



GREEN
OUTCOMES
FUND

March 2020: Green Outcomes Fund

Call for Expression of Interest from Catalytic
Finance Partners



Contents

1.	Introduction	2
1.1.	Deadline	3
1.2.	Required details	3
2.	GOF Overview	4
2.1.	Background to the GOF	4
2.2.	Track record and team	5
2.3.	Purpose of the GOF	6
2.4.	Structure of the GOF	6
2.5.	Flow of funds.....	7
2.6.	Governance and Operations	8
2.7.	Impact	8
3.	Catalytic Finance Partner Information	9
3.1.	Benefit of GOF to CFPs	9
3.2.	Requirements of the CFPs	10
	Appendix A	11
	Green SMME definitions and metrics	11
	Appendix B	13
	Use of outcomes payments.....	13



1. Introduction

The Green Outcomes Fund (GOF) is a first of its kind structure, which incentivises local South African fund managers, the GOF's Catalytic Finance Partners (CFPs), to increase investment in green small, micro and medium enterprises (SMMEs), see definitions in Appendix A, by paying for outcomes, such as green job creation, climate mitigation, and improved water and waste management. It creates demand for verified, pre-agreed green outcomes generated by SMMEs and purchased through local fund managers. Simultaneously, it creates a common base for growing the green impact investing market.

The GOF was initially conceptualised by the World Bank's Climate Technology Programme, GreenCape, WWF South Africa, and the UCT GSB Bertha Centre for Social Innovation and Entrepreneurship. It began implementation as of 01.01.2020 in partnership between the National Treasury's Jobs Fund, Firstrand Foundation's RMB Trust, GreenCape, the Bertha Centre, and a portfolio of four CFPs. **To broaden the CFP portfolio, GreenCape and the Bertha Centre are coordinating an expression of interest from potential CFPs keen to participate in the GOF going forward. The current call for EOIs is directed at local SMME investors who would like to apply to become a Catalytic Finance Partner (CFP) during the pilot phase of GOF. The funding mandates and indications of robust green-sector pipeline provided by applicants will be used for GOF's fundraising efforts for new outcomes-based funders.** The GOF investment committee will undertake the ultimate selection of CFPs. This document will provide a background of the GOF and serves as a guide to interested parties in terms of actions and involvement required.

1.1. Deadline

17h00 on 4 June 2020

If you are interested in applying to be a Catalytic Finance Partner, please submit all required information on GOF website. Please use the following [link](#).

1.2. Required details

The required information is related to your fund's size, proposed capital allocation, pipeline, additionality, etc. Please see Table 1 which contains the information CFPs will be asked to submit by filling out the online form on the [GOF website](#).



Table 1: Information needed

Fund Description	[Insert background of the fund, i.e. name, current fund size, status of the fund]
Fund Mandate	[Insert a synopsis of the fund's mandate]
Track record	[Insert a track record of the fund's in years]
Fund size	[Insert size of the fund]
Investors	[Insert investors]
Deal size	[Insert average deal size of the fund]
Average deal tenor	[Insert average deal tenor in years]
Investment strategy	[Briefly describe the type of investments made by the fund]
Investment process	[Briefly describe the investment process]
Asset classes	[Please describe the asset classes the fund employs]
Transformation policy	[Please insert information on the following targets: BEE, women, youth, disability owned companies]
Ownership structure & governance	[Please provide a write up of your fund's ownership structure & governance]
Overview of BDS	[Please provide a description of the business development support the fund provides]
Capital raising and portfolio returns	[Insert capital raising and portfolio return information for your fund]
Impact/Outcomes	[Please describe the impact/outcomes the fund currently targets]
Job creation potential	[Please provide a brief narrative on job creation potential OR existing experience in investments with high job creation potential]
Type of jobs created	[Insert an overview of what type of jobs are mostly created by your portfolio companies: low skilled, semi-skilled, high skilled]
Cost per job created	[Please provide an estimate of the cost per job created and a brief motivation for each: low skilled, semi-skilled, high skilled]
Green SMME investment experience	[Briefly describe the current experience investing in green SMMEs (overview of deals done)]
Potential Pipeline	[Please provide details of the deal pipeline identified that would be suitable for the GOF. If no pipeline has been identified as yet, please provide details of pipeline/deal sourcing strategy]
Barriers/limitations in green SMME investing	[Please provide insight into barriers/limitations to investing in green SMMEs]
Matched funding amount	[Insert the matched funding amount you are willing to commit i.e the amount of funding you would be able to invest in green SMMEs over the next 3-5 years]
Size of requested grant	[Please indicate the size of the grant requested, that would support you in deploying the Matched funding amount above]
Additionality of GOF support	[Please describe how the GOF support would allow you to undertake deals that you otherwise may not undertake. That is, what would the outcomes funding offer that would incentivise you to consider deals that would otherwise not pass through your IC. See Appendix B for the possible use of outcomes payments].
Ring-fenced bank account	[Are you willing to create a ring-fenced bank account for this project]

