GREEN OUTCOMES FUND

Pioneering a Climate Finance Instrument in Africa:

Lessons from Two Years of the Green Outcomes Fund

Africa's economy faces a range of old, persistent problems that need new, sustainable solutions

South African society faces a host of environmental and socio-economic problems and burdens – high levels of unemployment, insufficient, unreliable and unsustainable forms of energy generation and supply, water scarcity and drought occurrence, high levels of environmental pollution as well as waste contamination, to name a few. Despite their complexities, each of these issues presents a possibility to offer innovative models that stimulate economic growth that is not detrimental to the environment and its natural ecosystems, whilst supporting climate change mitigation pathways. In South Africa, this means investment in green businesses that can generate verifiable green outcomes whilst creating jobs in sectors such as energy, water, waste, infrastructure, and land management.

The growth of green small, medium, and micro-enterprises (SMMEs) has the potential to unlock significant impact and grow a thriving green economy. These businesses, however, face major challenges in accessing the investment capital and support they need to grow and scale. The Green Outcomes Fund was launched in 2020 to address these challenges and incentivise investment into South Africa's green economy.

Contents

Are the climate issues really as big as they say?

Fast Facts[1]

Water

CHALLENGE

South Africa is projected to have a 10% gap between supply and demand by 2030, even if planned additional water supply projects are implemented.

OPPORTUNITIES

Reduce non-revenue water losses; Develop non-sewered sanitation systems; Beneficiation or alternative disposal solutions for wastewater sludges

Waste

CHALLENGE

South Africa generated 108 Mt of waste in 2017, of which only 19% was recovered for beneficiation.

OPPORTUNITIES

De-packaging technologies for processing packaged organics; Replacing virgin plastic material with recyclate & material recovery; Developing e-waste pre-processing and processing facilities

Employment

CHALLENGE

26.7% general unemployment and 54.5% youth unemployment

OPPORTUNITIES

Stimulate SMME growth – SMMEs are a critical driver of economic growth, contributing to a third of GDP, employing nearly two-thirds of South Africa's workforce, and representing 91% of all businesses.

Sustainable Agriculture

CHALLENGE

South Africa's semi-arid conditions, limited arable land, and low average annual rainfall create constraints for agricultural production. Scarce natural resources are aggravated by unsustainable conventional practices such as tillage, monoculture, overirrigation, and the use of synthetic chemicals. These practices result in loss and degradation of arable soil, loss of ecosystem services, and increased water scarcity.

OPPORTUNITIES

Regenerative farming through no-till farming equipment; Undercover farming using low- to high-tech systems; Applying smart technology to agriculture production and renewable energy applications.

Energy

CHALLENGE

80% of South Africa's energy supply is currently dominated by coal-fired power generation. South Africa's single-buyer energy model has resulted in an imbalance of supply and demand causing intensive load shedding.

OPPORTUNITIES

Rooftop PV model diversification; Behind-the-meter battery storage; Smart metering; Increased local manufacturing of renewable energy components and systems; Distributed generation; Utility-scale battery energy storage development and deployment; Lithium-Ion batteries production

Although there are multiple opportunities for new and existing SMMEs to address each of these climate challenges, the South African market's perception of SMMEs as high-risk and high-cost results in either a lack of financing, or deals that are too expensive for an SMME to afford. These difficulties are exacerbated for **green** SMMEs that target environmental sustainability and not just the bottom-line.

But for South Africa to take on these climate challenges and foster the kind of localised, thriving green economy it so desperately needs, innovative frameworks and finance models are required to facilitate investments to grow green SMMEs.

READ MORE ONLINE For more market intelligence on these sectors and the opportunities see GreenCape's Market Intelligence reports: https://www.greencape.co.za/market-intelligence/

WATCH ONLINE What do these opportunities look like in reality? Have a look at the South African green SMMEs in this clip: https://www.youtube.com/watch?v=5iqa8f2UnIw&t=28s

[1] Fast Facts referenced from GreenCapes 2021 Market Intelligence reports.

FIND OUT MORE ABOUT GOF

Introduction

To address climate challenges and crowd in finance for innovative solutions, a pioneering and collaborative effort was initiated in 2016 that resulted in the creation of the Green Outcomes Fund (GOF). The GOF is a first-of-its-kind climate finance structure, designed to incentivise local South African fund managers to use new approaches and financing models to target high potential and fast-growing SMMEs operating in South Africa's green economy. The GOF enables this by paying for green outcomes, such as green job creation, climate mitigation, and improved water and waste management.

The green outcomes funding enables lending and investment to SMMEs which would not be feasible without the GOF's support. The model blends concessionary funding with private capital, thus enabling participating local fund managers, called Catalytic Finance Partners (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. In doing so, the GOF aims to address the many systemic challenges that South African green SMMEs face as they try to access capital and support for growth. Simultaneously, it creates demand for verified, pre-agreed green outcomes generated by SMMEs and a common base for growing the South African green impact investing market.

The pilot phase of the GOF was launched in January 2020 and comprises a partnership between National Treasury's Jobs Fund and GreenCape, supported by knowledge partners UCT GSB Bertha Centre for Social Innovation and WWF-South Africa. RMB's FirstRand Foundation provided catalytic funding. CFPs participating in the first phase of GOF include Business Partners South Africa, Conservation International Ventures, Edge Growth Ventures and Mergence Investment Managers[2].

The case of WasteWant – a green SMME based in the outskirts of Cape Town – provides an illustrative example of exactly how challenges for early-stage businesses in the green economy play out on the ground, and how the GOF primes fund managers to address them.

[2] An additional CFP is in the process of being onboarded.

FIND OUT MORE ABOUT GOF

WasteWant Case Study

Rowen Anderson's parents, Lydia and Anthony, launched a buyback recycling centre in 2011 after facing difficult circumstances after the economic recession of 2008.

Rowen joined the business while completing his studies, travelling around in a pick-up truck, buying recyclable materials wherever they could find them, and then selling them to recycling processing companies at a margin. This process created a spin-off that assisted homeless people – who, in South Africa, commonly collect recyclable material to sell – to attain consistent income-generation opportunities and integrate back into society. This initiative merged with the buyback centre to become WasteWant Waste Management ("WasteWant").

With the merger came a need for additional financing to ensure the company's sustainable growth and attracted a loan from the Association for Savings and Investment South Africa (ASISA) ESD Fund, managed by Edge Growth. WasteWant was enrolled into the GOF in September 2020 and the additional funding from the ASISA ESD Fund enabled them to respond to the increasing market demands and increased the potential to create new permanent jobs.

WasteWant initially undertook commercial contracts, which primarily involved the collection of recyclables from the premises of private companies, sorting, cleaning and packing them at their materials recovery facility, and then selling them on. However, these contracts were difficult to secure and resulted in inconsistent cash flows. Edge Growth and the ASISA ESD Fund provided in-kind business development support that helped Rowen and team identify alternative and more profitable revenue streams and areas where the business could operate in a leaner fashion.

WasteWant also faced the challenge of breaking into the larger commercial contract space as the businesses were often reluctant to change service providers. A more diversified strategy was initiated that included an intensified focus on contracts with longer tenures and consistent cash flows (such as government contracts). As WasteWant grew, they needed *additional* financing for working capital. However, given the margins in the waste sector, traditional means of financing can quickly erode margins putting pressure on profitability and become a counter-intuitive option for business growth. This was especially true for WasteWant that had lost potential contracts during COVID-19, but still needed to approach investors for a second round of funding for growth.

At this point Edge Growth had joined the GOF and the ASISA ESD Fund (managed by Edge Growth) were able to provide WasteWant with a second loan. By using the outcomes payments, GOF enabled the ASISA ESD Fund to provide WasteWant with a subsidised interest rate.

The extra round of funding allowed WasteWant to take on a street cleaning contract, consistently make a profit each quarter and satisfy its repayments. With this track record, the ASISA ESD Fund and Edge Growth are of the opinion that the SMME may now be able to attract commercial funding or reinvest profits to fund its own growth. The additional support from the ASISA ESD Fund has enabled WasteWant to increase their revenue.

The ASISA ESD Fund also used additional outcomes funding to provide non-financial support beyond what they would have usually provided. The ASISA ESD Fund, Edge Growth and WasteWant recognise that this support has been essential to the success of the business.

