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DBSA Green Bond Framework



TABLE OF CONTENTS

1.	INTRODUCTION	2
2.	USE OF PROCEEDS.....	4
3.	PROCESS FOR PROJECT EVALUATION AND SELECTION.....	6
4.	MANAGEMENT OF PROCEEDS.....	9
5.	REPORTING.....	11
6.	EXTERNAL REVIEWS.....	12

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

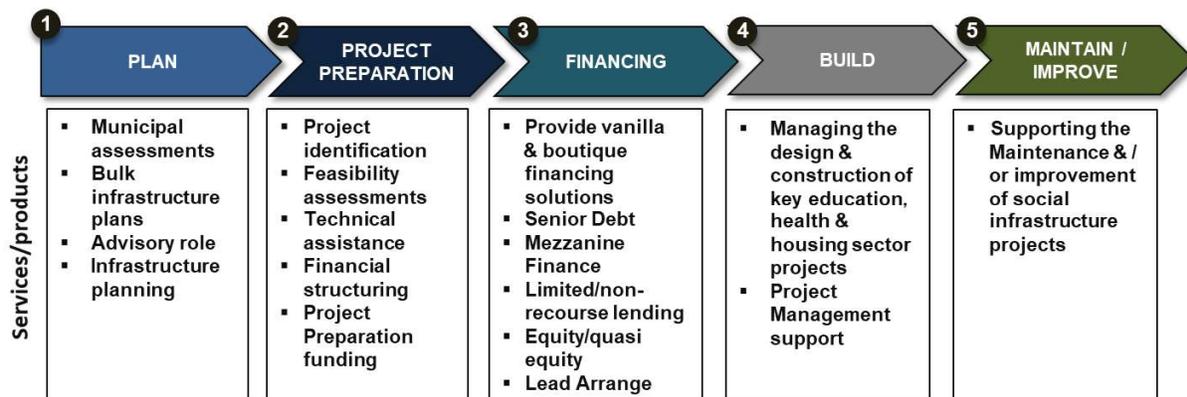
1. INTRODUCTION

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:

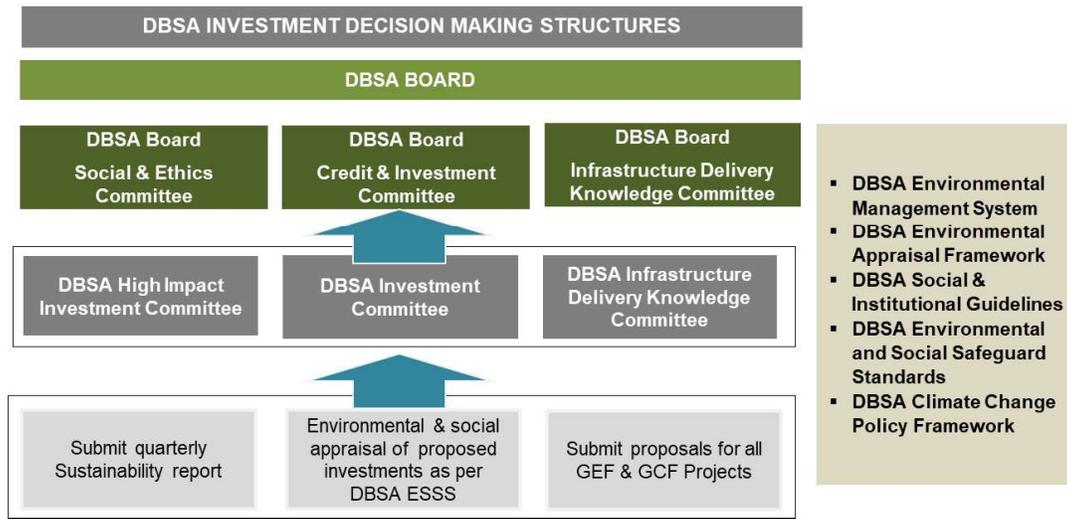
- Carbon intensive projects including fossil fuel projects and related supply chains such as coal: investments involving heat production, heat supply and combined heat and power production will not be eligible where coal is utilised;
- High risk hydropower schemes that exceed 20MW or involve significant 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

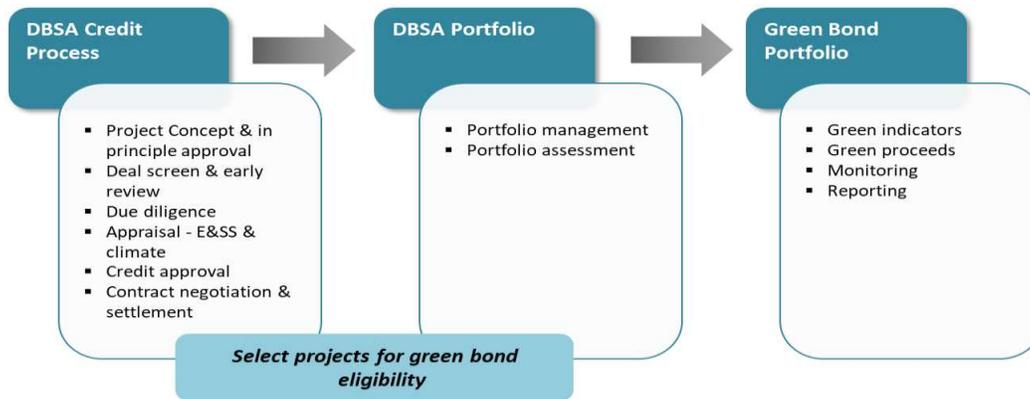
All projects proposed for financing by the DBSA are assessed for eligibility within the DBSA investment decision making structures. The DBSA applies an integrated environmental, social, economic, financial and sector assessment of each of the proposed projects. Projects are screened according to the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