Issuer Framework states that an independent provider of sustainability analytics and certification was appointed to provide an independent review and Second Party Opinion on this Green Bond Framework and its alignment with the GBP. Such a review will inherently include a review of the Issuer Process of Project Evaluation and Selection.

The Subscription Agreement between the investor and Bond Issuer also requires that the Issuer Framework and the prospective Green Bond are certified to be compliant with the GBP through a “Second Party Opinion” conducted by an external ESG firm. The Bond Issuer has appointed Carbon Trust as a suitably qualified External Reviewer to provide an independent External Review and a Second Party Opinion prior to issuance, concerning the alignment of the Issuer Framework and the prospective Green Bond to the ICMA GBP, including each of the GBP four core components. This includes review of GBP Principle 2 and the Issuer’s Process of Project Evaluation and Selection.

The execution of the Subscription Agreement between the investor and the Bond issuer is contingent on the Second Party Opinion, which the Bond Issuer will provide to the investor, and will be made available on the DBSA website.

In the External Reviewer’s opinion, the process for project evaluation and selection from the Issuer is in accordance with the requirements of the GBP Principle Two – Process for Project Evaluation and Selection. The process and governance structure around the selection of projects is clearly documented and evidenced, and includes involvement of the Issuer’s Board and a cross-functional Green Bond Programme Team responsible for identification, evaluation, and selection of projects eligible for finance through Green Bond Issuance, and project and program monitoring and reporting. The External Review of the process is covered by the Issuer Framework commitment for an External Review for the Green Bond affected through a review prior to issuance.

Principle Three – Management of Proceeds

The Issuer Framework provides an outline of the governance structures that will manage the proceeds. Management of the Green Bond is performed by a Green Bond Programme Team comprised of respective senior representatives across treasury, origination, loan management, sustainability, climate, social and environmental DBSA functions.

The Issuer Framework provides an outline for the process of Management of Proceeds, specifying that appropriate measures and procedures will be taken to ensure that net proceeds from the Green Bond will be allocated and utilised as intended and subject to the applicable Issuer Framework, and that any Green Bond proceeds not allocated to eligible projects at the date of issue will be invested in cash, cash equivalents, and other liquid instruments, and managed in line with the Issuer’s liquidity management framework until such time that the funds are apportioned to eligible projects.

The Bond Issuer’s Green Bond climate change agenda presentation stipulates that the Issuer’s treasury function will allocate the net proceeds of the Green Bond to a special sub-portfolio that is linked to

the Bond Issuer portfolio of eligible projects. The Bond Issuer will also ensure that so long as the Green Bonds are outstanding, the balance of the sub-portfolio will be reduced by amounts matching disbursements of eligible projects. The Issuer's treasury function will also establish a dedicated database containing all eligible projects financed by or to be financed by the Green Bond on issue and include their drawn value. The Bond Issuer's Green Bond climate change agenda presentation notes that finances earmarked for pending disbursements will be kept in the liquidity portfolio for no more than six – twelve months after issuance. The Issuer Framework stipulates that unallocated proceeds will be invested in cash, cash equivalents, and other liquid instruments, and managed in line with the Issuer's liquidity management framework until such time that the funds are apportioned to eligible projects.

Practically, subsequent to requisite clearance and representation, the net proceeds of the prospective Green Bond are to be credited to a specified account of the Bond Issuer, wherefrom earmarking, allocation and reallocation is to be specified, tracked and managed.

The Issuer Framework notes that during the life of the projects, control and monitoring of disbursements and operation and execution will be managed and monitored by the respective teams overseen by the representatives of the Green Bond Programme Team. In addition, the environmental and development impacts resulting from the projects will be tracked and evaluated using the DRT, and reported to investors, also overseen by the Green Bond Programme Team. The Green Bond Programme Team is to meet at least on a quarterly basis. The Bond Issuer's operations will assume responsibility for the post-investment project monitoring and evaluation.

The Issuer Framework stipulates that the Issuer will provide investors with information pertaining to the quantum of Green Bonds outstanding versus eligible projects, the temporary placement of unallocated proceeds, a list of eligible projects and their respective location, sector, and geography, the removal of projects that may no longer meet the eligibility criteria, and the maintenance of the portfolio through qualifying substitutions.

The Issuer Framework states that an independent provider of sustainability analytics and certification was appointed to provide an independent review and Second Party Opinion on the Issuer Framework and its alignment with the GBP.

The Issuer Framework commits to a periodic review of processes, systems and procedures adopted for allocation and management of proceeds from each Green Bond issuance. The Issuer Framework stipulates that reporting on the use of Green Bonds proceeds will occur annually.

With respect to the Issuer Framework and the prospective Green Bond, the Bond Issuer has appointed Carbon Trust as a suitably qualified independent External Reviewer to provide independent External Review prior to issuance and a Second Party Opinion, concerning the alignment of the Issuer Framework and the prospective Green Bond to the GBP, in addition considering the requirements of the Subscription Agreement between the investor and the Issuer (draft dated January 2021).

In the External Reviewer's opinion, the Issuer's approach to management of proceeds as set out in its Issuer Framework and Issuer Green Bond climate change agenda presentation and applied for the Green Bond is in accordance with the requirements of the GBP Principle Three – Management of Proceeds.

Principle Four – Reporting

The Issuer Framework commits that the Bond Issuer will report annually on the use of the Green Bond proceeds, with the purpose of providing investors with information concerning the status of the Green Bond and details of selected projects financed through the Green Bond. Additionally, the Issuer will report on both the anticipated and actual development and environmental impact outcomes of the projects funded. Disclosure will be published on the Issuer's website.