2. GOF Overview

For your ease of reference, we have included an overview of the project below.

2.1. Background to the GOF

During initial investigations, South African fund managers revealed that investing in green SMMEs is challenging due to high start-up costs, a lack of quality green SMME pipeline and limited technical understanding of the



green market. Similarly, local green SMMEs struggle to attract local investor interest, lack business development support and have limited access to market. The GOF addresses these development needs by providing outcomes-based matched concessionary capital to investment funds (CFPs) to promote investments in green SMMEs and build a common set of green metrics in South Africa. It also tests whether an outcomes-based payment model can catalyze additional local investment in green SMMEs, create a market for pre-agreed, verified green outcomes and ultimately further the development of a robust green impact investment industry in South Africa.

The GOF will provide matched concessionary funding (in the form of grant payments) to CFPs in support of investments into green SMMEs that make a demonstrable contribution to the green economy and green job creation. The CFPs will use their own investment capital to invest in green SMMEs. Once SMMEs start achieving pre-agreed green outcomes (see Appendix A for list of green metrics), the GOF will disburse grants to the CFPs on the basis of green jobs created (see Sections 2.4 and 2.5 for more detail on the GOF's structure and flow of funds, respectively). By providing outcomes-based incentives, the GOF enables local fund managers to invest with greater efficiency and risk mitigation, provided they continuously deliver green impact. The GOF portfolio spans the SMME market, from early stage seed funders providing high risk capital, to investors expecting market rate returns.

2.2. Track record and team

GreenCape is a non-profit organisation that drives the widespread adoption of economically viable green economy solutions from South Africa. The team works with businesses, investors, academia and government to unlock the investment and employment potential of green technologies and services, and to support a transition to a resilient green economy. GreenCape's vision is to create a thriving and prosperous Africa using green economy principles. Their aim is to be globally relevant in driving the uptake of green economy infrastructure solutions in the developing world context (Track record: 10 years).

The **UCT GSB Bertha Centre** has strategic capacity and reach in key sectors, such as healthcare, education, climate change, innovative finance and scaling social enterprises. The Innovative Finance Initiative is built around the need to develop a social investment market in Sub-Saharan Africa, where social objectives are set and measured. The Centre develops knowledge on innovative financing, educates private and public stakeholders and catalyses innovative finance mechanisms in partnership with government and NGOs, philanthropists and traditional financiers (Track record: 9 years).

The **World Wide Fund for Nature** is a leading global environmental conservation organisation with deep environmental and scientific expertise. As part of the WWF Global Finance Practice the WWF-SA Sustainable Finance team brings cross cutting knowledge and skills across sustainable finance, impact investing and green financial solutions. WWF-SA was part of the consortium of design partners which launched GOF and continues to play a role on the GOF Advisory and investment Committees.

Local anchor funding was secured whereby two local grant funders representing both the private and public sector, have committed a total of R93.8M matched by R395.5M in investment capital from local investment funds.