WasteWant is a case-in-point that was fortunate to receive funding and in-kind support that many SMMEs in the green economy desperately require to accelerate their growth and attract more commercial finance.

FIND OUT MORE ABOUT GOF

Designing an ecosystem-orientated solution

With the green SMME, fund manager, and green economy challenges in mind, the World Bank Group's Climate Technology Program, together with the University of Cape Town's Bertha Centre for Social Innovation and Entrepreneurship, GreenCape and WWF-South Africa, undertook a design thinking process to develop the GOF.

The GOF design process was approached through a multi-stakeholder engagement, including market players, sector experts, local SMMEs and fund managers. An ecosystem lens was employed to test whether an outcomes-based payment model could catalyse additional local investment in green SMMEs and further the develop a robust green impact investment industry in South Africa.

This type of approach required an alignment of interests across sectors and stakeholders. The GOF's innovative design aimed to respond to market blockages from multiple ecosystem levels. The GOF emphasised ecosystem actors, including green SMMEs, fund managers, grant funders and the broader green economy.

Green SMMEs

CHALLENGES

- Access to finance
- Capacity to manage and grow their businesses
- Access to markets

GOF RESPONSE

- Stimulates local investor interest by subsidising green SMME investments
- Outcomes funding pays for increased targeted business development support
- Involves local investment community in growing green SMMEs
- Creates jobs (low-, medium-, high-skilled)

Fund managers

CHALLENGES

- High start-up costs, especially for innovative (green) strategies
- Lack of quality green SMME pipeline
- Limited technical understanding of green issues

GOF RESPONSE

- Enables otherwise inaccessible investments by subsidising green SMME investments
- Supports sourcing of green SMMEs through partners
- Provides technical support on green issues which builds internal knowledge building and skills development
- Develops a track record of green portfolio

Grant funders

CHALLENGES

- Limited green outcomes funding options that ensure impact
- Lack of opportunities to catalyse private sector investment into green SMMEs

GOF RESPONSE

- Funding guaranteed to achieve positive outcomes
- Grants are catalytic at a pilot ratio of 1:4 to matched private capital

Green economy

CHALLENGES

- Investment gap in the green economy
- Limited available data of green outcomes and investment flows in the green economy

GOF RESPONSE

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

FIND OUT MORE ABOUT GOF

Designing an ecosystem-orientated solution continued

Key lessons from GOF's responses to market blockages

- **Business development support and technical assistance have proven necessary to develop SMMEs.** The CFPs have highlighted that the major shortage of skills that they have seen in the green SMME applicants relate to financial management and communications. In comparison, the main skills that the businesses owners themselves have indicated as lacking are marketing, sales, technical expertise, monitoring and evaluation, communications, and financial management. Furthermore, the SMMEs noted that they would be especially interested in receiving assistance from the CFPs in the areas of access to new markets, strategic guidance, introductions to networks and advice on scaling their business models.
- **There is initial evidence that the GOF is incentivising CFPs to invest in companies that they otherwise would have avoided** due to high-risk levels and a lack of experience on their part in investing in the green SMME sector. CFPs have indicated that the outcomes payments influence the types of deals that they are able to invest in. One of the CFPs highlighted that their investment committee were looking for more impact-driven deals than before.
- **The GOF guarantees funders impact.** Outcomes funds are disbursed conditional on job creation targets being met, limiting the financial risk for funders during times of uncertainty. Although COVID-19 has negatively impacted CFPs and SMMEs' ability to meet the targets projected before the pandemic, the GOF created green jobs showing that green impacts were still possible to achieve even under the unforeseeable risks to the project. This was possible because green SMMEs proved that they could survive, adapt and thrive through the accelerated demand for resource-efficient solutions increasing during COVID-19.
- **The green SMME ecosystem in South Africa still has the potential to become more coordinated.** Although CFPs have been connected to green SMME support role players, some have struggled to source enough viable deals. A more coordinated effort to develop the pipeline of SMMEs is necessary for the green economy in the country. Other CFPs have been able to build strong green SMME pipeline. A comparative investigation of why some CFPs have struggled while others have been successful will need to be conducted to better understand the nuances and improve. However, there are already opportunities that have been identified for the GOF to create a more streamlined process. This could include the GOF's green economy experts, GC, formalising a pipeline screening process that is attached to some of their other programmes.
- **The GOF offers a viable and replicable way for the investment community to increase capital allocations towards green solutions.** The local regulatory landscape is largely supportive of the growth of the green economy. However, the challenge remains its implementation with the lack of supportive initiatives to drive the uptake of solutions and capital allocations. As a result, the GOF responds to the gap between regulatory frameworks and implementation initiatives.

Although there is emerging data, GOF still has a way to go to provide evidence that it can stimulate the adoption of a standard set of technically sound, verifiable green metrics across multiple local fund managers in the local ecosystem to strengthen the local green and impact investing industry. Similarly, the GOF still needs to demonstrate a capacity and track record in financing green SMMEs, and an ability to access larger pools of investor capital earmarked for green impact.

FIND OUT MORE ABOUT GOF

Green Outcomes Fund Pilot Synopsis

Total facility size	ZAR488.1m (-USD34.8m) consisting of ZAR92.6m (-USD6.6m) grant funding matched by ZAR395.5m (-USD28.2m) committed private sector investment from local fund managers[3]
Domicile	South Africa
Inception year	1 January 2020
Target geography	South Africa (pilot)
Investment terms	Outcomes payments through grant funding based on verified outcomes
Grant providers	National Treasury's Jobs Fund and RMB's FirstRand Foundation
Catalytic Finance Partners	Edge Growth Ventures, Conservation International Ventures, Business Partners and Mergence Investment Managers[4]
SMME investment size	ZAR500 000 – ZAR50 million (-USD35 700-USD3.7m)
Term	3-year pilot project period with scaling strategy underway
Target sectors	Energy, Water, Waste, Sustainable Agriculture
Recognised green subsectors	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
Outcomes metrics	Green sector, permanent direct jobs created; Green sector, indirect jobs created; Persons reached by reliable clean energy grid/source that were without prior access to the traditional energy grid; Energy Generation – Total installed capacity; Energy Efficiency – Generic energy saved based on deemed savings values per unit installed; Water intensity; Wastewater treated; Waste to landfill avoided; Avoided waste incinerated; Waste recycled/reused; Chemical

[3] ZAR to USD exchange rate based on average spot rate on 1 January 2020.
[4] An additional CFP is in the process of being onboarded.

Key developments in the GOF from initial conceptualisation

Initially the GOF was conceptualised to be a ZAR20 million to ZAR50 million fund that would primarily target South Africa and the broader Southern Africa Development Community. The investment terms were structured around returnable and non-returnable capital provided by foundations, government, development finance institutions and/or impact investors. A range of local early-stage fund managers were approached to be part of the GOF. The green subsectors and metrics were designed to provide relevant coverage of South Africa.

Ultimately, the GOF received grant funding from National Treasury's Jobs Fund and RMB's FirstRand Foundation and commitments from a set of fund managers who were willing to absorb more outcomes funding which allowed it to be scaled to a ZAR488.1 million facility. This facility consists of ZAR92.6 million grant funding matched by ZAR395.5 million committed private sector investment from local fund managers. It was decided that only non-repayable capital would be used for the pilot with the intention to expand beyond this instrument in future iterations. This decision was largely based on confirmed funder preference and also, in an effort to limit innovation risks with the GOF already being a first-of-its-kind model. The geographic spread was limited to South Africa for the pilot. The major green target sectors remained the same as initially designed, but the metrics were slightly adapted to be more SMME friendly and easily verifiable.

FIND OUT MORE ABOUT GOF

GOF process and structure

The project's pilot phase is funded through private foundation and public sector grants 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. The grant will support CFPs in increasing access to finance for SMMEs upon creating green jobs.

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

Figure 1: The GOF process

FIND OUT MORE ABOUT GOF

GOF process and structure

As demonstrated in Figure 2, the GOF is an outcomes-based payment model whereby the CFPs deploy their own investment capital upfront and are reimbursed from the GOF, through grant payments, for the creation of green outcomes.[5] This model only disburses outcomes-based payments after outcomes are achieved.