The Bond Issuer will disclose both qualitative and quantitative information related to each selected project, as well as aggregate information on the portfolio of projects allocated for Green Bond financing. Where confidentiality, or other reasonable considerations, limit the detail that can be

disclosed, the Issuer will provide this context, and instead will report information on a portfolio basis or equivalent.

The Issuer Framework identifies minimum indicator categories to be reported on, which are related to the Issuer's recognised Green Finance Project Categories, and include a combination of qualitative and quantitative measures. The categories are aligned to those set out in the ICMA 'Green Project Mapping' document (June 2019), in the External Reviewer's opinion, as described above (Refer Principle One – Use of Proceeds). The Subscription Agreement Terms and Conditions (draft dated January 2021) contains the minimum required information to be included in the Bond Issuer's annual reporting on the Use of Proceeds.

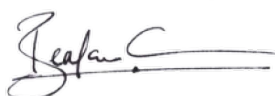
The Issuer Framework specifies that a DRRF is utilised for projects, assessing the anticipated developmental impacts of all proposed transactions, and enabling the identification of project category and associated impact metrics. Projects are assessed using a Development Results Template (DRT), through which the project objectives, anticipated impact results, indicators and monitoring requirements are identified at the project appraisal stage. Collective anticipated development results, impacts and indicators of all projects selected to be financed by the Green Bond will be reported.

Additionally, the Issuer will provide information on the key underlying methodologies and assumptions used in the quantitative determination of the anticipated development and environmental performance indicators reported in relation to the Green Bond, derived from the DRT.

The Subscription Agreement Terms and Conditions (draft dated January 2021) between the investor and Issuer confirms the Issuer's commitment to annual reporting concerning the Green Bond, which will be reported on a publicly available webpage together with the Issuer Framework and project factsheets. Additionally, the Issuer Framework commits to an independent review of the Green Bond Programme and its compliance with the Issuer Framework on at least a biennial basis.

In the External Reviewer's opinion, the Issuer's approach to reporting as set out in its Issuer Framework and applied for the Green Bond is in accordance with the requirements of the GBP Principle Four – Reporting.

These Opinions shall be read in the context of the inherent limitations of the Procedures and this statement's intended use.



Benjamin Curnier
Director
Carbon Trust Africa
22 January 2021

Appendix 1: External Review Form concerning DBSA Green Bond, January 2021

Section 1. Basic Information

Issuer name: Development Bank of Southern Africa Limited

Green Bond ISIN or Issuer Green Bond Framework Name, if applicable: The Development of Southern Africa Green Bond Framework (January 2021) has reference.

Independent External Review provider's name: Carbon Trust Africa (Pty) Ltd

Completion date of this form: 15 December 2020

Publication date of review publication: 22 January 2021

Section 2. Review overview

Scope of Review

The review assessed the following elements and confirmed their alignment with the GBPs:

- | | |
|--|--|
| <input checked="" type="checkbox"/> Use of Proceeds | <input checked="" type="checkbox"/> Process for Project Evaluation and Selection |
| <input checked="" type="checkbox"/> Management of Proceeds | <input checked="" type="checkbox"/> Reporting |

Role of Independent External Review Provider

- | | |
|---|---|
| <input checked="" type="checkbox"/> Second Party Opinion | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification | <input type="checkbox"/> Scoring/Rating |
| <input type="checkbox"/> Other (<i>please specify</i>): | |

Executive Summary of Review

The full version of the Second Party Opinion will be available on the following website relating the Issuer's Green Bond programme:

<https://www.dbsa.org/EN/InvestorRelations/Pages/Green-Bonds.aspx>

Section 3. Detailed review

1. Use of Proceeds

Overall comment on section:

The Issuer Framework specifies that Use of Proceeds may be applied to the financing or refinancing, fully or partially, of selected projects subject to the eligibility criteria set out in the Issuer Framework. The Issuer Framework commits to providing detailed information to the market with each issuance relating to the percentage allocation of proceeds for financing eligible projects and re-financing of projects within the Issuer investment portfolio, and the Bond Issuer has specified a look-back period concerning refinance of existing portfolio projects of 36 months from date of Green Bond issuance.

The Issuer Framework's classification of Eligible Green Project Categories and eligibility criteria map clearly to the ICMA GBP Green Project classification categories. The eligibility criteria are appropriate and aligned to the Bond Issuer's objectives and missions. The Issuer Framework also includes Green Finance categories recognised by the Bond Issuer, which align to the ICMA Green Project Mapping Green Project categories (June 2019).

The Subscription Agreement Terms and Conditions (draft dated January 2021) provides further details regarding the Use of Proceeds, stipulating that proceeds from the Green Bond shall be used exclusively to refinance Eligible Sub-Projects, and that the Eligible Sub-Projects must comply with the list of exclusions for financing at pre-issuance, as well as for sub-projects added to the pool subsequent to the issue date. In addition, the Subscription Agreement Terms and Conditions (draft dated January 2021) outlines requirements for project evaluation and ensuring that selected projects are eligible. The document contains specific categories and sub-categories for eligible sub-projects relating to climate change mitigation and adaptation, which includes solar energy, wind energy, and water management. These specific categories and sub-categories for eligible sub-projects aligns to those contained in the Issuer Framework. The Subscription Agreement Terms and Conditions (draft dated January 2021) note that during the 24 months after the Issue Date (by 2023), the Issuer shall increase the pool of Eligible Sub-Projects and will use best effort to include Climate Change Adaptation projects, including water management projects, with the remainder of the net proceeds.

The Issuer commits to a periodic review of processes, systems and procedures adopted for allocation and management of proceeds from each Green Bond issuance.