2.3. Purpose of the GOF

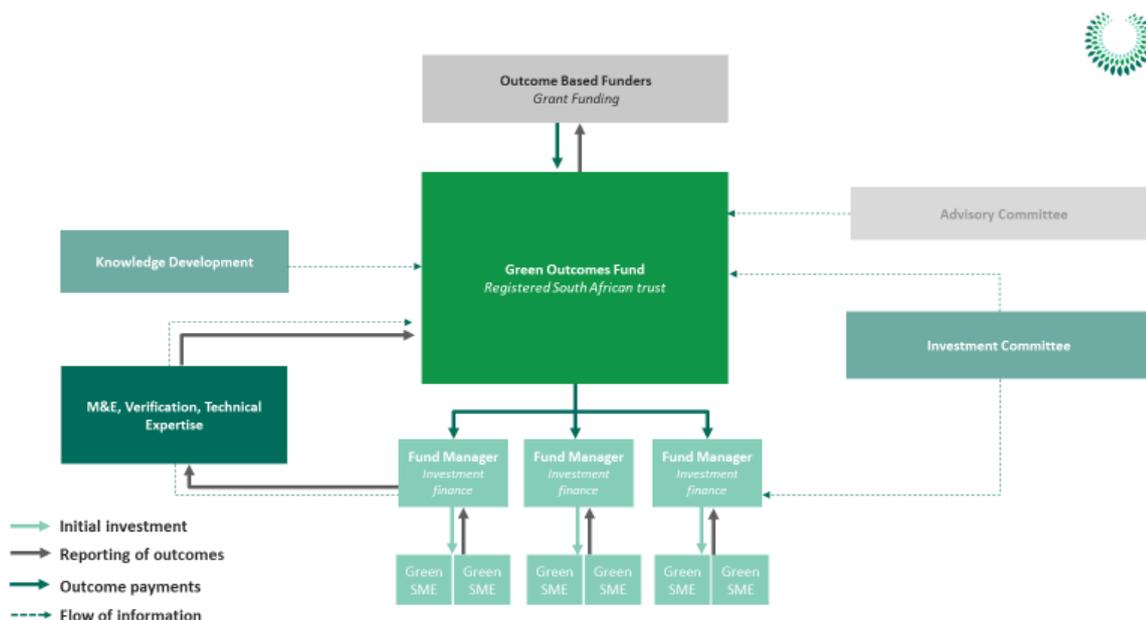
The aim of the GOF is to incentivise new approaches and financing models by impact investors in targeting high potential and fast-growing SMMEs operating in South Africa’s green economy. The funding must enable lending and investment on terms and to SMMEs which would not be feasible without the GOF’s support.

The GOF will ultimately blend concessionary funding (in the form of grants) with private capital, thus enabling participating CFPs to develop and adapt their SMME investment criteria and support services in ways that were not previously possible – realising greater impact in terms of the types of SMMEs funded and green outcomes created.

2.4. Structure of the GOF

The sources of funding for the project are a blend of private and concessionary funding. As demonstrated below through the fund structure, this is an outcomes-based payment model where local investment funds (CFPs) deploy their own investment capital upfront and are reimbursed from the GOF, through grant payments, for the creation of green outcomes, specifically green jobs. This model disburses outcomes-based payments only after outcomes are achieved. See Figure 1.

Figure 1 – GOF structure



This structure is based on the following principles (Refer to Figure 1):

1. CFPs invest match funding into green SMMEs. They will invest in SMMEs according to the fund’s own particular delivery model and disbursement policy.