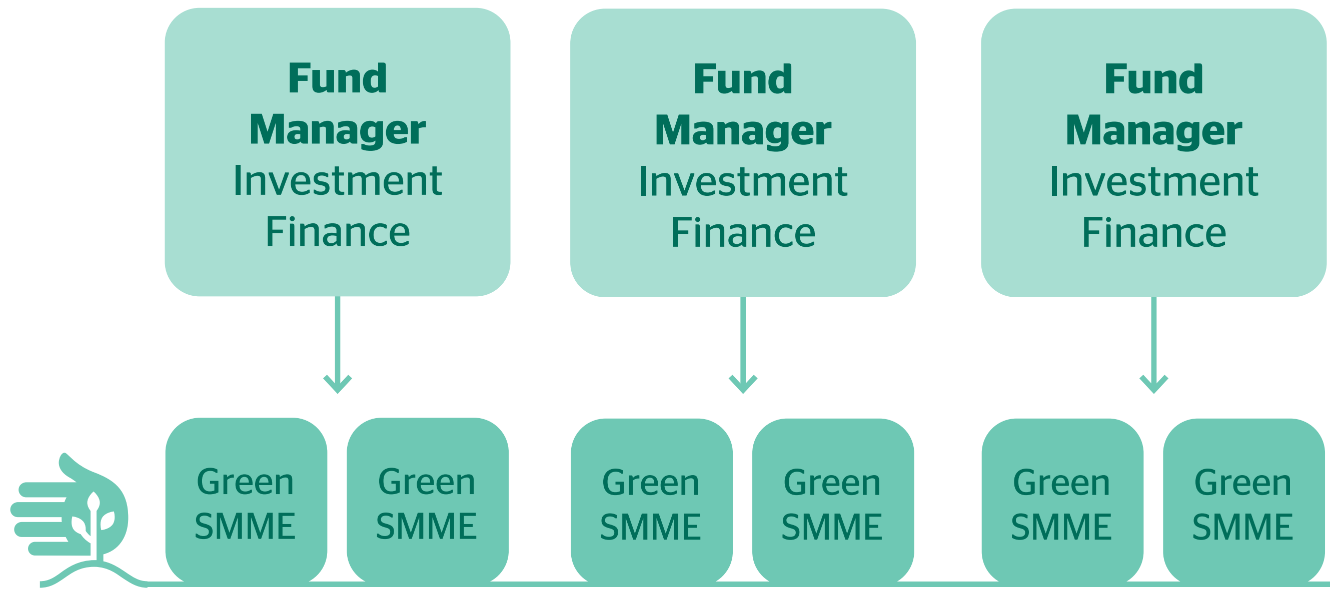
Click on the steps below to read more about our process:

1. Initial investment
2. Reporting of outcomes
3. Outcome payments
4. Flow of information

Figure 2: GOF structure

As seen in Figure 1, once there has been a funder commitment, the GOF team, funder and CFPs agree on green outcomes upfront.

The CFPs make investments into green SMMEs. This investment would not have happened without GOF's support due to perceived risks and costs associated with investing in green SMMEs. Financial and non-financial support flows from the CFPs to the green SMMEs.



[5] During the GOF pilot, payments are disbursed on permanent, direct green jobs created.

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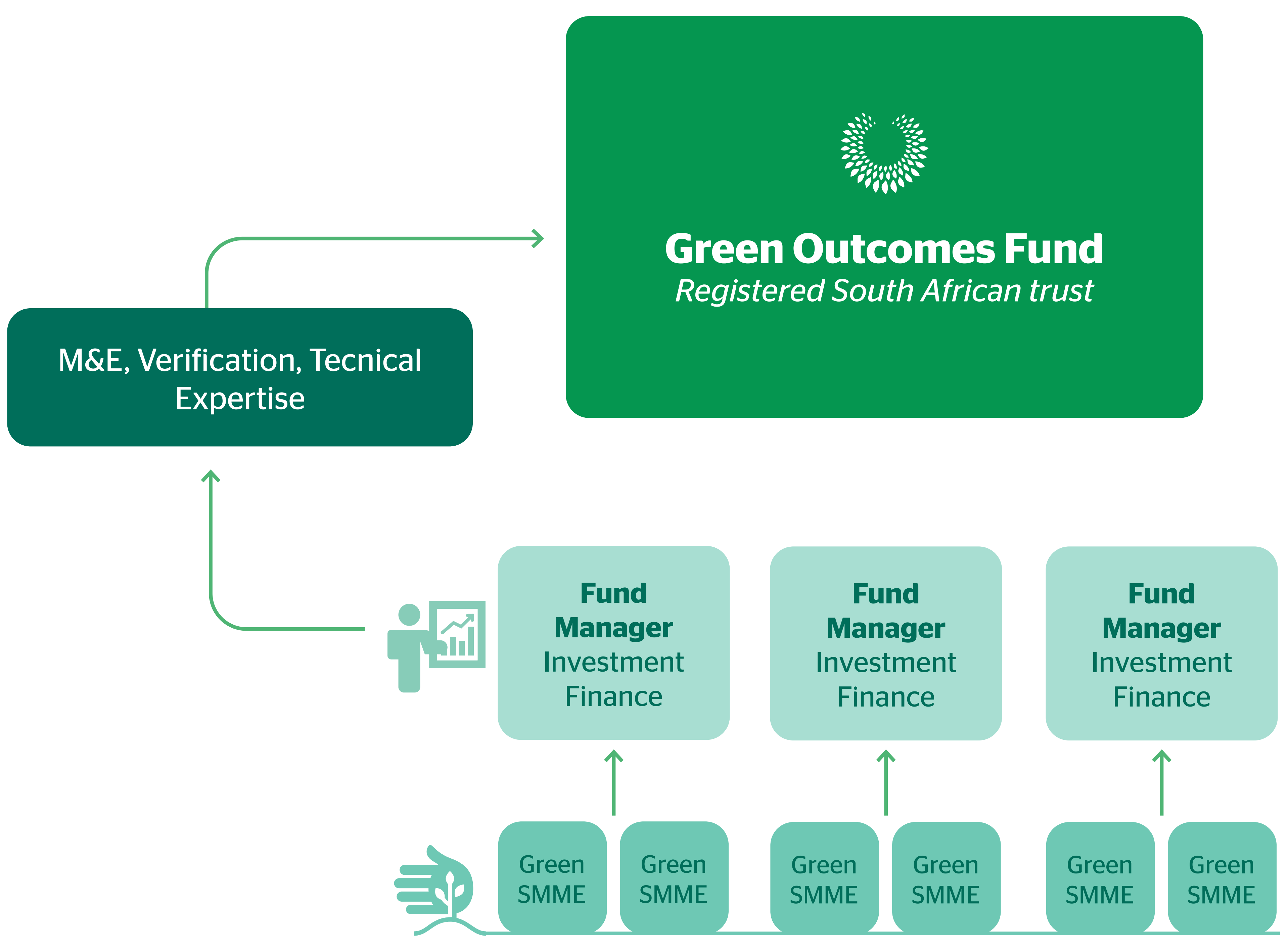

As a result of the CFPs' support, SMMEs expand their operations, which leads them to hire additional permanent staff, thus creating job opportunities for jobseekers and the creation of positive green outcomes, which are reported to and verified by the GOF on a quarterly basis. Targets are set upfront during the contracting between the GOF and each CFP.