Use of proceeds categories as per GBP:

- | | |
|--|--|
| <input checked="" type="checkbox"/> Renewable energy | <input type="checkbox"/> Energy efficiency |
| <input type="checkbox"/> Pollution prevention and control | <input type="checkbox"/> Environmentally sustainable management of living natural resources and land use |
| <input type="checkbox"/> Terrestrial and aquatic biodiversity conservation | <input type="checkbox"/> Clean transportation |
| <input checked="" type="checkbox"/> Sustainable water and wastewater management | <input checked="" type="checkbox"/> Climate change adaptation |
| <input type="checkbox"/> Eco-efficient and/or circular economy adapted products, production technologies and processes | <input type="checkbox"/> Green buildings |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBPs | <input type="checkbox"/> Other (please specify): |

If applicable please specify the environmental taxonomy, if other than GBPs: n/a

2. Process for Project Evaluation and Selection

Overall comment on section:

The DBSA's Sustainability Review Report, which discloses sustainability governance, management and performance information and is published annually and is available publicly, identifies the DBSA's mission statement and environmental objectives. The representation in the Issuer Framework and the scope and objectives are consistent with the Bond Issuer's mission statement, and the issuance of a Green Bond is consistent with the sustainable financing objective.

The Issuer Framework sets out that issuance of Green Bonds is consistent with the Bond Issuer's aim of promoting and developing sustainable finance mechanisms. The Issuer Framework provides a description of the overarching financing objectives and eligibility criteria. The Issuer Framework articulates the environmental objectives of the Issuer Framework and the Issuer's Green Bond Programme as being situated within the organisational mandate, its commitment to sustainable development, its policy structure and its integration with existing operational functions.

The Issuer Framework details the Process for Project Evaluation and Selection which stems from existing foundational DBSA investment decision-making structures and processes. The Issuer Framework highlights the characteristics of green projects, refines the focus for the Green Bond Programme and defines the specific Green Bond Programme management processes that integrate into and supplement these existing processes.

The Issuer Framework records that the project selection and appraisal processes have been validated in line with international best practice as evidenced by the Issuer's accreditation as a Global Environment Facility (GEF) National Implementing Agency and Green Climate Fund (GCF) Accredited Entity.

A cross-functional Green Bond Programme Team, representing core operational functions associated with Green Bond Issuance management, is responsible for identification, evaluation, and selection of projects eligible for finance through Green Bond Issuance. The Green Bond Programme Team is also responsible for the oversight of management of proceeds, monitoring, reporting and compliance.

The Issuer Framework states that an independent provider of sustainability analytics and certification was appointed to provide an independent review and Second Party Opinion on this Green Bond Framework and its alignment with the GBP. Such a review will inherently include a review of the Issuer Process of Project Evaluation and Selection.

Evaluation and selection

- | | |
|--|---|
| <input checked="" type="checkbox"/> Credentials on the issuer's environmental sustainability objectives | <input checked="" type="checkbox"/> Documented process to determine that projects fit within defined categories |
| <input checked="" type="checkbox"/> Defined and transparent criteria for projects eligible for Green Bond proceeds | <input checked="" type="checkbox"/> Documented process to identify and manage potential ESG risks associated with the project |
| <input checked="" type="checkbox"/> Summary criteria for project evaluation and selection publicly available | <input type="checkbox"/> Other (please specify): |

Information on Responsibilities and Accountability

- Evaluation / Selection criteria subject to external advice or verification In-house assessment
- Other (please specify):

3. Management of Proceeds

Overall comment on section:

The Issuer's Framework provides an outline for the process of Management of Proceeds, specifying that appropriate measures and procedures will be taken to ensure that net proceeds from the Green Bond will be allocated and utilised as intended and subject to the Issuer Framework, and that unallocated proceeds will be invested in cash, cash equivalents, and other liquid instruments, and managed in line with the Issuer's liquidity management framework until such time that the funds are apportioned to eligible projects. The Issuer Framework provides an outline of the governance structures and management processes that will manage the Green Bond net proceeds, indicating that a dedicated database will be established for all eligible projects financed by the proceeds of the Green Bond issuance. Practically, subsequent to requisite clearance and representation, the net proceeds of the prospective Green Bond are to be credited to a specified account of the Bond Issuer, wherefrom earmarking, allocation and reallocation is to be specified, tracked and managed.

The Bond Issuer's Green Bond climate change agenda presentation stipulates that the Issuer's Treasury function will allocate the net proceeds of the Green Bond to a special sub-portfolio that is

linked to the Issuer portfolio of eligible projects. The Issuer will also ensure that so long as the Green Bonds are outstanding, the balance of the sub-portfolio will be reduced by amounts matching disbursements of eligible projects. The Issuer's Green Bond climate change agenda presentation notes that finances earmarked for pending disbursements will be kept in the liquidity portfolio for no more than six – twelve months after issuance. The Issuer Framework stipulates that unallocated proceeds will be invested in cash, cash equivalents, and other liquid instruments, and managed in line with the Issuer's liquidity management framework until such time that the funds are apportioned to eligible projects.

The Issuer Framework notes that during the life of the projects, control and monitoring of disbursements, and operation and execution will be managed and monitored by the respective teams overseen by the representatives of the Green Bond Programme Team. In addition, the environmental and development impacts resulting from the projects will be tracked and evaluated using the Development Report Template, and reported to investors.

The Issuer Framework states that an independent provider of sustainability analytics and certification was appointed to provide an independent review and Second Party Opinion on the Issuer Framework and its alignment with the GBP.

The Issuer Framework commits to a periodic review of processes, systems and procedures adopted for allocation and management of proceeds from each Green Bond issuance. The Issuer Framework stipulates that reporting on the use of Green Bonds proceeds will occur annually.