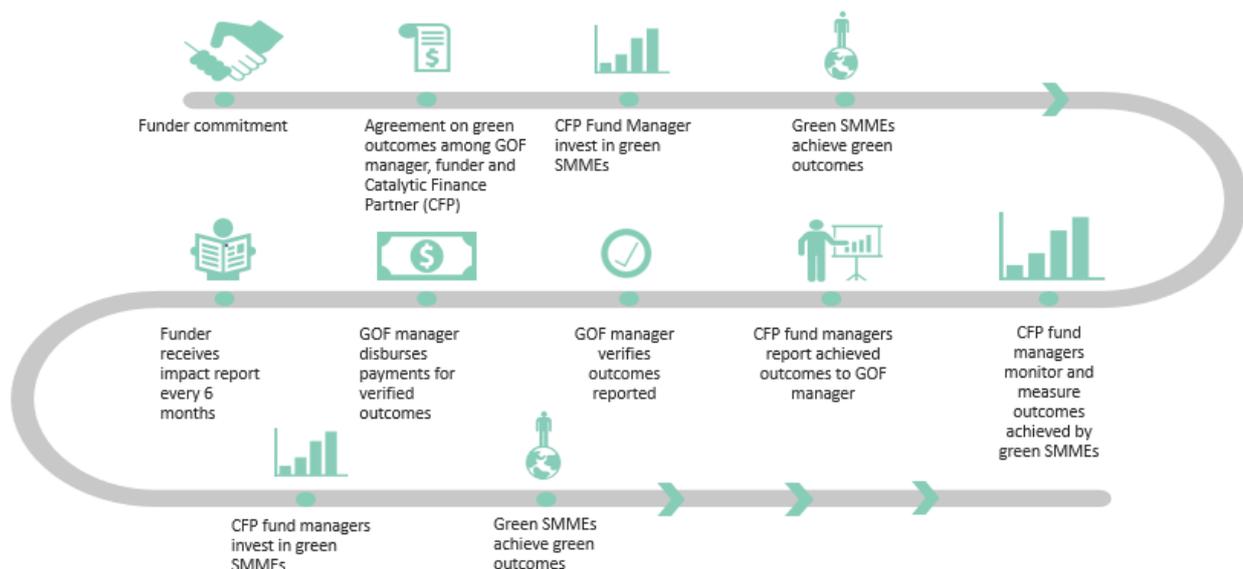


2. SMMEs achieve outcomes, (such as green jobs) which are reported to the GOF on a quarterly basis. Outcomes will be assessed in relation to an outcomes-based contract signed between the GOF and each CFP. The GOF will monitor the achievement of these results and the fulfilment of the contracts over time.
3. The GOF verifies outcomes and disburses capital quarterly on the basis of demonstrated green outcomes created.
4. The CFP uses outcome payments to de-risk investments, support SMMEs, and invest further in green SMMEs. The outcomes payments will be targeted at reducing the risk and cost of reaching green SMMEs previously excluded from consideration. The GOF intentionally allows CFPs flexibility (within defined parameters) in how they allocate this funding. In doing so, the GOF is able to identify the most prominent barriers providing finance to green SMMEs. The use of outcomes payments includes business development support; technical assistance, training, and mentoring; in-house technical expertise; offering innovative pricing models that reduce interest rates based on additional green; subsidized cost of capital to SMMEs as well as on-lending and/or investing. See Appendix B for descriptions of the uses of outcomes payments.

The CFPs span the SMME ecosystem, with varying models, target sectors, and cost per job. Each CFP has proposed a target number and cost per job. Expected cost per job figures are based on previous job creation performance of the funds, and thus include assumptions that past job creation experience is a good predictor of future job creation potential.

2.5. Flow of funds

Figure 2: Flow of funds



The project is funded through a grant and matched investment funding from the CFPs. The matched funding from CFPs flows to the green SMMEs in the form of investment through debt or equity. The grant flows to the GOF and is disbursed to the CFPs after verification of green jobs by the GOF's IC and the grant funder. The grant will be used to support CFPs in increasing access to finance for SMMEs upon creation of green jobs. Internal



and external monitoring and evaluation, knowledge management and trust administration include the costs incurred by the GOF.

2.6. Governance and operations

The GOF is a fund of funds structure that is set up as a legal trust, administered by Maitland. The GOF's Advisory Committee (AC) is responsible for policy, strategic vision, and business development of the GOF, both for execution of the pilot and in setting up subsequent phases of the GOF. The GOF's Investment Committee (IC) is responsible for (re-)allocation and monitoring of funding to CFPs, in line with the GOF mandate and with oversight from the AC. CFPs will manage their individual investment processes.

The GOF will be implemented by:

- GreenCape, which led the development of 13 green metrics, which can be measured and monetised. GreenCape will be responsible for the monitoring and evaluation (M&E) and have a seat on the GOF AC.
- The Bertha Centre, which led the design and development of the GOF. The Bertha Centre will be responsible for knowledge development throughout implementation and sits on the GOF AC and IC.
- The GOF AC and IC: The AC and IC will have representation from leading green SMME and investment experts; in addition to GC and BC representatives, these are representatives from WWF-SA, DBSA, PIC and Investec.
- Additional partners:
 - Maitland: Trust administrator will be responsible for management of the GOF's financial administration.
 - Current CFPs: Four local funds have committed matched funding and started implementing in January 2020.

2.7. Impact

The overarching impact is (1) the creation of green outcomes that combat climate change; (2) increased effectiveness and efficiency of concessional funding in achieving green outcomes; (3) growth of South Africa's green investment sector; and (4) growth of South Africa's green economy.