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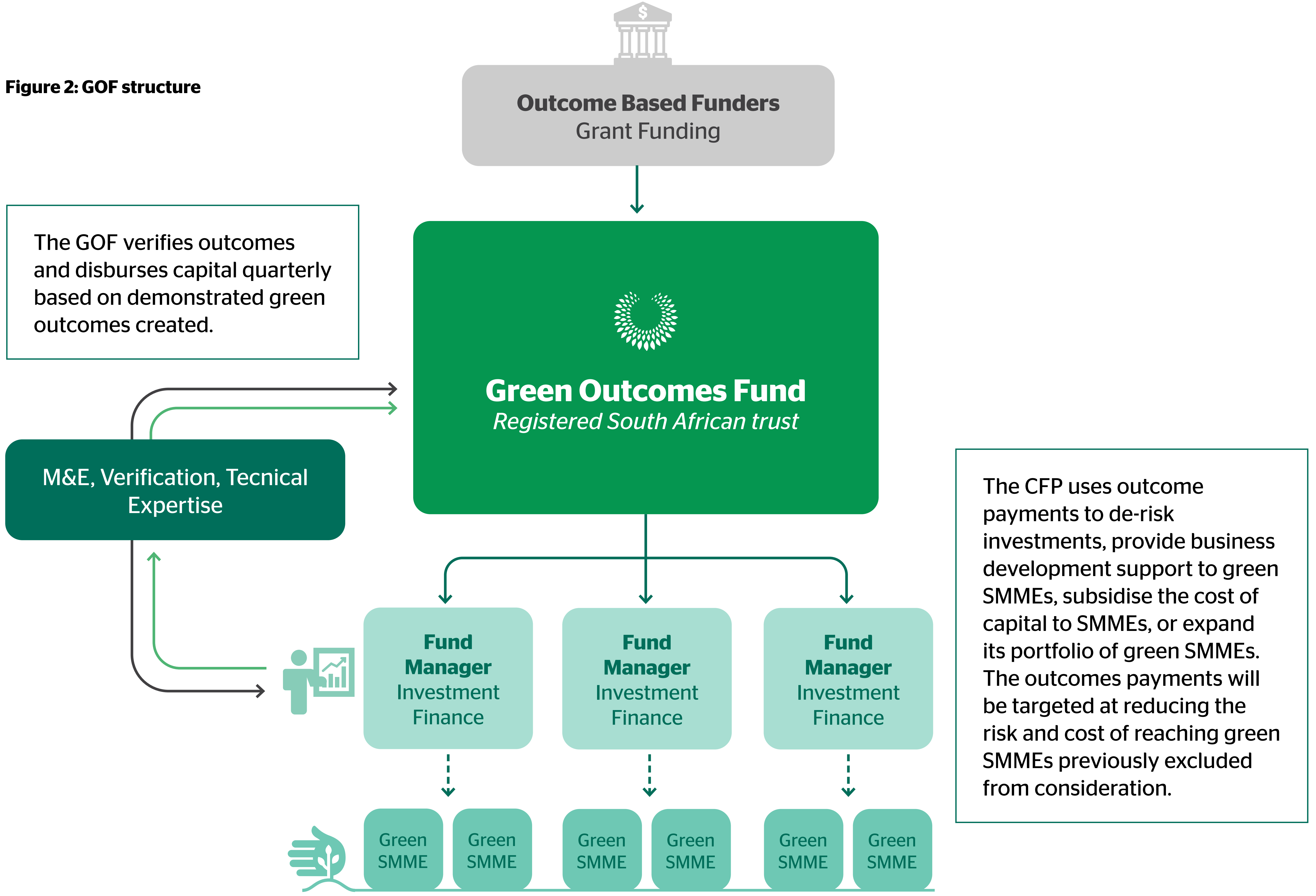

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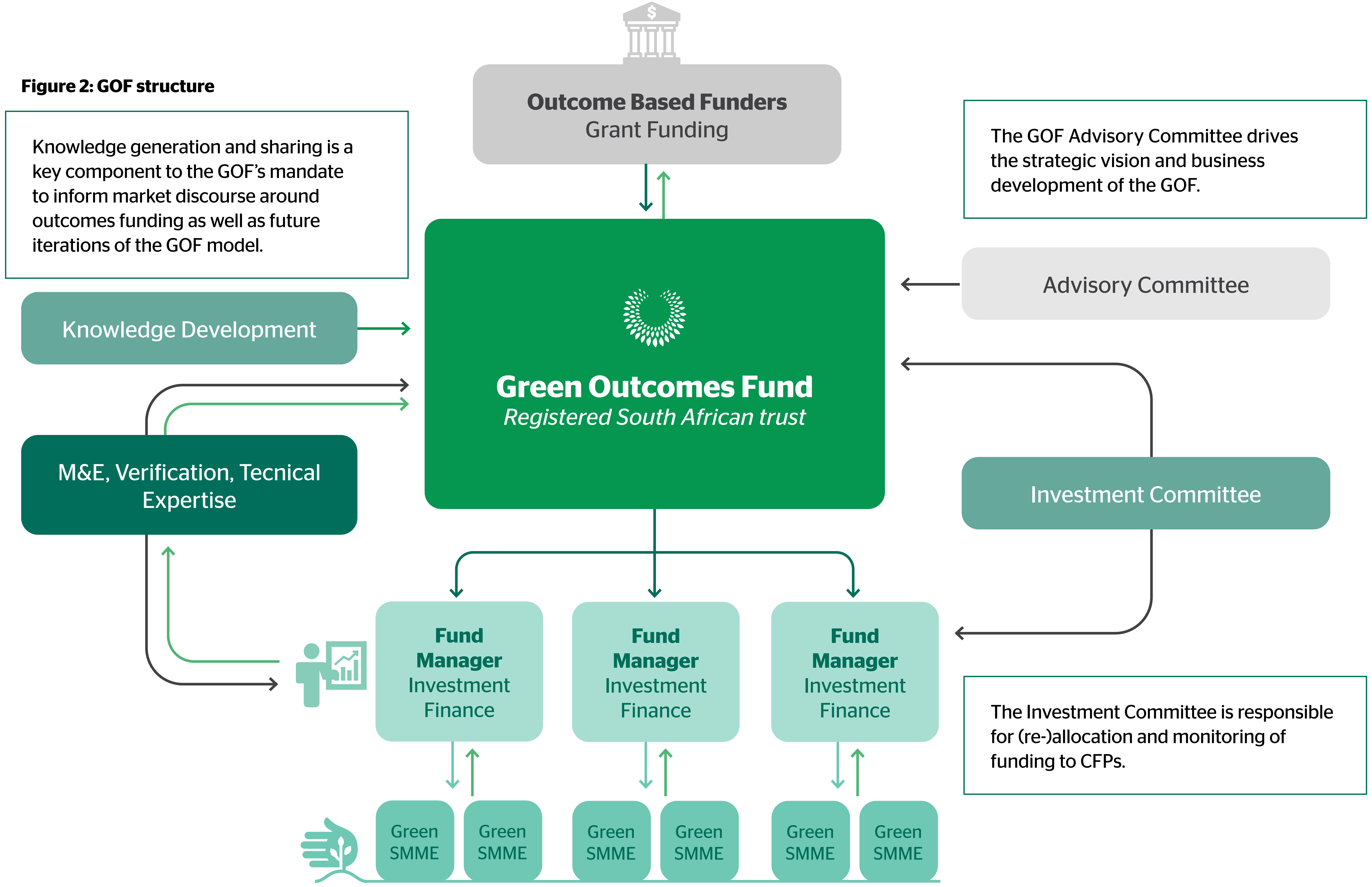

[5] During the GOF pilot, payments are disbursed on permanent, direct green jobs created.

FIND OUT MORE ABOUT GOF

Governance and operations

The GOF is set up as a legal trust, administered by global fund administrator Maitland. The GOF's Advisory Committee (AC) is responsible for policy, strategic vision and business development of the GOF, both for the 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 manage their individual investment processes.

To date, the initial phase of the GOF has been implemented by:

- GreenCape, which led the development of GOF's 13 green metrics, which can be measured and monetised. GreenCape is responsible for the monitoring and evaluation, green technical advisory, and have a seat on the GOF AC.
- The Bertha Centre, which led the design and development of the GOF. The Bertha Centre is responsible for knowledge development throughout pilot implementation and has representatives on the GOF AC and IC.
- The GOF AC and IC: The AC and IC include representatives from leading green SMME and investment experts; these are representatives from GreenCape, WWF-SA, Bertha Centre, Rand Merchant Bank, FirstRand Foundation, SAVCA, GFA Climate and Infrastructure, Convergence, and Investec.
- Additional partners:
  - Current CFPs: Four local funds, Edge Growth, Conservation International Ventures LLC, Business Partners and Mergence Investment Managers, have committed matched funding and started implementing in January 2020[6].
  - Maitland: Trust administrator is responsible for managing the GOF's financial administration.
  - Firdale Consulting is the GOF's monitoring and evaluation service provider.
  - RSM South Africa is the GOF's auditor, and De La Harpe Consulting is the legal partner.