Tracking of proceeds:

- Green Bond proceeds segregated or tracked by the issuer in an appropriate manner
- Disclosure of intended types of temporary investment instruments for unallocated proceeds
- Other (please specify):

Additional disclosure:

- Allocations to future investments only
- Allocations to both existing and future investments
- Allocation to individual disbursements
- Allocation to a portfolio of disbursements
- Disclosure of portfolio balance of unallocated proceeds
- Other (please specify):

4. Reporting

Overall comment on section:

The Issuer Framework commits that the Bond Issuer will report annually on the use of the Green Bond proceeds, with the purpose of providing investors with information concerning the status of the Green Bond and details of selected projects financed through the Green Bond. Additionally, the Bond Issuer will report on both the anticipated and actual development and environmental impact outcomes of the projects funded. Disclosure will be published on the Issuer's website.

The Issuer will disclose both qualitative and quantitative information related to each selected project, as well as aggregate information on the portfolio of projects allocated for Green Bond financing. Where confidentiality, or other reasonable considerations, limit the detail that can be disclosed, the Issuer will provide this context and instead report on a portfolio basis or equivalent.

The Issuer Framework identifies minimum indicator categories to be reported on, which are related to the Issuer's recognised Green Finance Project Categories, and include a combination of qualitative

and quantitative measures. The collective of anticipated development results, impacts and indicators of all projects selected to be financed by the Green Bond will also be reported.

Additionally, the Issuer will provide information on the key underlying methodologies and assumptions used in the quantitative determination of the anticipated development and environmental performance indicators reported in relation to the Green Bond, derived from the Development Results Template.

The Issuer Framework commits to an independent review of the Green Bond Programme and its compliance with the Issuer Framework on at least a biennial basis.

Use of proceeds reporting:

- | | | | |
|-------------------------------------|-------------------------------|-------------------------------------|------------------------------|
| <input checked="" type="checkbox"/> | Project-by-project | <input checked="" type="checkbox"/> | On a project portfolio basis |
| <input type="checkbox"/> | Linkage to individual bond(s) | <input type="checkbox"/> | Other (please specify): |

Information reported:

- | | | | |
|-------------------------------------|-------------------------|-------------------------------------|---|
| <input checked="" type="checkbox"/> | Allocated amounts | <input checked="" type="checkbox"/> | Green Bond financed share of total investment |
| <input type="checkbox"/> | Other (please specify): | | |

Frequency:

- | | | | |
|-------------------------------------|----------------------------------|--------------------------|-------------|
| <input type="checkbox"/> | Annual | <input type="checkbox"/> | Semi-annual |
| <input checked="" type="checkbox"/> | Other (please specify): Periodic | | |

Impact reporting:

- | | | | |
|-------------------------------------|-------------------------------|-------------------------------------|------------------------------|
| <input checked="" type="checkbox"/> | Project-by-project | <input checked="" type="checkbox"/> | On a project portfolio basis |
| <input type="checkbox"/> | Linkage to individual bond(s) | <input type="checkbox"/> | Other (please specify): |

Frequency:

- | | | | |
|-------------------------------------|-------------------------|--------------------------|-------------|
| <input checked="" type="checkbox"/> | Annual | <input type="checkbox"/> | Semi-annual |
| <input type="checkbox"/> | Other (please specify): | | |

Information reported (expected or ex-post):

- | | | | |
|-------------------------------------|-------------------------|-------------------------------------|---------------------------------------|
| <input checked="" type="checkbox"/> | GHG Emissions / Savings | <input type="checkbox"/> | Energy Savings |
| <input type="checkbox"/> | Decrease in water use | <input checked="" type="checkbox"/> | Other ESG indicators (please specify) |

Other indicators include:

- Localisation of Eligible Sub-Project;
- Category (solar/wind/water);
- Volume of amount refinanced;
- Project board, first disbursement, maturity date;
- Estimated CO2 emission avoided (tCO2e per year);
- Produced clean renewable energy per year;
- Size (MW) of Eligible Sub-Project; and
- Estimated Number of households benefiting produced electricity.

Where information may be available for Eligible Sub-Projects added to the pool after the Issue Date, social indicators which could be included:

- Split of beneficiaries by gender (man/woman);
- Evaluation of implementation of gender strategy; and
- Share of % of beneficiaries within 40% poorest share of population.

Means of Disclosure

- Information published in financial report Information published in sustainability report
- Information published in ad hoc documents Other (please specify):
- Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review):

Useful Links

The full version of the Second Party Opinion will be available in the following website relating the Issuer's Green Bond Programme:

<https://www.dbsa.org/EN/InvestorRelations/Pages/Green-Bonds.aspx>

The Issuer Framework is available at the same website.

Specify other external reviews available, if appropriate

Type(s) of Review provided: Not applicable

- Second Party Opinion Certification
- Verification Scoring/Rating
- Other (please specify):

Review provider(s): Not applicable

Date of publication: Not applicable

Appendix 2: Abbreviations

DBSA	Development Bank of Southern Africa
DRRF	Development Results Reporting Framework
DRT	Development Results Template
E&SSS	Environmental and Social Safeguards Standard
GBP	Green Bond Principles
GCF	Green Climate Fund
GEF	Global Environment Facility
GILFIC	Global Innovation Lab for Climate Change
ICMA	International Capital Markets Association
IDCF	International Development Finance Club
MW	Megawatt
NDP	National Development Plan 2030
SDGs	Sustainable Development Goals

Appendix 3: Development Bank of Southern Africa Green Bond Framework

22 January 2021

DBSA Green Bond Framework



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List of Abbreviations

BCIC	Board Credit and Investment Committee
CBI	Climate Bonds Initiative
CFF	Climate Finance Facility
CO ₂	Carbon Dioxide
DBSA	Development Bank of Southern Africa
DRRF	Development Results Reporting Framework
EGIP	Embedded Generation Investment Programme
GEF	Global Environment Facility
GCF	Green Climate Fund
GHG	Greenhouse Gas
IC	Investment Committee
ICMA	International Capital Market Association
IDFC	International Development Finance Club
IRP	Integrated Resource Plan
NDC	Nationally Determined Commitment
NDP	National Development Plan
PPA	Power Purchase Agreement
SDGs	Sustainable Development Goals
TCFD	Task Force for Climate related Financial Disclosures