Furthermore, the GOF helps align CFP incentives to social and environmental impact. It also ensures efficiency in the use of public funds by only paying for impact achieved. This approach offers results across the green economy including:

- Increasing access to capital for green SMMEs, allowing them to scale and maximise job creation
- Increasing the demand for green businesses from local investors
- Linking cost of capital to social and environmental outcomes
- Establishing a foundation for impact data reporting
- Unlocking private sector capital for the green economy
- Creation of jobs across the sector

In addition to jobs created, the following other benefits are expected:

- Positive green outcomes (in addition to jobs, the CFPs will report on 11 other green metrics)

Website: <https://www.greencape.co.za/content/sector/the-green-outcomes-fund>
Email: greenoutcomes@green-cape.co.za



- Additional capital driven towards socioeconomic impact, and uptake of blended finance models in South Africa
- Standardization of the local impact investing industry by encouraging the uptake of verifiable green metrics among local investors
- Standards developed in terms of price discovery of outputs across the green economy
- Capacity developed among investors in local funds to access green credentials
- Decrease of (perceived) risk involved in investing in green SMMEs

3. Catalytic Finance Partner Information

CFPs are selected based on a clear track record, a demonstratable interest in investing in green SMMEs, and experience with early stage impact deals, as well as evidence of alignment with the GOF mission. CFPs will manage and develop their SMME investment portfolios **independently** of the GOF, but according to pre-agreed guidelines and impact measurement criteria. Data will be collected at a CFP level and collated by the GOF manager. The GOF will have no say over, although it may have sight of, individual investments made by the CFPs. This facilitates efficiency and cost-effectiveness, and enables the GOF to operate with a very light and flexible structure.

3.1. Benefit of GOF to CFPs

The GOF's support will assist the CFPs in building a successful portfolio of green SMMEs and track record of impactful green investments, thereby driving more capital into the ecosystem. Other benefits include:

- The provision of grant capital to implement new derisking strategies to unlock investment in green SMMEs.
- The development of a nascent local impact investing industry through the provision of additional funding tied to social and environmental outcomes. This will support existing CFPs to develop new products or venture into new investment areas.
- Supports the sourcing of green SMMEs through GOF partners
- Provides technical support on green issues
- Enables local fund managers to invest with greater efficiency and risk mitigation, provided they continuously deliver green impact
- Improves SMME viability through access to business development services
- Assists in funding green SMMEs previously excluded from consideration
- Subsidizes investment in SMMEs achieving green outcomes
- Aligns to SDGs: 8 and 17
- Providing grant funding may enable CFPs to preferentially attract additional investment capital.
- The adoption of a common set of technically sound, verifiable green metrics across multiple local fund managers in the local ecosystem may help to strengthen the local green and impact investing industry.
- A demonstrated capacity and track record in financing green SMMEs, the perceived risk in the sector will decrease, and ability to access larger pools of investor capital earmarked for green impact.



3.2. Requirements of the CFPs

With the understanding that the GOF's disbursements are based on outcomes, monitoring and reporting systems are critical to its success. In addition, as the first of its kind, the GOF has a strong learning agenda and knowledge management element that will be used to share lessons and further develop the structure in subsequent phases. To achieve this, a robust monitoring and reporting system and set of templates have been developed, including guidelines on data collection, reporting, verification, and knowledge management. In addition, knowledge management partners will be continually capturing lessons, analysing results, and distilling and disseminating key insights to the market. CFPs will be required to provide the following information to a monitoring and reporting project manager with oversight from a senior project manager, as well as knowledge management experts from the Bertha Centre:

- Number of SMME applications received
- Number of GOF-relevant SMMEs undergoing due diligence
- Number of SMMEs receiving investment
- SMME Baseline information
- SMME Quarterly information
- Total number of permanent full-time jobs created
- Number of low-skilled jobs created
- Number of semi-skilled jobs created
- Number of high-skilled jobs created
- Green metrics (see appendix A)
- Percentage of investments performing as forecast
- Narrative on the use of outcomes funds
- Notification of Default Rate if the CFP Loan Book exceeds 5% (five percentage points) or more compared to the Default Rate Measurement Point
- Financial information for SMMEs
- One potential SMME site visit per quarter where necessary
- CFP Financial Information
- Valid license for National Credit Act or Financial Sector Conduct Authority (if applicable to the CFP)
- Responses in the form of a qualitative discussion
- Response to a formative CFP Survey
- Response to a mid-term CFP Survey
- Response to a summative CFP Survey



Appendix A

Green SMME definitions and metrics

See [Revised Schedule 1 of the National Definition of Small Enterprise in South Africa](#) in Government Gazette, 15 March 2019 for the definition of a SMME.