[6] An additional CFP is in the process of being onboarded.

Governance and operations continued

Key lessons from governance and operational activities

- **The GOF is a multi-stakeholder and multi-year project that requires the alignment of various preferences.** Multiple stakeholders introduce complexities in managing the project as each organisation has its own governance systems, ways of managing their operations and incentives for being a part of the GOF. Key to managing the complexity is an openness and willingness to engage and accommodate differences where possible. This requires a strong central team at the nexus of these stakeholders for coordination and cohesion.
- **Regular and clear communication between stakeholders is essential.** Frequent communication between the GOF project team and the various stakeholders has allowed various risks and challenges to be addressed in a timely fashion. The GOF team conducts mid-quarter calls with the CFPs and the funder to update on progress during the quarter. Furthermore, the team is communicates regularly with the various stakeholders to assist with verification and reporting needs. Regular communication provides clarity of expectations and allows effective tracking of lessons learnt in this innovative structure that can be shared with the market.
- **The GOF will need to shift the operational capacity to the Trust in the next phase.** The GOF was designed to be a fully operational Trust. However, due to the Trust's limited track record, GreenCape took on the role as the main contractor to the funders. The contracting, project management and operational functions will need to be capacitated within the GOF Trust going forward and will need to be considered in terms of the costing of management fees for the next iteration.
- **Collaboration and knowledge sharing is a crucial part of developing the impact investing market in South Africa.** Near the mid-point of the pilot, various GOF stakeholders gathered for a knowledge and pipeline sharing event. Green sector experts discussed the market opportunities while the GOF CFPs described their learnings to date and set up a database for deal sharing. This revealed the fund managers' desire to create a collaborative environment that stimulates growth in the market. CFPs also highlighted that in early stage, high risk investments, fund managers often like to co-invest and are interested in deals that provide this opportunity.
- **Maintaining current and comprehensive operating guidelines mitigates operational risks.** The preservation of institutional knowledge and reducing its dependence on specific individuals is critical to smooth continuity of operations. This is especially true over extended contract terms or where individuals involved in the founding and design phase may step away from core operations with a lot of implicit knowledge. During the pilot, both CFPs and the GOF team had key individuals leave their respective organisations. These exits caused delays in deal generation and gaps in critical historical knowledge. This experience emphasises the need to create and maintain detailed, up-to-date documentation that covers decision-making, and the policies and procedures that are in place to maintain the continued operation of the project.
- **Deep sector knowledge and assistance is vital.** Throughout the first seven quarters it has become increasingly apparent that the role of expert capacity in the green economy is essential to the success of the GOF. The CFPs have relied heavily on GreenCape's sector knowledge at multiple levels. This ranges from definitional clarity, parameters of green processes and business models as well as outcomes measurement and verification. This and other engagements in the green processes have resulted in the CFPs reporting increased skills, technical support, and improved expertise in conducting due diligence on green SMMEs.

GOF'S theory of change

As seen in the theory of change outlined in Figure 3, the overarching impact goals are (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.

Figure 3: GOF Theory of Change

INPUTS

The GOF partners will capture and share learning outcomes

The GOF provides concessional outcomes-based funding for local fund managers (Catalytic Finance Partners, CFPs) to invest in green SMMEs

ACTIVITIES

1. Knowledge development, including green metrics, reflections on fund design, implementation and results

2. Knowledge-sharing, with local and international funders, investors and potential partners

3. De-risking investments by providing outcomes-based concessional funds to RFs investing in green SMMEs

4. Creating understanding of green outcomes by providing clear and user-friendly guidance on green outcomes and metrics

5. Building the case for green economy investing by verifying and sharing results with local and international funders and investors

OUTPUTS

- Reflections on the GOF design process (knowledge pieces, including blogs and reports)
- Green metrics and guidance

- Knowledge-sharing events, locally and internationally

- Establishment of appropriate GOF legal structure
- Outcomes-based agreements with CFPs on green outcomes to be achieved

- Green outcomes and metrics guide

- Agreement(s) with outcomes funders

OUTCOMES

For the local investment industry
- Increased access to capital for CFPs willing to commit to green outcomes
- Increased technical capacity of local investment industry e.g. on green aspects, Sustainable Development Goals (SDGs)
- Increased knowledge about de-risking and blended finance
- Shared approaches to impact reporting and data collection
- Evidence-based approach to quantify and assess costs and benefits of increasing investment in green SMMEs

For local SGBs
- Increase in interest by local investors
- Technical assistance / business development support including on green aspects

IMPACT

Create green outcomes, such as:
- Greenhouse gas mitigation
- Green job creation
- Access to reliable and affordable green energy
- Improved resource use efficiency, including in the water and waste sectors

Increase the effectiveness and efficiency of concessional funding in achieving green outcomes Data collected on green outcomes and evidence of costs of delivery (applicable to other impact sectors)

Grow South Africa's green investment sector through shared green measurement and reporting outcomes, and including among local investors

Grow South Africa's green economy through creation of increased demand for green SMMEs by local investors, including business development support

FIND OUT MORE ABOUT GOF

GOF'S theory of change continued

The GOF helps align CFP incentives to social and environmental impact. It also ensures efficiency in the use of funds by only paying for impacts 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
- Decrease of (perceived) risk involved in investing in green SMMEs
- Increasing the demand for green businesses from local investors
- Capacity developed among investors in local funds to access green credentials
- Linking cost of capital to social and environmental outcomes
- Establishing a foundation for impact data reporting
- Unlocking private sector capital for the green economy and uptake of blended finance models in South Africa
- Creation of jobs across the sector and positive green outcomes

Lessons from testing the Theory of Change assumptions

ASSUMPTION 1

There are green SMMEs that are looking for funding and would have struggled to access it in the absence of the GOF project. This assumption has largely held true as the CFPs who have signed deals indicated they would not have made their current investments into the green SMMES without the backing of GOF, or if so, would have done so at more expensive terms. CFPs – except for CI Ventures – indicated that investing in green SMMEs represents a departure from the norm with limited due-diligence or investment in green SMMEs conducted prior to GOF. SMMEs that received investment through the GOF prove this point further – many had been actively seeking funding for a substantial period of time. However, other green SMMEs experienced a much shorter timeline receiving an investment through GOF within six months of beginning their search.

ASSUMPTION 2

Green SMMEs that are seeking funding satisfy both the requirements of the GOF and each CFP's investment mandate. Some CFPs have struggled to find suitable pipeline while other CFPs have developed strong pipelines and are ahead of their investment targets. The current status of the project, and delays due to market conditions, make it difficult to provide conclusive evidence one way or the other. This suggests that this assumption needs to be further explored.

ASSUMPTION 3

The financial and in-kind support that the CFP provides will lead to sustainable growth in the selected green SMMEs. This assumption is holding with the first five investments' reporting up to June 2021, although, there have been some challenges in measuring revenue growth as revenue prior to joining GOF is not reported.

FIND OUT MORE ABOUT GOF

GOF'S theory of change continued

ASSUMPTION 4

Sustainable growth in green SMMEs will lead to job creation, specifically permanent job creation in the targeted skills bands. All SMMEs that had received investment prior to July 2021 have created permanent jobs. These jobs were more skewed to low-skilled than initially anticipated. The SMMEs had also created many indirect green permanent jobs and temporary jobs through the investments. Although these are measured, they do not trigger outcomes payments as it has been restricted to permanent, direct green jobs.

ASSUMPTION 5

The GOF project is designed to effectively mitigate the risks and costs associated with investing in green SMMEs. Initial evidence shows that this assumption is holding true. The CFPs that have made investments have used the outcomes funding for subsidised costs of capital and funding in-house technical expertise to support the SMMEs in skills development. The CFPs have indicated the incentives have played an important role in making their green SMME investments possible.

ASSUMPTION 6

The macroeconomic environment is not prohibitive to the project's success. The GOF launched just before COVID-19 and the associated lockdowns in South Africa – as such, it is likely that COVID-19 has negatively impacted the pipeline for all CFPs. However, green businesses tend to operate in defensive sectors that can qualify as essential services and there has been limited evidence in the current set of SMMEs that the macro-economic environment has negatively impacted their growth. This assumption will need to be further investigated.