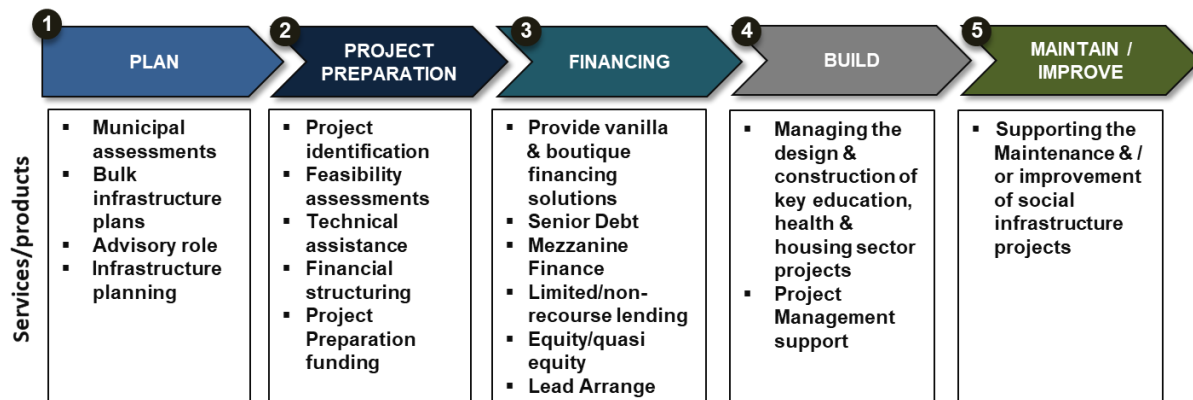
1. INTRODUCTION

1.1 Mandate and Mission

The Development Bank of Southern Africa (DBSA) is a development finance institution wholly owned by the government of South Africa, with a mandate focused on infrastructure finance in South Africa and the rest of the African continent and its oceanic islands.

DBSA's primary mission is to advance development impact in the region by expanding access to development finance and effectively integrating and implementing sustainable development solutions. The Bank's operations span the entire infrastructure development value chain and include active participation in the preparation, structuring, funding, and implementation of infrastructure solutions. DBSA supports the development of large-scale infrastructure projects within the private and public sector, with the primary sectors serviced including the water, energy, transport and ICT sectors. In addition, the Bank, within South Africa, supports the planning, preparation, and financing of municipal and social infrastructure through partnerships with municipalities and public entities such as water boards, tertiary education institutions, and the private sector.

The Bank's primary areas of operations in the pursuit of its development mandate are captured in the diagram below:



1.2 DBSA Commitment to Sustainable Development

Enhancing the sustainable development of the social, economic and ecological environment is one of the founding principles of the DBSA. In support of these principles, the DBSA Development Statement and Position outlines the Bank's commitment to:

- South African development policy, including the National Development Plan 2030, the Integrated Resource Plan 2019, and the Integrated Urban Development Framework;
- Continental development pledges, including the African Union Agenda 2063, Regional Infrastructure Development Master Plan, and on a global basis,
- The Sustainable Development Goals (SDGs) and the 2015 Paris Agreement.

1.3 DBSA Climate Policy Framework

The DBSA Climate Change Policy Framework outlines the Bank's approach to address climate change and to support South Africa's Nationally Determined Contributions (NDC) to the Paris Agreement.

1.4 International Climate Agency Accreditation and Program Management

The national **Green Fund** was established in 2012 to support green initiatives that contribute towards South Africa's transition to a low carbon economy, to a resource efficient and climate resilient development pathway, and to deliver high impact economic, environmental and social benefits. DBSA has managed this programme on behalf of the national Department of Environment, Forestry, and Fisheries since its inception.

Since achieving accreditation as a **Global Environment Facility (GEF)** National Implementing Agency in 2014, DBSA has supported projects which promote resilience in urban municipal infrastructure, biodiversity, ecological infrastructure and water security, energy efficiency, and sustainable energy solutions.

As an Accredited Agency of the Green Climate Fund (GCF) since 2016, DBSA has partnered with the GCF to implement large scale programmes which support the transition to a low carbon economy in South African and the rest of the African continent. Programmes jointly financed by the DBSA and the GCF include the **Climate Finance Facility (CFF)**, and the **Embedded Generation Investment Programme (EGIP)**. The CFF is a lending facility jointly funded by the DBSA and the GCF to encourage private sector investment in climate related projects in Southern Africa. The CFF makes use of blended finance instruments and credit enhancements including first loss or subordinated debt and tenor extensions. The CFF is a first-of-its-kind application based on the Green Bank model, adapted for emerging market conditions.

The EGIP is a facility jointly funded by the DBSA and the GCF to support embedded generation renewable energy projects in South Africa. The EGIP provides a credit support mechanism to support non-sovereign backed Power Purchase Agreements (PPA's) and intends to crowd-in funding from commercial lenders to assist South Africa in making further inroads towards climate change objectives. Additional programmes jointly supported by the GCF and DBSA are being developed to address municipal organic waste treatment, public and private sector energy efficiency, and water reuse solutions.

1.5 Participation in International Sustainability Forums

The DBSA is an active member of the **International Development Finance Club (IDFC)**, a network of national, regional and multilateral development banks and finance institutions. The IDFC acts as a platform to promote and leverage sustainable development investment in support of the SDG's and the Paris Agreement.

The Bank is a member of the **Global Innovation Lab for Climate Change (GILFIC)** whose mandate is to support the identification and piloting of climate change financing instruments and products to catalyse private sector investment in climate mitigation projects in developing economies.