Green SMMEs are defined as businesses that limit or prevent harm to the natural environment relative to conventional alternatives because they:

- Are less polluting and/or use all natural resources in a more sustainable manner and/or
- Recycle more of their wastes and products and/or
- Handle residual wastes in a more acceptable manner and/or
- Refers to the total system which include knowhow, procedures, goods and services, equipment as well as organisational and managerial procedures.

Table 2: Green Sectors

Recognised Green Sectors
Green buildings and the built environment
Sustainable transport and infrastructure
Clean energy and energy efficiency
Clean energy and energy efficiency
Resource conservation and management
Sustainable waste management practices
Sustainable agriculture, food production and forestry
Water management
Sustainable consumption and production
Environmental sustainability



Table 3: Green metrics

Metric	Units	Category	Green Sector
Green sector direct jobs created (see: Green Sectors for South Africa)	Number	Job Creation	All
Green sector indirect jobs created (see: Green Sectors for South Africa)	Number	Job Creation	All
Soil Organic Carbon (SOC)	% C	Sustainable natural resource use (depends on what GOF categories will be)	Sustainable agriculture Resource conservation and management
Synthetic chemical fertiliser reduction	Kg Co2-eq	Mitigation	Sustainable agriculture
Persons reached by reliable clean energy grid/source that were without prior access to the traditional energy grid	Number of people	Access to Clean Energy	Energy
Energy Generation - total installed capacity	MW	Generation	Energy
Energy Efficiency - Generic energy saved based on deemed savings values per unit installed	kWe	Mitigation / Diversion	Energy
Waste to landfill avoided	t	Mitigation / Diversion	Waste
Avoided waste incinerated	t	Mitigation / Diversion	Waste
Waste recycled / reused	t	Mitigation / Diversion	Waste
Chemical recovery	t	Mitigation / Diversion	Waste
Water Intensity	m ³ of water consumed/product or service OR m ³ of water consumed/area of business premise m ³ /unit, m ³ /m, m ³ /m ² , m ³ /m ³ , m ³ /kg	Mitigation / Diversion	Water
Wastewater treated	m ³ of treated wastewater / unit time m ³ /d (MLD), m ³ /year	Mitigation / Diversion	Water



Appendix B

Use of outcomes payments

The outcome payments will support the CFPs in their investment process, including sourcing deals, conducting due diligence, investing, and providing business development support. The combination of investment a nonfinancial support from CFPs will equip green SMMEs with the resources that they need to grow, scale, and create new, permanent jobs. Further detail is provided in Table 4.

Table 4: Use of outcomes payments

Instrument/use of funds	Explanation
Business development support	Many green SMMEs, while having excellent sectoral and technical knowledge, require additional training on business development. The CFPs are able to use the outcomes funds to support business development skills with their SMME investees.
Technical assistance, training, and mentoring	In addition to basic business development support, CFPs can use outcomes payments to provide tailored post-investment technical assistance and mentorships to green SMMEs. These services would be provided in order to ensure that business risk is mitigated within the investee green SMMEs thus minimising the probability of default, and increasing the probability of improved business performance.
In-house technical expertise	To accurately assess the risk of a green SMME, a CFP needs to be able to do a thorough due diligence process and fully grasp the viability of the business model. To do so, it requires specific technical expertise. Outcomes funds can be used to support the development of this expertise in-house.
Offer innovative pricing models that reduce interest rates based on additional green outcomes	The anticipation of the green outcomes-based payments will enable the fund to explore new innovative ways through which the funds can further incentivise green SMMEs to generate more green impact using deal pricing as an incentive for exceeding green outcomes targets.
Subsidized cost of capital to SMMEs	<p>A CFP may assesses an investment to have the level of risk that requires an X% interest rate, but the SMME can only afford Y% (where Y<X) without increasing the risk of not being able to repay. Using GOF outcomes payments, the CFP can charge the SMME the affordable rate of Y%, with the amount of X-Y% being subsidized through outcomes payments.</p> <p>Example: EdgeGrowth considers an SMME to be of the risk that is reflected with a 10% interest rate, but the SMME cannot afford anything above 8%. The GOF outcomes payments could be used to subsidize the 2% difference, essentially derisking the investment for EdgeGrowth, and ensuring that the SMME is able to afford finance.</p>
On-lending/investing	The CFP could increase its pool of capital available to green SMMEs by adding outcomes payments to this pool. Outcomes payments could then be used to invest more in green SMMEs, effectively driving capital towards the green SMME sector.