ASSUMPTION 7

The experience and learnings gained during the GOF will prove the business case for green SMME investment and lead to further innovation in this sector. More time is needed to assess the validity of this assumption. CFPs have highlighted that they will continue to invest in green SMMEs, however, they will likely approach this from a more purely financial perspective without incentives.

One CFP indicated that the outcomes payments have fundamentally changed how they consider deals as well as the type of deals they are open to. The grant-based incentives have widened their scope to more South African deals with greater impact and job creation potential. They also indicated that the GOF has allowed them to structure more innovative financing opportunities through more favourable terms. Another CFP emphasized that they have been able to provide more favourable terms and probably would not have invested in two of their SMMEs without the GOF.

FIND OUT MORE ABOUT GOF

GOF reporting: metrics and measurement

The final list of metrics for the pilot is provided in Table 1. Although there is a list of 13 metrics that will be measured, in the GOF pilot, the outcomes payments are triggered by verified green sector direct jobs created to meet the outcomes funder's requirements (Jobs Fund). Outcomes payments based on further green metrics are being explored for future phases.

Table 1: Pilot Green Metrics

Metric	Units	Category	Green Sector
Green sector direct jobs created	Number	Job Creation	All
Green sector indirect jobs created	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 m3 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

FIND OUT MORE ABOUT GOF

GOF reporting: metrics and measurement continued

Key lessons around reporting, metrics and measurement

- **Future iterations could provide more flexibility around upfront target setting.** The GOF pilot's original targets were set in January 2020 and then adjusted in January 2021. These targets had minimum thresholds around job skill levels and when to achieve them. CFPs have indicated that setting the job skill thresholds upfront with correlating outcomes payment has been difficult to achieve and would prefer more flexibility. One option could be for CFPs to draw down on the funding on a first-come-first-serve basis as long as total outcomes targets are met for the funders.
- **There is a need for clear and standardised templates for reporting that match the funder, CFP and green SMME needs and available information.** The nature of the project requires information from multiple sources. Standardised templates and instruction provide for clear and consistent direction on the tasks and deliverables of each stakeholder. Similarly, enough time should be given for reporting and feedback. Under its pilot, the GOF allows CFPs 10 business days to report and the project team 10 business days to collate the information per quarter. Even with the templates and regular communication, these timelines can be a bit constrained.
- **There have been challenges in measuring green outcomes where new systems to achieve, measure, and report on green outcomes need to be set up within the SMMEs.** This requires unique attention in instances where a SMME has not captured these outcomes previously. In some cases, the broad geographic areas of operation – particularly in sustainable agriculture – can pose challenges in collecting comparable samples for consistent reporting. At times it has been necessary for GreenCape to brief contracted SMMEs around green outcome measurement so that they are fully aware of what they need to measure and gauge whether they have the resources required for measurement. It is crucial to ensure the correct measurement systems and understanding of them for accurate impact data.
- **Metrics need to be easily measurable, verifiable and create actionable business data.** Specialist inputs from GreenCape's sector desks defined the current metric set with consideration for what SMMEs could measure with relative ease and create verifiable data. SMMEs often have limited capacity to measure, therefore, the data that emerges from their efforts should also help inform growth and scalability within their business model. This would allow synergies and create incentives to measure. Future consideration around what SMMEs are already measuring could be included when designing the metric sets for the next phase of GOF. The metric selection should be balanced against funder requirements.
- **There could be a need to revisit the green metrics.** Since the metrics were conceptualised, the team has recognised that the current set of metrics might not be extensive enough to cover sub-sectors with the necessary range. This would include revising the value chain boundaries specific to businesses involved in manufacturing, assembly, and installation of green solutions. Furthermore, there has been extensive development in green taxonomies over the last year that would not have been previously considered when the metrics were finalised in early 2020.

FIND OUT MORE ABOUT GOF

GOF additionality: use of outcomes funding

The outcomes payments are capital disbursements paid on a quarterly basis to CFPs who invest in green SMMEs and successfully generate verifiable green outcomes (eg. permanent green jobs created). Outcomes payments are targeted at reducing the risk and cost of supporting/investing in green SMMEs. The GOF intentionally allows CFPs flexibility, within defined parameters, in how they allocate this funding. In doing so, the GOF will be able to identify the most prominent barriers in providing finance to green SMMEs allowing for the use of outcomes payments to address the typical challenges.

CFPs are guided by the use of outcomes payment instruments and reporting verifications identified below.

Instrument/use of funds	Explanation
Business development support, technical assistance, training, or mentoring	FPs can use outcomes payments to provide business development support, mentorship, or tailored technical assistance to GOF-contracted green SMMEs. These services would be provided to ensure that business risk is mitigated and business performance is optimised within the investee green SMMEs. This support may be offered pre- or post-investment, and may be offered in-house or by external service providers or consultants.
In-house technical expertise	Outcomes funding may be used to support in-house knowledge, expertise, and reporting associated with green SMME investments, where such activities are above and beyond what is normally required for a non-green investment. This may include costs related to: • green due diligence, assessing the viability of the green business model, development of in-house technical skills relevant for green SMME deals, or; • green metric reporting. External support for these activities (such as consultants to support with due diligence for green SMMEs) are also eligible.
Offer innovative pricing models that reduce interest rates based on green outcomes	The anticipation of green outcomes payments will enable the fund to explore innovative ways to incentivise green SMMEs to generate more green outcomes. One such example is an interest rate rebate, i.e. reducing the amount of interest due based on social/environmental milestones. A CFP might have assessed that an investment in a SMME may create 'X permanent jobs' or 'Y tonnes of waste to landfill avoided' but wants to encourage an SMME to achieve this impact. The CFP provides the SMME with a loan with a variable interest rate. In the contracting process the two parties agree on a baseline of the expected level of job/green outcomes after a set period of time. If, by the end of the period. the SMME achieves these outcomes, it will realise an interest rate rebate. The GOF team is open to suggestions of other, similar innovative models that incentivise and support green outcomes for SMMEs.

FIND OUT MORE ABOUT GOF

GOF additionality: use of outcomes funding continued

Subsidised cost of capital to SMMEs	A CFP may assess an investment to have the level of risk that requires a return greater than that deemed sustainable by the green SMME investee. For example, if an investment requires a risk-adjusted return of X%, but the SMME can only afford Y%, where Y<X, without increasing the risk of not being able to repay (in the case of debt or mezzanine) or excessive shareholder dilution (in the case of equity). Using GOF outcomes payments, the CFP can subsidise the amount of X-Y% through outcomes payments. **EXAMPLE 1** (DEBT): The CFP considers an SMME to be of the risk that requires a 10% interest rate, but the SMME cannot afford anything above 8%. The GOF outcomes payments could be used to subsidise the 2% difference, essentially de-risking the investment for the CFP, and ensuring that the SMME is able to afford the finance. **EXAMPLE 2** (MEZZANINE): The CFP considers an SMME which requires mezzanine risk financing to be of the risk that requires a 15% IRR, but the economics of the transaction only provides for an expected 10% IRR. The GOF outcomes payments could be used to subsidise the 5% difference, essentially de-risking the investment for the CFP in relation to the degree of risk taken on, whilst ensuring that the SMME is able to afford finance. **EXAMPLE 3** (EQUITY): The CFP considers an SMME which requires equity risk financing to be of the risk that requires a 20%+ IRR, but the economics of the transaction only provides for an expected 15% IRR. The GOF outcomes payments could be used to subsidise the 5% difference, essentially de-risking the investment for the CFP in relation to the high degree of equity risk taken on.
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. **EXAMPLE:** At the end of the 3-year GOF contracting period or where a CFP has disbursed the full matched funding sum, the CFP has generated RXm in outcomes payments based on the jobs created during the period after costs and its other chosen use of funds. Beyond the 3-year GOF contract period, the CFP may choose to invest the RXm outcomes payment (or some proportion of this amount) into SMMEs which fall within the GOF mandate. Any returns from such investments (including capital, interest or equity returns) would be subsequently directly paid to the respective Fund (managed by the CFP) and not the respective Fund's secondary bank account. The CFP agrees to indicate to the JF how it intends to utilise these funds post the investment period.