1.6 DBSA Green Bond Framework

The DBSA Green Bond Framework is aligned with the International Capital Market Association (ICMA) Green Bond Principles and is set out below in terms of their four key components, viz. use of proceeds, process for project evaluation and selection, management of proceeds, and reporting.

2. USE OF PROCEEDS

2.1 Eligibility Principles

Proceeds from DBSA green bond issuance will be exclusively applied to the financing or refinancing, fully or partially, of:

- 2.1.1 Projects either within the DBSA investment portfolio or future projects to be appraised by the DBSA which meet any one of the following criteria:
- a. Contribute to climate mitigation and /or adaptation in compliance with the International Development Finance Club (IDFC) methodologies¹ for mitigation and adaptation;
 - b. Align to the NDP objective of an “environmentally sustainable and equitable transition to a low carbon economy” for South Africa;
 - c. Align to the SDGs, in particular SDGs 6,7,8 and 11;

and which meet the following criteria:

- 2.1.2 Comply with the DBSA Environmental and Social Safeguards Standards and environmental and social screening and appraisal criteria for greenfields projects (as applicable);
- a) Demonstrate, quantify, and qualify positive environmental and social benefits; which will be reflected in the DBSA Development Results Reporting Framework (“DRRF”); and
 - b) Meet DBSA credit selection criteria and the approval of the relevant decision-making structure(s).

2.2 Eligible Green Project Categories

The projects identified as eligible for financing or refinancing through the proceeds of green bonds will fall within one or more of following project categories:

1. https://www.idfc.org/wp-content/uploads/2019/12/idfc_report_final-2.pdf

Categories	Eligibility Criteria
Energy	<ul style="list-style-type: none"> • Financing the generation, distribution and/or transmission of energy from renewable energy sources including: <ul style="list-style-type: none"> ○ Onshore and offshore wind energy ○ Solar energy ○ Small scale hydro energy (maximum of 20 MW in installed capacity) ○ Biomass (that does not compete with food production, not grown in areas of high biodiversity and in which facilities produce GHG emissions below 100gCO₂e/kWh) ○ Measures to facilitate integration of renewable energy into grids (New, expanded and improved transmission systems, smart-grid and mini-grid). • Energy Efficiency including: <ul style="list-style-type: none"> ○ Construction of green infrastructure including green buildings and smart grids, manufacture and procurement of energy efficient equipment such as smart meters, LED lighting, etc.
Low Carbon Public Transportation	<ul style="list-style-type: none"> • Financing the manufacturing, acquisition and maintenance of: <ul style="list-style-type: none"> ○ Public low carbon land transport such as electric rail, metros, and trams ○ Low carbon vehicles such as electric, non-motorized or any other non-fossil fuel transportation ○ Infrastructure for clean energy vehicles and reduction of harmful emissions (e.g. charging infrastructure upgrades)
Waste Management	<ul style="list-style-type: none"> • Financing sustainable equipment, development, manufacturing, construction, operation and maintenance of: <ul style="list-style-type: none"> ○ Waste-to-energy projects which does not include direct incineration of feedstock. Feedstock will include: Sewage, manure, wastewater, landfill gas capture, sugar cane bagasse, wood pellets and municipal waste. ○ Waste collection, recycling and projects that recover or reuse materials and waste as inputs into new products or resources (only if net emission reductions can be demonstrated).
Water and Ecological Infrastructure	<ul style="list-style-type: none"> • Financing of the following projects: <ul style="list-style-type: none"> ○ Water for consumption or economic use ○ Wastewater treatment ○ Sustainable urban drainage systems ○ Flood and drought protection • Supporting ecological infrastructure (including conservation of natural capital) and water resource management / water security, catchment management and sustainable land use management.

2.3 Allocation of Proceeds

The DBSA Green Bond Framework supports the DBSA's commitment to playing a role in the just transition to a low carbon economy. The Bank will provide market information for each respective Bond Issuance under this Framework. The information will outline in each instance, the percentage allocation of proceeds towards financing eligible projects and for re-financing projects within the DBSA investment portfolio.

2.4 Oversight of Management and Allocation of Proceeds

DBSA commits to a periodic review of DBSA processes, systems and procedures in order to remain aligned with the Green Bond Principles adopted for the allocation and management of proceeds from each Green Bond issuance.

3. PROCESS FOR PROJECT EVALUATION AND SELECTION

3.1 DBSA's Definition of a Green Project

A project is classified *green* when it meets one or more of the following characteristics:

- Reduces Greenhouse gas emissions;
- Removes Greenhouse gases from the atmosphere;
- Promotes climate resilience and/or adaptation;
- Encourages the efficient use of resources; and
- Values and improves ecosystem services and biodiversity and promotes sustainable land use management practices.
- Improves environmental management capacity aligned to SDGs and global good practice standards and policies.

All projects identified as eligible for consideration for finance through DBSA Green Bond issuance are screened for environmental and social risk in accordance with the Bank's social and environmental management framework. The DBSA commitment to transparent social and environmental practices is evidenced by amongst others, the Bank's Environmental and Social Safeguard Standards (E&SSS) and the Grievance Redress Mechanism published on the DBSA website². Climate assessment procedures utilised align with the IDFC green finance tracking methodology guidelines and Good International Industry Practice. The DBSA utilises the IDFC methodology for screening project GHG emission volumes.

The credibility of the DBSA project selection and appraisal processes has been validated to be in line with international best practice, as evidenced by the Bank's accreditation as a GEF Agency and GCF Accredited Entity.