FIND OUT MORE ABOUT GOF

GOF additionality: use of outcomes funding continued

Key lessons from the use of outcomes payments

- **There has been slower-than-expected spend of the outcomes funding.** Outcomes payments that have been spent were used to offset the risk and costs involved in investing in green SMMEs through the provision of preferential investment terms, building in-house expertise and providing business development support and technical assistance within the portfolio companies. However, only one CFP has reported using their outcomes funding a year and a half into the project and over half of their spend has been on building their in-house team. This could again be indicative of the necessity for extra green expertise that was not there previously. Another CFP is yet to report on the flow of outcomes spending 24 months into the project, but has indicated it will be spent on in-house expertise and reducing interest rates due to SMMEs' good performance. As further evidence on the use of outcomes funding emerges, a more extensive analysis will be possible to ascertain the primary needs of the CFPs and SMMEs, uses of the outcomes payments and where to place emphasis in future developments of the model.
- **Flexibility in the use of outcomes funding is required to align stakeholder incentives in an innovative model.** The reporting requirements have been a recurring challenge for the CFPs and SMMEs in the GOF. Very early-stage SMMEs often do not have bi-annual management reports or financial statements and larger SMMEs are hesitant to provide detailed financial records because they operate in a competitive environment and are concerned that this information will be shared beyond the project. The project's reporting requirements have proved to be quite onerous for the GOF CFPs and SMMEs and some flexibility was required. It was important to strike a balance between project transparency through comprehensive reporting, and low interference with market forces by not distracting SMMEs from growing their businesses. As a result, the GOF AC approved that outcomes funding could be used to cover reporting costs. Although this would take away from funding for other support, it was considered an important way to align incentives of CFPs, SMMEs and funders to streamline reporting.

FIND OUT MORE ABOUT GOF

The GOF's catalytic finance partners

Catalytic Finance Partners, or CFPs, were selected based on a clear investment track record, a demonstrable interest in investing in green SMMEs, experience with early-stage impact deals as well as evidence of alignment with the GOF mission. CFPs manage and develop their SMME investment portfolios independently of the GOF, but in alignment with pre-agreed guidelines and green impact-centric measurement criteria. Data on investment performance, deal pipeline, job creation and green outcomes is collected at a CFP level and collated by the GOF team. The GOF does not prescribe the individual investment mandates made by the CFPs, but rather offers to verify SMMEs as legitimate green businesses through GreenCape-led assessments. This facilitates efficiency and cost-effectiveness and enables the GOF to operate with a light and flexible structure. Furthemore, it provides green advisory assessments where there is a technical void in expertise on behalf of the CFP. An overview of the current CFPs is provided below.

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

Overview of current CFPs[7]

BUSINESS PARTNER

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

CI VENTURES

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

MERGENCE

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

EDGE GROWTH VENTURES

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

[7] An additional CFP is in the process of being onboarded.

FIND OUT MORE ABOUT GOF

The GOF's catalytic finance partners continued

Key lessons at a CFP level

- **Participation in the GOF shows preliminary signs of positive long-term impact on the CFPs.** All four CFPs report a skills improvement in conducting due diligence on green SMMEs, growing expertise in providing technical support, improved expertise in managing a green SMME loan book and improved expertise in measuring green outcomes. They also report a commitment to continued investment in the green sector post-GOF, although the targeted company type and deal size will vary by CFP.
- **Green SMME investment in South Africa is new for many of the GOF CFPs.** It often takes time to grasp the intricacies of a new sector. For this reason, the importance of deep green economy expertise has been apparent. The CFPs have relied heavily on GreenCape's green sector knowledge to provide technical insights and training for their investment teams. It is important to have expertise available in future scaled iterations of GOF.
- **The GOF incentives are allowing innovative deal pricing.** The provision of grant capital has allowed some of the CFPs to implement new de-risking strategies to unlock investment in green SMMEs, including zero interest loans or the reduction of interest rates based on achieved impact.
- **Continuous engagement with potential fund managers is critical to build the market and mitigate risks.** Amongst the risks raised by the COVID-19 crisis, was that the CFPs would not reach their projected targets. This brought to light the importance of having a strong pipeline of potential CFPs, should the GOF need to re-allocate funding. To address this, the GOF team released an Expression of Interest in the second quarter of implementation to SMME funds across the country, to identify and shortlist pipeline CFPs. This process proved critical as some CFPs suffered from the lasting effects of the pandemic. With the GOF entering the final quarter of 2020 and its first year of implementation, non-performance increasingly became relevant. The GOF IC engaged with multiple funds and prioritised funds based on their eligibility, alignment with the GOF, and green SMME pipeline. The GOF IC invited two new fund managers to join. However, only one accepted and is currently being onboarded.
- **Further CFP pipeline development in the second year of implementation has proven to be difficult in the broader South African landscape.** When approached about the potential of joining the GOF as a CFP, local fund managers have pointed out that there is a lack of green pipeline (which highlights the need for GOF), concerns around job creation potential of green SMMEs as the only payment trigger, that the outcomes payment incentive might not be high enough, that the uncertain and risk-adverse macro-environment create risks associated with the deployment of capital, and concerns around perceived burdensome reporting requirements. As a result, there might not be as many CFPs interested in green SMME investment as originally anticipated in the South African market which the GOF team plans to address in the wider scaling of the project in phase two.

FIND OUT MORE ABOUT GOF

GOF SMMEs

Examples of the SMMEs our CFPs have invested in:

ORGANIC COMPOST

Producers of organic, biochar inoculated compost and super-soils, largely from the clearing of alien vegetation in choked riverine environments

CONSERVATION AGRICULTURE

Provides sustainable solutions to reverse degradation, improve livelihoods and promote inclusivity and sustainability across the livestock value chain

SUSTAINABLE TRANSPORTATION

Mobility as a service provider (ride sharing) and mobility technology platform

ENERGY EFFICIENT HARDWARE

Builds smart technology and systems that improve peoples' lives by making insurance simple, convenient, and affordable

WASTE MANAGEMENT

Focuses on the collection, sorting and sale of paper, plastic, glass, and cardboard waste, for use by the recycling industry

BATTERY MANUFACTURER, ENERGY STORAGE

Manufacturer of lithium-ion battery energy storage systems as fully packaged solutions to wholesalers, distributors and installers focusing on the residential, commercial, industrial and utility-scale market

SMART SOLAR GEYSER

Supplier of electrical and solar geysers spares and accessories to the South African market, incorporate smart technology into geysers to improve maintenance/lifespan and energy efficiency

WATER FILTRATION AND REUSE TECHNOLOGY

Manufacturer and supplier of portable water purification and filtration systems for the safe treatment of water for consumption.

FIND OUT MORE ABOUT GOF

GOF SMMEs continued

Key insights from investments in green SMMEs

- **A viable green SMME pipeline has been an issue for some CFPs, but there is a positive outlook on pipeline development.** By June 2021, 108 green SMMEs had applied for funding with the CFPs, but most were not suitable as they failed to meet project and CFP requirements. COVID-19 may also have adversely affected the pipeline by increasing SMMEs' uncertainty and hesitancy to take on funding and constraining CFPs' ability to conduct in-person due diligence. However, towards the end of year two, most of the CFPs were showing stronger green SMME pipelines with a number of viable deals in the varying stages of the investment process. This was paired with strong connections that were facilitated through a more formalised climate finance accelerator that GC has initiated. This presents opportunities to investigate a more streamlined pipeline sourcing and screening process.
- **The SMMEs that have received investment come from a various sectors including transport, water, agriculture, waste management and energy.** The range of sectors implies opportunities to achieve impact across a range of green metrics as predicted.
- **Differences in SMME location have also revealed implications for job creation and the respective skill levels of jobs.** Jobs created in rural areas trend towards the lower-skilled end, while businesses in urban areas span the skill range. This could result in a greater number of low-skilled jobs created than originally projected in comparison to the other skill levels. As more investments are made and thereby more jobs created, these ratios will be monitored and the trends used to inform the next iteration.
- **SMMEs have required funding for expansion or to finance working capital.** The SMMEs have used the investments to purchase equipment, hire new staff (contractors and permanent), develop marketing strategies, and for staff development and training. These reveal key needs within SMMEs and areas where the outcomes payments could be used to assist the SMMEs with training and business development.
- **Participation in the GOF is contributing to improved skills in green SMMEs.** Although innovative in the green solutions, green SMME business owners often lack technical and financial requirements to meet investor due diligence standards. Furthermore, a general skills gap with regards to marketing, communication and financial management has been noted. CFPs that made investments have provided technical support to their SMMEs, and both the CFPs and SMMEs themselves have indicated that this support is improving the SMMEs' skills base.
- **Extensive reporting requirements have deterred some green SMMEs.** Certain SMMEs have withdrawn once they are required to present information for due diligence and/or quarterly reporting relevant to the GOF. The SMMEs expressed concerns about sharing documents such as employment contracts, management accounts, and financial accounts. This has not occurred regularly but is being monitored as a barrier.
- **Incentives need to be apparent for all parties.** The nature of the flow of funds in the GOF process does not always make the incentive directly apparent to the green SMME. Overcoming this could involve a clearer communication pathway around the use of outcomes payments or potentially adapting the GOF to have a more direct-to-SMME type model in future iterations.