³ <https://www.dbsa.org/EN/IGRM/Pages/default.aspx>

Green Finance Project Categories recognized by DBSA	
Mitigation of greenhouse gases	<ul style="list-style-type: none"> ▪ Activities that reduce or limit greenhouse gas (GHG) emissions and / or increase sequestration of carbon dioxide (such as renewable energy and energy efficiency, low carbon and clean transportation, integrated waste management involving the mitigation hierarchy, and including waste reuse and recycling).
Adaptation to Climate Change	<ul style="list-style-type: none"> ▪ Activities that reduce the vulnerability of human or natural systems to the adverse impacts of climate change and climate-related risks through the building of resilience and / or strengthening adaptation. Examples include infrastructure projects dealing with the effects of climate change aggravated floods, landslides, and drought.
Environmental Sustainability:	<ul style="list-style-type: none"> ▪ An activity that promotes: <ul style="list-style-type: none"> ○ Sustainable water resource management, water supply and wastewater management including water reuse and recycling. ○ improved integrated waste management practices. ○ Sustainable use of natural capital, biodiversity, and ecological infrastructure, water or forests; and ○ Eco-efficient and/or circular economy adapted products, production technologies and processes. ▪ The design, construction, or operation of buildings that reduce or eliminate negative impacts and/or create positive impacts on society, climate and the natural environment.

3.2 Investment Restrictions/ Thresholds and Exclusion Criteria

The proceeds of the DBSA Green Bond will not be used to finance any infrastructure projects which demonstrate clear and substantive environmental and social risks which cannot be mitigated. In particular Green Bonds will not finance the following projects:

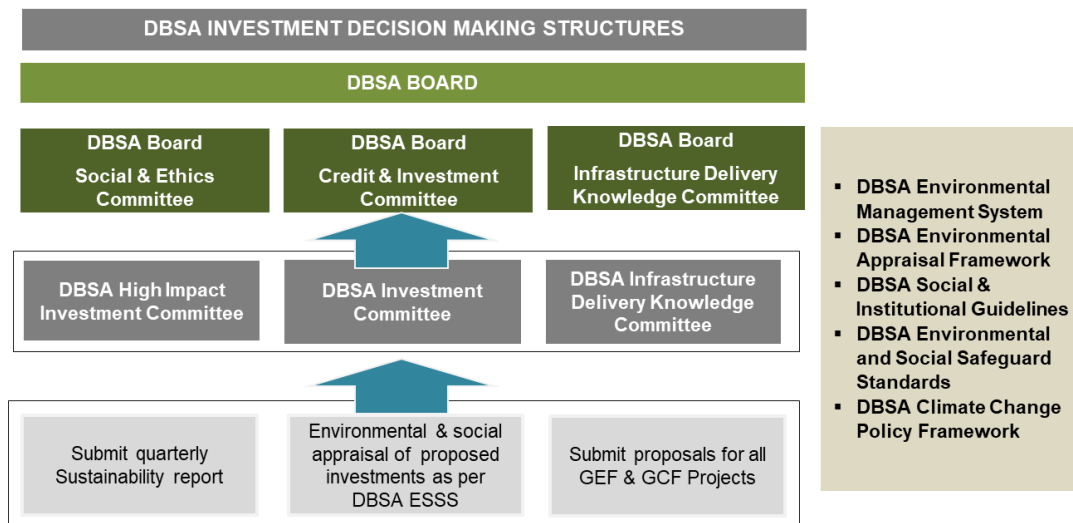
- Carbon intensive projects including fossil fuel projects and related supply chains such as coal: investments involving heat production, heat supply and combined heat and power production will not be eligible where coal is utilised;
- High risk hydropower schemes that exceed 20MW or involve significant risk to biodiversity, ecosystem services, and require resettlement of more than 50 people; and
- Nuclear power.

3.3 Decision Making Process for Selection of Eligible Projects

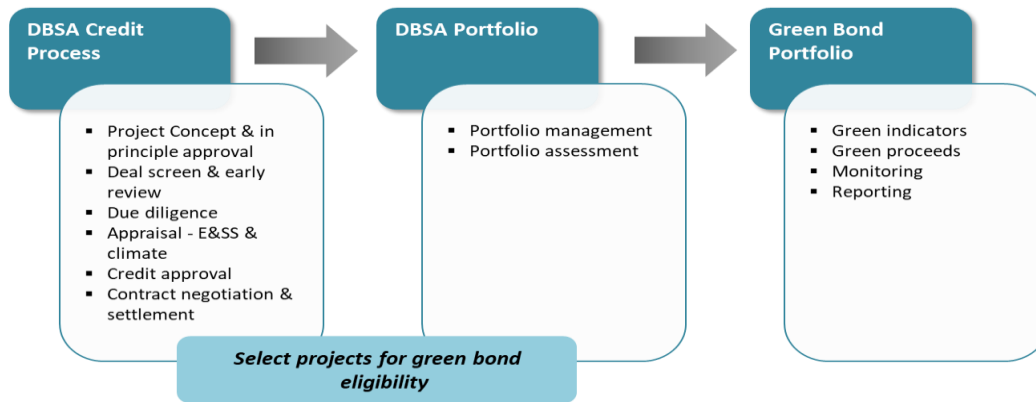
All projects proposed for financing by the DBSA are assessed for eligibility within the DBSA investment decision making structures. The DBSA applies an integrated environmental, social, economic, financial and sector assessment of each of the proposed projects. Projects are screened according to the DBSA E&SSS Framework.

DBSA has a well-established set of tools and procedures to classify green operations and assess and monitor environmental and social projects, supported by internationally accredited environmental and social safeguards standards which align with the legislation in all of the jurisdictions in which the Bank operates.

The Bank has a constantly evolving pipeline of projects which will align to the Green Bond Principles and the Climate Bonds Initiative (CBI).



Eligible projects for the Green Bond Programme are evaluated against the DBSA credit lifecycle and due diligence procedures. With the assistance of DBSA’s Environmental and Social Sustainability Team and in close coordination with the DBSA Treasury, eligible green projects are assessed for inclusion in the Bank’s portfolio of projects to be considered for Green Bond Financing.



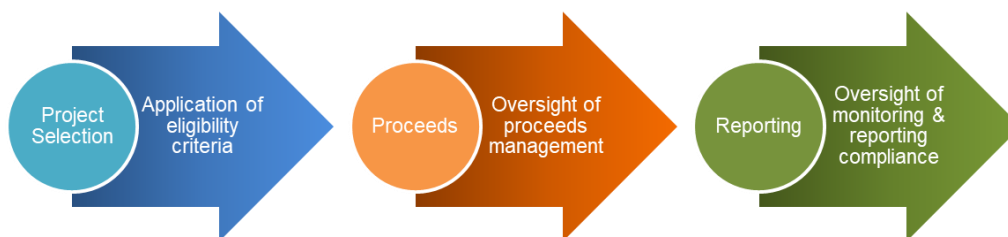
3.4 Cross Functional Green Bond Programme Team

A cross functional Green Bond Programme Team is responsible for the selection of projects eligible for inclusion in the program in accordance with the Bank’s use of proceeds eligibility criteria. The cross functional operational team includes representatives from the DBSA-:

- Operations (Client Coverage and Transacting);
- Climate and Environmental Financing;
- Environmental & Social Sustainability;
- Portfolio Management (Credit and Loans Management);
- Operations Evaluations; and
- Treasury.

The team is responsible for:

- The identification, evaluation, and selection of projects eligible for financing through green bond issuance in accordance with the criteria outlined above; and
- Project and program monitoring and reporting.



Collaboration with other operational areas is sought as deemed necessary, depending on the operational requirements of the Green Bond issuance and the projects selected for consideration.

4. MANAGEMENT OF PROCEEDS

4.1 Oversight of Green Bond Programme Operations

The Green Bond Programme Team will provide the required governance and operational support for the Green Bond Programme including:

- Management oversight of the Green Bond Programme operations;
- Maintenance and monitoring of the eligible pool of projects for the duration of each bond in issuance;
- Overseeing reporting on the Green Bond portfolio and project indicators; and
- Managing investors communication.

4.2 DBSA Portfolio Management Policy

Every project under the Green Bond Programme is subject to the Bank's Credit Policy. During the life of the projects:

- Control and monitoring of disbursements are managed by the Loan Management Unit. This team is responsible for the monitoring of financing commitments on a bi-annual basis, execution status, and contractual compliance;
- Operation and execution status are monitored by the Transacting team (including provision of all climate and development data identified from the Development Results Template detailed in 5 below);
- Environmental and development impacts are tracked and evaluated through the Development Results Framework; and
- Client credit status and security structures are monitored and managed by the Credit Risk Unit.

The DBSA will establish a dedicated database containing all eligible projects financed by, or to be financed by the proceeds of green bond issuances. The Bank has the necessary monitoring and management capacity to provide investors with accurate and transparent information addressing the quantum of Green Bonds outstanding vs eligible projects, project location, sector, the removal of projects that may no longer meet the eligibility criteria, and the maintenance of the portfolio through qualifying substitutions.

4.3 Procedures for Management of Proceeds

The DBSA will establish appropriate measures and procedures to ensure that proceeds from the Green Bond are allocated and utilised as intended and subject to the applicable DBSA Green Bond Framework. Any Green Bond proceeds not allocated to eligible projects at the date of issue will be invested in cash, cash equivalents, and other liquid instruments, and managed in line with the DBSA's liquidity management framework until such time that the funds are apportioned to eligible projects.

5. REPORTING

5.1 Development Results Reporting Framework

The DBSA is implementing an evolving Development Results Reporting Framework (DRRF) to support effective development impact reporting on the DBSA Portfolio. A key aspect of the DRRF evolution is the alignment of the Bank's monitoring, evaluation and reporting to generally accepted impact investment monitoring and reporting principles, including the IDFC Green Climate Mapping methodology. The DRRF enables reporting on relevant impact metrics by project category and is premised on a Development Results Template through which project objectives, indicators, metrics, and monitoring requirements are identified at the project appraisal stage. This forms the basis for reporting on the anticipated development results and impacts of all projects financed, including all projects selected for financing through Green Bond issuance. As applicable, projects to be selected for the Green Bond Portfolio will report on:

- Mitigation of Climate Change;
- Adaption to Climate Change;
- Environmental Sustainability; and
- Social Sustainability.

The DBSA commits to annual reporting on the use of Green Bonds proceeds on the DBSA website. This report will provide investors with relevant information on the status of the Green Bond Program and will include details on projects financed through the Green Bond issuance. Wherever possible, DBSA will report both on the anticipated and actual development and environmental impact outcomes of the projects funded.

DBSA will disclose qualitative and quantitative information concerning each selected project as well as aggregate information on the portfolio of projects allocated for Green Bond financing. Where confidentiality or other reasonable considerations limit the detail of information that can be made available, DBSA will provide this context and present information on a portfolio basis or equivalent.

DBSA will additionally provide a description of key underlying methodologies and assumptions used in the quantitative determination of the anticipated development and environmental performance indicators reported.

Independent Review

DBSA commits to at an independent review of its Green Bond Programme and its compliance with the DBSA Green Bond Framework on at least a biennial basis.

6. EXTERNAL REVIEWS

6.1 Independent Second Party Opinion

An independent provider of sustainability analytics and certification was appointed to provide an independent review and Second Party Opinion on this Green Bond Framework and its alignment with the Green Bond Principles.

The Second Party Opinion can be viewed at <https://www.dbsa.org/EN/InvestorRelations/Pages/Green-Bonds.aspx>.

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