Demonstrated impact[8]

The GOF CFPs have been actively engaged in increasing investment in the South African green economy. Through the platform provided by the GOF, they have:

- *Made 7 investments into urban and rural green businesses*
- *Created 43 permanent direct and 67 indirect jobs*
- *Saved 7826 kWh/day of energy*
- *Diverted 6746.101 tonnes of waste*
- *4.55 tonnes of waste recycled/reused*

At the height of the COVID-19 pandemic, the GOF secured funding to support green SMMEs in South Africa to adapt, survive, and thrive. The GOF and the EU-SPIPA-GIZ consortium partnered to provide grant relief funding to 12 green SMMEs within the GOF ecosystem. This enabled the SMMEs to retain 760 jobs, create 41 new jobs, and maintain their financial and operational sustainability.

[8] Impact data as of 30 September 2021.

Key lessons on impact created to date

- **COVID-19 relief funding was essential to support the GOF CFPs' pipeline of SMMEs.** The main goal of the funding was to support the sustainability of green SMMEs in GOF's pipeline during the pandemic. Each of the green SMMEs that received funding continued their operations and retained jobs, with some even able to expand during the period.
- **Permanent direct green job creation has lagged investment more than expected.** The CFPs have indicated that the SMMEs have created permanent jobs at a slower rate than expected post-investment. This could be due to slower economic conditions or it could be that jobs are cyclical in sectors such as waste management and agriculture.
- **Future iterations of the GOF could consider incentivising indirect and non-permanent green job creation.** Throughout the implementation of the GOF, the SMMEs have often employed more indirect and non-permanent green jobs than permanent direct green jobs. This provides an evidence base to expand the outcomes payments trigger in the next phases of GOF to include a broader set of green jobs (indirect and non-permanent).
- **Slower than expected drawdown on outcomes payments due to a larger number of low-skilled jobs created.** The outcomes payments are aligned in such a way that drawing down on high-skilled jobs promises greater funds disbursed than a lower skilled job. The jobs created up to June 2021 have been skewed towards low-skilled and semi-skilled jobs and as a result not as much drawdown has occurred as projected. The relative skill levels and opportunities to incentivise the upskilling of employees could be explored in future iterations. This could also address the sustainability of job creation.
- **SMMEs have experienced recruitment challenges** as hiring individuals that have appropriate skills, the correct cultural fit, and salary expectations has been difficult. This is especially true in rural areas. Furthermore, job creation is not a primary goal of companies given the uncertain macro-environment. Rather, job retention has been the main concern. This points to the need to extend the outcomes payment mechanism to include more green metrics in future iterations of the GOF.
- **Lagging green outcomes will be key to consider for pricing going forward.** Delays in reporting of green outcomes have become evident since the first investments were made and need to be considered for future iterations of the GOF if outcomes payments are linked to green metrics. There seem to be a few possible reasons for this including the lags between an investment and causal links to creating a green outcome, measurement challenges for SMMEs, the nature of some of the business models (i.e. composting production takes 6 months), and the early-stage of development of SMMEs sometimes requiring patient capital to see results.

FIND OUT MORE ABOUT GOF

Future of the GOF

When writing this report, GOF is two years into its three-year pilot phase and is looking to scale to its next iteration based on lessons learnt to date and the current funding context. Public and concessional capital will remain a key priority to catalyse broader private sector finance into the green economy optimally.

The scaling strategies being explored include a deeper South African version of the current GOF model and an expanded geographical version of GOF into Africa; both strategies having the longer-term vision of developing the GOF vehicle into a more sustainable blended finance facility.

Expand the current model in South Africa

Expanding the current model in South Africa would involve design reviews to address some of the lessons learnt to-date. This could include increasing the number of local fund managers involved in the project, reviewing the profile of intermediary that the current model uses and/or adapting the metrics used to incentivize and reward the green SMMEs, in particular with more of a focus on rewarding green outcomes (the current model has placed more of an emphasis on job creation). This approach, which will involve raising additional grant funding for outcomes payments, would allow for the model to be tested across a wider range of stakeholders and create the potential for more flexibility in outcomes payment rewards thereby building a more robust evidence base of outcomes price discovery.

The GOF team is currently scoping the South African market and broader funding ecosystem to ascertain interest in these possible iterations to the current model as well as to gauge potential partnership fit.

Regional scaling into Africa

The second scaling approach would be to expand the GOF from South Africa into Africa. A broader regional scaling could enable more private sector finance to be catalysed and directed towards the broader continent's climate agenda. As an initial step, the GOF team has initiated a feasibility study to identify potential fund managers who could work alongside GOF in its next iteration, with a potential to launch the expansion in 2023.

This feasibility study is specifically building on the learnings of the pilot project, which are informing the success criteria needed in the search for potential partner fund managers in pre-identified African countries. The study is hoped to provide an increased understanding of the general market environment and SMME pipeline development landscape. The initial country focus will be on Rwanda, Ethiopia, Uganda (1st tier) and then Cote d'ivoire, Senegal, Ghana, Nigeria (2nd tier). The outcome of the feasibility study will inform a narrower country selection.

Based on lessons from the pilot, this iteration could also allow for certain design considerations such as changes to the allocation of outcomes payments to CFPs (moving towards auctions of outcomes pricing as evidence builds), building-in flexibility to pivot where the pipeline is and consider possibilities for projects to apply independently to the GOF for funding. The GOF team will analyse the options in parallel to actively engaging with interested outcomes funders to partner in this scaled regional strategy.

FIND OUT MORE ABOUT GOF

Future of the GOF continued

Developing a sustainable blended finance facility

The GOF team will further explore the possibility of incorporating a sustainable blended finance model in future iterations. This will involve working towards facilitating outcomes bidding processes to reduce the costs of generating impact and to encourage more layers of concessionary funding to the model. Lessons learnt in the pilot thus far are paving the pathway to achieving this and as GOF moves into its next iteration with certain design changes, this pathway will become clearer with the goal of building a robust evidence base to attract a broader range of funding partners. A likely three-step approach in this pathway is outlined below.

GOF Pilot
Grant Fund

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

→

GOF Phase 1
Concessionary Fund

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

→

GOF Phase 2
Blended Finance

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

FIND OUT MORE ABOUT GOF

Interested to find out more?

Our online information

Visit our website to learn more about the GOF:

READ MORE ONLINE https://thegreenoutcomesfund.co.za/

Stay updated through the GOF LinkedIn Page:

in https://www.linkedin.com/company/green-outcomes-fund

GOF opportunities

FOR GREEN SMME OWNERS

Are you a Green SMME owner looking for funding?

Find our catalytic financing partner mandates and application portals here:
https://thegreenoutcomesfund.co.za/green-smme/

FOR FUNDERS

Interested in becoming a funder of the GOF?

See our funder portal here:
https://thegreenoutcomesfund.co.za/funders/

FOR INVESTMENT FUNDS

Are you a registered investment fund investing in SMMEs?

If you are a registered investment fund investing in SMMEs and would like to accelerate your green investments with access to catalytic funding, please subscribe to the Calls for Applications newsletter here:
https://thegreenoutcomesfund.co.za/catalytic-finance-partners/

You can also email us here:
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